



**AUDITOR  
GENERAL**  
of Newfoundland and Labrador



**Report to the House of Assembly  
on Reviews of Departments  
and Crown Agencies**

**December 2014**

# Office of the Auditor General Newfoundland and Labrador



The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown. The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion as to the fair presentation of their financial statements.

## VISION

*The Office of the Auditor General is a highly valued legislative audit office recognized for assisting Members of the House of Assembly in holding Government accountable for the prudent use and management of public resources.*

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**AUDITOR  
GENERAL**  
of Newfoundland and Labrador

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December 2014

The Honourable Wade Verge, M.H.A.  
Speaker  
House of Assembly

Dear Sir:

In compliance with the *Auditor General Act*, I have the honour to submit, for transmission to the House of Assembly, my Report on Reviews of Departments and Crown Agencies.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Terry Paddon', with a long horizontal line extending to the right.

**TERRY PADDON, CA**  
**Auditor General**

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**CHAPTER**

**1**

**COMMENTS OF THE AUDITOR GENERAL**

This is my third report as Auditor General on Reviews of Departments and Crown Agencies. This report reflects the work of the Office of the Auditor General on specific programs within Government departments and agencies which were not ready for inclusion in the January 2014 Report.

The *Auditor General Act* requires that I report, at least annually, to the House of Assembly on the work of the Office. This report, combined with the Update on Prior Years' Report Recommendations issued in May 2014, the Report to the House of Assembly on the Business Plan tabled on September 30, 2014 and the Report on the Consolidated Summary Financial Statement of the Province issued in November 2014, fulfill this requirement of the *Auditor General Act*.

We plan our work based on a risk assessment of various programs delivered by Government departments or through crown agencies. We also receive information and requests from individuals outside our office which we evaluate to determine whether we will undertake work in a particular area. This report provides recommendations resulting from our review of the following 4 programs and crown agencies:

- Aquaculture Industry Support
- Memorial University of Newfoundland
- Newfoundland and Labrador Energy Plan
- Use of Government Vehicles

The information is provided to Members of the House of Assembly for their consideration. Recommendations contained in this report are intended to strengthen the overall level of accountability within Government and help ensure a greater level of stewardship of public money. I look forward to continued collaboration with the Public Accounts Committee as they consider the recommendations contained in this Report.

### **Reports issued pursuant to Section 15(1) of the *Auditor General Act***

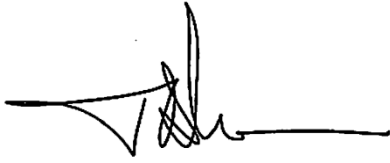
Section 15(1) of the *Auditor General Act* (the *Act*) requires the Auditor General to report to the Lieutenant-Governor in Council instances the Auditor General becomes aware of during the course of an audit which may involve improper retention or misappropriation of public money or another activity that may constitute an offence under the Criminal Code or another Act. Section 31 of the *Act* requires the report be made through the Minister of Finance. In addition, Section 15(2) of the *Act* requires that I attach to my annual report a list containing a general description of the incidents and the date reported to the Lieutenant-Governor in Council.

During the audit of the Consolidated Revenue Fund for the year ended March 31, 2014, I made inquiries of management related to fraud, as required by Canadian Auditing Standards. As a result of these inquiries, officials of the Department of Municipal and Intergovernmental Affairs informed my Office of one instance of possible fraud involving a recipient of funding under the Department's Community Enhancement Employment Program. Officials of the Department informed my Office that this matter has been referred to the police for investigation. I reported this matter to the Minister of Finance on October 31, 2014.

## Comments of the Auditor General

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I wish to acknowledge the cooperation and assistance that my Office has received from Government departments and agencies during the conduct of our reviews. I also wish to thank the staff of the Office of the Auditor General for their support, dedication and professionalism throughout the year.

A handwritten signature in black ink, appearing to read 'Terry Paddon', with a long horizontal line extending to the right.

**TERRY PADDON, CA**  
**Auditor General**



**CHAPTER**  
**2**  
**OUR OFFICE**

## Our Office

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The Office of the Auditor General operates from two locations - Mount Pearl and Corner Brook. The staff of the Office contributed, as a team, in the preparation of the December 2014 Report on Reviews of Departments and Crown Agencies.

The following is the staff of the Office of the Auditor General as of December 1, 2014:

Nicole Abbott, CA	Melissa Lewis
Marc Blake	Stephanie Lewis, CA
Paul Burggraaf, CAPM	Ruo Chen Li
Greg Butler	Michael MacPhee, CA
Keith Butt, CA	Adam Martin, CA
John Casey, CMA	Jayne Martin, CA
Gertrude Critch	Leif Martin, CA
Tony Dingwell, CA	Trevor McCormick, FCGA
Lisa Duffy, CA	Patrick Morrissey
Chris Fudge	Jessica Nugent, CA
Robert George	Tracy Pelley, CMA
Gregg Griffin	Thomas Pritchard, CA
Cayla Hillier, CMA	Pauline Reynolds, CMA
Jeremy Hynes	Sandra Russell, CA
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Dianna Kane	Jessie Small, CA
Brenda Kavanagh	Lindy Stanley, CA
Trena Keats, CA	Scott Walters, FCA
Nancy King	Tony Wiseman

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**CHAPTER**

**3**

**REVIEWS OF DEPARTMENTS AND**

**CROWN AGENCIES**

**PART 3.1**

**DEPARTMENT OF  
ADVANCED EDUCATION AND SKILLS**

**MEMORIAL UNIVERSITY OF NEWFOUNDLAND**

## Summary

### Introduction

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

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

### Objectives

The objectives of our review were:

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

### Scope

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

### Conclusions

#### Objective 1

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

#### Objective 2

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

### **Objective 3**

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

### **Objective 4**

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

### **Findings**

Our review of the University identified findings relating to:

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

### **Financial Position and Operations**

1. The University reported an unrestricted net deficiency of \$106.3 million, an increase of 58% over nine years.
2. The liability for post-employment benefits has increased 67% over the past four years from \$119.0 million in 2010 to \$198.6 million in 2014.
3. The University reported a pension deficit of \$222.8 million at March 31, 2014.
4. The University's combined deficit as at March 31, 2014 totaled \$329.0 million.
5. The Province funds the University using a base-budget approach which uses the previous year's funding levels as a base amount which is amended for programming changes. This approach has inherent risks as annual funding is not directly linked to the University's capacity to deliver programs, registration/enrolment levels, or outputs.
6. University expenses have increased 85% over the past nine years. Cumulative expense growth for the Province over the corresponding period was 58%.
7. Since 2004, the number of employees at the University has grown by 23%, while the rate of growth in student enrolment has been 5%.
8. Provincial Government operational funding has more than doubled (113%) over the past nine years, from \$182 million in 2004-05 to \$388 million in 2013-14.

9. The Province spent \$193.4 million since 2005-06 to support a freeze on tuition at the University.
10. The University has the lowest tuition fees in Canada for a full-time study program.
11. In excess of \$112 million of the Provincial 2013-14 operating grant to the University effectively subsidizes students from outside the Province – an increase of \$80 million since the start of the tuition freeze.
12. The University had not recovered \$151,340 related to two employees from shared services agreements.
13. 52% of the 103 buildings and other infrastructure assets on the main campus of the University were 40 years of age or older as of February 2013.
14. The University identified that approximately \$144.8 million was needed to address urgent deferred maintenance over the next five years, and included \$30.2 million in its priority deferred maintenance list to the Provincial Government for the year ended March 31, 2013. Deferred maintenance funding for the year ended March 31, 2013 was only \$10 million, or 33% of the requested annual funding.
15. Nine University buildings, with Facility Condition Index costs totaling \$54.2 million, did not have a detailed audit (inspection) completed by engineering consultants. Without these audits being completed, the University did not have accurate information to make informed decisions on capital planning and funding purposes.
16. Critical maintenance items were not being actioned in a timely manner.

### **Recruitment and Compensation**

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



22. Bonuses were not always supported by established criteria, approved or paid in a timely manner.
23. Documentation was not always on file to support administrative stipends paid to non-academic employees.

### **Leave and Overtime**

24. There was a lack of documentation and effective monitoring of annual leave for academic employees to ensure leave usage and carry forward balances were properly recorded, approved, and monitored. In addition, there were inconsistent leave practices between faculties.
25. Annual leave for non-academic employees was not always approved, documented and recorded accurately.
26. Nineteen academic administrators were eligible for administrative leave for up to two years and 84 academic administrators were eligible for administrative leave for up to one year at full salary at the conclusion of their term as academic administrators for the purposes of full re-entry to the non-administrative aspects of academic life (teaching and research).
27. In one instance, the University Payroll Division was not notified when an administrative employee went on administrative leave to ensure the administrative stipend was not paid while the employee was on leave. This dean was overpaid \$8,154.
28. One executive employee, who is on administrative leave effective September 2013, will be overpaid \$45,268 during 21 months of leave due the incorrect salary being used in calculating the employee's eligible administrative leave pay.
29. Four professors retired immediately after taking their sabbatical leave, and as a result, the professors did not comply with the work requirements, as stipulated in the MUNFA collective agreement.
30. The University does not have a formal management system in place for the reporting and monitoring of sick leave for academic employees. As such, the University could not provide sick leave cost or usage information for its academic employees. We also identified that each faculty was responsible for its own leave reporting and monitoring processes which resulted in inconsistent and inadequate record keeping.
31. Employees were not always submitting the required leave forms and/or medical certificates, and leave was not always accurately recorded in the leave database for non-academic employees.
32. Employees were incorrectly paid while on sick leave as University policy was not followed.

33. The University has no policy in place to limit the total number of sick days per year an employee can be eligible for in any year or in aggregate during their employment except for the 60 consecutive calendar day (43 work days) requirement under the LTD plan.
34. Our review identified instances of intermittent use of sick leave benefits but we found that the University did not have a policy on the monitoring and management of chronic absenteeism.
35. Overtime documentation was not always completed to support the overtime, overtime was not always approved in advance of the overtime being worked and overtime forms were not always signed by the employee or the supervisor.
36. For the year ended March 31, 2012 approximately 573 management employees were eligible for an additional five days of vacation in lieu of being paid overtime. Our review identified 43 management employees that were paid an additional \$123,478 in overtime.

### **Travel and Relocation**

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

### **Recommendations**

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

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

## Objectives and Scope

### Objectives

The objectives of our review were:

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

### Scope

Our review was completed in April 2014 and covered the period April 1, 2011 to March 31, 2014. Our review examined University financial, statistical and human resources information such as Board and committee minutes, policy and procedure manuals, internal audit reports, personnel files, payroll and leave databases, facility and spacing reports, travel claims and included interviews with University officials. All samples selected during our review were determined non-statistically and judgmentally.

## Background

### Introduction

Memorial University of Newfoundland (the University) was founded in 1925 as Memorial University College and was granted university status in 1949. The University has four campuses - St. John's, the Marine Institute located in St. John's, Grenfell located in Corner Brook and Harlow located in Harlow, England.

The University is governed by the *Memorial University Act*. The University has a Board of Regents which is responsible for the management, administration and control of the property, revenue, business and affairs of the University.

During the Fall 2013 semester, the University had approximately 18,000 students enrolled in full and part-time studies at under-graduate, graduate levels and post-graduate (Medicine), and approximately 700 students enrolled in certificate and diploma programs. Each year, the graduating class is in excess of 2,000 students.

The University's academic year is from September 1 to August 31, and includes three 14-week semesters, a six-week intersession and a six-week summer session. The University offers undergraduate and graduate degrees, as well as diploma and certificate programs in the:

- faculties of Arts, Business, Education, Engineering, Medicine and Science,
- schools of Graduate Studies, Music, Nursing, Pharmacy, Human Kinetics and Recreation, Social Work, and
- Fine Arts at Grenfell campus and Maritime Studies at Marine Institute.

During the year ended March 31, 2014, the University employed 2,139 faculty staff (1,142 permanent and 997 contractual), 3,086 administrative and support staff (1,582 permanent and 1,504 contractual), 540 agency employees and 2,258 students.

The University prepares consolidated financial statements which includes the assets, liabilities and transactions of the various separately incorporated entities (SIEs) controlled by the University. Table 1 summarizes the consolidated financial position of the University for the years ended March 31, 2012 to 2014.

**Table 1**

**Memorial University of Newfoundland**  
**Statement of Financial Position**  
**For the Years Ended March 31**  
**(\$000's)**

Statement of Financial Position	2012	2013	2014
<b>Assets</b>			
Cash and cash equivalents	\$ 10,538	\$ 13,528	\$ 19,511
Restricted cash	6,195	6,756	7,426
Short-term investments	114,536	110,429	132,171
Accounts receivable	71,007	87,806	64,871
Inventory and prepaid expense	6,927	6,697	7,400
Investments	95,071	101,733	107,684
Assets under construction	106,100	160,050	141,954
Tangible capital assets, net	153,376	191,017	241,375
<b>Total assets</b>	<b>563,750</b>	<b>678,016</b>	<b>722,392</b>
<b>Liabilities</b>			
Bank indebtedness	15,139	13,748	12,533
Accounts payable and accrued liabilities	48,820	65,150	63,235
Deferred revenue	41,806	43,197	37,347
Deferred contributions – external grants & donations	87,377	89,179	97,498
Current portion of long-term debt	494	514	517
Long-term debt	960	829	312
Derivative liability	2,365	2,167	1,643
Post-employment benefits	146,868	158,342	171,817
Deferred contributions	234,905	327,648	362,473
<b>Total liabilities</b>	<b>578,734</b>	<b>700,774</b>	<b>747,375</b>
<b>Net deficiency</b>			
Net assets restricted for endowment purpose	72,903	69,089	74,018
Net assets related to re-measurement gains	-	1,916	7,255
Unrestricted net deficiency	(87,887)	(93,763)	(106,256)
<b>Total net deficiency</b>	<b>(14,984)</b>	<b>(22,758)</b>	<b>(24,983)</b>
<b>Total liabilities and net deficiency</b>	<b>\$ 563,750</b>	<b>\$ 678,016</b>	<b>\$ 722,392</b>

Source: MUN audited consolidated financial statements

Table 2 provides a breakdown of the University's revenues and expenditures for the years ended March 31, 2012 to 2014. For the year ended March 31, 2014, the University spent approximately \$624.2 million and received Government grants totaling \$444.3 million.

Table 2

**Memorial University of Newfoundland**  
**Revenue and Expenditures**  
**For the Years Ended March 31**  
**(\$000's)**

	2012		2013		2014	
	Amount	Percent %	Amount	Percent %	Amount	Percent %
<b>Revenue</b>						
Government grants	\$ 401,407	71	\$ 423,694	72	\$ 444,274	73
Student fees	60,302	11	62,711	11	62,469	10
Other revenue	69,288	12	56,701	10	61,489	10
Amortization of deferred capital contributions	21,325	4	22,847	4	25,561	4
Sales and services	12,103	2	11,393	2	13,612	2
Investment income	998	-	6,364	1	7,701	1
<b>Total revenue</b>	<b>565,423</b>	<b>100</b>	<b>583,710</b>	<b>100</b>	<b>615,106</b>	<b>100</b>
<b>Expenditures</b>						
Salaries and employee benefits	372,032	67	398,913	67	412,558	66
Materials and supplies	36,567	7	36,836	6	37,061	6
Repairs and maintenance	30,504	6	32,471	5	32,486	5
Utilities	25,596	5	25,451	4	28,218	4
Scholarships, bursaries, and awards	25,072	4	26,773	4	26,567	4
Amortization of capital assets	21,065	4	21,986	4	25,789	4
Other operating expenses	12,136	2	12,686	2	17,242	3
Travel and hosting	16,599	3	16,249	3	16,733	3
Externally contracted service	16,406	3	15,813	3	16,720	3
Post-employment benefits	8,343	1	11,474	2	13,476	2
Professional fees	13,261	2	12,615	2	11,786	2
Equipment rentals	3,680	-	4,177	1	4,096	1
Interest expense	680	-	623	-	587	-
Derivative liability loss	721	-	-	-	-	-
External cost recoveries	(20,910)	(4)	(19,758)	(3)	(19,132)	(3)
<b>Total expenditures</b>	<b>561,752</b>	<b>100</b>	<b>596,309</b>	<b>100</b>	<b>624,187</b>	<b>100</b>
<b>Annual Surplus (Deficit)</b>	<b>\$ 3,671</b>		<b>\$ (12,599)</b>		<b>\$ (9,081)</b>	

Source: MUN audited consolidated financial statements

## Detailed Observations

### Introduction

This report provides findings related to our four objectives:

1. Financial Position and Operations
2. Recruitment and Compensation
3. Leave and Overtime
4. Travel and Relocation

### 1. Financial Position and Operations

#### Objective

To determine whether the University was adequately monitoring its financial position and operations.

#### Conclusion

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

Our review considered whether:

- Financial operating and capital budgets were developed and approved in a timely manner.
- Financial operations were periodically monitored and variances of actual results from budgeted results were investigated and explained.
- Operating and capital expenditures were allocated by faculty and program to ensure expenditures can be monitored by faculty, program and student.
- Revenues (Government and other grants, tuition fees, sales revenues, etc.) were monitored to ensure expenditures were adequately funded.
- Infrastructure was adequately monitored as to age, condition and repair/replacement priorities through capital replacement and maintenance program.



We identified findings in the following areas:

- A. Financial Position
- B. Operations
- C. Facilities Management

### 1A. Financial Position

Our review of the University's financial position identified the following.

#### Net Deficiency

For the year ended March 31, 2014, the University reported an unrestricted net deficiency of \$106.3 million, an increase of 58% over nine years. This increase was mainly a result of the University incurring operating deficits in six of the last nine years.

#### Finding

1. The University reported an unrestricted net deficiency of \$106.3 million, an increase of 58% over nine years.

#### Retirement Benefits Liabilities

At March 31, 2014, the University had a combined liability for retirement benefits of \$421 million. This liability was the result of financial decisions made by the Board and the Provincial Government.

**Table 3**

**Memorial University of Newfoundland  
Retirement Benefits Liabilities  
For the Years Ended March 31  
(\$000's)**

	2010	2011	2012	2013	2014
<b>Post-employment Benefits</b>					
Net Liability	\$119,029	\$136,392	\$146,868	\$158,342	\$171,817
Unamortized Losses	-	-	26,188	32,272	26,772
Total Post-employment Benefits	119,029	136,392	173,056	190,614	198,589
<b>Pension Deficit</b>	308,344	268,500	298,825	267,672	222,751
<b>Combined Liability</b>	<b>\$427,373</b>	<b>\$404,892</b>	<b>\$471,881</b>	<b>\$458,286</b>	<b>\$421,340</b>

Source: MUN Pension Plan audited financial statements and MUN audited consolidated financial statements

*Post-employment Benefits*

The University's post-employment benefits liability consists of:

- severance pay;
- health and dental insurance;
- life insurance benefits;
- a voluntary early retirement income plan (VERIP); and
- a supplemental retirement income plan (SRIP).

As Table 3 indicates, the University's post-employment benefits, including unamortized losses, have increased 67% over four years to \$198.6 million at March 31, 2014. The liability for these benefits continues to increase each year as employees continue to earn benefits for services rendered. These liabilities are not funded by the University.

**Finding**

2. The liability for post-employment benefits has increased 67% over the past four years from \$119.0 million in 2010 to \$198.6 million in 2014.

*Pension*

The University has its own pension plan which is governed by the *Memorial University Pensions Act*. The University prepares annual financial statements for the MUN Pension Plan which are audited each year. The pension deficit of the Plan was \$222.8 million at March 31, 2014. The pension plan is underwritten by the Province of Newfoundland and Labrador (the Province) to cover any deficiencies.

**Finding**

3. The University reported a pension deficit of \$222.8 million at March 31, 2014.

**Combined Deficit**

The audited consolidated financial statements of the University for the year ended March 31, 2014 indicated an accumulated deficit of \$106.3 million. In addition, for the year ended March 31, 2014, the University reported a pension deficit of \$222.8 million. This liability is reported separately and is not included in the consolidated financial statements of the University.

**Table 4**

**Memorial University of Newfoundland  
Combined Deficit  
For the Years Ended March 31  
(\$000's)**

	2010	2011	2012	2013	2014
Unrestricted Net Deficiency	\$ -	\$ (90,665)	\$ (87,887)	\$ (93,763)	\$(106,256)
Pension Deficit	(308,344)	(268,500)	(298,825)	(267,672)	(222,751)
<b>Combined Deficit</b>	<b>\$(308,344)</b>	<b>\$(359,165)</b>	<b>\$(386,712)</b>	<b>\$(361,435)</b>	<b>\$(329,007)</b>

Source: MUN Pension Plan audited financial statements and MUN audited consolidated financial statements

The combined deficit of the University at March 31, 2014, considering both operations and the Pension Plan, was \$329 million. (**Table 4**)

**Finding**

4. The University's combined deficit as at March 31, 2014 totaled \$329.0 million.

**1B. Operations**

**Overview**

The University reported \$615.1 million in total revenues for the year ended March 31, 2014, of which \$444.3 million, or 73%, was provided through various Provincial and Federal Government grants. Fees received from students totaled \$62.5 million and accounted for only 10% of total revenues.

**Provincial Funding Process**

The University receives its funding from the Department of Advanced Education and Skills and the Department of Health and Community Services (Faculty of Medicine). Funding requests for Provincial Government operating grants are made using a base-budget approach. Annual funding is based upon the previous year's funding and adjusted for estimated salary and operational expense increases, inflationary increases and new initiatives or requirements. Funding the University based upon a base-budget approach has inherent risks as annual funding is not directly linked to the University's capacity to deliver programs (i.e. physical space, classroom utilization), registration/enrolment levels, or outputs (i.e. program results, program costs, student success, post-graduate employment).

**Finding**

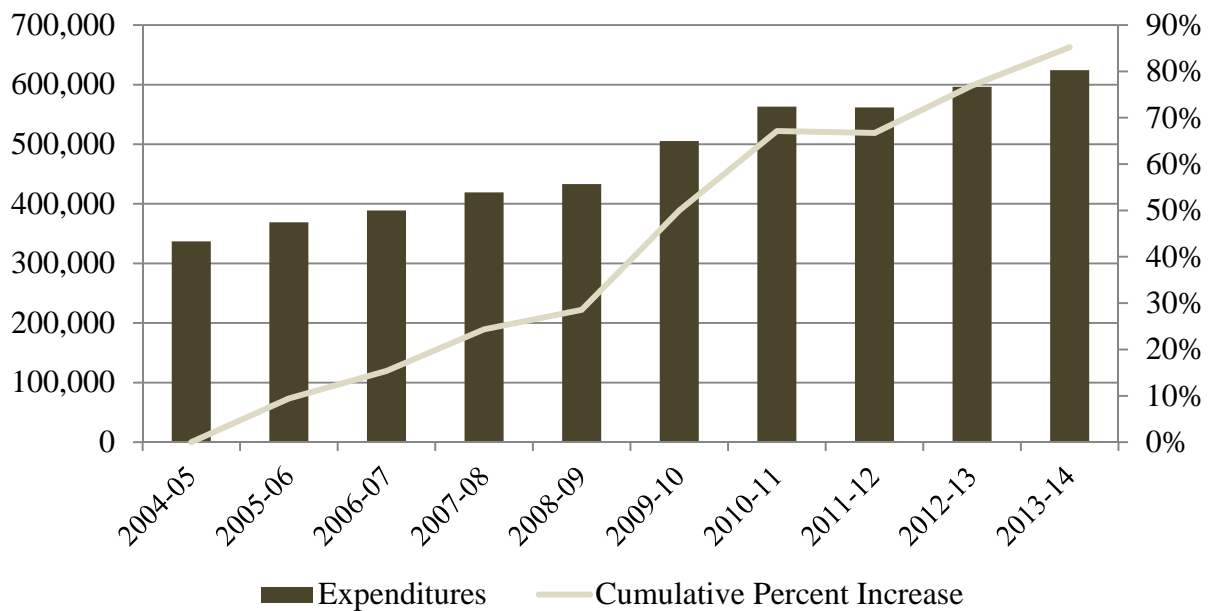
- The Province funds the University using a base-budget approach which uses the previous year's funding levels as a base amount which is amended for programming changes. This approach has inherent risks as annual funding is not directly linked to the University's capacity to deliver programs, registration/enrolment levels, or outputs.

