



**AUDITOR
GENERAL
of Newfoundland and Labrador**



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

June 2017

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 an integral component of Government accountability.

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**AUDITOR
GENERAL**
of Newfoundland and Labrador

June 2017

The Honourable Tom Osborne, 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 Performance Audits of Departments and Crown Agencies for 2017.

Respectfully submitted,

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

TERRY PADDON, CPA, CA
Auditor General

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CHAPTER

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COMMENTS OF THE AUDITOR GENERAL

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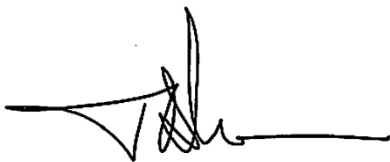
This is my sixth report, as Auditor General, on Audits of Departments and Crown Agencies. This report reflects the work of the Office of the Auditor General over the past year focusing on specific programs within Government departments and crown agencies.

We plan our work based on a risk assessment of various programs administered by Government departments or 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 audit of the following five program areas:

- Road Quality
- Government's Preparedness for Changing Demographics
- Compensation Practices in Government Entities
- Provincial Home Support Program
- Climate Change

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.

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



TERRY PADDON, CPA, CA
Auditor General

CHAPTER
2
OUR OFFICE

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Our Office

The Office of the Auditor General operates from two locations - St. John's and Corner Brook. The staff of the Office contribute, as a team, in the preparation of the June 2017 Report on Performance Audits of Departments and Crown Agencies.

The following is the staff of the Office of the Auditor General as of March 31, 2017:

Fiona Bai	Nancy King
Snow Bai, CPA, CA	Melissa Lewis
Marc Blake, CPA, CA	Stephanie Lewis, CPA, CA
Greg Butler, CPA, CMA	Ruo Chen Li, CPA, CMA
Keith Butt, CPA, CA	Adam Martin, CPA, CA
Ratidzo Chikari	Leif Martin, CPA, CA
Martin Cook	Trevor McCormick, FCPA, FCGA
Kyle Downer, CPA, CA	Jessica Nugent, CPA, CA
Lisa Duffy, CPA, CA	Tracy Pelley, CPA, CMA
Andrew French	Thomas Pritchard, CPA, CA
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Gregg Griffin	Sandra Russell, CPA, CA
Jenna Hillyard, CPA, CA	Walter Scott
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Dianna Kane, CPA, CA	Scott Walters, FCPA, FCA
Trena Keats, CPA, CA	Tony Wiseman

CHAPTER

3

**PERFORMANCE AUDITS OF
DEPARTMENTS AND CROWN AGENCIES**

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PART 3.1

ROAD QUALITY

DEPARTMENT OF TRANSPORTATION AND WORKS

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Conclusions

The Department of Transportation and Works (the Department) did not adequately manage aspects of Provincial capital road maintenance and construction (roadwork). We found issues with all stages of roadwork management, including planning, performance and monitoring.

The Department's roadwork standards were comparable to industry practice. However, departures from standards were identified.

The Department did not customize project specifications to specific site conditions.

The Department did not have a pavement management system to track road conditions, identify maintenance priorities and support roadwork decisions. The Department performed maintenance on an annual basis, however, it did not have a structured maintenance program in place that considered the asphalt lifecycle.

The Department was not performing roadwork based on an objective evaluation process; MHA priorities factored into decision-making.

Roadwork deadlines were not met for any project we examined, and the Department did not always take action to reduce the number of delays.

There was evidence that most of the quality control and quality assurance tests were completed.

Contractor performance evaluations were sometimes not completed or completed incorrectly.

Why this audit is important

Our Provincial road system is used by hundreds of thousands of people each year, including residents, tourists, and businesses. If the Department is not adequately managing roadwork, road quality could be affected, increasing the chances of accidents, and increasing the costs to perform roadwork.