**Expenditures**

Figure 1 shows the growth in expenditures at the University from 2004-05 to 2013-14.

**Figure 1**

**Memorial University of Newfoundland  
Expenditures  
For the Years Ended March 31  
(\$000's)**



Source: MUN audited consolidated financial statements

Expenditures have increased 85% over the past nine years from \$337 million in 2004-05 to \$624 million in 2013-14. Salary and other employee benefits expenses accounted for 69% of the total expense increase.

Over this same time period, cumulative growth in total expenses of the Province of Newfoundland and Labrador was 58%.

**Finding**

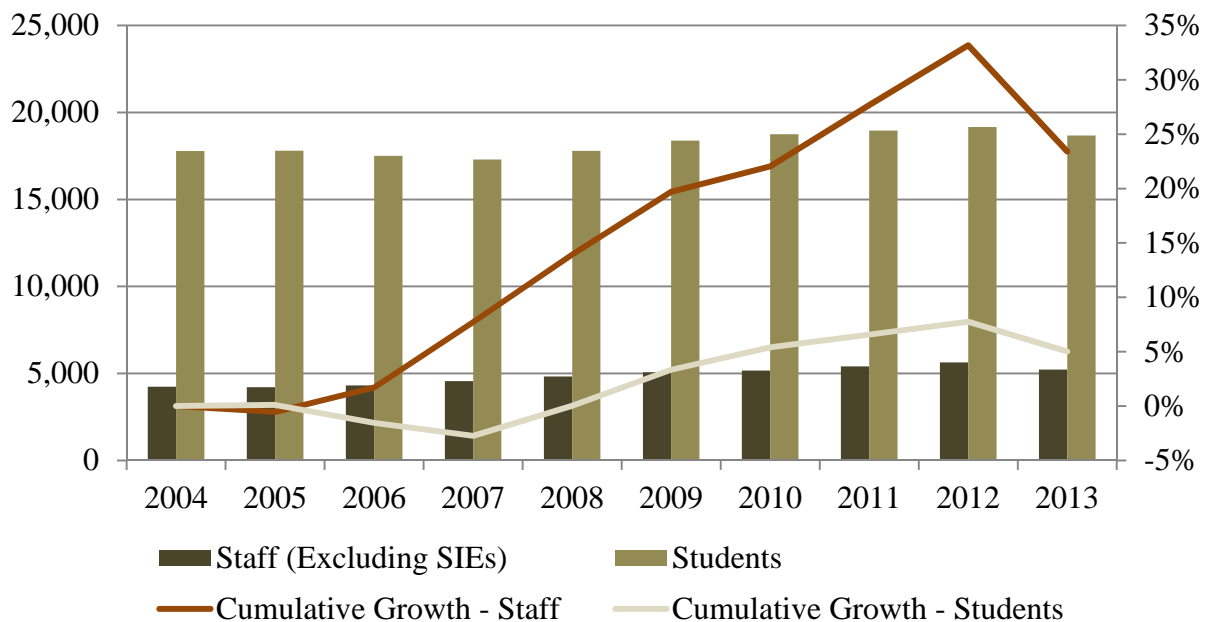
- 6. University expenses have increased 85% over the past nine years. Cumulative expense growth for the Province over the corresponding period was 58%.

**Enrollment and Employees**

Figure 2 provides the number of students enrolled during the fall of 2003 to 2013 and the number of employees working at the University for years ended March 31, 2004 to 2013.

**Figure 2**

**Memorial University of Newfoundland  
Comparison of Students and Employees  
For the Years Ended March 31**



Source: MUN Fact Books

Note: Employee information for 2014 was used to estimate the number of 2013 employees as the University could not provide information for 2013 employees.

The number of students enrolled has only increased by 5% over nine years while the number of employees has increased by 23%.

**Finding**

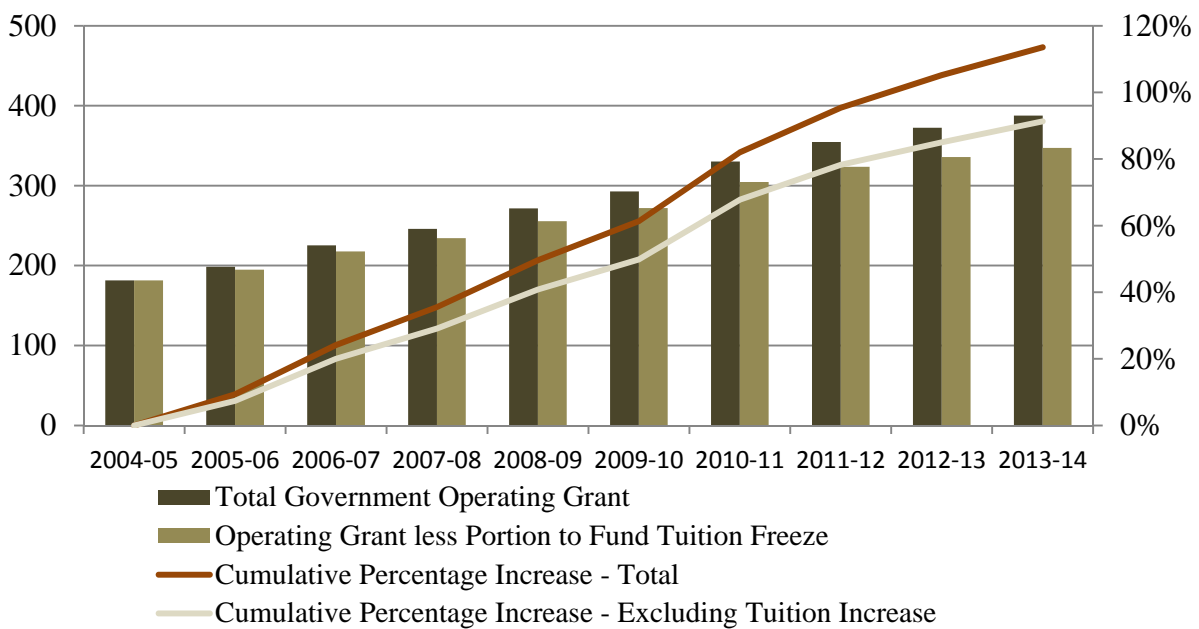
- 7. Since 2004, the number of employees at the University has grown by 23%, while the rate of growth in student enrolment has been 5%.

**Government Operating Grant**

Figure 3 shows Provincial Government operating grants paid to the University for years ended March 31, 2005 to 2014.

**Figure 3**

**Memorial University of Newfoundland  
Government Operating Grant  
For the Years Ended March 31  
(\$Millions)**



Source: Province of Newfoundland and Labrador Public Accounts and Department of Advanced Education and Skills

Provincial Government operational funding has more than doubled (113%) over the past nine years. For the year ended March 31, 2014, the University was provided operating grants totaling approximately \$388 million compared to \$182 million for the year ended March 31, 2005.

**Finding**

- 8. Provincial Government operational funding has more than doubled (113% increase) over the past nine years, from \$182 million in 2004-05 to \$388 million in 2013-14.

**Government Funding of Tuition Freeze**

In 2005-06, the Government implemented, what was originally intended to be, a three-year tuition freeze and provided a subsidy to the University to offset the loss of tuition revenue. The tuition freeze has been maintained by the Provincial Government since 2006 and the grant from the Province to the University has increased annually.

**Table 5**

**Memorial University of Newfoundland  
Provincial Government – Tuition Freeze Funding  
For the Years Ended March 31  
(\$ Millions)**

Fiscal Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	Cumulative
2005-06	\$3.6	\$3.6	\$3.6	\$3.6	\$3.6	\$3.6	\$3.6	\$3.6	\$3.6	\$32.4
2006-07	-	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	31.2
2007-08	-	-	4.2	4.2	4.2	4.2	4.2	4.2	4.2	29.4
2008-09	-	-	-	4.2	4.2	4.2	4.2	4.2	4.2	25.2
2009-10	-	-	-	-	4.9	4.9	4.9	4.9	4.9	24.5
2010-11	-	-	-	-	-	5.0	5.0	5.0	5.0	20.0
2011-12	-	-	-	-	-	-	5.3	5.3	5.3	15.9
2012-13	-	-	-	-	-	-	-	5.5	5.5	11.0
2013-14	-	-	-	-	-	-	-	-	3.8	3.8
<b>Total</b>	<b>\$3.6</b>	<b>\$7.5</b>	<b>\$11.7</b>	<b>\$15.9</b>	<b>\$20.8</b>	<b>\$25.8</b>	<b>\$31.1</b>	<b>\$36.6</b>	<b>\$40.4</b>	<b>\$193.4</b>

Source: Department of Advanced Education and Skills

The Province initially provided \$3.6 million to the University in 2005-06 to fund the tuition freeze. The annual tuition freeze subsidy has risen to \$40.4 million for the year ended March 31, 2014. (Table 5) During the past nine years, the Provincial Government has paid \$193.4 million in tuition freeze subsidies to the University.

**Finding**

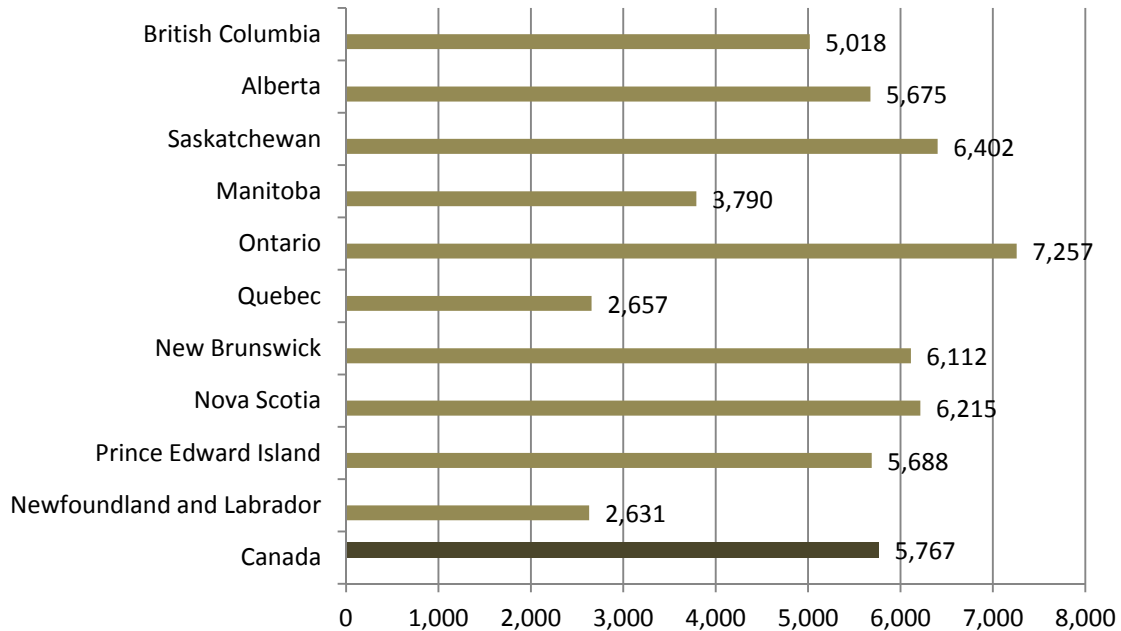
9. The Province spent \$193.4 million since 2005-06 to support a freeze on tuition at the University.

**Tuition Fees**

The University had the lowest tuition fees in Canada for the 2013-14 academic year. Figure 4 provides a provincial comparison of tuition fees.

**Figure 4**

**Memorial University of Newfoundland  
Average National Tuition Fees  
For the 2013-14 Academic Year**



Source: Statistics Canada

Tuition fees charged by the University for a full-time study program (based upon 30 credit hours annually) during the 2013-14 academic year was \$2,631, or 46% of the national average.

Since 2005-06, medical students paid tuition of \$6,250 per year, international (non-medical) students paid \$8,800 per year, and international medical students paid \$30,000 per year.

**Finding**

10. The University has the lowest tuition fees in Canada for a full-time study program.

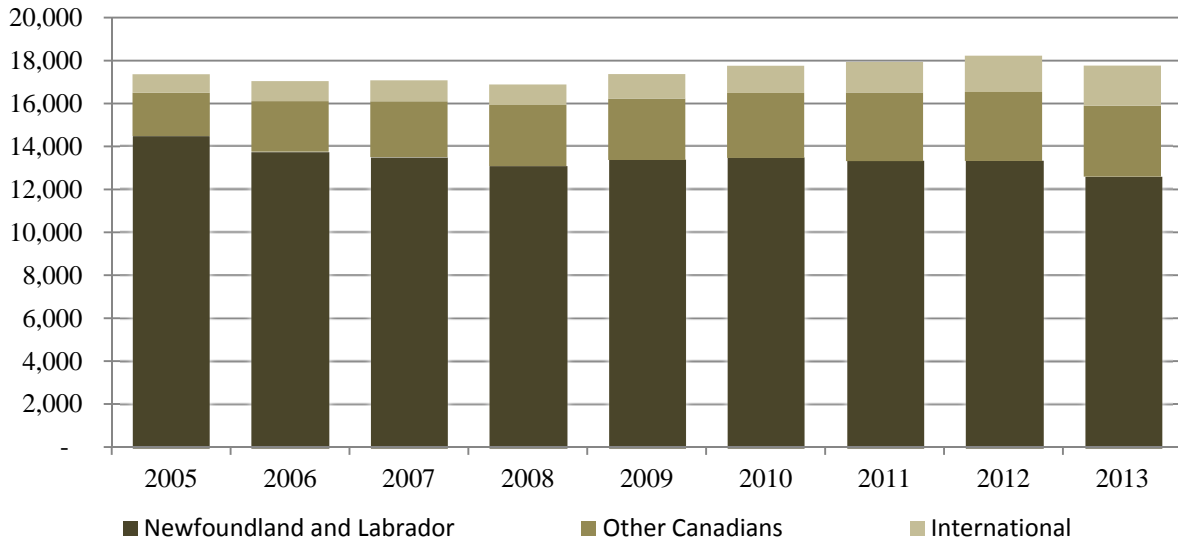
**Effects of the Tuition Freeze on Accessibility**

The tuition freeze was intended to increase the attractiveness of the University to students. Figure 5 shows the change in the undergraduate and graduate student profile from the fall semester of 2005 to the fall semester of 2013.



**Figure 5**

**Memorial University of Newfoundland  
Comparison of Student Enrollments  
Fall Semester 2005 to Fall Semester 2013**



Source: MUN Fact Books

Total student enrolment has remained fairly constant since 2005, however, the origin of these students has been steadily changing. The enrollment of students from Newfoundland and Labrador at the University has decreased from 14,497 to 12,601, a 13% decline. Students enrolled from other parts of Canada has increased by 64% and enrollment from international students has increased by 217% over the period.

Since the tuition freeze, the proportion of students at the University originating from outside the Province has increase from 17% of the student population to 29%. The tuition freeze has benefited these students as well as students from Newfoundland and Labrador.

**Table 6**

**Memorial University of Newfoundland  
Operating Grant Per Student  
2005-06 and 2013-14**

	<b>2005-06</b>	<b>2013-14</b>	<b>Change</b>
Provincial Operating Grant to MUN	\$198,500,000	\$387,600,000	\$189,100,000
Students - Newfoundland and Labrador	14,497	12,601	(1,896)
Students - Out-of-Province	2,875	5,172	2,297
	17,372	17,773	401
<b>Grant per Student</b>	<b>\$11,426</b>	<b>\$21,808</b>	<b>\$10,382</b>
Subsidy to Out-of-Province Students	\$ 32,849,750	\$112,790,976	\$ 79,941,226

Given the change in the University student profile since 2006, the Provincial Government tuition freeze subsidy is increasingly benefiting out-of-Province students. (**Table 6**)

**Finding**

11. In excess of \$112 million of the Provincial 2013-14 operating grant to the University effectively subsidizes students from outside the Province – an increase of \$80 million since the start of the tuition freeze.

**Recovery of Expenditures**

The University entered into shared service agreements with other agencies regarding the shared employment of certain employees. In cases where the University compensated the employee fully, the University would invoice the other agency for reimbursement for the applicable share. Our review identified \$151,340 related to two employees that had not been invoiced by the University.

**Finding**

12. The University had not recovered \$151,340 related to two employees from shared services agreements.

## 1C. Facilities Management

### Overview

As at March 31, 2014, the University reported tangible capital assets with a cost of \$628.4 million and a net book value of \$241 million. Table 7 provides a summary of the University's tangible capital assets. University buildings accounted for approximately one-half of total tangible capital assets.

**Table 7**

**Memorial University of Newfoundland  
Tangible Capital Assets  
For the Year Ended March 31, 2014  
(\$000's)**

	<b>Cost</b>	<b>Amortization</b>	<b>Net Book Value</b>
Buildings	\$ 309,355	\$ 157,277	\$ 152,078
Furniture and equipment	129,822	77,605	52,217
Computers	28,730	21,320	7,410
Software	4,780	2,217	2,563
Vehicles and vessels	5,002	4,729	273
Library collection	150,679	123,845	26,834
<b>Total Tangible Capital Assets</b>	<b>\$ 628,368</b>	<b>\$ 386,993</b>	<b>\$ 241,375</b>

Source: MUN 2014 audited consolidated financial statements

In order for the University to ensure its infrastructure is properly monitored, maintained and utilized we would expect the University to have systems and processes that provide for the recording, inspection, usage, condition, maintenance and replacement of infrastructure.

### Monitoring of Infrastructure

The University maintains about 3.7 million square feet of floor space in 103 buildings and other infrastructure, such as tunnels, in St. John's and Corner Brook. The Facilities Management Division is responsible for the day-to-day management of these buildings and properties, which it does through several functional areas including facilities engineering and development, construction project management, building services and grounds, campus enforcement and patrol, custodial services, and operations and maintenance.

The University has been monitoring its facilities through a facilities condition monitoring system since 2009. The system records information on each building and other major infrastructure system within each facility such as asset description, construction/installation date, age, square footage and replacement costs. A life cycle period is assigned to each asset based on the average life expectancy of the infrastructure asset. As systems exceed their life expectancy, the estimated replacement value for these systems is used to calculate a Facility Condition Index (FCI). The FCI is the ratio of the estimated cost to repair/replace components of a building to the estimated cost to replace the entire building. The higher the FCI, the greater the requirements for replacement or maintenance work. Reports are generated by site, building and major system, and used for planning and funding decisions.

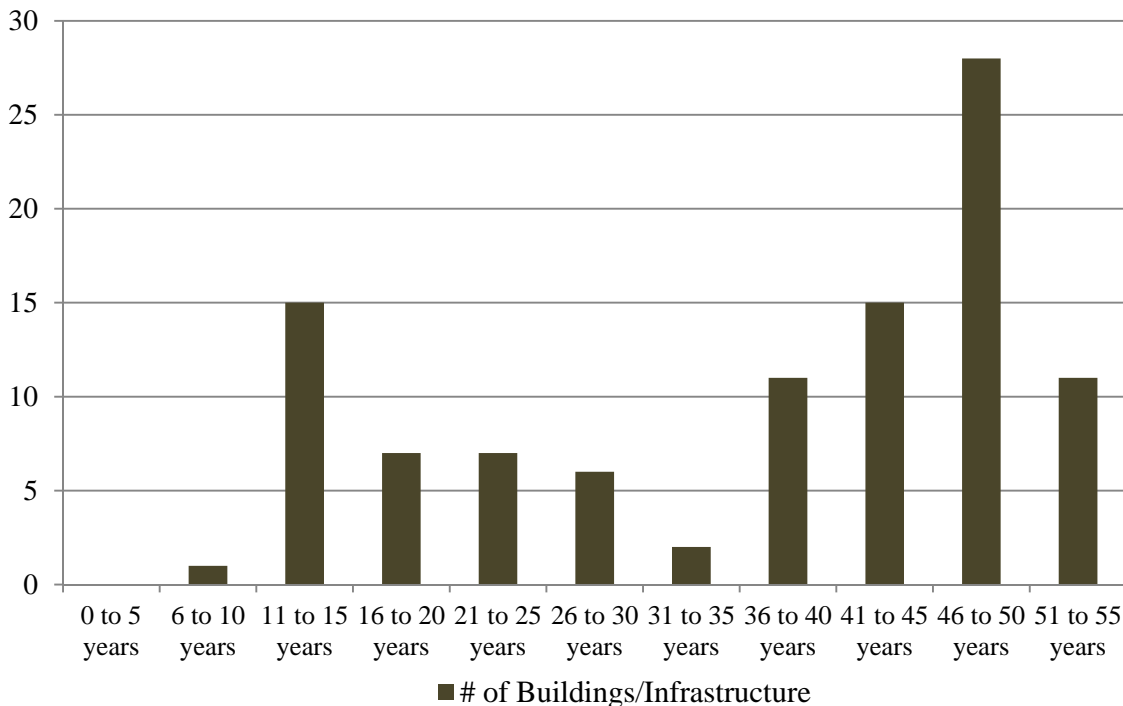
Based on the FCI process, the University hires engineering consultants to perform audits (inspections) of buildings and systems to assess the actual condition of each building or system to determine what actually needs to be replaced, the cost of replacement and a recommended action date.

**Aging Infrastructure**

The University infrastructure is aging as noted in Figure 6.

**Figure 6**

**Memorial University of Newfoundland  
Aging of Buildings and Other Infrastructure  
As of February 2013**



Source: FCI Reports

A February 2013 FCI report indicated there were 103 buildings and other infrastructure assets with ages ranging from 8 to 54 years, excluding the Marine Institute and Grenfell campus. As Figure 6 indicates, over one-half of the 103 buildings and other infrastructure assets (52%) were 40 years of age or older.

### **Finding**

13. 52% of the 103 buildings and other infrastructure assets on the main campus of the University were 40 years of age or older as of February 2013.

### **Deferred Maintenance**

For the year ended March 31, 2013, the University requested \$30.2 million for deferred maintenance in its capital budget submission to the Provincial Government. The submission indicated that, *“The physical plant at Memorial University continues to operate while renewals of systems that have exceeded their expected lifetime continue to be deferred. If these systems continue to be left unattended, deferred maintenance will threaten our ability to provide safe, reliable and good-quality facilities at Memorial University. Many of our older buildings have reached the point where they require extensive retrofit to building components such as roof, doors, windows, walls, and mechanical and electrical systems. A major increase in funding is required to remediate the serious deferred maintenance issues at Memorial University. Approximately \$144.8 million is needed to address urgent deferred maintenance over the next 5 years.”*

The Provincial Government provided capital funding to the University for deferred maintenance for the year ended March 31, 2013 of \$10 million (2012 - \$5.4 million), approximately 33% of the requested funding.

### **Finding**

14. The University identified that approximately \$144.8 million was needed to address urgent deferred maintenance over the next five years, and included \$30.2 million in its priority deferred maintenance list to the Provincial Government for the year ended March 31, 2013. Deferred maintenance funding for the year ended March 31, 2013 was only \$10 million, or 33% of the requested annual funding.

### **Facility Audits**

We completed a review of the St. John’s campus FCI report to determine if audits were being completed to assess identified building deficiencies and to provide a better indication of the associated replacement and maintenance costs. The report included 63 buildings and other infrastructure with FCI costs totaling \$232.8 million.

Thirteen of the 63 buildings and other infrastructure, such as tunnels and sheds, did not require a detailed audit. The status of the remaining 50 infrastructure/buildings was as follows:

- 26 audits were completed on these sites between October 2011 and April 2013;
- 10 buildings did not have audits completed because the buildings were undergoing renovations or had planned renovations;
- 5 houses, which were used as office space, with FCI costs totaling \$1.4 million, did not have audits completed, however, University officials indicated that houses did not require audits to be performed by engineering consultants; and
- 9 buildings, with FCI costs totaling \$54.2 million, did not have audits completed.

Without having audits completed for each building site, the University did not capture and use accurate information for capital planning and funding purposes.

### **Finding**

15. Nine University buildings, with Facility Condition Index costs totaling \$54.2 million, did not have a detailed audit (inspection) completed by engineering consultants. Without these audits being completed, the University did not have accurate information to make informed decisions on capital planning and funding purposes.

### **Deferred Maintenance Timing**

We reviewed 6 of 14 FCI audits completed in April 2013 to determine if critical maintenance items were being actioned by the University. Thirty-four of the 121 (28%) items identified by the consultant as being critical deferred maintenance items, totaling \$26.7 million, were overdue by at least eight months. For example:

- The on-site building audit for the Education Building identified an FCI cost of \$13.9 million. Our review identified that 3 of 14 action items totaling \$8.4 million, or 60% of required expenditures for items such as exterior windows, plumbing, and air handlers had action dates that were past due by one year.
- The on-site building audit for the Chemistry and Physics Building identified an FCI cost of \$18 million. Our review identified that 11 of 19 action items totaling \$9.1 million, or 51% of required expenditures for items such as electrical, plumbing, ceiling finishes and roof coverings, had action dates that were past due ranging from eight months to one year.

### **Finding**

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

## 2. Recruitment and Compensation

### Objective

To determine whether recruitment and compensation practices were in accordance with University policy.

### Conclusion

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

Our review considered whether:

- Policies and procedures were clearly defined and communicated to staff.
- Hiring practices were supported, objective and based upon the merit system.
- Employees were compensated based upon approved positions and salary scales.
- Salary changes (i.e. promotions, temporary assignments, upscale hiring, etc.) were approved and in accordance with University personnel policy and procedures.

### Introduction

During the year ended March 31, 2012, the University employed approximately 5,876 employees on a full or part-time basis plus 2,347 student employees with an associated cost of \$372.0 million for salaries and employee benefits.

The *Memorial University Act* states that the Board shall appoint “...employees that the board considers necessary for the purposes of the university and to fix their salaries or remuneration and to define their duties and their tenure of office or employment which, unless otherwise provided, shall be during the pleasure of the board...”. Recruitment, terms of employment and employment conditions for its employees are documented through 10 collective agreements, human resource policies, a Staff Handbook for non-unionized employees and executive employment contracts.

In reviewing the University’s recruitment and compensation practices we identified findings in the following areas:

- A. Recruitment
- B. Employment of Pensioners
- C. Compensation

## 2A. Recruitment

### Overview

The University completed approximately 1,533 job competitions from April 2011 to March 2013. The recruitment of employees is the responsibility of the University's Human Resources Division for non-academic employees and the respective academic unit for academic employees and involves different policies, procedures, and processes.

### Hiring Process

Article 7 of the Memorial University of Newfoundland Faculty Association (MUNFA) collective agreement governs the appointment of academic employees. The Human Resources Division uses guidelines referred to as the "Recruitment Toolbox" for the recruitment of non-academic employees.

### Job Competitions

We reviewed a sample of 32 job competition files (12 academic and 20 non-academic) for the period April 1, 2011 to March 31, 2013 to determine whether hiring practices were in compliance with University guidelines and the MUNFA collective agreement, and if recruitment files were complete and included the required information to indicate the most qualified applicant was recruited.

We also examined 37 employee personnel files for any issues with the competition process. Our review did not include an examination of the employee recruitment process in each of the Separately Incorporated Entities (SIEs). Our review identified the following:

#### *Academic Recruitment*

Our review of the 12 academic recruitments identified three files that did not have the interview questions and responses per interviewee on file.

#### *Non-academic Recruitment*

Our review of the 20 non-academic competition files identified inconsistent documentation and analysis among 14 of the competitions.

Our review also identified that 2 of 37 employees in our sample of personnel files had been hired without a job competition. These two employees worked part-time for the past four and five years, respectively on an annual contractual basis (not grant-funded) and were being paid approximately \$32,000 and \$63,500, respectively without applying for the positions.



### **Findings**

17. Competition files did not always include all documentation as recommended or required by University policy to support the competition process.
18. Two contractual positions did not have competitions conducted. As a result, there was no documentation to support that the most qualified individual was hired for the position.

## **2B. Employment of Pensioners**

### **Overview**

The hiring of employees receiving a University pension is subject to certain guidelines.

The University does not restrict the hiring of Provincial Government pensioners. Government policy states that, as a matter of policy, a preference is given to hiring persons other than those in receipt of a pension. This policy does not apply to the University.

### **University Retirees**

If an individual who is in receipt of a University pension is rehired by the University, their pension benefits are continued if the employee works less than 20 hours per week, is under contract for less than 6 months or is over the age of 71. Eleven employees were in receipt of a University pension and were within the University guidelines for the year ended March 31, 2012.

The NAPE collective agreement MOU on the re-employment of retirees, states that employees in receipt of a pension from the University may be re-employed as contractual employees for summer relief (from May to September) purposes only. We found one employee was hired under two contracts from May 9, 2012 to November 7, 2012 and worked approximately six weeks and earned approximately \$9,000 beyond the September 30 deadline. We note that the current NAPE collective agreement which was signed in May 2014, and retroactive to April 1, 2012, removed the summer relief restriction.

### **Provincial Government Retirees**

Former Provincial Government employees working in any capacity with the University continue to receive their Provincial Government pension. During the calendar year ended December 31, 2012, the University employed approximately 51 employees who received a salary ranging from \$22,600 to \$177,600 and were in receipt of a Provincial Government pension ranging from \$20,100 to \$79,500. There were no restrictions in place on the employees continuing to receive their Provincial Government pensions while employed by the University.

Given that 63% of its funding is provided by the taxpayers of the Province through an operating grant, the University may wish to consider the appropriateness of the current policy regarding the hiring of Provincial Government pensioners.

## **Finding**

19. During 2012, the University employed 51 employees that were in receipt of a Provincial Government pension. The University does not restrict the hiring of Provincial Government pensioners.

## **2C. Compensation**

### **Overview**

Compensation is predominantly in the form of a fixed salary that is regularly adjusted for annual step progression, and reviewed for general economic increases, administrative stipends and market differentials.

#### *Executive employees*

The Board of Regents, on the recommendation of its Executive Compensation Committee, conducts a senior executive compensation review that assesses compensation levels for the University's executive members against similar positions within the Canadian university market. This market review is normally done on a five-year interval.

#### *Academic employees*

Compensation for academic executive, management and other employees are paid in accordance with the MUNFA collective agreement. In addition, academic employees in administrative positions are paid an administrative stipend which is set by the Board. This stipend is in addition to the base salary and reflects the size and complexity of the faculty, school or department.

Per-course instructors are represented by the Lecturers' Union of Memorial University of Newfoundland (LUMUN) and compensated in accordance with negotiated salary amounts.

#### *Non-academic management and non-bargaining unit employees*

There are three main salary scales for non-academic groups below the level of Vice-President:

- the Senior Administrative Management (SAM) scale;
- the Management and Professional employees (MPS) scale; and
- non-bargaining employees (Common) scale.

#### *Non-academic unionized employees*

For non-academic unionized employees, compensation structures are determined through collective bargaining between the University and the various unions representing each employee group.

Our review of the University employees' compensation included an analysis of employee salaries and benefits. In addition, we reviewed a sample of 37 personnel files and related payroll documentation to determine whether employees were being compensated in accordance with University policy and applicable collective agreements. Our review identified the following compensation issues.

### **Additional Compensation**

Our review identified instances where employees were paid compensation above their regular salary for additional duties or paid for casual work, however, there was inadequate documentation to support the payment. Specifically:

- 16 non-physician employees were paid a total of \$412,480 in "casual pay" as recorded in the University's payroll system for the year ended March 31, 2012. Our review of a sample of 5 of these 16 employees identified that 2 employees paid for teaching duties at the Gardiner Centre did not have signed teaching agreements with the Gardiner Centre for payments totaling \$19,800 and \$92,200, respectively.
- 38 employees were paid \$63,300 for performing duties such as extra teaching assignments during the year ended March 31, 2012. Our review of a sample of 2 of these 38 employees identified that one employee was paid \$5,000 on September 9, 2011, however, there was no documentation at the Payroll Division or the employee's personnel file to support the payment.

### **Finding**

20. There was inadequate documentation to support additional salary payments totaling \$117,000 paid to three employees.

### **Position Classifications**

Our review identified employees whose positions were either not classified, or an employee's assigned duties had changed significantly and a reclassification had not been undertaken. When positions are not classified in accordance with a union agreement or through the University's classification process, employees could be compensated incorrectly. Specifically:

- Between October 16, 2008 and November 1, 2012, the Registrar was appointed as advisor to the Board and was paid an annual stipend of \$25,000 for these additional duties, in addition to maintaining their salary as Registrar. Because the Registrar was unable to perform all of the assigned duties as Registrar, another senior employee was paid an additional 10% of their salary (approximately \$16,000 annually) as compensation for performing certain duties of the Registrar. In essence, two employees were being compensated for the same duties. Given the length of time that this transfer of duties occurred, the University should have considered evaluating these two positions to determine an appropriate classification and salary scale for each.

- A position was reclassified from a union to a non-bargaining position in February 2009 with a change in job title. As a result of the re-classification, the employee was classified on the same scale as a subordinate. Although the non-bargaining unit employee was paid a supervisory differential, as of December 2013 no request was made to have the position reviewed for reclassification.
- In May 2011, additional duties were assigned to a senior employee and an annual stipend of \$25,000 was approved by the Board. As of April 2013, this employee's salary had not been placed on the appropriate salary scale as a required job fact sheet had still not been submitted. The job fact sheet was submitted in April 2013, however, as of December 2013 this classification was still not done, and the employee continued to receive the \$25,000 stipend.
- An employee, whose former position was declared redundant on May 2, 2012, was hired in a contractual position from August 8, 2012 to October 9, 2015 as Internal Consultant to the Office of the Provost - Vice-President (Academic) at the same annual salary (\$137,000) as the employee's redundant position. The contractual position was not classified.
- A retired management employee, who was in receipt of a pension, was rehired on a part-time basis as Executive Director to the Board of Regents for a two-year period ending in October 2014. The new position was not classified. The employee's part-time salary was based on the employee's previous annual salary of \$221,600.

### **Finding**

21. Employee positions were not always classified, not classified in a timely manner, or assigned duties had changed significantly and a reclassification had not been undertaken. Positions not classified in accordance with a union agreement or through the University's classification process, could result in inappropriate compensation.

### **Bonus Payments**

For the year ended March 31, 2012, the University paid bonuses ranging from \$442 to \$67,750 totaling \$489,460 to 32 employees (27 were employees of SIEs). We examined five bonus payments that were in excess of \$10,000 and determined that documentation to support three bonuses totaling \$140,139 were not always on file or the bonuses were not paid in a timely manner.

### **Finding**

22. Bonuses were not always supported by established criteria, approved or paid in a timely manner.

## Administrative Stipends

Administrative stipends are incentives, approved by the Board, and paid to various employees who perform administrative and other duties above their approved position duties. Administrative stipends are paid based upon the employee's position, the size and complexity of their administrative responsibilities, and the employee's term in the position.

Table 8 provides a breakdown of stipends paid by pay group. For the year ended March 31, 2012 a total of \$1.5 million in stipends were paid to 272 employees, ranging from secretarial employees to deans.

**Table 8**

### Administrative Stipends by Pay Group For the Year Ended March 31, 2012

Pay Group	Employees	Stipends Paid	Range of Stipends Paid
Faculty of MUNFA	113	\$276,882	\$77 to \$19,000
Faculty of Management (department heads)	107	756,551	\$877 to \$22,000
Academic Executive	19	303,155	\$2,983 to \$26,500
Non-Bargaining	14	20,107	\$29 to \$2,500
NAPE Faculty (Marine Institute)	7	18,741	\$615 to \$4,095
Faculty of Non-Bargaining	6	17,152	\$294 to \$5,573
Senior Administration Management	1	26,500	\$26,500
Unclassified	1	16,231	\$16,231
Management (Grandfathered)	1	10,000	\$10,000
CUPE Local 1615	1	4,000	\$4,000
Faculty of Clinical	1	3,077	\$3,077
Professional Grandfathered	1	716	\$716
	<b>272</b>	<b>\$1,453,112</b>	<b>\$29 to \$26,500</b>

Source: MUN payroll database

We reviewed a sample of administrative stipends paid to 4 out of 26 non-academic employees and identified that documentation was not on file to support the payment of two stipends totaling \$26,231.

### Finding

23. Documentation was not always on file to support administrative stipends paid to non-academic employees.

### 3. Leave and Overtime

#### Objective

To determine whether leave and overtime were properly approved and monitored.

#### Conclusion

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

Our review considered whether:

- Leave was approved, monitored and in accordance with University policy and procedures, and collective agreements.
- Overtime was approved, monitored and in accordance with University policy and procedures, and collective agreements.

#### Introduction

Leave and overtime is provided to employees differently depending upon whether the employee is a management employee, a non-bargaining unit employee or a unionized employee. The recording and monitoring processes are also different depending upon the employee categorization.

In reviewing the University's leave and overtime practices we identified findings in the following areas:

- A. Annual Leave
- B. Administrative/Sabbatical Leave
- C. Sick Leave
- D. Overtime

#### 3A. Annual Leave

##### Overview

As at March 31, 2013, the University reported \$15.2 million in accumulated annual leave payable to 2,737 non-academic unionized and management employees. Annual leave for academic unionized employees and academic administrators is not recorded as a liability as the University is not required to pay these employees for any outstanding leave that is not taken upon termination.

*Academic employees*

The MUNFA collective agreement outlines the vacation entitlements for academic staff members (ASMs) and the process for carrying forward unused balances. Annual leave requests for ASMs are recorded using a Notification of Absence from Campus which indicates the leave details (annual vacation and otherwise). ASMs are required to provide written notice to their administrative head at the end of an academic year of any unused leave to be carried forward. This notification must record the leave carried forward from the previous year, the annual entitlement, the leave usage and the carry forward balance for the next academic year. Manual records are kept in the faculty units and copies are submitted to the respective Dean's office. University officials indicated that some academic administrators complete forms similar to ASMs, while others do not complete the forms but manage their own leave. Employees' leave hours were recorded on bi-weekly leave reports and entered in the payroll system by each faculty.

*Non-academic employees*

Annual leave for non-academic employees is governed by the respective collective agreement or the University Staff Handbook for management and non-bargaining unit employees. Leave is recorded and monitored through a leave database maintained at the Human Resources Division. Each department or unit posts their leave directly into the database and leave records are filed at each site. The University uses a Reason for Absence form to document the request and approval of employee leave. Employee leave hours are recorded on bi-weekly time reports and forwarded to the Payroll Division for payroll processing.

**Academic Annual Leave**

Our review indicated that the reporting and monitoring of leave was not standardized and was administered differently depending upon the faculty. The University did not maintain a formal leave monitoring system for reporting and monitoring academic annual leave.

We selected a sample of 10 academic employees, five each from the Faculty of Medicine and the Faculty of Arts, to determine if leave was properly documented, approved and carry forward balances were tracked for future use. We requested support for leave balances carried forward in September 2011, leave taken during the academic year ending August 31, 2012 and leave balances carried forward in September 2012.

Our review identified that leave forms or other documentation was not provided or maintained to support leave taken or carried forward for academic employees as follows:

- We were not provided with any requested information as follows:
  - Faculty of Arts officials indicated that none of the five employees sampled completed any documentation to request leave or carry forward unused leave balances.

- Faculty of Medicine officials indicated that although documentation to support leave requests and carry forward balances is provided by employees, the Faculty decided to limit the retention of the leave forms to the most recent six months. Faculty officials indicated that this was done mostly to address space issues in the files but also because there was little benefit in keeping the information.
- Neither faculty maintained a leave record system or similar reports which recorded leave balances and leave taken for its academic employees.

Although annual leave is not required to be paid out upon termination, requiring and maintaining accurate leave records and monitoring leave balances is necessary to ensure annual leave taken by academic employees is within established policies.

### **Finding**

24. There was a lack of documentation and effective monitoring of annual leave for academic employees to ensure leave usage and carry forward balances were properly recorded, approved, and monitored. In addition, there were inconsistent leave practices between faculties.

### **Non-Academic Annual Leave**

Our review included a sample of leave covering 124 days for 12 non-academic employees during the fiscal year ended March 31, 2012 to determine if leave was properly documented, approved and entered in the leave system. Our review identified the following:

- leave covering 42 days for eight employees did not have completed leave forms;
- two leave forms for one employee were not approved; and
- three leave forms for two employees were incorrectly recorded in the leave database.

### **Finding**

25. Annual leave for non-academic employees was not always approved, documented and recorded accurately.



### **3B. Administrative/Sabbatical Leave**

#### **Overview**

##### *Administrative Leave*

Administrative leave is provided to academic administrators for the purpose of academic renewal and full re-entry to the non-administrative aspects of academic life (teaching and research) at the conclusion of their term as academic administrators. Leave is provided at full salary, excluding any administrative stipends. The University has a policy which governs administrative leave.

##### *Sabbatical leave*

Sabbatical leave is provided to ASMs to engage in research, scholarship, creative or professional activities to foster their academic or professional effectiveness. Sabbatical leave is provided to ASMs at 80% to 90% of annual salary. Sabbatical leave is governed by the MUNFA collective agreement.

#### **Administrative Leave**

##### *Academic Administrators*

Administrative leave is provided to academic administrators (excluding Vice-Presidents) based on the employees' term of employment in the administrative position. The University employed 103 academic administrators (excluding Vice-Presidents) who were eligible for administrative leave. Nineteen employees were eligible for administrative leave for one year or two years after the completion of a five-year term or two five-year terms respectively and 84 employees were eligible for administrative leave for four months or one year after the completion of a three-year term or two three-year terms respectively.

Our review of administrative leave identified that the University did not maintain a listing of employees who were approved for administrative leave during each year. Such a listing would assist in payroll, approval, scheduling and monitoring decisions. For example, we identified one dean who was approved administrative leave for 12 months by the Board, however, the employee was incorrectly paid an administrative stipend of \$8,154 while on administrative leave from January 2012 to April 2012 as the Payroll Division had not been notified.

**Findings**

- 26. Nineteen academic administrators were eligible for administrative leave for up to two years and 84 academic administrators were eligible for administrative leave for up to one year at full salary at the conclusion of their term as academic administrators for the purposes of full re-entry to the non-administrative aspects of academic life (teaching and research).
- 27. In one instance, the University Payroll Division was not notified when an administrative employee went on administrative leave to ensure the administrative stipend was not paid while the employee was on leave. This dean was overpaid \$8,154.

*Executive Employees*

Administrative leave for executive employees is accumulated in accordance with the employee’s employment contract at 2.4 months of leave for each year of service. Six of the 7 positions paid on the executive salary scales were accumulating administrative leave.

Our review identified one Vice-President was appointed as acting President from July 1, 2009 to June 30, 2010. The employment contract for the appointment stated that the employee was credited with administrative leave of 18.6 months which had been accumulated prior to the temporary appointment plus 2.4 months per year while acting as President. The contract also stated that all administrative leave credited would be on the basis of the President’s salary scale and terms in effect during his tenure in the position. In addition, the employee was credited with one month in administrative leave for postponing their administrative leave for one year after the new President was hired and 7.5 months earned as Vice-President subsequent to the temporary assignment. Our review of the administrative leave provided to the Vice-President, which started on September 16, 2013, indicated that the leave was not calculated in accordance with the employment contract and the employee will be overpaid \$45,268 over 21 months of administrative leave. (Table 9)

**Table 9**

**Memorial University of Newfoundland  
Overpayment of Administrative Leave  
September 2013 to 2015**

Calculation Applied by	Salary Scale Applied	Annual Salary	# of months	Leave Calculation
University	Salary scale of President as at September 2013	\$342,857	21	\$600,000
	Salary scale of Vice-President as at September 2013	\$261,746	8.5	185,403
			29.5	785,403
Office of the Auditor General	Salary scale of President during appointment-June 2010	\$316,990	21	554,732
	Salary scale of Vice-President as at September 2013	\$261,746	8.5	185,403
			29.5	740,135
<b>Overpayment of Administrative Leave</b>				<b>\$ 45,268</b>

**Finding**

28. One executive employee, who is on administrative leave effective September 2013, will be overpaid \$45,268 during 21 months of leave due the incorrect salary being used in calculating the eligible administrative leave pay.

**Sabbatical Leave**

The MUNFA collective agreement states that “*when sabbatical leave is completed, the ASM shall return to the University for a period of time equal to the duration of the sabbatical leave and shall return to his or her normal duties. Within forty days of returning from sabbatical leave, an ASM shall submit to his or her Administrative Head a report outlining the research, scholarship, creative or professional activity undertaken, and the outcomes of this activity*”.

Our review identified four employees who took sabbatical leave between September 2010 and November 2012 but retired immediately thereafter. As such, these employees could not comply with the collective agreement. The University’s policy did not include measures to be taken in cases where employees did not comply with the sabbatical leave requirements.

**Finding**

29. Four professors retired immediately after taking their sabbatical leave, and as a result, the professors did not comply with the work requirements, as stipulated in the MUNFA collective agreement.

**3C. Sick Leave**

**Overview**

*Academic employees*

ASMs and academic administrators, including executive employees, are required to participate in the long term disability (LTD) plan which includes an entitlement to salary continuance from the University if the absence is less than 60 consecutive calendar days. If an absence extends beyond 60 consecutive calendar days, the employee is entitled to apply for salary continuance benefits under the LTD plan. ASMs are required to complete a Notification of Absence from Campus (NAC) for absences and are required to submit a medical certificate if absences are in excess of 10 consecutive days. ASMs are not required to notify their administrative heads of sick leave absences if less than 10 days. The academic employee, if in a teaching position, is to make arrangements for a replacement to teach the class, or the class would be cancelled following consultation with the department head.

*Non-academic employees*

Non-academic employees are required to participate in the LTD plan which includes an entitlement to salary continuance from the University if the absence is less than 60 consecutive calendar days. If an absence extends beyond 60 consecutive calendar days, the employee is entitled to apply for salary continuance benefits under the LTD plan.

Employees are required to complete a Reason for Absence form for approval by the department head and this information is to be maintained in the leave database and recorded on absentee reports. Management and non-bargaining employees are required to submit a medical certificate after four consecutive sick days or after an accumulation of 10 days in any 12 month period for non-union employees. Unionized employees are required to submit a medical certificate after four consecutive sick days or after an accumulation of seven or eight days in any 12 month period, depending on the collective agreement.

**Sick Leave**

*Academic Employees*

The University did not have a centralized leave management system in place to record and monitor sick leave for ASMs. As a result, the University was unable to determine the cost of providing this benefit or the extent of leave taken by academic staff.

We selected a sample of academic employees from the payroll database for two faculties – the Faculty of Medicine and the Faculty of Arts to assess the process of reporting and monitoring sick leave for ASMs and academic administrators. We identified inconsistent reporting and monitoring of leave as follows:

- Faculty of Medicine officials indicated that sporadic sick leave of less than 10 days was not reported on the NAC form. Leave was only reported on the form if the leave was more than 10 days, at which point a medical certificate was also required. Faculty officials indicated that the NAC forms and medical certificates were filed at the Dean's office for six months, after which time they were destroyed.

Faculty of Medicine academic administrators did not complete the NAC form but provided emails to the Dean informing them of absences if less than 10 days.

- Faculty of Arts officials indicated that the NAC form was not used to record and approve sick leave. ASMs notified the department heads if a replacement was needed. For sick leave in excess of 10 days, the ASM notified the department head and submitted a medical certificate. Sick leave information and medical certificates were kept in the employees' personnel file.

### **Finding**

30. The University does not have a formal management system in place for the reporting and monitoring of sick leave for academic employees. As such, the University could not provide sick leave cost or usage information for its academic employees. We also identified that each faculty was responsible for its own leave reporting and monitoring processes which resulted in inconsistent and inadequate record keeping.