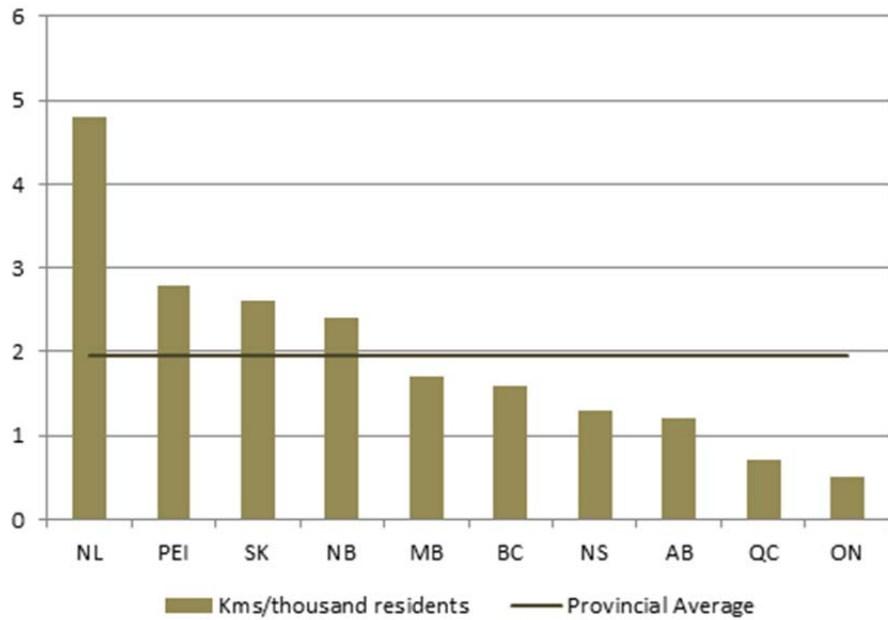
The amount of money spent on roads is significant. Expenditures for road construction and road maintenance totalled \$240 million for the 2015-16 fiscal year and were budgeted at \$278 million for the 2016-17 fiscal year. Roadwork must be well managed so that taxpayer money is used in the best possible way.

Road Quality

Newfoundland and Labrador has more kilometres of roads per capita than all other Provinces. Newfoundland and Labrador has 2,469 paved kilometres of road that are a part of the National Highway System (NHS). The NHS is made up of core routes, feeder routes, and remote routes.

Chart 1

Highway Systems of Canadian Provinces Kilometres per One Thousand Residents December 31, 2011



Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from Government of Canada, Transport Canada, *Transportation in Canada 2011* and Statistics Canada, *Census Program (2011)*.

Findings

Management of Provincial Roadwork

Roadwork Standards and Project Specifications

The Department had roadwork standards in place that were comparable to industry practice. In all 13 projects we examined, the tender documents included specifications that complied with Department standards.

Departures from Department standards were identified. Tack coat (a necessary material used to bind layers of asphalt together) was not often used from 2002 to 2008.

The Department did not customize project specifications to specific site conditions.

Guidelines for pothole repairs were outdated and inconsistently applied.

Roadwork Standards and Project Specifications

The Department had roadwork standards in place that were comparable to industry practice.

The Department communicated its required specifications to contractors for the 13 projects we examined. The specifications were included in the tender books and complied with Department standards.

Departures from Standards

Use of Tack Coat

Use of tack coat improves load distribution and ensures that the different asphalt layers work as one unit, reducing the risk of defects.

There was very limited use of tack coat on projects performed during the six years ending March 31, 2008. This increased the risk of defects, such as delamination, for these roads.

Figure 1

**Province of Newfoundland and Labrador
Delamination**



Source: Office of the Auditor General of Newfoundland and Labrador

Asphalt Thickness

Laboratory reports are used to document quality control and quality assurance testing. Laboratory reports sometimes did not state what asphalt thickness was required. The Department's standards include thickness requirements based on the weight and volume of traffic. Without this information documented on the laboratory report, it was difficult for us to determine if the thickness met the standard. It would also be difficult for the Department to ensure the standard was met, without referring to other documentation, which could increase the chances of deficiencies being missed.

Customizing Project Specifications

The Department's roadwork standards are a guide and are not expected to address all site conditions. It is beneficial to customize project specifications to site conditions, so that roadwork is designed for the specific conditions. This can limit defects and prolong the life of the pavement. The Department did not customize project specifications to the Province's specific conditions.