#### *Non-Academic Employees*

Our review included a sample of 124 periods of leave for 15 non-academic employees covering April 1, 2011 to December 31, 2012. Our review identified that employees were not always submitting the required leave forms and/or medical certificates, and that leave was not always accurately recorded in the leave database. Specifically:

- 30 leave forms covering 409 days were not completed for 10 employees. Although medical certificates were provided for these leave days, without an approved leave form the University cannot determine if and when the leave was approved.
- 38 required medical certificates covering 58 days for five employees were not provided. If sick leave is not supported by a required medical certificate, the employee may not be eligible for sick leave benefits.
- 9 sick leave days for two employees did not have five leave forms or the required medical certificates provided to support the employees' leave.
- The leave database did not always record leave as submitted by the employee. For example:
  - Two of 124 leave forms were inaccurately recorded in the database resulting in an understatement of 3.5 hours in one instance and an overstatement of 1.5 hours in another instance.
  - 62 days of sick leave for five employees were recorded in the database as sick leave without a medical certificate, however, a medical certificate was provided.
  - 20 days of sick leave for four employees was recorded in the database as sick leave with a medical certificate, however, a medical certificate was not provided.
  - 10 days of sick leave for one employee was recorded as sick leave in the database, however, the employee was actually on unpaid leave.
- We found 2 of 15 employees in our sick leave sample that were paid \$18,593 while on sick leave, however, University policy was not followed. As a result, these two employees received sick leave benefits to which they were not entitled.

Without an accurate leave database, the University cannot effectively monitor its employee sick leave.

### Findings

31. Employees were not always submitting the required leave forms and/or medical certificates, and leave was not always accurately recorded in the leave database for non-academic employees.
32. Employees were incorrectly paid while on sick leave as University policy was not followed.

### Sick Leave Limits

The University has no policy in place to limit the total number of sick days per year an employee is eligible for in any year or in aggregate during their employment except for the 60 consecutive calendar day requirement under the LTD plan. Each year, employees covered by the LTD plan can avail of 60 consecutive calendar days (approximately 43 work days) without applying for benefits under the plan. As a result, an employee can be on sick leave for more than 43 working days a year if the days are not consecutive and medical certificates are provided when required without being placed on the LTD plan.

Within our sick leave sample for non-academic employees, we found 5 of 8 employees with sick leave usage between 50 days and 98 days for the year ended March 31, 2012 and found 3 of 7 employees with sick leave usage between 50 and 91 days for the nine-month period ended December 31, 2012. Since the 60 consecutive calendar days requirement was not met, these employees were not placed on LTD.

We were unable to sample or analyze academic sick leave balances and usage to determine the extent of employee sick leave because the University did not record sick leave for academic employees in the leave database.

The University indicated that excessive intermittent use of sick leave benefits would be considered as chronic absenteeism. Although the University did provide letters for 3 of 8 employees with chronic absenteeism indicating meetings were held with the employee to resolve this issue, we found no policy to deal with chronic absenteeism. In addition, there was no documented monitoring of employees' sick leave balances for chronic absenteeism.

### Findings

33. The University has no policy in place to limit the total number of sick days per year an employee can be eligible for in any year or in aggregate during their employment except for the 60 consecutive calendar day (43 work days) requirement under the LTD plan.
34. Our review identified instances of intermittent use of sick leave benefits but we found that the University did not have a policy on the monitoring and management of chronic absenteeism.

### 3D. Overtime

#### Overview

Overtime for unionized employees is governed by the applicable collective agreements. Overtime for management and non-bargaining employees is governed by the Staff Handbook. Non-bargaining employees, not paid on the management, professional and executive pay plans, may request time off in lieu of overtime pay, which is granted on the basis of time and a half for each hour worked in excess of the regular work week. If time off is not granted within two months of working the overtime, the non-bargaining employee is to receive pay at the applicable rate.

Management employees paid on the management, professional and executive pay plans are not entitled to overtime compensation. However, the Staff Handbook states that in recognition of the extra hours typically worked by these employees beyond the normal work week, the employees receive an extra week of annual vacation in lieu of overtime pay.

For the year ended March 31, 2012, \$2.7 million in overtime was paid to 1,160 employees ranging from \$8 to \$56,928. For the nine-month period ended December 31, 2012, \$2.0 million in overtime was paid to 1,059 employees ranging from \$7 to \$42,195. Table 10 provides an overview of overtime paid to employees excluding the additional five vacation days provided to management employees in lieu of overtime worked. For the year ended March 31, 2012, approximately 573 management employees were eligible for these additional five vacation days.

**Table 10**

**Memorial University of Newfoundland  
Overtime by Pay Group  
For the Periods Ended**

Pay Group	March 31, 2012	April to December 2012 (9 months)
NAPE	\$1,773,721	\$1,364,058
CUPE	491,012	359,834
Non-Bargaining	283,801	164,537
Management	123,478	85,278
SIE	9,349	4,545
Students	8,975	7,195
<b>Total</b>	<b>\$2,690,336</b>	<b>\$1,985,447</b>

Source: MUN payroll database

Employees are required to complete a Record of Overtime form for the pre-authorization of overtime by the employee's supervisor prior to the overtime being worked and the subsequent recording and approval of overtime worked.

## Approval and Documentation

As part of our review, we examined a sample of overtime payments for 11 employees totaling \$170,297 for the period April 2011 to December 2012 to ensure the overtime was properly documented and approved. Our review of 167 overtime forms for the 11 employees indicated that overtime forms were not always completed to support the overtime, overtime was not always approved in advance of the overtime being worked and overtime forms were not always signed by the employee or the supervisor.

### Finding

35. Overtime documentation was not always completed to support the overtime, overtime was not always approved in advance of the overtime being worked and overtime forms were not always signed by the employee or the supervisor.

## Overtime Payments for Management

Our review of overtime for management employees identified the following:

- Overtime was paid to management employees who were also receiving the additional five annual vacation days in lieu of overtime. Forty-three management employees were paid \$123,478 in overtime for the year ended March 31, 2012. (**Table 10**)
- We reviewed a sample of overtime for 5 of the 43 management employees to determine the extent of the overtime above the additional five vacation days. Five of the employees were paid overtime totaling \$51,587 and received 28 days in lieu of overtime in addition to receiving the additional five days vacation annually in lieu of overtime.

### Finding

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



## 4. Travel and Relocation

### Objective

To determine whether travel and relocation expenditures were approved and paid in accordance with University policy.

### Conclusion

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

### Introduction

For the year ended March 31, 2013, the University processed over 10,000 travel claims and invoices for travel and relocation totaling approximately \$8.7 million. Our review of expenditures identified issues in the following areas:

- A. Travel Expenses
- B. Relocation Expenses

## 4A. Travel Expenses

### Overview

The University has documented travel policies and procedures. Employees, with the exception of executive and senior management employees, are required to complete a travel request form for the approval of travel. Executive and senior management employees (Vice-Presidents, principals, deans and directors) are required to notify the President or Vice-President in writing of all absences due to travel prior to the travel occurring. All employees are required to complete a travel claim expense form for the recording and approval of expenses claimed.

### Travel Claims

Our review of a sample of 50 travel expense claims and invoices totaling \$501,951 identified the following issues:

- 12 travel claims submitted for executive and senior management employees (President, Vice-presidents, principals, deans and directors) identified that only one of the travel claims had documentation attached to support the travel request. University officials indicated that these employees would have provided notification to the Board, President or respective Vice-President of their absence from work, however, there was no requirement to attach these notices to the travel claims or provide details of estimated travel costs. Without documentation to support the pre-approval of the travel (i.e. purpose, dates, estimated costs, approval signatures) being included with the travel claim, travel expenses may be incurred without prior approval by the University.

- Two of the 23 travel claims for non-executive employees did not have a required travel request form completed. We also note one of the travel request forms was completed three days after the employee was on travel status.

### **Finding**

37. Executive and senior management employees were not required to complete and attach documentation that indicated the approval to travel or the estimated travel costs, to the travel claim. As a result, travel expenses could be incurred for travel that did not receive prior approval from the University.

## **4B. Relocation Expenses**

### **Overview**

The University has documented policies and procedures governing relocation expenses which include the reimbursement of relocation expenses up to 100% of the cost.

### **Relocation Expenses**

We examined a sample of 13 employee relocations totaling \$281,767 which occurred from April 1, 2011 to March 31, 2013 to determine if employees were being relocated in accordance with University policy. All relocation claims were approved by a dean or director as required in the policy. Our review identified instances where items were approved by the respective Vice-President or their designate which were above that permitted by policy or not covered by University policy. Although University policy provides for this approval, 11 employees in our sample of 13 had expenses totalling \$52,972 approved at amounts above policy. Given the level of exceptions approved, it is possible that University policy needs to be revised.

### **Finding**

38. Relocation expenses for 11 out of 13 employees reviewed totaling \$52,972, or 19% of total relocation expenses of \$281,767 examined, were approved by the respective Vice-President or their designate at amounts which exceeded that permitted by policy. Given the level of exceptions approved, it is possible that University policy needs to be revised.

### **Return in Service**

University policy states that if a relocated employee fails to complete two years of service, the employee is required to repay to the University 50% of relocation and removal expenses reimbursed or paid by the University.

The relocation expenses paid to, or on behalf of the employee, are to be recorded on a Staff Settlement Claim form which is signed by the employee. Our review identified that even though University staff maintained a file for all expenses paid to and on behalf of an employee relocating, the Staff Settlement Claim form only included expenses reimbursed directly to the employee. The claim form did not document direct payments to vendors, such as the moving of household effects which were arranged by the Financial Services Division.

Without the accurate documenting of relocation expenses, the University may not recover 50% of total expenses paid, if an employee leaves within two years.

### **Finding**

39. All relocation expenditures were not recorded on a Staff Settlement Claim form which is signed by an employee to verify the expenditures. As a result, there is a risk the University may not recover 50% of total expenses paid, if an employee leaves within two years.

## Recommendations

1. The Province should review the Provincial funding model to determine if it is efficient and effective and includes such factors as the capacity of the University to deliver programs, program costs per student, enrolment and output results.
2. The Province should review the tuition freeze policy to ensure it is still meeting the objective of providing accessibility to education for students from Newfoundland and Labrador.
3. The University should ensure that recoverable amounts are collected in a timely manner.
4. The Province should consider a long term plan to address the University's ageing infrastructure and maintenance needs.
5. The University should ensure audits and inspections of infrastructure are completed to identify maintenance requirements, and that critical maintenance work is actioned in a timely manner.
6. The University should maintain adequate documentation in competition and personnel files to support personnel and payroll decisions.
7. The University should review their current policy regarding the hiring of Provincial Government pensioners.
8. The University should ensure all job positions are approved and classified.
9. The University should ensure employee leave and overtime is documented and approved in accordance with University policy and collective agreements.
10. The University should ensure employee leave and overtime is tracked and monitored.
11. The University should comply with the University's travel policies by ensuring travel is approved in advance and travel claims are properly submitted and approved.
12. The University should review its relocation policies to ensure they are appropriate given the current environment.
13. The University should record and approve all employee relocation expenses on a Staff Settlement Claim form.

## University's Response

**3. The University should ensure that recoverable amounts are collected in a timely manner.**

*Memorial's response:*

*The university has numerous shared-services agreements with external partners and agencies. These arrangements are managed with due diligence with the appropriate financial arrangements incorporated within the university's operations. The two arrangements outlined in the Auditor General's report do not reflect ongoing shared-service arrangements; rather, they relate to two unique and complex situations that our normal processes did not track appropriately. We thank the Auditor General for identifying these oversights. We will review our processes and recover the funds.*

**5. The University should ensure audits and inspections of infrastructure are completed to identify maintenance requirements, and that critical maintenance work is actioned in a timely manner.**

*Memorial's response:*

*As the Auditor General's report points out, more than half of the university's 103 buildings and infrastructure assets (52%) are 40 years of age or older. This reality poses a challenge for the university in prioritizing critical maintenance while respecting our fiscal realities. Within that context, Memorial believes the deferred maintenance funding has been used effectively and expeditiously to address the most critical maintenance in a timely manner. Certainly, we would like to be in a position to address 100 per cent of our infrastructure needs immediately, but our ability to finance and support such renewal and construction must be balanced with our obligation to maintain our ongoing operations. That is why the university has created a multi-year infrastructure plan that is updated annually and allows for effective and prioritized capital project management for both new and current infrastructure.*

**6. The University should maintain adequate documentation in competition and personnel files to support personnel and payroll decisions.**

*Memorial's response:*

*The university maintains its competition and personnel files in accordance with institutional policy, and strives to ensure that each file is complete and contains the appropriate documentation. We recognize that there may be examples of specific files that do not include all recommended documentation as per that policy, and we will continue to make every effort to ensure all the necessary documentation resides in each file.*

**7. The University should review their current policy regarding the hiring of Provincial Government pensioners.**

*Memorial's response:*

*The university's greatest asset is the team of people who work diligently to fulfill our mandate as the province's only university. To ensure that we are successful, we strive to recruit the best person for every position. Like many organizations, we are competing for talent and all available expertise must be considered. At all times, our recruitment and employment practices are comprehensive and comply with relevant legislation and regulations and institutional policies.*

**8. The University should ensure all job postings are approved and classified.**

*Memorial's response:*

*We agree that this is an important practice in human resource management. The university maintains a comprehensive and established classification and approval process for its non-academic positions. In the vast majority of cases, this process is followed. When exceptions are made, it is in instances such as contractual or temporary employment where the time or resources required for such classification is not feasible. Any such exceptions are reviewed at the university's executive level before implementation.*

**9. The University should ensure employee leave and overtime is documented and approved in accordance with University policy and collective agreements.**

*Memorial's response:*

*It is important to understand the distinction between non-academic and academic employees at Memorial University. Each group has a distinctive working environment that is reflected in a variety of collective agreements, policies and practices. The agreements, policies and practices applicable to academic employees reflect the unique nature of academic freedom and the context in which teaching and learning, research, service and public engagement occurs. Unlike non-academic positions, academic roles do not encompass prescribed hours or days of work and cannot be performed without flexibility on the part of the individuals who fill these roles.*

*Universities must provide academic units and faculty members with the latitude to plan within broadly established institutional frameworks and having regard to the applicable collective agreements. As such, the university's leave practices for academic employees are not patterned on practices for employees of non-academic institutions, nor the practices for non-academic employees within the university. The nature of faculty employment, including the absence of prescribed hours or days of work, require very different considerations for leave than for non-academic employees.*

*Memorial's practices are consistent with leave management practices for academic employees at other Canadian universities. Annual leave and sick leave are not tracked centrally but are tracked informally by deans and department heads within academic units. Academic staff members are responsible for informing administrative heads of absences that impact upon their ability to perform their duties and responsibilities. The primary mechanism used by academic units for tracking annual leave and sick leave are Absence from Campus forms which are completed by academic staff members on a voluntary basis. Memorial does not recognize carry-over for annual leave that is not formally reported by academic staff members to administrative heads on a timely basis. Moreover, the requirement for twelve (12) months notice of retirement for academic staff members provides Memorial with sufficient flexibility in the assignment of teaching to ensure that any carry over is used prior to retirement. Benefits for prolonged periods of sick leave are provided under the University's Long Term Disability Plan. Academic staff members are required to submit written documentation to demonstrate that they have been entitled to sick leave from Memorial for the 60 day period necessary to support a claim for long term disability benefits.*

*With regard to non-academic employees, the university has a rigorous and effective system for approval and documentation related to leave and overtime. We will continue with our efforts in this area to ensure there is complete documentation to support leave and overtime decisions.*

**10. The University should ensure employee leave and overtime is tracked and monitored.**

*Memorial's response:*

*The institution has the systems to track and monitor all leaves of non-academic employees. We recognize, however, that a more formal policy on leave management for non-academic employees is required. Accordingly, the university has begun the process of developing an attendance management program. A working group has been established and currently meets bi-weekly to discuss and review best practices and research policies and procedures at other Canadian universities. That work will inform the establishment of Memorial's own attendance management program.*

*While the university strives to maintain its documentation in accordance with policy, we recognize there are examples where the necessary documentation is not compliant. Overtime processes will be reviewed to improve documentation compliance, especially with regard to pre-approval.*

*The university did approve, in special circumstances, a limited number of management employees to receive compensation for overtime in addition to a weeks' vacation in lieu of overtime. We will be reviewing this from a policy perspective.*

**11. The University should comply with the University's travel policies by ensuring travel is approved in advance and travel claims are properly submitted and approved.**

*Memorial's response:*

*In accordance with the procedure for travel requests, executive and senior management employees reporting to the President or a Vice President notify the President or respective Vice President of all absences due to travel prior to travel occurring. The Auditor General is correct in that the travel policy requires all employees to obtain prior approval and as such the procedure is in conflict with the policy. As such the policy with respect to senior management travel will be reviewed.*

*All employees are required to complete a travel claim expense form for the recording and approval of expenses claimed. Only approved travel expenses are reimbursed to employees.*

**12. The University should review its relocation policies to ensure that they are appropriate given the current environment.**

*Memorial's response:*

*Memorial acknowledges that, as part of the recruitment process, it has been necessary to deviate from practice, as provided for within the policy, for a number of employee relocations during the period of 2011 to 2013. Under current university policy, these deviations are permissible with appropriate approvals, which were given in the cases noted. At the same time, the university agrees that this is a signal that a policy review is needed. Memorial has a policy framework that governs such a review process, and the Travel -- Relocation and Removal policy is currently scheduled within that process for review in 2016. During the review process, the problematic areas of the policy that currently require deviations will be given serious consideration.*

**13. The University should record and approve all employee relocation expenses on a Staff Settlement Claim form.**

*Memorial's response:*

*The Staff Settlement Claim Form includes all expenses paid to the new employee. Other relocation expenses paid to vendors are filed with the Staff Settlement Claim Form to ensure full tracking of costs for the relocation. A new summary form will be developed to record all relocation expenses paid to and on behalf of a new employee. The form will include amounts reimbursed to the employee on a Staff Settlement Claim Form as well as any relocation expenses paid directly to vendors.*



## Department's Response

### **Recommendation 1:**

***The Province should review the Provincial funding model to determine if it is efficient and effective and includes such factors as the capacity of the University to deliver programs, program costs per student, enrolment and output results.***

#### *Departmental Response:*

*Budget 2013 directed Memorial University to conduct an efficiency review. This initiative, led by Memorial, includes a review of the relationship of programs to its mandate, administrative structures and policies, and sponsored research to determine its current and future capacity as an autonomous teaching and learning, research intensive and publicly engaged institution. The Department will further consider this recommendation, in collaboration with Memorial University, once the efficiency review is complete.*

### **Recommendation 2:**

***The Province should review the tuition freeze policy to ensure it is still meeting the objective of providing accessibility to education for students from Newfoundland and Labrador.***

#### *Departmental Response:*

*Government's tuition freeze policy has provided an affordable and accessible post-secondary education system for the benefit of students. The goal is to have more students pursue a post-secondary education in Newfoundland and Labrador and encourage them to stay here as highly skilled graduates needed for a fast-growing economy. The Department listens to the views of students about the affordability of tuition and diligently monitors Memorial University's tuition fees, as compared with those in other jurisdictions, and inflationary pressures at Memorial University that may otherwise be addressed through increased tuition fees. Despite shrinking K-12 feeder pools, Memorial University has maintained stability in its overall enrolment numbers, largely due to increasing numbers of students enrolling from outside NL.*

### **Recommendation 4:**

***The Province should consider a long term plan to address the University's ageing infrastructure and maintenance needs.***

#### *Departmental Response:*

*Memorial University is currently undertaking an efficiency review and Government has committed that Memorial University can retain savings found through the efficiency review for priorities identified by the University. Memorial University has indicated that addressing its ageing infrastructure and deferred maintenance needs are priorities for any savings.*

*Government is aware that Memorial University has completed significant work related to a multi-year infrastructure plan, including; the hiring of an Associate Vice-President (Facilities) with significant experience managing large public and private sector infrastructure portfolios, Board of Regents' approval in September 2014 of a multi-year planning document to be updated yearly with individual projects, and the refinement of its approach to guide projects through the business-case development, prioritization, functional planning through to tendering and contract management phases. The Government of Newfoundland and Labrador will continue to work with Memorial University regarding projects from its multi-year infrastructure plan for consideration for approval based on such factors as the impact on academic programs, research, life-safety, urgency and return on investment.*

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**PART 3.2**

**DEPARTMENT OF  
FISHERIES AND AQUACULTURE**

**AQUACULTURE INDUSTRY SUPPORT**

### Summary

#### Introduction

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

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

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

#### Objectives

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

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

#### Scope

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

We completed our review in March 2014.

### Conclusions

#### Objective 1

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

#### Objective 2

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

#### Objective 3

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

### Findings

Our review of Aquaculture Industry Support identified findings related to:

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

#### Investments Approved Under ACEP

1. Government approved a \$10 million equity investment in Cold Ocean Salmon Inc (COSI) when the Corporation did not demonstrate a definite need for Government assistance as required by the established ACEP eligibility criteria.
2. The repayment terms and conditions which the Department negotiated for the \$10 million Provincial investment in COSI were favourable to the Corporation, with the potential for any repayment to be deferred for 25 years.
3. Government approved a \$5 million equity investment in Gray Aqua Group Ltd (GAGL) when the Corporation did not have a minimum private sector equity position of 20% of total assets.
4. Government approved a second equity investment of \$5 million in GAGL in March 2012, when the Corporation had not demonstrated that it could complete the start-up of aquaculture operations in accordance with targets established in the business plan associated with Government's first equity investment of \$1 million in March 2009.

5. The Department did not provide evidence that it evaluated the financial impact of shareholder plans to construct a processing plant in Hermitage on GAGL's ability to carry out the business plan associated with the \$5 million equity investment approved by Government.
6. The Gray group of companies filed a proposal under the federal *Bankruptcy and Insolvency Act* following significant losses of market ready fish to disease. GAGL submitted a proposal to creditors which was accepted by a majority of the creditors and subsequently approved by the court on March 10, 2014. Government indicated that it will make no further investments in GAGL and is attempting to meet with the GAGL to determine the status of its \$4.8 million investment in GAGL. Government has established an allowance for the GAGL investment as being doubtful in the amount \$4.8 million.

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

7. The Department does not always receive the financial information that is required to be provided under the Contribution Agreements and does not have a systematic process to review the information it does receive. As a result, the Department has not effectively monitored the performance of the three Corporations which Government had invested \$22.8 million under ACEP.
8. The Department did not request, and GAGL and Northern Harvest Sea Farms Newfoundland Ltd. (NHSF) did not provide annual audited statements certifying the Corporation's equity investment and compliance with the terms of Agreements in connection with the Provincial investments. These annual statements are required under the terms and conditions of the Agreements. The Department indicated that this requirement was an error and that they were advised by the Department of Justice that this requirement could be waived without prejudice.
9. COSI did not provide the Department with the required annual auditor certified schedules stating that sufficient eligible capital expenditures had been incurred to allow an off-set of dividend payments to the Province totaling approximately \$404,000.
10. COSI was not entitled to off-set (not pay) dividends totaling approximately \$1.4 million as at December 31, 2012 because it did not meet all of its commitments under the Contribution Agreement. Specifically, COSI did not complete a hatchery as per the terms of the Agreement.
11. The Department did not adequately review the claims for payment that were submitted by Corporations in connection with Provincial contributions that were made under the Contribution Agreements. There were instances where the Department paid claims when invoice listings were not provided. When invoice listings were provided, the Department did not always carry out review, audit or inspection procedures.
12. The Department paid GAGL approximately \$550,000 when GAGL claimed a vessel in the amount of \$1.1 million that was not an eligible capital expenditure under the Contribution Agreement.

### **Cod Demonstration Farm**

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

### **Recommendations**

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



# Objectives and Scope

## Objectives

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

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

## Scope

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

We completed our review in March 2014.

### Background

Aquaculture is the cultivation of aquatic plants or animals. In Newfoundland and Labrador, commercial aquaculture activity is focused on the cultivation of finfish (Atlantic Salmon and Steelhead Trout) and shellfish (Blue Mussels).

The Department of Fisheries and Aquaculture (the Department), through its Aquaculture Branch (the Branch) has a mandate to promote, develop, encourage, protect, conserve and regulate the aquaculture sector in the Province. The Branch has three Divisions: Aquaculture Development, Licensing and Inspection and Aquatic Animal Health. The Provincial Office is located in Grand Falls-Windsor with regional offices in St. John's, St. Alban's and Corner Brook.

During the five year period ended December 31, 2012, aquaculture production had grown by 92.6%, from 11,544 metric tonnes (export value of \$63.1 million) in 2008 to 21,228 metric tonnes (export value of \$113 million) in 2012. Atlantic Salmon and Steelhead Trout accounted for most of the aquaculture production during the period. During the same five year period, the Department funded the establishment of a Cod Aquaculture Demonstration Farm to assess the performance of Atlantic Cod under near-commercial rearing conditions and to determine the commercial potential for cod aquaculture in the Province.

The Department provides financial support to the provincial aquaculture industry through two aquaculture programs. The objective of these programs is to assist with increasing the production of commercial aquaculture operations in the Province, including increasing employment and spin-off opportunities primarily in rural Newfoundland and Labrador. These programs are the:

- Aquaculture Capital Equity Program (ACEP) - established to assist Corporations with the funding of their infrastructure requirements. The Department will make an investment in Corporations when eligible capital expenditures, such as the purchase of marine cages and boats or the construction of hatcheries, are incurred.
- Aquaculture Working Capital Loan Guarantee Program (AWCLGP) – established to assist Corporations with obtaining bank loans to cover the high operating costs, such as feed cost, that are necessary to bring fish to market. Government will guarantee bank loans which otherwise may not be available to the Corporations.

The Department will only consider ACEP and AWCLGP applications from Corporations that are operating or proposing to operate a commercial-scale production of finfish or shellfish at a Newfoundland and Labrador aquaculture site that is licensed and approved by the Department.

Under ACEP guidelines, the Department will make an equity investment in Corporations when applicants meet specific eligibility criteria. The minimum investment by Government for finfish and shellfish operations is \$250,000 and \$100,000 respectively. Under ACEP, Government will match the private sector investment, which must be in the form of cash, when accompanied by a certificate from an auditor or solicitor, verifying that the applicant's investment has been made concurrent with that of Government. In return for its investment, Government will receive non-voting, redeemable and retractable preferred shares.

Table 1 shows the three ACEP investments, totaling \$22.7 million, made by the Department as at March 31, 2013.

**Table 1**

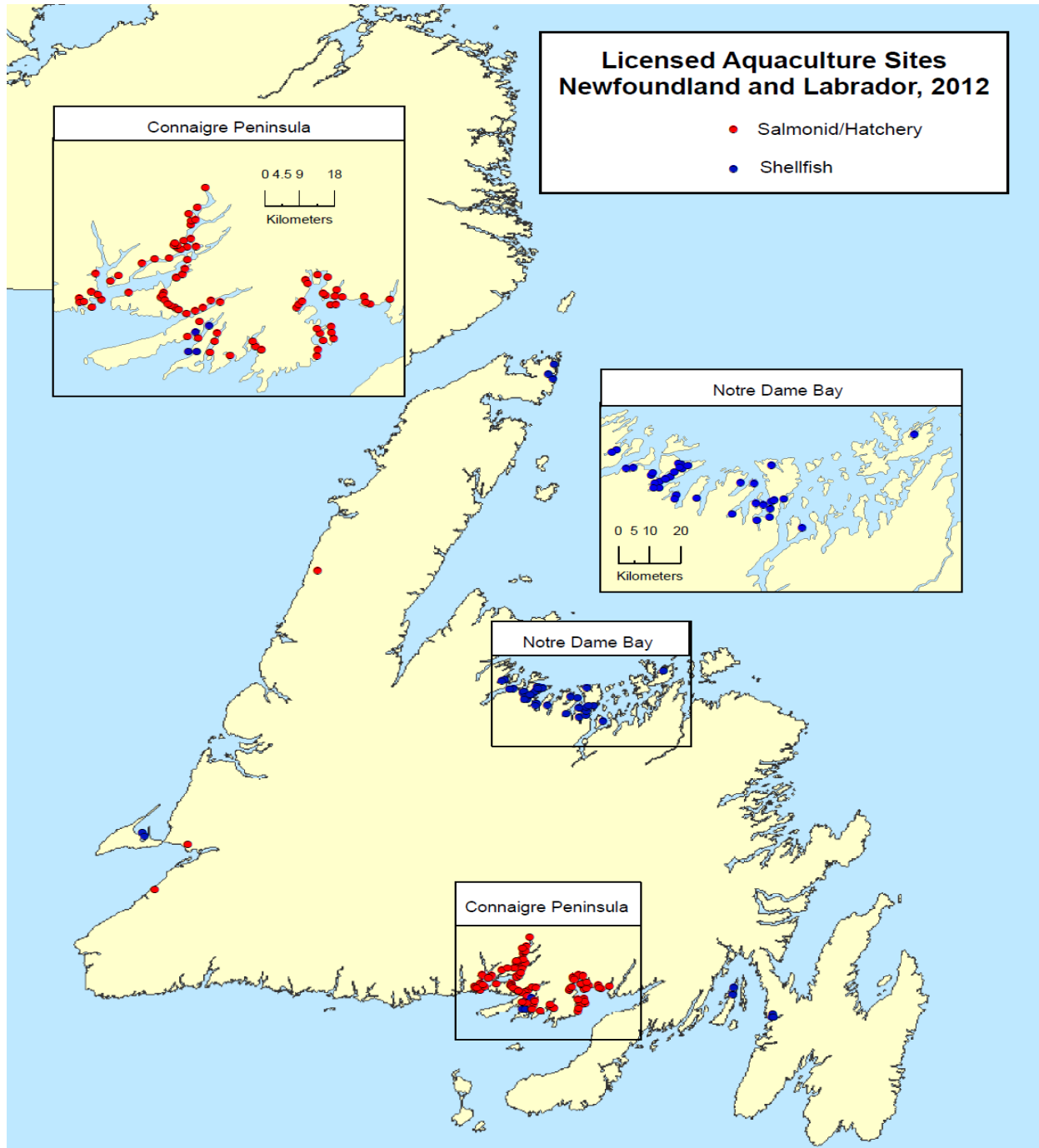
**Aquaculture Support  
ACEP Investments  
As at March 31, 2013**

Corporation	Equity Investment under ACEP			
	Amount Approved	Amount of Payment to Corporation	Number of Preferred Shares Received	Investment as at March 31, 2013
Cold Ocean Salmon Inc (COSI)	\$10,000,000	\$10,000,000	10,000	\$10,000,000
Gray Aqua Group Ltd (GAGL)	\$6,000,000	\$4,826,836	4,826,836	\$4,826,836
Northern Harvest Sea Farms Newfoundland Ltd (NHSF)	\$8,000,000	\$8,000,000	8,000,000	\$7,898,000
<b>Total</b>	<b>\$24,000,000</b>	<b>\$22,826,836</b>	<b>12,836,836</b>	<b>\$22,724,836</b>

As at December 31, 2012 there were 145 aquaculture sites which occupied approximately 6,089 hectares of water area in the Province. Approximately 85 of the 145 (58.6%) sites are dedicated to the aquaculture of finfish and are operated by one of the three Corporations in which Government has an equity investment. Figure 1 shows the approximate number and location of aquaculture sites in the Province as at December 31, 2012.

Figure 1

**Aquaculture Support**  
**Approximate Number and Location of Aquaculture Sites in the Province**  
**As at December 31, 2012**



Source: Department of Fisheries and Aquaculture

## Detailed Observations

### Introduction

This report provides findings related to our three objectives:

1. Investments Approved under ACEP
2. Monitoring the Terms and Conditions of ACEP Investments
3. Cod Demonstration Farm

### 1. Investments Approved under ACEP

#### Objective

To determine whether the Department provided financial support to Corporations in accordance with established Aquaculture Capital Equity Program (ACEP) criteria.

#### Conclusion

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

#### Overview

In order to qualify for Provincial investment under ACEP, Corporations must meet the following eligibility criteria:

- Clearly demonstrate, through a business plan, a strong potential for incremental production, increased sales and long-term viability.
- Clearly demonstrate a definite need for Government financial assistance and that the project could not proceed on a commercially viable basis without Government participation.
- Clearly demonstrate that management has the required technical, financial, marketing and managerial expertise for the operation of a commercial-scale aquaculture enterprise.
- At the date of application, have a minimum private sector equity position of 20% of total assets as evidenced by externally prepared financial statements (minimum review engagement) for the prior fiscal year.

ACEP applications are evaluated by the Department in conjunction with the Department of Finance and the Department of Innovation, Business and Rural Development (IBRD), now the Department of Business, Tourism, Culture and Rural Development, to determine whether the eligibility criteria are met. Recommendations for approval are prepared and forwarded to Cabinet by the Department. Following approval by Cabinet, the Department and the Corporations enter into Contribution and Unanimous Shareholders Agreements (Agreements) specifying the terms and conditions of investment by each party. Government will subscribe to and receive non-voting, redeemable and retractable preference shares equal to the value of its investment. Share redemption (investment repayment) is governed by the terms and conditions of the Agreements.

Table 2 shows the amount of Provincial investment and the repayment terms and conditions specified in Agreements with Corporations approved under ACEP as at March 31, 2013.

**Table 2**

**Aquaculture Support  
Amount of Provincial Investment and Repayment Terms and Conditions Specified in  
Agreements with Corporations Approved Under ACEP  
As at March 31, 2013**

Investments Approved			Repayment Terms and Conditions			
Date of Agreement	Corporation	Provincial Investment (Share Value)	Shares To Pay Dividends	Years to Repay	Year of First Payment (Share Redemption)	Payment may be Deferred
March 20, 2008	COSI	\$10,000,000	Yes	25	2022 (Year 16)	Yes
March 31, 2009	GAGL	\$1,000,000	No	5	2009 (Year 1)	No
March 31, 2011	NHSF	\$8,000,000	Yes	7	2013 (Year 2)	No
April 17, 2012	GAGL	\$5,000,000	No	6	2015 (Year 3)	No
<b>Total</b>		<b>\$24,000,000</b>				

Source: Department of Fisheries and Aquaculture

As Table 2 shows, the investment repayment terms and conditions are not consistent for the four Provincial investments. For example:

- COSI may take 25 years to repay the Provincial investment when the other Corporations must repay the Provincial investments within five to seven years; and
- GAGL is not required to pay the Province dividends when the other Corporations are required to pay dividends.

We reviewed the business plans provided by the applicants and the associated analysis carried out by the Department, the Department of Finance and IBRD (Evaluation Group). We also held discussions with Government officials. We found issues with the following investments that were approved under ACEP.

- A. Investment in Cold Ocean Salmon Inc (COSI)
- B. Investments in Gray Aqua Group Ltd (GAGL)

### **1A. Investment in Cold Ocean Salmon Inc (COSI)**

#### **Introduction**

In April 2006, Cooke Aquaculture Incorporated (CAI), a New Brunswick based Corporation, submitted a proposal (business plan) to the Department requesting funding for capital expenditures in connection with the start-up of finfish aquaculture operations in the Province. The business plan was reviewed by the Evaluation Group which found that the *“proposal is deemed to be sound, the proponent a quality company and the project would rapidly expand the industry and would be a sound investment for the province”*.

In May 2006, Cabinet authorized the Department to negotiate and conclude arrangements with CAI for a dividend bearing redeemable equity investment of \$10 million in COSI, a subsidiary of CAI, subject to the application of guidelines substantially along the lines of those established for ACEP.

In August 2006, Government and CAI entered into a Memorandum of Understanding to support the negotiation and conclusion of an agreement that would specify the terms and conditions of the Province’s \$10 million investment in COSI.

In January 2008, Cabinet authorized the Department to conclude and sign Agreements with CAI. On March 20, 2008, the Department, CAI and its subsidiaries (Kelly Cove Salmon Ltd and COSI) entered into Agreements where COSI would make a \$38.2 million capital investment in its aquaculture operations, and Government would make a \$10 million equity investment in COSI. In return for its investment, Government would receive 10,000 preference shares of COSI which would pay an annual dividend of 3.5%. COSI is required to repay the Provincial investment within 25 years.

Table 3 shows the investment repayment (share redemption) schedule for the \$10 million investment in COSI.

**Table 3**

**Aquaculture Support  
Investment Repayment (Share Redemption) Schedule for \$10 million investment in COSI**

Year	Repayment as Percentage of Profits	Maximum Payment
1-15	No payment required	No payment required
16-20	10%	\$425,000 per year to a maximum of \$2,125,000 over the 5 years
21-25	20%	\$575,000 per year to a maximum of \$2,875,000 over the 5 years
25	n/a	Final balance due

Source: Department of Fisheries and Aquaculture

As Table 3 shows, COSI is not required to commence repayment of the Provincial investment until 2022, 16 years from the start-up date specified in the Agreements, and even then, repayment is dependent upon COSI profits.

Furthermore, under the Agreements, COSI may:

- off-set (not required to pay) dividends to the extent that accumulated capital spending exceeds the \$38.2 million agreed upon, provided that annual smolt stocking levels are greater than 3 million; and
- defer repayment (share redemption) to the extent that accumulated excess capital spending exceeds the amount required to off-set dividends.

Our review indicated the following:

**Assistance to CAI**

ACEP eligibility criteria required that CAI/COSI demonstrate “...a definite need for Government financial assistance by way of an equity investment; that the equity investment is complementary to and levers to the maximum extent possible other sources of financing; and that the project could not proceed on a commercially viable basis without Government participation.”

The Department of Finance and IBRD identified a number of issues with regard to the business plan, as follows:

- CAI had the borrowing capacity to cover most of the proposed expansion.
- CAI officials were confident in their ability to raise capital.



- CAI had reported a dramatic increase in sales due to recently acquired aquaculture operations in Atlantic Canada and Maine. The company's financial position and access to credit was strong.
- Projected cash flow statements were positive and with the requested Government assistance, CAI would be required to access little of its available credit.

Furthermore, during the period subsequent to the Evaluation Group review in May 2006 and prior to the signing of the Contribution Agreement in March 2008, we found that CAI had:

- purchased an Aquaculture Feed Plant in Nova Scotia; and
- signed a letter of intent to purchase aquaculture operations in Chile which was subsequently purchased in September 2008.

The Department is of the view that there was a need for Government assistance because other funding partners may have abandoned the CAI project had Government not participated, and CAI may have delayed, scaled back or not undertaken aquaculture operations in the Province at all. The Department indicated there was a greater financial risk associated with a "green-field" investment. COSI was the first major investor to be attracted under ACEP and the scale of the proposed project had never been attempted before in the Province. A greater sharing of the risks was felt to be required to get the company and its financial institutions to proceed. While we accept that this may be a valid rationale, the program guidelines did not contemplate this and perhaps these guidelines should have been amended to accommodate what appears to be, in practice, the primary program objective - accelerating the start of the aquaculture industry.

### **Finding**

1. Government approved a \$10 million equity investment in COSI when the Corporation did not demonstrate a definite need for Government assistance as required by the established ACEP eligibility criteria.

### **Investment Repayment Terms and Conditions**

The repayment terms and conditions which the Department negotiated for the Provincial investment in COSI were favourable to the Corporation. For example, it is possible that COSI could accumulate sufficient capital spending in excess of the required \$38.2 million and stock its facilities with 3 million smolt annually, such that all dividends payable would be off-set (not required to be paid) and repayment of the \$10 million investment would not occur until year 2031, 25 years from the start-up date specified in the Agreement.

These favourable terms and conditions were negotiated even though the Evaluation Group had indicated that financial projections provided by the Corporation at the time of application, suggested that it was possible for the Corporation to repay the investment within 7 - 10 years. Our review of COSI financial statements for the four year period ended December 31, 2012 indicated that the company reported sufficient net earnings to repay the Provincial investment. The Department indicated the terms and conditions took into account the risk for COSI as the first major investor in the aquaculture industry in the Province. They also felt that the magnitude of the capital investment by COSI was significant, as was the risk at that time, and the terms acknowledged and reflected that risk. The Department also noted that performance requirements placed on COSI were not repeated in future ACEP investments.

### **Finding**

2. The repayment terms and conditions which the Department negotiated for the \$10 million Provincial investment in COSI were favourable to the Corporation, with the potential for any repayment to be deferred for 25 years.

## **1B. Investments in Gray Aqua Group Ltd (GAGL)**

### **Introduction**

In December 2006, GAGL submitted a proposal (business plan) to the Department requesting funding and a loan guarantee for capital expenditures in connection with start-up operations at four aquaculture sites in the Province. While GAGL was newly incorporated in the Province and did not have experience with marine site operations, its shareholders had experience in the aquaculture industry as they were also owners of Gray Aqua Farms Ltd (GAFL), a hatchery operation in New Brunswick. The business plan was reviewed by the Evaluation Group and found to be technically and financially feasible while falling within the parameters of ACEP and the Department's Aquaculture Working Capital Loan Guarantee Program.

In April 2008, Cabinet authorized the Department to provide a \$1 million equity contribution under ACEP and a loan guarantee in connection with GAGL's line of credit. On March 31, 2009, the Department and GAGL entered into Agreements where GAGL would make a \$7.65 million capital investment into its aquaculture operations, and Government would make a \$1 million equity investment in GAGL (first investment). In return for its investment, Government would receive 1 million preference shares of GAGL.

In addition, the Province guaranteed 80% of the company's \$8.5 million line of credit to support aquaculture operations in the Province.

In December 2011, GAGL submitted a second proposal (business plan) to the Department requesting funding for capital expenditures in connection with the expansion of its finfish aquaculture operations from four sites to 18 sites within the Province. The business plan was reviewed by the Department and found to be technically sound. It was noted that Government had been released from the loan guarantee it had issued in 2009 as the GAGL line of credit had been paid out. IBRD recommended support for the proposal given the level of support that was to be provided by GAFL.

In March 2012, Cabinet authorized the Department to negotiate and sign Agreements with GAGL. On April 17, 2012, the Department and GAGL entered into Agreements where GAGL would make a \$19 million capital investment into its aquaculture operations, and Government would make a \$5 million equity investment in GAGL (second investment). In return for its second investment, Government would receive 5 million preference shares of GAGL.

Our review indicated that in April 2012, Government approved the second investment in GAGL when:

- The Corporation did not have a minimum private sector equity position of 20% of total assets as required under the ACEP eligibility criteria. The company's private sector equity position consisted of a deficit and shares that totaled only 3% of total assets. We found that Government approved the investment and allowed GAGL shareholders to make up the private sector equity shortfall with an investment of smolt (inventory) instead of cash as required by ACEP eligibility criteria. However, GAGL did not issue shares in exchange for the investment of smolt.

To compensate for the Corporation's lack of equity, Government obtained a subordination agreement from GAGL and GAFL postponing GAGL's repayment of \$4 million in advances/dividends to GAFL until the Provincial investment was redeemed in full.

- The Corporation had not demonstrated that it could complete the start-up of aquaculture operations in accordance with targets established in the business plan associated with Government's first investment of \$1 million in March 2009.

On April 17, 2009, Government received 1 million preference shares of GAGL in return for its first investment. Over a five year period commencing on September 30, 2009, GAGL was required to repay the Provincial investment annually, with payments in 2009, 2010 and 2011 being conditional as they were based on 20% of GAGL profits. Our review indicated that GAGL did not make share redemption payments in 2009, 2010 and 2011 due to losses incurred during the three year period. The Department did not indicate in its analysis whether the failure by the Corporation to make investment repayments was acceptable. Furthermore, the Department could not demonstrate that it was monitoring the performance of GAGL as it was unable to provide evidence that it was reviewing the quarterly and annual audited financial statements that GAGL was required to provide subsequent to the March 2009 investment.

This is significant because the Department had indicated that prior to the first investment, the shareholders of GAGL (GAFL) did not have prior experience with marine site operations (GAFL only had prior experience with hatchery operations).

### Findings

3. Government approved a \$5 million equity investment in GAGL when the Corporation did not have a minimum private sector equity position of 20% of total assets.
4. Government approved a second equity investment of \$5 million in GAGL in March 2012, when the Corporation had not demonstrated that it could complete the start-up of aquaculture operations in accordance with targets established in the business plan associated with Government's first equity investment of \$1 million in March 2009.

### Financial Impact of Processing Plan

The GAGL business plan submitted in December 2011 in support of the second Provincial investment did not include sufficient information for us to determine GAGL's plan for fish processing. An official of the Department indicated that at the time the business plan was submitted, GAGL had been transporting fish to processing plants owned by another company and that these processing costs were built into the financial projections included with the business plan. The Department official also indicated that because GAGL had issues with the lack of processing capacity at one of the plants and diminished fish quality due to transporting fish for processing, the Gray group had commenced construction of a \$4.7 million processing facility in Hermitage in early 2012.

IBRD, a member of the Evaluation Group, recommended support for the second investment in GAGL due to the level of support that would be provided by GAFL. Specifically, in addition to the subordination agreement, IBRD recommended that the Department obtain a legal undertaking from GAFL to cover any funding shortfall with respect to GAGL completing the \$19 million marine site expansion as required under the Contribution Agreement. However, we found that the Department could not provide evidence that it evaluated the financial impact of shareholder plans to construct a processing plant in Hermitage (a project separate from ACEP) on GAFL's ability to make up any spending shortfall with respect to the \$19 million marine site expansion. Furthermore, the Department did not obtain the legal undertaking from GAFL as recommended by IBRD.

In November 2014, the Department indicated that GAGL had completed construction of the processing plant in Hermitage. The processing plant has been leased to another company who are using it for their aquaculture operations.

### Finding

5. The Department did not provide evidence that it evaluated the financial impact of shareholder plans to construct a processing plant in Hermitage on GAGL's ability to carry out the business plan associated with the \$5 million equity investment approved by Government.

### Status of Provincial Investment

In August 2013, the Gray group of companies filed individual notices of intention to make a proposal under the federal *Bankruptcy and Insolvency Act* following significant losses of market ready fish to disease. We obtained documentation from the Department indicating that the Gray group had debts totaling approximately \$46.4 million of which \$25 million was owed to a chartered bank and \$10.2 million was owed to related parties.

The Department indicated that on January 14, 2014, the Gray group of companies submitted a proposal under the federal *Bankruptcy and Insolvency Act* which was subsequently accepted by the majority of its creditors. A trustee was appointed to administer payments to creditors under the terms of the proposal. The proposal was approved by the court on March 10, 2014, and the Department indicated that GAGL had resumed aquaculture operations in the Province. Government had invested \$4.8 million of the \$6 million approved for GAGL under ACEP at the time GAGL filed for bankruptcy protection, and has established an allowance for this investment as being doubtful in the amount of \$4.8 million.

On April 14, 2014, the Department wrote GAGL stating that the Province had still not received \$1 million in scheduled share redemption payments from GAGL and that no further investments would be made in GAGL given the financial issues experienced by the company. The Department indicated it would be contacting GAGL to arrange a meeting to discuss its \$4.8 million investment in the company. On September 3, 2014, the Department wrote GAGL advising that no meeting had yet occurred with the company and that it would not license any more aquaculture sites to GAGL until a viable business plan and investment repayment schedule was provided to the Province. At the time of our report, the Department indicated that it was reviewing a detailed response it received from GAGL in October 2014.

### Finding

6. The Gray group of companies filed a proposal under the federal *Bankruptcy and Insolvency Act* following significant losses of market ready fish to disease. GAGL submitted a proposal to creditors which was accepted by a majority of the creditors and subsequently approved by the court on March 10, 2014. Government indicated that it will make no further investments in GAGL and is attempting to meet with the GAGL to determine the status of its \$4.8 million investment in GAGL. Government has established an allowance for the GAGL investment as being doubtful in the amount \$4.8 million.

### 2. Monitoring the Terms and Conditions of ACEP Investments

#### Objective

To determine whether the Department was monitoring compliance with the terms and conditions of its ACEP investments.