Site conditions should be considered when designing a project's specifications in order for the optimal materials to be chosen. Examples of how specifications can be customized include:

- The use of different performance-grade asphalts. Not tailoring the grade of asphalt for a location's temperature, traffic volume, or traffic speed could result in quicker deterioration. Tailoring could include the adjustment of temperature grades for roads with high volume of trucks at low speeds.
- The type and mix of aggregate in the asphalt mix. The Department allows the use of natural sand in its asphalt mixes, which, because of its shape, may contribute to pavement instability. Roads with more traffic and more weight need greater stability than those with less traffic. The type of aggregate used and the amounts of fine vs. coarse aggregate are both factors for consideration.
- The amount of polymers used in the asphalt mix. Polymers typically increase or decrease pavement flexibility depending on the formula used. Flexibility is an issue in climates with seasonal temperature variations.

Pothole Repair Guidelines

The Department's guidelines for pothole repairs were outdated and inconsistently applied. If potholes are not filled with the proper material and in the correct way, they can reoccur and become larger and more hazardous to the public.

Figure 2

Province of Newfoundland and Labrador A Deteriorated Pothole Repair



Source: Office of the Auditor General of Newfoundland and Labrador

Road Condition Evaluations, Tracking and Maintenance

The Department did not have a pavement management system to track road conditions, identify maintenance priorities and support roadwork decisions. The Department performed maintenance on an annual basis, however, it did not have a structured maintenance program in place that considered the asphalt lifecycle.

Without information on maintenance priorities, we were unable to assess if the Department was adequately performing maintenance work, as we were not able to compare recommended maintenance to maintenance performed.

The Department did not have resources to objectively measure all road conditions and did not use resources that were available for tracking road usage.

The Department did not have a central location to receive road complaints and it did not require records to be kept on complaint information.

Pavement Management System

The Department did not have a pavement management system to track road conditions, identify maintenance priorities and support roadwork decisions. A pavement management system tracks pavement lifecycle and would provide a basis for establishing a maintenance program, by identifying maintenance priorities and required frequency. It would also provide an overall picture of the types of defects and maintenance required. If road conditions are not tracked, it is difficult for the Department to know if it is addressing the right projects at the right time.

Maintenance Program

The Department performed maintenance on an annual basis, however, it did not have a structured maintenance program in place that considered the asphalt lifecycle. A structured maintenance program would include a documented multi-year maintenance plan specific to the asphalt lifecycle. The plan would include the type of maintenance, and schedules on when and how often it would be performed. A pavement management system could help identify this information.

The Department had maintenance guidelines that were out of date and were not being used. The winter maintenance section of the manual was never completed, and the manual itself had not been updated since its creation in 1995.

Importance of Maintenance

Maintenance prolongs the pavement life cycle. Pavement is typically designed for 20 years assuming routine maintenance is performed. Studies show that without proper maintenance, the pavement life cycle could be considerably shorter, around 10-12 years. The cost to repair roads significantly increases the longer the road goes without preventative maintenance work. For example, crack-sealing could cost less than the repairs required if it is deferred, such as resurfacing.

Without information on maintenance priorities, we were unable to assess if the Department was adequately performing maintenance work, as we were not able to compare recommended maintenance to maintenance performed.

Road Condition Evaluations

ARAN Vehicle

The Department does not have resources to objectively measure all road conditions. The Department utilized an ARAN vehicle that has limited capabilities. The ARAN vehicle objectively measures rutting and roughness, however, assessments of other conditions, such as potholes and delamination, were based on visual inspection by Departmental officials in each region. Visual inspection assessments could impact roadwork project rankings and maintenance decisions, as they may not be performed consistently.

Figure 3

Province of Newfoundland and Labrador Pothole



Source: Office of the Auditor General of Newfoundland and Labrador

Weigh-in-Motion System

The Department ended their contract for the use of the Weigh-in-Motion system (WIMs) in February 2015 because it stopped using it. The system still captures data that remains unused. Even after the significant capital investment, the Department did not perform a cost-benefit analysis before the contract was ended.

The Department published in its 2009 annual report that its road condition monitoring capabilities were expanded with the purchase of four new WIMs. WIMs are used to collect data on vehicle volume and weight. The implementation of the WIMs was a joint initiative with Service NL. The Department was responsible for the capital cost of the equipment, which amounted to \$552,610, while Service NL was responsible for the annual operating costs amounting to \$174,874.

Road Complaints

The Department did not have a central location to receive road defect complaints, such as potholes. It did not require documentation of the information from the complaints and of the action taken, such as the location, date of the call, and date of repair.

Roadwork Choices and Ranking Decisions

The Department was not performing roadwork based on an objective evaluation process.

MHA priorities may have resulted in lower priority roadwork being performed ahead of higher priority roadwork. MHA priorities made up 46% of the 2015-16 provincial roads improvement budget, while essential projects made up only 23%.

Projects that were selected were not always based on the regional priority lists from each of the Department's five regions. There was no clear relationship between a project's rating on the regional priority list and its placement on the Provincial listing.

The Regional priority lists and the Provincial listings were often missing key ranking information, or had classification errors. Rankings between regions may not be consistent because there was no guidance given to regions on how to allocate points within different categories, and each region was ranking projects independently.

The Department received project priority lists from all five regions of the Province. Projects were chosen by considering these priority lists and a number of other factors.

The Department had four categories that it uses to guide its project selection:

- Members of the House Assembly (MHA) priorities,
- strategic priorities,
- essential projects, and
- uncompleted prior year projects (carry over).

MHA Priorities

MHA priorities may have resulted in lower priority roadwork being performed ahead of higher priority roadwork. This could mean that roads with lower safety risks were addressed before roads with greater safety risks. MHA priorities made up 46% of the 2015-16 provincial roads improvement budget, while essential projects made up only 23%. Projects were not chosen based on an objective evaluation process.

Table 1

**Department of Transportation and Works
Provincial Roadwork Improvement Budget
Amount and Percentage of Budget per Category
Fiscal Year
(\$ 000's)**

Category	2015-16		2014-15	
	Amount	% of Total	Amount	% of Total
MHA Priorities	\$35,900	46%	\$20,100	29%
Strategic	19,050	25%	20,500	30%
Essential	17,660	23%	14,800	22%
Carry Over	4,650	6%	13,420	19%
Total Provincial Roadwork Improvement Budget	\$77,260	100%	\$68,820	100%

Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the Department of Transportation and Works.

Regional versus Provincial Rankings

We examined a sample of 196 projects on the regional priority lists to see if their ultimate placement on the Provincial list was consistent with their regional rankings. Regional engineers considered district priorities, and rated projects based on four weighted categories: safety, condition, class, and economic impact, using a scale of 0-5 to determine a project's total point value. The total point value can sum to 500 points.

Not all of the higher rated regional projects were included in the Provincial listing. There was no clear relationship between a project's rating on the regional priority list and its placement on the Provincial listing.

The following table shows the number of projects on the regional priority lists that were included on the Provincial listings per points awarded.

Table 2

**Department of Transportation and Works
Regional Priority List Projects
Included in Provincial Listing per Points Awarded
196 Projects Examined
Five Years Ended March 31, 2016**

Points	Projects on Regional Lists	Projects from Regional Lists on Provincial Listing	% of Regional Projects on Provincial Listing
400+	9	4	44%
301-400	55	19	35%
201-300	96	21	22%
101-200	36	10	28%
0-100	0	0	0%
Totals	196	54	28%

Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the Department of Transportation and Works.

Two examples where there was disparity between the regional listings and the Provincial listing were:

- The Bay d'Espoir highway runs which between two districts. The lower portion of the road, which was in one district had road work done, while the upper portion of the same road, in the next district, had no work done despite being in the same condition.
- An upgrading and paving project for multiple roads in Trinity North was ranked 194 out of 198 on the Eastern Region's priority list, however it was included on the 2011-12 Provincial listing.

Errors or Missing Ranking Information

The Regional priority lists and the Provincial listings were often missing key ranking information, or had classification errors.

The Central and Eastern regional priority lists were missing regional rankings. Western and Central Regions were missing district rankings.

If a project receives a five in the safety scale it is supposed to be automatically classified as an essential project, regardless of how it ranked in other categories. We determined that there were nine projects that had received a five in safety in 2015-16, but only five of them (56%) were classified as an essential project.

A project that scored over 400 points was supposed to be classified on the priority lists as essential. Of the 61 2015-16 projects, 16 scored 400 points or more. Eight (50%) of these were not classified as essential projects when they should have been.

There were 51 projects classified as essential, but 43 (84%) of them had fewer than 400 points (and had not received a five in safety) and therefore, should not have been classified as essential.

Rankings between regions may not be consistent because there was no guidance given to regions on how to allocate points within different categories, and each region was ranking projects independently.