#### Conclusion

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

#### Overview

When a Corporation is approved for funding under ACEP, the Corporation and Government enter into a Contribution Agreement outlining the terms and conditions under which Provincial funding (investment) is to be paid to the Corporation. The Contribution Agreement requires the following:

- The Corporations must demonstrate an equity contribution of a specified amount towards the incremental growth of the aquaculture industry. Two of three Corporations (GAGL and NHSF) also had to maintain an equity position of 20% of total assets.
- The Corporation must provide the Department with auditor certified documentation indicating that agreed upon capital expenditures were incurred prior to any contribution from Government.
- The Corporation must fulfill all performance commitments that were made under the Agreement.
- The Corporation must provide the Department with quarterly financial statements and annual audited financial statements in a timely manner.
- On an annual basis, two of the three Corporations (GAGL and NHSF) must provide the Department with an audited statement certifying the equity investment of the Corporation and compliance with the Agreement.
- On an annual basis, one Corporation (COSI) must provide the Department with an auditor certified schedule for the purpose of verifying capital expenditures and off-sets for dividends and share redemptions.

Table 4 shows the amount and percentage of Government's contribution towards eligible capital expenditures incurred by Corporations under Contribution Agreements.

**Table 4**

**Aquaculture Support  
Government's Contribution towards Eligible Capital Expenditures Incurred by  
Corporations under Contribution Agreements**

Date of Agreement	Corporation	Eligible Capital Expenditures		Maximum Contribution	Government Contribution (%)
		Nature	Amount		
March 20, 2008	COSI	Cages, Equipment, Vessel, Hatchery	\$38,175,000	\$10,000,000	26.2%
March 31, 2009	GAGL	Buildings, Structures, Equipment	\$7,650,000	\$1,000,000*	13.1%*
March 31, 2011	NHSF	Hatchery, Marine Site Expansion	\$23,500,000	\$8,000,000	34.0%
April 17, 2012	GAGL	Boats, Cages, Moorings, Equipment	\$19,000,000	\$5,000,000	26.3%
<b>Total</b>			<b>\$88,325,000</b>	<b>\$24,000,000*</b>	<b>27.2%*</b>

Source: Department of Fisheries and Aquaculture

\*Government contribution also included a \$6.8 million loan guarantee.

As Table 4 indicates, Government agreed to contribute \$24 million (27.2%) towards eligible capital expenditures totaling \$88.3 million under Contribution Agreements with Corporations approved under ACEP.

We reviewed claims for expenditures, auditor certified schedules, invoice listings, invoices, financial statements and other documentation associated with the monitoring of investments made under Contribution Agreements. We held discussions with Department officials. We identified issues in the following areas:

- A. Monitoring of ACEP Investments
- B. Commitments made by COSI
- C. Review of Claims for Payment

**2A. Monitoring of ACEP Investments**

**Introduction**

Since 2008, the Department has been responsible for monitoring the performance of three Corporations in which Government had invested \$22.8 million under ACEP. To support such monitoring, the Contribution Agreements require that each Corporation submit quarterly financial statements and annual audited financial and other statements (financial statements) to the Department in a timely manner. A timely review of the financial statements could alert the Department as to whether the Corporation is:

- achieving the performance targets that were projected in the business plan supporting the application for ACEP funding;

- maintaining a private sector equity investment of at least 20% of assets (this requirement did not apply to COSI), as required under the Contribution Agreement; and
- effectively managing its cash requirements.

Our review indicated the following:

### **Financial Statements**

Corporations are required to submit financial statements to the Department in accordance with the Contribution Agreements. The Department did not provide us with the:

- quarterly and annual financial statements of NHSF NL since the Provincial investment in April 2011;
- quarterly and annual financial statements of Kelly Cove Salmon Ltd (KCS), a subsidiary of CAI, since the Provincial investment in COSI in March 2008; and
- quarterly financial statements for CAI, COSI and GAGL.

Furthermore, for the financial statements that were provided by the Department, we found that:

- the financial statements were only provided following significant delays and repeated requests from our Office; and
- we could not always determine whether the financial statements were received by the Department within the timeframes required under the Contribution Agreement.

The Department cannot effectively monitor Provincial investments when it does not receive the required financial statements from Corporations within the timeframes required under the Contribution Agreements.

The Department could not provide any documentation indicating that it reviewed quarterly and annual audited financial statements when they were provided by Corporations as required under the Contribution Agreements. The Department indicated that financial statements are forwarded to financial officers for review and analysis when they are received and that the results of those reviews are normally only documented if there are areas of concern. The Department also indicated that there were no documented procedures to guide financial officers in their review of the financial statements that are provided by the Corporations. Since we completed our review in March 2014, the Department has drafted an ACEP policy and procedures manual which as of November 2014 has been submitted to the Deputy Minister of the Department for approval.



The Department has not effectively monitored Provincial investments when it does not systematically carry out and document reviews of the financial statements that are required to be provided by Corporations as required under Contribution Agreements.

### **Finding**

7. The Department does not always receive the financial information that is required to be provided under the Contribution Agreements and does not have a systematic process to review the information it does receive. As a result, the Department has not effectively monitored the performance of the three Corporations which Government had invested \$22.8 million under ACEP.

### **GAGL and NHSF Equity Requirements**

The Contribution Agreements require that GAGL and NHSF establish and maintain a minimum equity investment of 20% of total assets until the Provincial investment is redeemed. Furthermore, Corporations are required to provide an annual audited statement certifying the equity investment and compliance with the terms of all Agreements. We found that the Corporations did not provide the Department with the annual audited statements that certified the Corporation's equity investment and compliance with terms of Agreements, as required.

The Department indicated that the Contribution Agreements with GAGL and NHSF incorrectly included the requirement that GAGL and NHSF provide the Department with annual audited statements certifying the equity investment and compliance with the terms of all Agreements. The Department also indicated that the Department of Justice advised them that the requirement could be waived without prejudice.

### **Finding**

8. The Department did not request, and GAGL and NHSF did not provide annual audited statements certifying the Corporation's equity investment and compliance with the terms of Agreements in connection with the Provincial investments. These annual statements are required under the terms and conditions of the Agreements. The Department indicated that this requirement was an error and that they were advised by the Department of Justice that this requirement could be waived without prejudice.

### **COSI Capital Expenditures**

The Contribution Agreement requires that COSI provide the Department with an annual auditor certified schedule for the purpose of verifying capital expenditures and calculating off-sets for dividends and share redemptions. Our review indicated that the Corporation provided the Department with an auditor certified schedule verifying that COSI had incurred \$39.2 million in eligible capital expenditures as at February 28, 2011.

We found that the Corporation had not provided the Department with an auditor certified schedule verifying capital expenditures as at December 31, 2011 and 2012 as required under the Agreement. Furthermore, the Corporation had off-set (not paid) the Province its dividends totaling approximately \$404,000, despite not having provided the Department with the auditor certified schedules stating that sufficient eligible capital expenditures had been incurred to allow such an off-set, as required.

### **Finding**

9. COSI did not provide the Department with the required annual auditor certified schedules stating that sufficient eligible capital expenditures had been incurred to allow an off-set of dividend payments to the Province totaling approximately \$404,000.

## **2B. Commitments made by COSI**

### **Introduction**

On March 20, 2008, Government and COSI entered into Agreements where the Corporation would make a \$38.2 million capital investment in its aquaculture operations and Government would make a \$10 million equity investment in the Corporation. At the time of our review, Government had paid the Corporation \$10 million for capital expenditures that were claimed by the Corporation under the Agreements.

Under the Agreements, the Corporation is entitled to off-set (not required to pay) dividends when accumulated capital spending exceeds \$38.2 million. In addition, the exercise of such an off-set is contingent on the Corporation first fulfilling the following commitments which are amendable only with the prior written approval of the Province:

- Stock its facilities with a minimum of 2.8 million smolt annually (3 million smolt annually following hatchery completion).
- Complete construction of a hatchery capable of producing 4 million smolt annually and be producing smolt by March 31, 2010.
- Process all fish in a licensed processing facility in the Province with a minimum of 50% being processed beyond the filleted stage.
- Source at least 75% of its labour force from within the Province.
- Obtain, construct, assemble and deploy from within the Province, all aquaculture equipment required for its aquaculture operations in the Province.

The Corporation had off-set (not paid) dividend payments totaling approximately \$1.4 million as at December 31, 2012 when Corporation commitments were either not met, or the Department could not demonstrate that the commitments were met.

Our review indicated the following:

### **Terms and Conditions of Hatchery Construction**

Section 21 of the Contribution Agreement relating to the hatchery states that the Corporation was *“To complete construction on or before March 31<sup>st</sup>, 2010 and be producing smolt by March 31<sup>st</sup>, 2010 of a hatchery/lake cage site in the province (hereinafter the “Cooke NL hatchery”) capable of producing a minimum amount of 4.0 million smolt annually”*. We found that the hatchery:

- was not completed until October 2011;
- did not produce smolt until 2012; and
- was not capable of producing 4 million smolt annually.

Furthermore, Section 22 of the Contribution Agreement states that *“In the event that capital expenditures relative to the construction of the Cooke NL Hatchery are, as of December 31, 2008, below the threshold amount of \$1.0 Million then and in that event the Province shall be entitled to demand and CAI, KCS and/or COSI shall be obligated to pay to the Province as liquidated damages the amount of \$1.0 Million representing repayment of funds advanced”*. Our review indicated that even though the Corporation did not incur \$1 million in capital expenditures relative to the hatchery by December 31, 2008, it did not pay the Province \$1 million as liquidated damages.

In January 2010, approval was given by Cabinet, for the Department to amend the penalty provision in Section 22 of the Contribution Agreement with CAI to defer the requirement to complete hatchery construction to December 31, 2010. However, the Department did not draft and sign an amended contract as directed by Cabinet.

On March 31, 2011 the Contribution Agreement was amended to reduce the hatchery production capability requirement from 4 million to 3 million smolt annually and to re-allocate the Provincial contribution toward hatchery expenditures from 2009 to 2010. However, there was no evidence that Cabinet approved a reduction in the hatcheries production capability from 4 million to 3 million smolt.

Furthermore, the Department indicated that it verbally agreed to further amend the Contribution Agreement and extend the timeframe for hatchery construction beyond December 31, 2010, due to issues the Corporation had acquiring land and securing a contractor for construction.

### **Finding**

10. COSI was not entitled to off-set (not pay) dividends totaling approximately \$1.4 million as at December 31, 2012 because it did not meet all of its commitments under the Contribution Agreement. Specifically, COSI did not complete a hatchery as per the terms of the agreement.

## **2C. Review of Claims for Payment**

### **Introduction**

The Department relies on auditor certified schedules when reviewing claims for payment from Corporations. The Department pays claims when it finds that the auditor certified schedules indicate that the capital expenditures incurred by the Corporations were eligible in accordance with the Contribution Agreement.

The Contribution Agreements state that “... *all invoices or claims for payment under the provincial contribution shall be supported by auditor certified schedules and calculations in respect of capital expenditures made to the date of the claim. “Invoices”...shall mean a detailed list of eligible capital asset purchases submitted by the Corporation for reimbursement by the Minister.*” The Agreement also provides the Department with authority to conduct audits of Corporation records and carry out inspections of Corporation facilities and equipment, as necessary to determine compliance with the Agreement.

Our review indicated the following:

### **Claims**

There were instances where the Department paid claims when there was no invoice listing supporting the auditor certified schedule of capital expenditures, as required under the Agreements. We found that the Department paid:

- \$9 million when COSI did not provide invoice listings to support \$19.7 million in capital expenditures claimed; and
- \$1.2 million when GAGL did not provide invoice listings to support \$2.4 million in capital expenditures claimed.

The Department indicated that it does not require that Corporations submit invoice listings with the auditor certified schedule of capital expenditure, and that it normally does not carry out any review, audit or inspection procedures in connection with the invoice listings when they are submitted.

### Finding

11. The Department did not adequately review the claims for payment that were submitted by Corporations in connection with Provincial contributions that were made under the Contribution Agreements. There were instances where the Department paid claims when invoice listings were not provided. When invoice listings were provided, the Department did not always carry out review, audit or inspection procedures.

### Ineligible Capital Expenditure

On April 17, 2012 Government and GAGL entered into a Contribution Agreement where GAGL would make a \$19 million capital investment in its aquaculture operations in the Province and Government would make a \$5 million equity investment in GAGL. During the period April 2012 to February 2013, the Department made four payments, totaling \$3.82 million, to GAGL when GAGL submitted claims that it incurred capital expenditures totaling \$7.65 million in accordance with the Agreement.

Section 3 of the Contribution Agreement states that “...*acquisitions of existing assets or companies by way of merger or otherwise will not be considered as contributing to...eligible capital costs*”. Section 15 of the Agreement states that “*the equity contribution by the Province shall be used for new capital acquisitions or new capital expenditures...by the Corporation...*”

On December 12, 2012, the Department paid GAGL, \$951,737.50 when GAGL submitted an auditor certified schedule of capital expenditures totaling \$1.9 million. The Auditor’s Report stated that the capital asset schedule presented fairly, in all material respects, the capital expenditures of GAGL during the period expenditures were incurred. The Auditor disclosed in a note to the capital asset schedule that GAGL had purchased a vessel from a related party, Gray Aqua Management Ltd (GAML) on November 9, 2012, in the amount of \$1.1 million.

We found that the vessel claimed by GAGL was not an eligible capital expenditure under Sections 3 and 15 the Agreement because it was an existing asset and not a new capital acquisition. The vessel was purchased by GAML (a company that is owned by the shareholders of GAGL) prior to GAGL’s application for ACEP assistance in December 2011. As a result, approximately \$550,000 of the \$3.82 million (14.4%) that Government invested in GAGL was not in accordance with the Contribution Agreement. The Department indicated it was seeking an interpretation from the Department of Justice as to whether the vessel is an allowable expenditure under the Agreement.

### Finding

12. The Department paid GAGL approximately \$550,000 when GAGL claimed a vessel in the amount of \$1.1 million that was not an eligible capital expenditure under the Contribution Agreement.

### 3. Cod Demonstration Farm

#### Objective

To determine whether the Department effectively monitored the completion of a Cod Demonstration Farm.

#### Conclusion

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

#### Overview

In March 2009, the Department entered into an Agreement with CAI and COSI to establish a Cod Aquaculture Demonstration Farm (Cod farm). The purpose of the Cod farm was to assess the performance of Atlantic Cod under near-commercial rearing conditions and to determine the commercial potential for Cod Aquaculture in the Province. The Agreement provided CAI/COSI with funding of up to \$2 million in connection with the CAI/COSI plan to lease/renovate a Government hatchery in Belleoram and operate a marine site in Northwest Cove. In addition, the Department of Fisheries and Oceans (DFO) and the Atlantic Canada Opportunities Agency (ACOA) were contributing significant levels of funding towards the project. In accordance with the Agreement:

- A Steering Committee was established to guide the work that was outlined in the Department's terms of reference and the CAI/COSI Plan. The Board included representatives from the CAI/COSI, the Department, DFO and ACOA.
- The Department advanced CAI/COSI \$1 million on March 31, 2009 to be used for specific capital expenditures including a vehicle, barges, cages and nets. The remaining \$1 million would be disbursed to CAI/COSI when it provided invoices and supporting documentation as evidence that there were aggregate expenditures totaling \$2 million.
- CAI/COSI was required to provide the Department with interim reports for three years ending March 31, 2012 and with a final report on September 30, 2012.

Our review indicated the following:

In December 2009, CAI/COSI notified Department officials that continuing with the original plan for the Cod farm was not feasible due to low market prices and higher than anticipated operating costs. CAI/COSI indicated that should the project continue it could lose up to \$10 million, and it was unwilling to continue with the project as planned. CAI/COSI provided four options to the funding partners, which would reduce the amount of fish grown and the life span of the project. The Department indicated that CAI/COSI had spent approximately \$358,000 of the \$1 million which was advanced under the Agreement.

The Agreement states that the \$1 million advanced to CAI/COSI shall be immediately returned to the Minister should the Cod farm not proceed as planned. Furthermore, should the Department determine CAI/COSI to be in breach of the terms of the agreement, it could exercise an irrevocable option to purchase for the nominal sum of \$1 any and all tangible and intangible assets that were acquired by CAI/COSI using money that was provided by the Department.

The Department did not recover any of the \$1 million it had advanced to CAI/COSI even though the Cod farm had not proceeded as planned under the Agreement. Department officials indicated that there was still research and development value in a scaled back project and therefore it did not exercise its option to recover any of the funding that was advanced to CAI/COSI. We also found that the Department elected to carry on with the project even though:

- ACOA subsequently withdrew its funding support for the project, and
- CAI/COSI had exited from all cod production as part of its future strategic plan.

### **Revised Agreement**

In October 2011, the Department entered into a revised Agreement with CAI/COSI to scale back the original plan for the Cod farm and grow out existing fish at the Northwest Cove marine site to market size. The new Agreement provided funding of up to \$1 million (previously advanced to CAI/COSI in March 2009) towards the capital items already purchased and any additional capital or operating costs as necessary. CAI/COSI was required to provide a final report to the Department on January 15, 2013 as to the commercial viability of a Cod farm.

Our review found that in May 2012, CAI/COSI had indicated to the Department that it had harvested all fish at the Northwest Cove marine site and was working to compile a final report well ahead of schedule. However, CAI/COSI did not provide the Department with their final report until October 7, 2014, approximately 20 months after it was due on January 15, 2013.

### **Finding**

13. The Department did not monitor the completion of the Cod Demonstration Farm on a timely basis. CAI/COSI did not provide the Department with their final report until October 2014, approximately 20 months after it was due.

## Recommendations

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



## Department's Response

### **Recommendations:**

- 1. The Department should ensure that ACEP criteria are developed that align with the objectives of the program.***

#### **Response:**

*The Department respects the recommendations of the Auditor General. Given the Aquaculture Capital Equity Program (ACEP) was created to attract investment and stimulate economic activity, the Department does believe the criteria of both programs do align with the program objectives, and will review all ACEP criteria to ensure they remain relevant and effective. Related to this, the Department has recently developed an ACEP policy and procedures manual, to ensure criteria are consistently addressed.*

- 2. The Department should clearly demonstrate and document that all ACEP eligibility criteria have been met before making recommendations to Cabinet for investment approval.***

#### **Response:**

*The Department appreciates the feedback of the Auditor General, as it provides a unique perspective to help ensure departmental programs operate optimally. The Department is satisfied that in all these cases, approved projects met all program eligibility criteria for ACEP prior to submission for approval. Government's assessment of all proposals to ACEP was conducted jointly by the Departments of Fisheries and Aquaculture; Business, Tourism, Culture and Rural Development (BTCRD); and Finance; and with the support of the Department of Justice. Each application was assessed against all program criteria, including need.*

*Applying these criteria to the review of the proposals, as well as discussions with the applicants and their financial supporters, Government determined that all projects required the financial participation of the province in order to proceed.*

- 3. The Department should develop guidelines for the Aquaculture Capital Equity Program that ensure consistent and appropriate terms and conditions, including those related to share redemption and dividends payable.***

#### **Response:**

*Each project is reviewed on its own merit and the terms and conditions are determined on the basis of the business plan presented and terms of share redemption and dividends payable are developed in the context of the proposed development. Given the unique nature of each plan, the Department believes it is therefore appropriate to be flexible with the terms and condition imposed. For each project, Government considered the proposal and ensured that the terms and conditions that govern share redemption and dividends payable were appropriate to each proposal and were included in the contracts. On this basis, as Cold Ocean Salmon Inc. was the first major investor to be attracted under ACEP,*

*and the scale of the project (\$150 million with \$20 million from the Government of Canada and \$10 million from the province) proposed had never been attempted before in the province, in light of the associated financial risk in such a green-field development, it was concluded that the project would not be financed without ACEP participation, and without the leveraging of funding from both the Atlantic Canada Opportunities Agency (ACOA) and Fisheries and Oceans Canada (DFO). The terms negotiated took into account the risk involved for Cooke Aquaculture Inc. (CAI), as the first major investor in the salmon aquaculture industry in this province. As CAI started to demonstrate the viability of large-scale salmon aquaculture in Newfoundland and Labrador, subsequent projects assisted under ACEP were under less generous terms which reflected how the investment climate improved due to CAI's success.*

*In the case of Gray Aquaculture, the proposal indicated that the company utilizes the value of the smolt which the company was bringing to the investment, as equity. While not a cash investment, an opinion was sought from an independent accountant who verified that the fair market value of the smolt is considered equity under generally accepted accounting principles. This was also the view of others in the accounting and financial analysis departments of Government and the province's Comptroller General. The issuance of shares to the value of the smolt equity was not identified in the analysis as a condition to meet the equity requirement by financial experts, and was therefore not required.*

- 4. The Department should ensure compliance with all terms and conditions of the Contribution Agreements.**

**Response:**

*The Department has recently developed an ACEP policy and procedures manual. One aspect of this manual is to ensure that all terms and conditions of agreements are monitored and are in compliance.*

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

**Response:**

*One aspect of the ACEP policy and procedures manual recently developed by the department is to outline more detailed procedures for collection and review of financial statements required under the ACEP Contribution Agreements.*

**PART 3.3**

**DEPARTMENT OF  
NATURAL RESOURCES**

**NEWFOUNDLAND AND LABRADOR ENERGY PLAN**

## Summary

### Introduction

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

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

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

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

### Objectives

The objectives of our review were to determine:

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

### Scope

Our review of the Plan covered the period from March 31, 2008 through to March 31, 2014. It included discussions with Department officials, a review of documentation provided by the Department and an assessment of the implementation of the various policy actions. It also included a review of the systems in place to regulate, monitor and report on the implementation of the Plan. Our review was completed in October 2014.

### **Conclusions**

#### **Objective 1**

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

#### **Objective 2**

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

### **Findings**

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

### **Recommendation**

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

## Objectives and Scope

### Objectives

The objectives of our review were to determine:

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### Scope

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## Background

### Overview

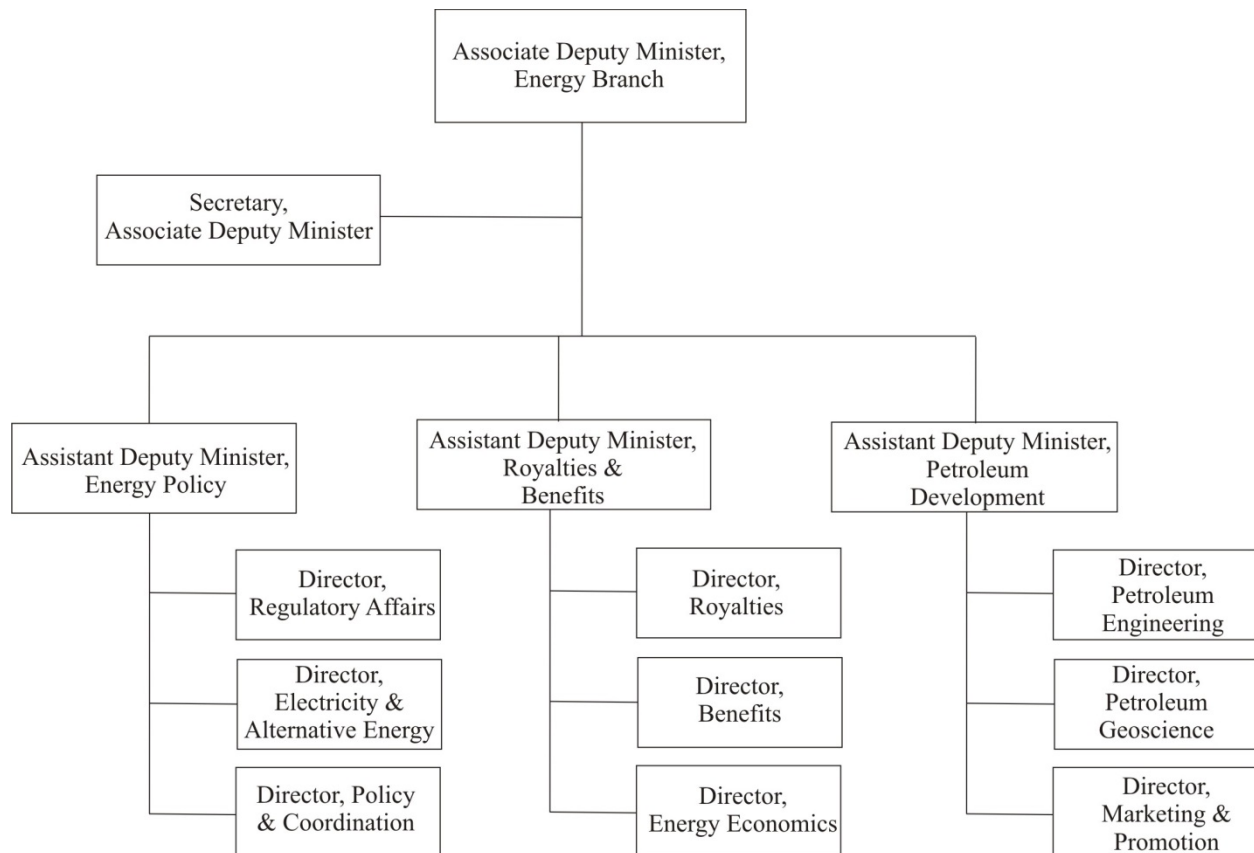
The vision of the Department of Natural Resources (the Department) is a Province that realizes the full benefit from the sustainable development of its natural resources.