Timeliness of Roadwork

Roadwork contract deadlines were missed for all 13 projects we examined.

Almost half of the projects we examined were late going to tender. The contract dates for substantial completion were often not realistic given the time at which they were tendered.

When roadwork project delays were determined to be the fault of the contractor, the Department did not claim eligible liquidated damages (cost recovery paid by a contractor to the Department) for at least 31% of the projects we examined.

The required time extension requests were not submitted to the Department for nine of the 13 late projects. Therefore, it was not documented whether the extensions were reasonable, and the Department could not assess whether it was eligible to collect liquidated damages. Contractors for the other four projects submitted six time extension requests to the Department. Five out of six of the new deadlines were also not met.

The Department did not keep a record of when it became aware of defects, such as potholes, and when they were repaired, so we were not able to assess the timeliness of these repairs.

Project Delays

Roadwork contract deadlines were missed for all 13 projects we examined. When roadwork deadlines are missed, drivers can be affected by extended poor driving conditions and traffic delays. The tender contracts specify that the deadlines are mandatory; therefore all 13 of the project contracts were in default. Four of the delays were documented as the contractors' fault and it was unclear who was at fault for the other nine delays.

Table 3

**Department of Transportation and Works
Project Completion Delays
13 Projects Examined**

	Original Contract Timeframe (months)	Months Delay (Note 1)	% Overage	Reason for Delay
Project 1	1	20	2000%	The Department's completion date was not reasonable
Project 2	2	12	600%	Partially due to late material delivery, rest unexplained
Project 3	2	12	600%	No explanation provided
Project 4	3	15	500%	No explanation provided
Project 5	3	11	367%	Partially due to late material delivery, rest unexplained
Project 6	3	9	300%	No explanation provided
Project 7	5	6	120%	Department requested completion of an emergency repair
Project 8	6	6	100%	The Department's completion date was not reasonable
Project 9	2	2	100%	Contractor designs not completed on time
Project 10	4	2	50%	Issue with contractor work
Project 11	2	0.5	25%	No explanation provided
Project 12	14	3	21%	Extra work requested by Department
Project 13	11	2	18%	No explanation provided

Note 1: Months delay represents total calendar months and may include periods of time outside of the roadwork season.

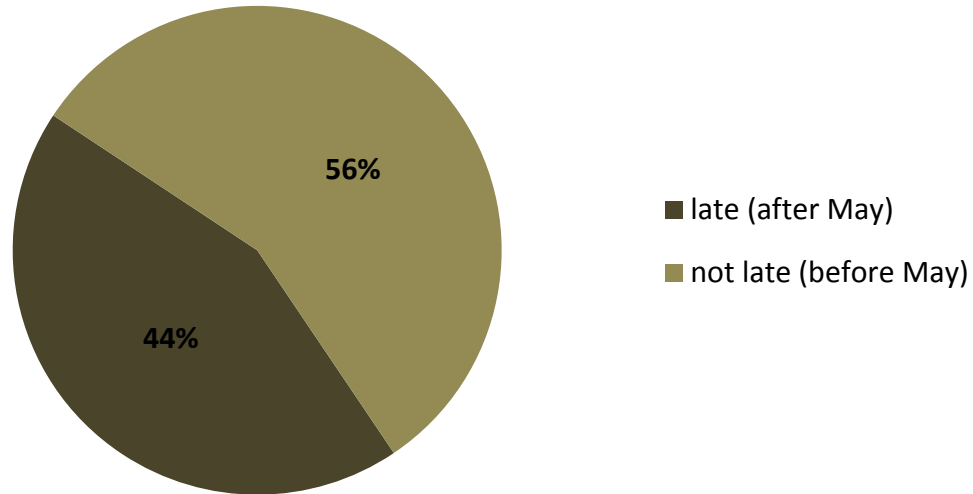
Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the Department of Transportation and Works.

Late Tendering and Paving Season

Almost half of the projects examined were late going to tender. Project tender dates can impact project timelines and roadwork conditions (materials can be affected by weather conditions). Department standards state that the season for laying asphalt ends on September 30th (unless extended by the Assistant Deputy Minister), therefore, substantial completion dates can be difficult to meet unless the tender process is completed before May, given the short season in which roadwork should be performed. The contract dates for substantial completion were often not realistic given the time at which they were tendered.