The Energy Branch of the Department is divided into three main sections, the Energy Policy Section, the Royalties and Benefits Section and the Petroleum Development Section. The Energy Policy section is responsible for developing, planning and coordinating policy matters relating to the energy sector of the Province. This section has been mandated to lead the implementation of the Newfoundland and Labrador Energy Plan (the Plan).

Figure 1 outlines the organizational structure of the Energy Branch.

**Figure 1**

### Newfoundland and Labrador Energy Plan Energy Branch Organizational Chart



Source: The Department of Natural Resources

### **The Energy Plan**

The Plan was released by the Department in September 2007. It is defined by two objectives: protecting the environment and developing resources in the best long term interests of the people of the Province.

The vision of the Plan is as follows:

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

The Plan has underlying principles and goals that support the vision and which provided the framework that was used to develop the individual policy actions.

The principles are as follows:

1. Sustainability - Energy developments must be environmentally and economically sustainable.
2. Control - Exercise the appropriate control over the development of our resources to ensure they are managed and used in the best interest of the people of Newfoundland and Labrador.
3. Cooperation and Coordination - Add value to our resource development through effective cooperation and coordination with key stakeholders and partners.

The goals are as follows:

1. Environmental Leadership - Ensure our environment is continually protected and improved, through the responsible development of clean, renewable sources of energy.
2. Energy Security - Ensure we have a secure, reliable and competitively-priced supply of energy for current and future needs for people of Newfoundland and Labrador.
3. Sustainable Economic Development - Develop our energy resources to help meet our social and economic responsibilities.
4. Maximizing Electricity Export Value - Ensure we are positioned to maximize value over the long term from any electricity available for export and to invest the proceeds strategically.



## Newfoundland and Labrador Energy Plan

5. Maximizing Long-Term Value of Oil and Gas - Maximize and effectively invest the value received from these resources to ensure current and future generations benefit from their development, while still providing a fair return to oil and gas companies that participate in the development of our resources.
6. Effective Governance - Ensure that we have an effective and efficient regulatory and governance structure to properly manage the development of our energy resources.

The Plan is long-term in nature. It extends up to and beyond the expiration of the Upper Churchill power contract in 2016 and the related renewal contract which expires in 2041. It focuses on maximizing benefits from current and future resource developments including Hibernia, Terra Nova, White Rose, Hebron, other oil and natural gas developments, the Lower Churchill/Muskat Falls, Voisey's Bay, wind developments, refining and processing opportunities and the future success of the Upper Churchill.

Total expenditures related to the implementation of the Plan, as of March 31, 2014, were \$34 million. This was spent on various programs and initiatives that were the result of implementing the policy actions, as indicated in Table 1.

**Table 1**

**Newfoundland and Labrador Energy Plan  
Summary of Expenditures by Program/Initiative  
For the Years Ended March 31  
(000's)**

	2008	2009	2010	2011	2012	2013	2014	Total Per Area
LED Lights Program	\$ 150	\$ 218	-	-	-	-	-	\$ 368
Energuide/Residential Energy Efficiency Program	-	-	1,063	1,591	791	924	-	4,369
Petroleum Exploration Enhancement Program	-	1,000	-	2,000	1,500	-	-	4,500
Consulting Services	-	76	-	41	11	5	-	133
Save it Forward	-	-	-	76	41	13	-	130
Coastal Labrador Study	-	1,500	-	3,388	248	-	-	5,136
Innovation Roadmap	-	-	226	27	-	158	-	411
Marketing and Sponsors	-	-	19	96	185	345	-	645
Offshore Geoscience Data Program	-	-	5,000	1,500	7,800	3,000	-	17,300
Natural Gas Study	-	-	-	173	46	-	-	219
Newfoundland and Labrador Oil and Gas Industries Association	-	-	-	5	151	-	-	156
Other	-	-	197	42	362	-	-	601
<b>Total</b>	<b>\$ 150</b>	<b>\$ 2,794</b>	<b>\$ 6,505</b>	<b>\$ 8,939</b>	<b>\$ 11,135</b>	<b>\$ 4,445</b>	<b>-</b>	<b>\$ 33,968</b>

Source: Financial Management System and Department of Natural Resources

## Detailed Observations

This report provides findings related to our two objectives:

1. Energy Plan Policy Actions and Funding
2. Monitoring and Reporting

### 1. Energy Plan Policy Actions and Funding

#### Objective

To determine the progress made towards implementing and achieving the goals and objectives of the Plan.

#### Conclusion

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

### 1A. Energy Plan Policy Actions

#### Introduction

The Plan outlines 107 policy actions. Implementation of these policy actions is intended to aid in achieving the goals and principles of the Plan while supporting its vision.

The policy actions are grouped into five sections within the Plan as follows:

1. Energy Warehouse - These policy actions focus on the development of the non-renewable and the renewable energy assets of the Province.
2. Oil and Gas - These policy actions focus on advancing the oil and gas sector by encouraging additional exploration activity and managing the development of these resources so that investors can earn a fair return while the Province receives benefits from these resources.
3. Electricity - These policy actions focus on the Lower Churchill/Muskrat Falls project and other future electricity developments. They also dictate how the Government aims to support and improve our existing interconnected and isolated electricity systems and the services they provide to the people of the Province and industries.

## Newfoundland and Labrador Energy Plan

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4. Energy and Our Environment - These policy actions focus on the health of the environment by implementing initiatives that will reduce air emissions, protect the land, water and wildlife, promote energy conservation and efficiency, and result in sustainable energy projects that balance development with protection of the environment.
5. Energy and Our Economy - These policy actions focus on employment and economic development.

Table 2 summarizes the number of policy actions by section as presented in the Plan.

**Table 2**

### **Newfoundland and Labrador Energy Plan Summary of Policy Actions by Section**

<b>Section</b>	<b>Number of Policy Actions</b>
Energy Warehouse	8
Oil and Gas	19
Electricity	35
Energy and Our Environment	32
Energy and Our Economy	13
<b>Total</b>	<b>107</b>

Source: Newfoundland and Labrador Energy Plan

### **Implementation of Policy Actions**

Achieving the overall goals of the Plan is dependent on the implementation of the policy actions. Over the course of our review we asked for an update on the status of implementation for each of the policy actions outlined in the Plan. Information pertaining to each policy action was provided.

The Department provided three different classifications as to the status of implementation of the policy actions: underway, ongoing and complete.

Based on our examination of the policy actions and the status updates provided by the Department, we determined that some of the policy actions were meant to be completed over a short to medium term time horizon, while significantly more policy actions were to be implemented over a longer term time horizon or would influence government direction over the long term.

Table 3 outlines our assessment of the status of implementation for each policy action.

**Table 3**

**Newfoundland and Labrador Energy Plan  
Implementation Assessment – Office of the Auditor General**

Status	Number of Policy Actions	Percentage of Total Policy Actions
<b>Short-Medium Term Time Horizon</b>		
Complete	11	10%
In Progress	8	7%
In Planning Phase	1	1%
No/Minimal Progress	2	2%
	22	20%
<b>Long Term Time Horizon</b>		
Operational	67	63%
In Planning Phase	13	12%
No/Minimal Progress	5	5%
	85	80%
<b>Total</b>	<b>107</b>	<b>100%</b>

Source: Office of the Auditor General

**Finding**

1. The Department has made progress toward the implementation of the Policy Actions contained in the Energy Plan.

**1B. Funding**

**Introduction**

Budgets are an important economic policy tool. Budgets translate policies, political commitments and goals into decisions on how funds will be used to meet the competing needs of the Province. Budgeting related to the implementation of the Plan was completed on an annual basis.

The 2008 Budget Speech indicated that \$35 million was intended to be spent on the implementation of the Plan over three years, however, due to a shortfall in planned annual expenditures, original budget allocations directed toward the implementation of the Plan totaled \$66 million from 2008 to 2013. For the year 2014, no money was budgeted for the implementation of the Plan as it was considered complete by the Department.

## Newfoundland and Labrador Energy Plan

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### Reallocated Budgets and Lapsed Funding

If during the course of a year, funds which are budgeted for one purpose are reallocated for another purpose, the annual budget is amended.

Table 4 summarizes annual original and amended budget allocations and shows the amount of funds reallocated to other areas of the Department for other purposes each year. It also compares the original budgeted numbers to the actual expenditures and calculates the dollar variance on an annual basis.

**Table 4**

### Newfoundland and Labrador Energy Plan Summary of Reallocated Funds For the Years Ended March 31 (000's)

Year	Original Budget	Reallocated for Other Purposes	Amended Budget	Actual Expenditures	Original Budget \$ Variance
2008	\$ 10,000	\$ -	\$ 10,000	\$ 150	\$ 9,850
2009	13,000	710	12,290	2,794	10,206
2010	9,310	1,000	8,310	6,505	2,805
2011	14,935	5,068	9,867	8,939	5,996
2012	13,417	2,200	11,217	11,135	2,282
2013	5,729	5	5,724	4,445	1,284
2014	-	-	(139)	-	-
<b>Totals</b>	<b>\$ 66,391</b>	<b>\$ 8,983</b>	<b>\$ 57,269</b>	<b>\$ 33,968</b>	<b>\$32,423</b>

Source: Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund, Estimates 2014, Financial Management System and the Department of Natural Resources

As per Table 4, \$8.983 million was reallocated and used in other areas of the Department. This represents 14% of the original amount budgeted. The details surrounding these fund transfers are as follows:

- 2009 - \$710,000 was transferred Forest Management.
- 2010 - \$1.0 million was transferred for the Offshore Helicopter Safety Inquiry.
- 2011 - \$4,065,000 was transferred to Forest Management and \$412,500 was transferred for the Offshore Helicopter Safety Inquiry.

- 2012 - \$2.0 million was transferred for the Churchill Falls Hydroelectric Development Redress Agreement and \$200,000 was transferred for the Offshore Helicopter Safety Inquiry; and
- 2013 - \$5,000 was transferred to cover the Department's participation in the 7<sup>th</sup> International Symposium on Oil and Gas Resources.

## 2. Monitoring and Reporting

### Objective

To determine whether the Department has systems in place to regulate, monitor and report on the implementation of the Plan.

### Conclusion

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

### Overview

Monitoring is the regular observation and recording of activities or progress taking place in a particular project or program, while reporting involves presenting the information gathered. Monitoring and reporting are essential functions of government entities and are important elements used to promote accountability and transparency. Accordingly, given the strategic importance placed on the Plan, we would have expected the Department to monitor and report on its implementation on a regular basis.

Our review indicated the following issues with monitoring and reporting of the Plan:

### Monitoring

The Department provided two monitoring documents. These were completed in 2010 and 2012 respectively. Upon our request, current information pertaining to implementation was provided on all 107 policy actions.

Some of the more significant policy actions are related to the construction of the Lower Churchill/Muskrat Falls. Although progress has been made on this project, of the 107 policy actions outlined in the Plan, only 19 (18%) relate to Lower Churchill/Muskrat Falls, leaving 88 (82%) policy actions to be otherwise monitored by the Department.

### Reporting

In December 2009, the Department publically committed to publish a progress report by March 2010 to inform the people of the Province on the progress made towards the implementation of the policy actions. The Department released information pertaining to specific policy actions through news releases and annual reports; however, a comprehensive progress report that encompasses the full scope of the Plan has not been made available to the public.

In addition, we would have expected the policy actions to be clear and measurable, with defined completion dates where applicable. This would facilitate the reporting process. While some of the policy actions have these qualities, many of them are vague, making it difficult to assess the progress made toward implementation and which may hinder reporting.

### Finding

2. Despite a commitment to do so, there has been no comprehensive progress report on the implementation of the Plan as a whole released to the public.

## Recommendation

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



## Department's Response

### *Recommendation 1*

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

#### *Department's Response*

*The Department acknowledges and accepts the Auditor General's finding that there has been no comprehensive public report dealing only with implementation of the Energy Plan. To this end, and to comply with the recommendation of the Auditor General, the Minister of Natural Resources commits to table in the House of Assembly a report on all 107 Energy Plan commitments and the progress/status of each.*

**PART 3.4**

**DEPARTMENT OF  
TRANSPORTATION AND WORKS**

**USE OF GOVERNMENT VEHICLES**

### Summary

#### Introduction

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

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

#### Objective

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

#### Scope

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

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

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

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

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

### **Conclusion**

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

### **Findings**

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

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

#### **Vehicle Fleet Monitoring**

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

#### **Vehicle Fleet Operations**

3. Vehicle log books are not properly maintained. As a result, the Branch is unable to use this information to monitor the usage of Government vehicles.
4. Log books are not submitted to the Branch by client departments, as required. For those log books which are submitted, information is not being recorded in the EMS.
5. The EMS lacks the capacity to record detailed information entered from the log books for vehicles. As a result, the Department is unable to adequately monitor the fleet and its activities.
6. Limited maintenance information is entered into the EMS. In addition, there is no monthly report generated on maintenance activity as required. As a result, the Department is not tracking or monitoring the adequacy of maintenance of the vehicle fleet to help ensure efficient vehicle operation and safety.

7. Departments are not submitting regular kilometer readings to the Branch as required. As a result, the Branch is unable to use this information for analysis and reporting purposes.
8. Fuel purchase data and mileage information are not compared for reasonability. In addition, an available report to monitor fuel purchase exceptions is not being utilized. As a result, fuel purchase data is not being used to monitor the fuel consumption of the fleet.
9. No analysis is made of fuel consumption for Government vehicles by the Branch. As a result, discrepancies are not being identified and followed up by the Branch. As well, inappropriate use of Government vehicles may go undetected.

### **Reporting and Accountability**

10. The client departments are not providing the Branch with an annual list of employees that are authorized to park a Government vehicle at a private residence overnight as required. As a result, the Branch is unable to track personal use of Government vehicles.
11. The personal use of Government vehicles is not monitored and reported in accordance with policy. Government does not have a process in place to monitor whether a personal benefit is being conferred on employees who are authorized to park a Government vehicle at their personal residence.
12. The Vehicle Fleet Management Branch does not prepare an annual report as required. As a result, the Branch does not report on its operations as related to the Government light vehicle fleet.
13. The Policy Manual has not been updated as required. As a result, the Policy Manual has lagged behind the needs of the Branch and the client departments in providing guidance to effectively manage the fleet.
14. Periodic audits of the fleet are not performed by the Branch. As a result, the Branch is unable to ensure client departments are complying with policy guidelines.
15. The handling of public complaints is not coordinated by the Branch. As a result, public complaints may not be properly addressed.
16. Although some reporting requirements are outlined generally in the Branch's Policy Manual, the Department has not established specific performance measures or detailed reporting requirements for the Branch. As a result, an effective planning and reporting process is not in place for the administration of Government vehicles and potential problems with the fleet are not being identified and corrected.

### Recommendations

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

### Objective and Scope

#### Objective

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

#### Scope

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

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

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

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

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

### Background

#### Overview

The Province of Newfoundland and Labrador has a fleet of light vehicles which has a total cost in excess of \$30 million and an associated annual operating cost of approximately \$8.6 million.

The Department of Transportation and Works (the Department) is responsible for the overall monitoring and management of the light vehicle fleet (the fleet). The Vehicle Fleet Management Branch (the Branch) under the Highway Maintenance and Support Division is responsible to monitor and review the operations of the light vehicle fleet throughout all Government departments.

The Branch is responsible for the acquisition, monitoring, management, and disposal of all light vehicles. Light vehicles are required to be operated and maintained according to the Vehicle Fleet Management Policy and Procedures Manual (the Policy Manual).

Client departments, which include all Government departments operating light vehicles, are responsible for the day-to-day operations of the vehicles assigned to the department and for ensuring that vehicles are operated in accordance with the policies and procedures outlined in the Policy Manual.

Maintenance work can be completed at private businesses or at one of the Department's service depots. Generally, light vehicles operated by the Department of Transportation and Works are maintained at Government Highway Depots and vehicles operated by all other client departments are maintained by private garages.

Fuel for the fleet is obtained through private service stations through the use of Government issued credit cards.

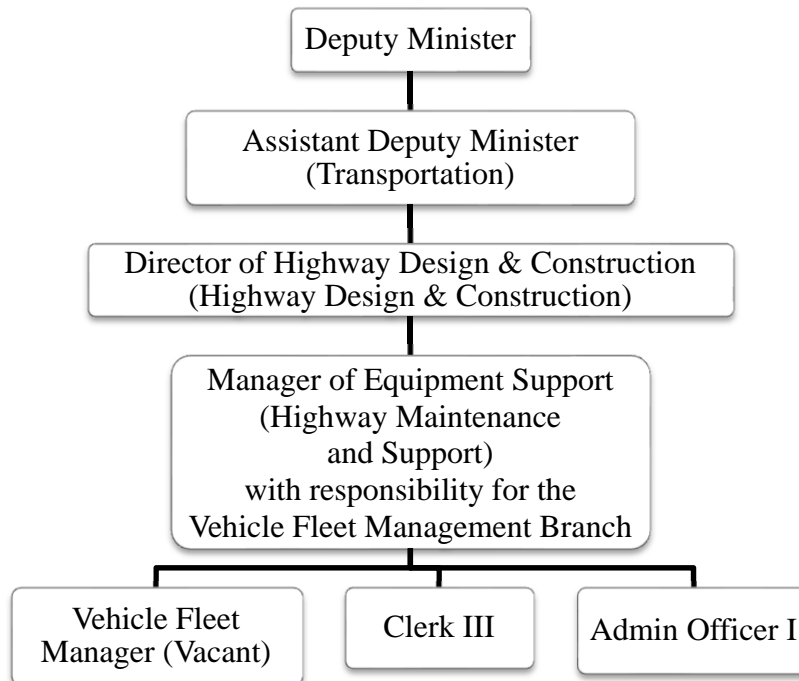
The Department maintains an Equipment Management System (EMS), which is designed to track a variety of information about the light vehicle as well as the heavy equipment fleets (e.g. age, maintenance schedule, operating costs, mileage).



Figure 1 outlines the organizational structure of the Branch.

**Figure 1**

**Department of Transportation and Works  
Vehicle Fleet Management Branch  
Organizational Chart  
March 31, 2013**



The Branch is comprised of three staff positions. The position of Vehicle Fleet Manager has been vacant since 2005-06 with the duties and responsibilities for the management of the light vehicle fleet being performed by the Manager of Equipment Support. The Clerk III position was eliminated in April 2013.

### **Light Vehicle Fleet**

A light vehicle is considered to be any vehicle that is primarily used as a means of transportation for Government personnel. These range from small compact sedans to full sized 4x4 pickups and various recreational vehicles which are used in various enforcement duties, for transportation to remote worksites, and in support of the regulatory duties of Government departments. Vehicles that are designed to fill a specific function (such as clearing roads or digging a trench) are considered to be heavy equipment and are outside the scope of this review.

## Use of Government Vehicles

Table 1 shows inventory information on the light vehicle fleet.

**Table 1**

**Department of Transportation and Works  
Light Vehicle Inventory  
As at March 2013**

Department	Highway Vehicles	Recreational Vehicles	Total	Percentage share in total fleet	Estimated Cost (000's)	Annual Operating Cost (000's)
Natural Resources	269	224	493	30%	\$8,626	\$2,126
Transportation and Works	408	2	410	26%	9,708	2,551
Justice and Public Safety	199	115	314	20%	5,745	2,308
Environment and Conservation	103	106	209	13%	3,429	599
Service NL	91	0	91	6%	2,045	642
Fisheries and Aquaculture	34	3	37	2%	815	232
All Other Departments	32	10	42	3%	835	143
<b>Total</b>	<b>1,136</b>	<b>460</b>	<b>1,596</b>	<b>100%</b>	<b>\$31,203</b>	<b>\$8,601</b>

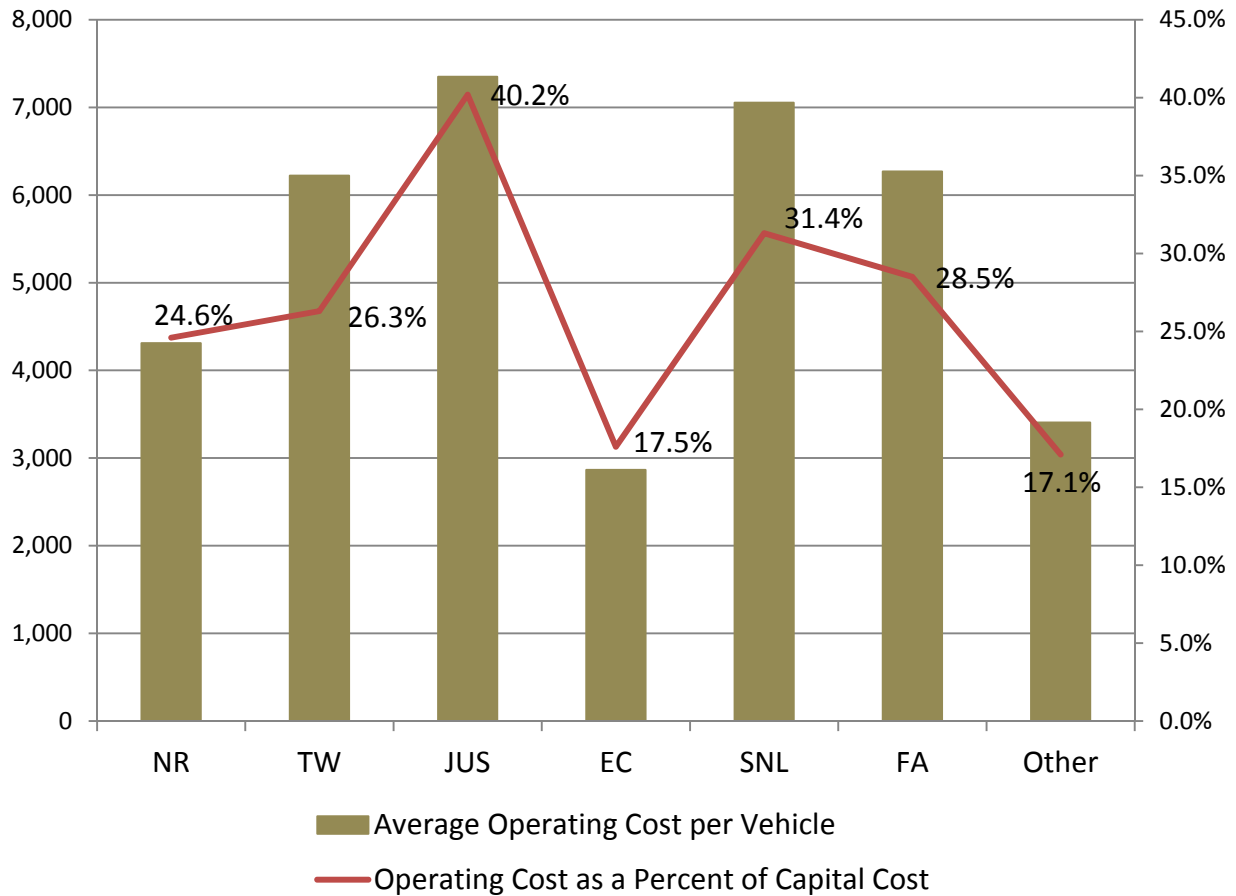
Source: Equipment Maintenance System and Government's Financial Management System

At March 31, 2013, Government owned an estimated 1,596 highway and recreational vehicles which cost approximately \$31.2 million. The annual operating costs for the year ended March 31, 2013 were approximately \$8.6 million.

Figure 2 provides details on the average operating cost per vehicle and operating cost as a percentage of capital cost for each major departmental user of Government light vehicles.

**Figure 2**

**Department of Transportation and Works  
Operating Cost per Vehicle  
March 31, 2013**



Source: Equipment Maintenance System and Government's Financial Management System

For the year ended March 31, 2013, the average operating cost per vehicle ranged from \$2,866 for the Department of Environment and Conservation to \$7,350 for the Department of Justice and Public Safety. The Department of Justice and Public Safety also has the highest operating cost as a percentage of capital cost at 40.2%.

## Detailed Observations

### Introduction

This report provides findings related to our objective:

1. Vehicle Fleet Management

### Vehicle Fleet Management

#### Objective

To determine whether Government is effectively managing its light vehicle fleet.

#### Conclusion

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

Our review considered:

- Vehicle fleet monitoring;
- Vehicle fleet operations; and
- Reporting and accountability.

### Vehicle Fleet Monitoring

#### Introduction

The Department has a Policy Manual which lays out the duties and responsibilities of each component of vehicle fleet management, from the Branch to the client departments to the users of the vehicles. The Branch is responsible for the global management of the fleet, including the acquisition, general operational monitoring and final disposal of the vehicles.

Vehicles purchased by client departments are initially delivered to the main depot of the Department of Transportation and Works. A Government license plate is installed, the departmental decals and Government logo is added, and a log book is placed in the vehicle.

### **Equipment Management System**

The Branch operates an Equipment Management System (EMS) database that is designed to collect data on vehicles operated by client departments.

The EMS should enable the monitoring of the fleet operations by providing a means of tracking information and generating monitoring reports. As such, the EMS should enable the Branch to:

- maintain an accurate inventory of vehicles;
- track vehicle operating activity including operating costs;
- allow for periodic reporting on vehicle operations;
- track vehicle maintenance activity;
- track personal use of government vehicles; and
- track and report on fuel consumption.

The Policy Manual requires the Branch to maintain an accurate inventory of vehicles, updated and audited on a yearly basis and also outlines requirements for the client departments as to their duties and responsibilities for properly managing the vehicle fleet, including a requirement to complete and compare client departmental inventory data to the EMS on an annual basis.

### **Completeness and Accuracy of EMS Inventory**

During our review, client departments were contacted for a copy of the most recent inventory of vehicles under their control. This information was compared to the inventory recorded in the EMS. Our review indicated that the vehicle inventory information contained within the EMS database is neither complete nor accurate.

The results of this analysis are included in Table 2.

## Use of Government Vehicles

**Table 2**

**Department of Transportation and Works  
Discrepancies between Client Department Inventories and EMS Data  
As at March 2013**

Discrepancies	Client Department						Total
	Natural Resources	Transportation and Works	Justice and Public Safety	Environment and Conservation	Service NL	Fisheries and Aquaculture	
<b><u>Incomplete Data</u></b>							
Incomplete information from client departments	1	0	2	77	1	0	81
Missing vehicle description	0	0	9	0	0	0	9
Vehicle missing from client department inventory	4	33	12	7	0	5	61
<b><u>Inaccurate Data in EMS</u></b>							
Assigned division	12	0	15	0	0	0	27
Assigned location	0	11	63	29	0	8	111
Assigned Department	0	0	0	5	0	0	5
License plate	4	2	19	3	0	0	28
Make/Model	1	0	11	6	1	0	19
Operational Status	3	20	8	27	1	6	65
Vehicle number	0	1	1	0	0	0	2
Vehicle description	0	0	1	1	0	0	2
<b>Total</b>	<b>25</b>	<b>67</b>	<b>141</b>	<b>155</b>	<b>3</b>	<b>19</b>	<b>410</b>

Source: Equipment Maintenance System and Client Departments

As Table 2 indicates, there were instances of:

- incomplete information, such as vehicles in the EMS inventory that were not in the client department inventories, missing descriptions of vehicles in the EMS, and missing details for vehicles in the client departments' inventory; and
- inaccurate data, such as differences in the license plate number, make and model of the vehicle, vehicle number, vehicle description, assigned division and location and vehicle status between the EMS and the client departments' inventory.

### **Finding**

1. The Branch is not maintaining an accurate and up to date inventory of vehicles. As a result, inventory reports generated from the EMS are not complete or accurate.

### **Annual Client Departmental Inventories**

Our review indicated that, while annual inventories are completed by all client departments, this information is not compared to the EMS. In fact, client departments do not have access to the EMS and do not receive reports to complete this comparison. As a result, changes in the condition or composition of the client departments' vehicle fleet are not updated and reflected in the EMS.

### **Finding**

2. Client departments do not have access to the EMS and are unable to compare their inventory records to the EMS as required by the Policy Manual. As a result, there is no opportunity to adjust the inventory records in the EMS database to ensure completeness and accuracy based on client department comparison of their records with the EMS.

### **Vehicle Fleet Operations**

#### **Introduction**

The Department is required to establish and maintain accurate records on vehicle history and operating costs to allow for the monitoring of the fleet and its activities. A standard log book is provided for all Government vehicles to be used to record information about the use of vehicles.

The log book contains the following information:

- vehicle license plate;
- the operator;
- vehicle number;
- division and client department names;
- the time and mileage when the vehicle was taken and returned;
- any fuel purchased; and
- destination.

## Use of Government Vehicles

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It is the responsibility of the client department to instruct users to fill out the log book for each trip taken in the vehicle. When the book is completely filled, it is submitted to the Branch which must enter the information from the log books into the EMS for monitoring and reporting purposes. With this information, the Branch could for example, potentially analyze the fuel consumption rates of vehicles, compare fuel purchases noted to credit card invoices for accuracy, determine personal use for taxable benefit calculation purposes, and flag potential issues for follow-up by the client department.

The Policy Manual outlines requirements for the client departments as to their duties and responsibilities for properly managing the vehicle fleet. These include:

- provide mileage readings to the Branch on a bi-weekly basis;
- provide the Branch with an annual list of employees authorized to park a Government vehicle at their residence; and
- ensure that all vehicle log books are maintained and submitted.

### Log Book Maintenance

A statistical sample of 40 log books were requested directly from the client departments and reviewed for compliance with the policies and procedures as well as assessed on the quality of the log books as a whole. Of the 40 log books that were requested, 14 were unavailable as these vehicles did not have a log book maintained and, therefore, were not in compliance with policy. In addition, the Department of Transportation and Works indicated that no log books were maintained for vehicles operated within the Avalon Peninsula region (71 vehicles) by that Department.

Our review of the 26 log books that were available for review indicated that the users of Government-owned vehicles did not always record the required information related to the operation of these vehicles. For example, we identified instances where the incorrect license plate was entered, travel taken where the operator was not listed, mileage readings were not provided, missing times for when the vehicle was taken and returned, the amount of fuel purchased was not recorded and the destination of travel was not provided.

### Finding

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

### Log Book Information

Based on our review, not all log books are being sent to the Department.



## Use of Government Vehicles

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In addition, officials indicated that the Branch lacks the resources to review each log book received and input the information into the EMS. Without the details from these log books, the EMS is incomplete and of limited use in monitoring the use of Government light vehicles.

### **Finding**

4. Log books are not submitted to the Branch by client departments, as required. For those log books which are submitted, information is not being recorded in the EMS.

The log books require that staff record detailed information regarding vehicle usage. Our review indicated that the EMS lacks the capacity to record this detailed information from the log books.

### **Finding**

5. The EMS lacks the capacity to record detailed information entered from the log books for vehicles. As a result, the Department is unable to adequately monitor the fleet and its activities.

### **Vehicle Maintenance Monitoring**

Client departments are required to submit a copy of the maintenance invoices to the Branch for entry into the EMS. This would facilitate a report on vehicles which are not getting regular preventative and routine maintenance.

Maintenance invoices received from client departments are not recorded in the EMS. Only maintenance work performed by Government Highway Depots is entered into the EMS. This information also includes mileage readings as it is required at the Depot for work scheduling and costing purposes. Our review indicated that, in general, only vehicles owned by Transportation and Works are serviced at these Depots. The EMS does not generate any maintenance report (monthly or otherwise) for review to help ensure the proper maintenance and safety of the vehicles.

### **Finding**

6. Limited maintenance information is entered into the EMS. In addition, there is no monthly report generated on maintenance activity as required. As a result, the Department is not tracking or monitoring the adequacy of maintenance of the vehicle fleet to help ensure efficient vehicle operation and safety.

Client departments are required to submit odometer readings through log books to the Branch on a bi-weekly basis. These readings are to be included in the EMS for analysis and reporting purposes.

Our review indicated that none of the client departments were providing mileage readings on a bi-weekly basis. Departmental officials indicated that regardless of the policy requirement, the departments were instructed to submit a kilometer report once a month for inclusion in the EMS. Seven of the 13 departments requested to report readings on a monthly basis were not complying - the Departments of Natural Resources, Environment and Conservation, Service NL, Finance, Fisheries and Aquaculture, Child, Youth and Family Services, and Business, Tourism, Culture and Rural Development.

### **Finding**

7. Departments are not submitting regular kilometer readings to the Branch as required. As a result, the Branch is unable to use this information for analysis and reporting purposes.

### **Fuel Purchase Monitoring**

Since the end of 2011, information about fuel purchased by Government vehicle users is gathered by the fuel companies electronically and transmitted to the Branch in excel format. This excel data is to be entered into the EMS by an employee of the Branch.

The reasonability of consumption can be measured using various methods of analysis. For example:

- a comparison of the kilometers traveled by a vehicle to the amount of fuel purchased; and
- a comparison of fuel purchases data to basic limits (for example, \$150 of fuel per transaction and \$10 of other materials per transaction) established in the Policy Manual.

We found that the fuel purchase information provided by the fuel companies is not always entered into the EMS, which compromises the ability of the Branch to monitor consumption. Our review also indicated that no consumption analysis can be made by the Branch, as the required information (mileage) has not been entered into the EMS from the log books.

The EMS has the capability of producing a report designed to flag variances in fuel purchases and use, such as individual purchases greater than 200 litres or vehicles where more than three fuel purchases were made in one day. However, our review indicated that this report was not in use. In addition, it is unavailable to client departments outside of Transportation and Works as these departments do not have access to the EMS.

### Finding

8. Fuel purchase data and mileage information are not compared for reasonability. In addition, an available report to monitor fuel purchase exceptions is not being utilized. As a result, fuel purchase data is not being used to monitor the fuel consumption of the fleet.

### Fuel Usage Data

We performed a review of fuel usage data received from the fuel companies that was uploaded into the EMS by the Branch. We also performed a comparison of the fuel data to available mileage data recorded when a vehicle is serviced at a Government Highway Depot for reasonability.

To perform this comparison, we selected a judgmental sample of 36 vehicles in the EMS. Vehicles were selected based on whether there was enough information in the EMS to allow the fuel purchases to be compared to the kilometers driven. This required that the vehicle have two kilometer readings during a period for which the fuel data was available. Our review determined that:

- 23 vehicles had high fuel usage rates. For example, one vehicle was found to have obtained 961.6 litres of fuel in a 17 day period, representing an estimated 9,700 kilometers of travel; and
- 17 vehicles had significant differences between the mileage driven compared to the mileage that the vehicle would be expected to accumulate based on the amount of fuel purchased. For example, 6,019 litres of fuel was purchased for one vehicle, enough to travel an estimated 51,200 kilometers. However, mileage readings from the vehicle indicated that it travelled only 18,210, a variance of 32,990 kilometers.

As well, we reviewed the fuel data of each vehicle sampled and compared it to the Policy Manual requirements and limits as well as the capacity and engine type for that vehicle. We found:

- 387 instances of individual gasoline purchases in excess of the \$150 maximum provided for by the policy. For example, in one instance a single purchase of gasoline for \$314.99 was made, more than twice the allowable limit;
- 211 instances of multiple fuel purchases made on the same day. For example, in one instance three separate purchases of gasoline totaling 226.70 litres for \$308.16 was made for one vehicle;
- 33 instances where the amount of fuel purchased exceeded the fuel capacity of the vehicle, in some instances by more than twice that capacity. For example, 499.70 litres of fuel was purchased for a vehicle with a gas tank capacity of 128.70 litres;

## Use of Government Vehicles

- 23 instances where the purchase of other materials was in excess of the \$10 maximum provided by the policy. For example, in one instance, other materials were purchased for \$44.08; and
- 8 instances of diesel fuel purchased for vehicles with gasoline engines. For example, in one instance 1,319.80 litres of diesel was purchased for \$1,794.99 when records indicated that the vehicle had a gasoline engine.

Table 3 provides details of exceptions by client department.

**Table 3**

**Department of Transportation and Works  
Analysis of available fuel usage data**

Exceptions Observed	Department							
	NR	TW	JUS	EC	SNL	FA	Other	Total
	<b><u>Gas consumption exceptions (Number of vehicles)</u></b>							
High fuel consumption pattern observed (based on actual gas purchases)	6	9	4	2	1	0	1	<b>23</b>
Variance in expected gas consumption	0	8	3	2	2	1	1	<b>17</b>
	<b><u>Other exceptions (Number of instances)</u></b>							
Gas purchased in excess of \$150	105	202	41	2	37	0	0	<b>387</b>
Gas purchased in single day, 2 or more transactions	38	78	47	10	32	1	5	<b>211</b>
Gas purchased (litres) in excess of fuel tank capacity marked for vehicle in EMS	9	12	3	1	5	1	2	<b>33</b>
Other costs in excess of \$10	2	0	11	0	7	0	3	<b>23</b>
Diesel purchased for gasoline engine	0	6	0	0	1	1	0	<b>8</b>

Source: Equipment Management System

Each card is issued to a specific vehicle. Department policy states that under no circumstances will supplies or services be dispensed to or installed in any other vehicle than that identified on the card. Ensuring that credit cards are linked to a single vehicle facilitates the ability of the Branch to monitor fuel costs and consumption for that vehicle.

During our review, we informed the Branch of the discrepancies in Table 3 that were detected in the fuel usage data. Departmental officials indicated that this was due partially to operational requirements, such as situations where extra fuel is purchased and carried for a vehicle that is being operated in a remote area where there is no access to fuel. In other circumstances, the credit card for another vehicle was used to purchase fuel or supplies if the card assigned to that vehicle was rejected. In addition, the Department has indicated that in some instances of excessive fuel usage the vehicles in question were carrying additional tanks to transport fuel for equipment but used the vehicle fuel card for the purchase.

### **Finding**

9. No analysis is made of fuel consumption for Government vehicles by the Branch. As a result, discrepancies are not being identified and followed up by the Branch. As well, inappropriate use of Government vehicles may go undetected.

## **Reporting and Accountability**

### **Introduction**

In order for the Branch to perform its duties and responsibilities for properly managing the vehicle fleet, the Branch is also required to:

- monitor personal use;
- maintain an accurate list of fleet coordinator contacts;
- submit an annual report to the Department of Finance;
- review and update the Policy Manual on an ongoing basis; and
- perform periodic audits of the fleet.

### **Approved Employees**

Each client department is required to provide the Branch with an annual list of employees that are approved to park a Government-owned vehicle at a private residence overnight, including information related to the employee's name, address, vehicle equipment number and the time period of authorization.

Our review indicated that this information is not provided by client departments to the Branch.

### Finding

10. The client departments are not providing the Branch with an annual list of employees that are authorized to park a Government vehicle at a private residence overnight as required. As a result, the Branch is unable to track personal use of Government vehicles.

### Personal Use of Vehicles

Employees who have the use of a vehicle to commute between their residence and their normal place of work enjoy a financial benefit not shared by the vast majority of Government employees. The *Income Tax Act* stipulates that any personal use of a company-owned vehicle, including commuting, is a taxable benefit.

Personal use is defined as any circumstance where the vehicle is operated by an employee that confers a benefit to that employee that is not otherwise available to other employees. Vehicles that are authorized to be parked at a private residence confer the benefit of avoiding the fuel costs and wear related to travel to and from work using a private vehicle owned by the employee. The Branch is responsible for providing the client departments with information on this usage at year-end so that the benefit can be calculated.

We contacted each of the client departments and requested their list of employees where vehicles were authorized to be parked at a private residence. As at March 31, 2013, 258 vehicles were authorized to be parked at a private residence by 330 Government employees. Our review indicated that there was no evidence that the kilometers driven from home to work and vice versa were tracked by the employee or monitored by the Branch or the client departments. Log books do not include the level of detail regarding starting location and destination necessary to perform such an analysis.

### Finding

11. The personal use of Government vehicles is not monitored and reported in accordance with policy. Government does not have a process in place to monitor whether a personal benefit is being conferred on employees who are authorized to park a Government vehicle at their personal residence.

### Branch Annual Report

The Policy Manual requires the Branch to “*produce an annual report to the Department of Finance by June 1<sup>st</sup>.*” The policy specifies an annual report, but does not specify the content of that report. It would be expected that such a report should provide details on how the Branch was meeting its objectives related to monitoring and controlling the operations of the fleet.

Department officials indicated that the activity for the Branch is included in the Highway Maintenance and Support Division section of the annual report for the Department of Transportation and Works. However, our review of this annual report indicated that there is no information provided that relates to the operation of the fleet.

### **Finding**

12. The Vehicle Fleet Management Branch does not prepare an annual report as required. As a result, the Branch does not report on its operations as related to the Government light vehicle fleet.

### **Policy and Procedures Manual**

Light vehicles are required to be operated and maintained according to the Vehicle Fleet Management Policy and Procedures Manual, in order to provide Government with fleet management and maintenance services in the most efficient and effective manner.

The Policy Manual instructs the Branch to “*undertake continuous review and development of improved methods, policies and procedures and implement new initiatives accordingly.*” The Branch is to regularly propose updates to the policies and procedures outlined in the Policy Manual as potential improvements are identified.

Our review indicated that some revisions may be necessary. For example, according to the policy, part of the controls in place to prevent inappropriate purchases on Government credit cards requires gas station attendants to “*ensure that the vehicle being serviced corresponds to the vehicle description on the card.*” Departmental officials indicated that it was doubtful that this control was being performed as there was no means to enforce or monitor it.

In addition, the Policy Manual specifies the maximum amount of fuel to be purchased using the credit card is \$100. Officials at the Branch indicated that this had been expanded to \$150 due to increases in fuel costs over the years. This increase has not been reflected in the Policy Manual.

Our review indicated that the Policy Manual had not been updated since it was written in 2003. An update was proposed in 2006, but was not approved.

### **Finding**

13. The Policy Manual has not been updated as required. As a result, the Policy Manual has lagged behind the needs of the Branch and the client departments in providing guidance to effectively manage the fleet.

### Periodic Audits

The Policy Manual requires that the Branch “*whenever necessary, perform periodic audits within the Client Departments to ensure adherence to policy guidelines.*”

Our review indicated that periodic audits were not being performed.

#### **Finding**

14. Periodic audits of the fleet are not performed by the Branch. As a result, the Branch is unable to ensure client departments are complying with policy guidelines.

### Complaints

There should be a transparent and easily accessed means of reporting a complaint involving the improper usage of a Government vehicle, such as excessive speeding that is not ticketed, inappropriate or reckless operation, personal use or improper parking. We would expect a database to be in place to track public complaints received and their subsequent follow-up. Also, guidelines should be in place to address complaints on a timely basis.

Our review indicated that Government does not have a coordinated means of allowing the public to report issues involving the operation of Government-owned vehicles.

According to officials, each client department has their own method of addressing complaints received from the public. There is no database in place at the Branch to track public complaints received and their subsequent follow-up.

#### **Finding**

15. The handling of public complaints is not coordinated by the Branch. As a result, public complaints may not be properly addressed.

### Planning, Performance Measurement and Monitoring

The mission of the Branch is “*To provide fleet management and vehicle maintenance services to Government on an economical basis and according to established standards, to enable clients to deliver quality and efficient services to the public.*” To meet this objective, the Branch should ensure that a proper control system is implemented, maintained and monitored.

We would expect to find well defined performance measures relating to the operation of light vehicles within Government to help ensure that a proper control system, with an appropriate focus on outcomes, is in place. These measures should form part of the Branch work plan. For example, performance measures may include expected outcomes related to fuel consumption, maintenance, personal travel, vehicle replacement, credit card usage and vehicle usage.



An operational plan would assist the Branch in meeting its objectives related to monitoring and controlling the operations of the fleet, in order to ensure that it is managed in the most effective and economical manner. A plan would help ensure that these operations are managed through effective policies, procedures, guidelines, and monitoring systems.

We would also expect to find established reporting requirements, within the Branch to enable effective monitoring, which would outline such things as:

- responsibility for reporting;
- nature and content of reports;
- frequency of reporting;
- deadlines for report preparation and submission; and
- distribution and review of reports.

Our review indicated that there was no operational plan and no performance reports in effect for the Branch.

### **Finding**

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

## Recommendations

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

## Department's Response

### **Recommendation**

1. *The Department of Transportation and Works should assess who should have responsibility for monitoring the Government's light vehicle fleet and determine what these responsibilities should be.*

### **Response**

*The Department of Transportation and Works will maintain the responsibilities associated with managing the Government's light vehicle fleet.*

*Vehicle Fleet Management (VFM) is currently responsible for monitoring and maintaining all vehicle-related activities. These includes tender specification preparation, technical evaluation of bids, vehicle registration and issuing license plates, arranging vehicle receiving and replacement vehicle return, vehicle disposal, maintaining an up-to-date inventory of the light vehicle fleet, updating and maintaining the EMS, maintaining an up to date list of employees who drive government vehicles and equipment and regularly check their license status, receiving/importing/troubleshooting fuel purchases as supplied by fuel card suppliers, receiving/importing/troubleshooting mileage readings as supplied by various Government departments/divisions, preparing various reports on the light vehicle fleet which aid in the effective management of the fleet, acting as the main point of contact for all Government departments/divisions to provide information/resolve any issues/answer all questions relating to light vehicles, and acting as the main point of contact for the general public to field all complaints/questions related to government vehicles usage.*

### **Recommendation**

2. *The Department of Transportation and Works should assess the appropriate level of resources necessary to ensure the responsibility for managing Government's light vehicle fleet is adequately discharged.*

### **Response**

*The Department is reviewing the current resources assigned to VFM to determine how we can maintain current monitoring levels and introduce improvements to meet the requirements of the VFM Policy Manual.*

*With the current staff complement as you outlined in the VFM organizational chart (Page 4, Figure 1) it is difficult to perform all of the functions associated with an efficient and effective fleet management program. Many of the shortfalls you outline throughout the report have been previously discussed within the Department. Subsequent to the release of your 2010 report on Vehicle Fleet Management, the Department requested the information mentioned in that report*

## Use of Government Vehicles

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*to be regularly submitted by the client departments to VFM. Currently, regular submissions have not been commonplace. Further, if all requested information was made available, it would be a challenge for the current VFM staff complement due to the vast amount of data entry.*

*The Department is also reviewing some potential initiatives/enhancements which will aid VFM in performing the required duties. Staff time includes the employment of a dedicated fleet management organization to work with VFM to provide fuel cards and track consumption, arrange vehicle maintenance and provide a tracking mechanism for all repair work and populate and maintain an inventory of the Government's fleet of vehicles.*

*Staff in VFM is working with the Office of the Chief Information Officer (OCIO) on improvements to the EMS which will allow for the provision of improved reporting and monitoring functionality. EMS was developed in-house which allows new reporting and system enhancements to be worked on by VFM/OCIO without having to enlist the services of an outside organization. The key feature which is currently being worked on by VFM in coordination with OCIO is the ability to produce a report summarizing the cost per km for each government owned vehicle. This will help determine the cost per km for a specific make/model of vehicle and how one region of the province and/or Department compares to others.*

*The thorough analysis of these initiatives includes a review of the resources required to assure an effective fleet management organization.*