Chart 2

**Department of Transportation and Works
Projects Examined
Timing of Project Tendering**



Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the Department of Transportation and Works.

Liquidated Damages

The Department did not claim liquidated damages (cost recovery paid by a contractor to the Department) for any projects we examined, despite the delay being documented as the contractors' fault for four of 13 delays (31%). The Department may have missed out on a significant amount of cost recovery by not pursuing liquidated damages. For the remaining nine projects, we were unable to tell whether the delay was the contractor's fault either because no explanation was available or because the one given was unclear.

Extension Requests

The required time extension requests were not submitted to the Department for nine of the 13 late projects. Therefore, it was not documented whether the extensions were reasonable, and the Department could not assess whether it was eligible to collect liquidated damages. Contractors for the other four projects submitted six time extension requests to the Department. Five out of six of the new deadlines were also not met.

Repairs of Reported Defects

The Department did not keep a record of when it became aware of defects, such as potholes, and when they were repaired, so we could not assess the timeliness of these repairs. Defects are a safety concern and can cause vehicle damage.

Monitoring Roadwork Progress and Completion

There was evidence that most of the quality control and quality assurance tests were completed, for the 13 projects we examined. However, there was no evidence for 7 out of 10 projects examined that laboratory tests or field verifications were performed to ensure that the tack coat met minimum standards.

When deficiencies were found in the completed quality control and quality assurance tests, there was often no indication on the laboratory report that the Department determined whether deficiencies were major or minor or if action was taken to correct the deficiencies. However, penalties were calculated for all deficiencies that required them.

Contractor performance evaluations were sometimes not completed or completed incorrectly. An overall performance evaluation was not completed for four of the 13 projects examined. A warranty evaluation was not completed for seven out of the nine projects whose warranty period had ended.

Contractors were frequently graded higher on their performance evaluations than they should have been.

Actual expenditures for about half of the projects examined surpassed the original tender. In one case the cost exceeded the original tender by \$1.15 million without an approved change order.

Contractors did not always declare subcontractors in their tender agreements, as recommended by best practice.

The Department ensured that the laboratories selected by contractors were certified to perform the quality control work for all six projects we examined. The Department performed quality assurance work for all six projects which ensures that any differences between quality assurance and quality control test results are acceptable. However, it did not perform inter-laboratory testing or audits which are a good practice to verify conformance to testing standards.

The numbering system used to label and organize Department samples was not sufficient.

Quality Control and Quality Assurance Testing

Completion of Quality Control and Quality Assurance Testing

We examined 13 roadwork project files to determine whether 14 quality control and quality assurance (QC and QA) tests were completed. There was evidence that 94% of the required QC and QA tests were completed. However, of the 10 projects examined, 7 did not have evidence to show that the tack coat application met minimum standards. Certain verifications and measurements during tack coat application help ensure that tack coat conforms to specifications and will adequately bond layers of asphalt together.

QC and QA tests ensure paving projects are completed to an acceptable standard. If these tests are not being done, and deficiencies are not corrected, potholes, rutting and peeling of the pavement layers (delamination), among other defects, can result.

Results of Quality Control and Quality Assurance Testing

We examined whether QC and QA laboratory results demonstrated that the roadwork complied with project specifications. When the results do not comply with specifications it is considered a deficiency. We examined seven types of tests for which penalties could be applicable.

Table 4

Department of Transportation and Works QC and QA Tests with Deficiencies Thirteen Projects Examined

Required QC/ QA Test	Number of project tests completed	Projects with deficiencies	% of projects with deficiencies
Bump and dip	11	10	91%
Profile Index	11	11	100%
Density	12	11	92%
Asphalt cement liquid extractions	12	9	75%
Asphalt aggregate gradation	12	8	67%
Application Rate	5	4	100%
Marshall air voids	12	5	42%
Totals	75	58	77%

Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the Department of Transportation and Works.

Of the 75 test reports we examined, 58 of them (77%) had noted deficiencies.

A deficiency can be determined to be minor or major. If the deficiency is determined to be minor, it can be considered acceptable, and no action is required. If a deficiency is determined to be a major deficiency, it should be corrected to ensure that the project meets the required specifications and/or a penalty should be applied. This information should be documented on the laboratory reports.

We were often unable to determine from the laboratory reports that the Department had determined whether deficiencies were major or minor or if action was taken to correct the deficiencies. The reports were often missing an indication of whether the samples had been rejected or approved and evidence of approval. However, the Department was able to demonstrate that penalties were calculated for all deficiencies that required them.

Evaluating Contractor Performance

Evaluations Not Completed

An overall performance evaluation was not completed for four of the 13 projects examined. Of the nine completed evaluations, three did not have all of the required signatures.

No warranty evaluation was completed for seven out of the nine projects whose warranty period had ended. Of the two warranty evaluations completed, only one was signed by all three required Department representatives.

Without accurate completion of both the overall performance evaluation and the warranty evaluation, poor work may not be adequately addressed and the quality of future work could be compromised.

Errors in Rating Contractor Timeliness

Of the 12 projects for which a contractor performance evaluation was applicable, 11 contractors were graded higher than they should have been on “timeliness”. Seven road projects were assessed as being delivered “on-time” when they should have been assessed as “late” or “very late”. Four other projects were assessed as “late” when they should have been assessed as “very late”. The remaining timeliness assessments could not be examined as the performance evaluation for those contractors had not been completed.

Project Expenditures Compared to Original Tender

Actual expenditures for about half of the projects examined exceeded the original tender.

We compared project costs against the original tenders for the 13 projects we examined. In one case, the cost exceeded the original tender by \$1.15 million without an approved change order.

Declaration of Subcontractors

In eight of 13 contracts we examined, the contractor either did not declare any of their subcontractors, or did not declare all of the subcontractors they used. In seven of these contracts, the Contractor listed “own forces”, meaning they will not use subcontractors, but then did employ one or more subcontractors for different portions of project work. One of the contractors did list certain subcontractors but there were inconsistencies between the subcontractors declared and the ones used.

By not verifying the subcontractors a contractor will use, the Department can become vulnerable to work performed by inadequately trained individuals.

Best practice indicates that contractors should declare the subcontractors they will use before the project start date.

Monitoring Contractor Use of External Laboratories

For some projects, the Department is responsible for QA, and the contractor is responsible for QC. In these cases, contractors are responsible for choosing an external laboratory to perform the QC work. The Department ensured that the laboratory selected by the contractor was certified to perform the QC work for all six projects examined. The Department also performed QA work for all six projects, which ensures that any differences between QC and QA test results are acceptable. However, regular auditing of field and laboratory technicians is also a good practice to verify conformance to testing standards and to ensure that the equipment used is calibrated. The Department did not perform inter-laboratory testing or audits.

Numbering System Used for Samples

The numbering system used for to label and organize Department samples was not sufficient. The samples were assigned a one digit number, and the same number could be used for more than one type of sample in the same project file. This can result in a sample being confused for another sample, and the type of sample may not be clear.

Recommendations

1. The Department should ensure that roadwork performed meets Department standards.

Department's Response:

The Department concurs that monitoring and documentation are integral aspects of ensuring specifications are met and ensuring transparency in departures from specifications.

The Department of Transportation and Works will review future tender specification documents to more clearly articulate in the Schedule of Work monitoring criterion, timelines and applicability of penalties. Further, a process to document where penalties have been assessed and applied will be clarified and improved.

2. The Department should evaluate site conditions to determine whether it should customize project specifications.

Department's Response:

The Department of Transportation and Works acknowledges that it does not often customize project specifications to specific site conditions. The Department, however, does use 8 highway classifications in developing project specifications and does modify standards and classifications for some projects. In making project delivery decisions, it is important to note that evaluations are conducted related to the type of pavement and rehabilitation methods to be used in each project. It is noted that asphalt grade availability affects these decisions.

Recognizing the potential for improving project specifications, in early March, 2017, the Department of Transportation and Works issued a tender call for an asphalt wear analysis project that is intended to examine what asphalt specification is best suited for our climate and environment. The results of this evidence-based project will assist in the determination of innovative ways to develop and improve vital road infrastructure in Newfoundland and Labrador.

3. The Department should implement a system to track road conditions, identify maintenance priorities and support roadwork decisions. The Department should also evaluate how to objectively assess road conditions.

Department's Response:

The Department concurs that a Pavement Management System would allow condition data such as rut depth, roughness, structural adequacy, and traffic volumes to be incorporated into the development of maintenance plans and infrastructure decisions. The Department will explore the feasibility of, and options for, implementing a Pavement Management System.

Identification of maintenance priorities are completed by the Department's regional staff. Each region develops a summer maintenance plan and schedule each spring based on knowledge of the area, in-field inspections, and priority areas.

Two specific road evaluation assets were noted in the report: the ARAN vehicle and the Weigh-in-Motion (WIM) system. The Department notes the following:

- (i) the ARAN vehicle in use is ten years old and its existing technology is being utilized. The Department will consider additional capabilities when developing a replacement strategy for the ARAN vehicle; and*
- (ii) the Department does collect traffic data, such as traffic counts and passenger vs. commercial vehicles, through radar collectors and avails of this information during the decision making process.*

The Department will explore options to optimize existing evaluation assets to identify whether additional data can be reasonably generated.

4. The Department should develop a structured maintenance program that considers the pavement lifecycle and includes information on the type of maintenance required, maintenance schedules and frequency.

Department's Response:

Depending on the feasibility of implementing a Pavement Management System, the Department concurs that these data points are important elements of maintenance planning and will consider using pavement lifecycle data in the development of future maintenance plans.

5. The Department should establish a centralized location for receiving road complaints and document complaint information and action taken.

Department's Response:

The Department of Transportation and Works agrees that a centralized location for receiving road complaints would be beneficial. The Department will explore the potential of a centralized reporting system similar to other provincial Ministries responsible for highway infrastructure.

6. The Department should choose roadwork projects based on an objective evaluation process that is consistently applied.

Department's Response:

In January, 2017, the Department of Transportation and Works was pleased to launch a Five Year Provincial Roads Plan that uses evidence based planning to choose road work. The process was open, transparent, and reflective of engineering assessments and input from the industry and general public. Road work projects were also prioritized using factors such as traffic volumes, safety and socio-economic impacts. The Department will look for continuous improvement opportunities related to effectiveness and responsiveness. It is noted that the roads plan will be reviewed and updated annually with a progress report on projects from previous years. Projects will be added with each update and will include a complete list for that specific fiscal year.

7. The Department should ensure that roadwork is tendered on time, extension requests are received, and eligible liquidated damages are collected.

Department's Response:

The Department of Transportation and Works recognizes that issuing tenders earlier in the short construction session is a critical factor in the success of project completion within the established timelines. In January 2017, coinciding with the launch of the Five Year Provincial Roads Plan, the Department issued tenders for the approved 2017-18 projects. By issuing the tender calls earlier in the year, it is anticipated that contractors will increase their ability to secure and maintain its labour pool and increase productivity during the short construction season. Early tender calls are a main objective of the Five Year Provincial Roads Plan.

The Department concurs that a formalized tracking process for the receipt of extension requests is needed. At the present time, it is acknowledged that no formalized tracking process is in place for the receipt of extension requests. The Department will investigate the most efficient manner to capture this information to address this gap.

The Department acknowledges the importance of collecting liquidated damages and that these are appropriately tracked. While liquidated damages are collected and tracked through the progress payment schedule, it is acknowledged that documentation to support decision making on when to apply such damage is necessary. The Department will review and develop the most effective means to capture this information on a consistent basis.

8. The Department should improve its monitoring of roadwork progress and completion by:

- ensuring that all quality control and quality assurance testing is complete and clearly documented,
- evaluating deficiencies identified and documenting the action taken,
- performing contractor evaluations and taking action when contractor issues are identified,
- ensuring that cost increases beyond an original tender estimate have approved contract extensions,
- evaluating the benefit of performing inter-laboratory testing and laboratory audits, and
- updating the numbering system used for samples.

Department's Response:

The Department acknowledges the importance of ensuring quality control and quality assurance testing is complete and clearly documented. The Department concurs that while testing occurred, deficiencies analyzed, contractor evaluations performed, and corrective action taken, documentation of those activities was not carried out on a consistent basis.

The Department shall undertake a review of current processes to determine appropriate enhancements to documentation in the overall project delivery and management process.

Road Quality

The Department will review its internal process to document cost increases.

With respect to the evaluation of the benefit of performing inter-laboratory testing and laboratory audits, as well as updating the numbering system used for samples, the Department shall undertake a cross-jurisdictional scan to determine best practices and will implement accordingly.

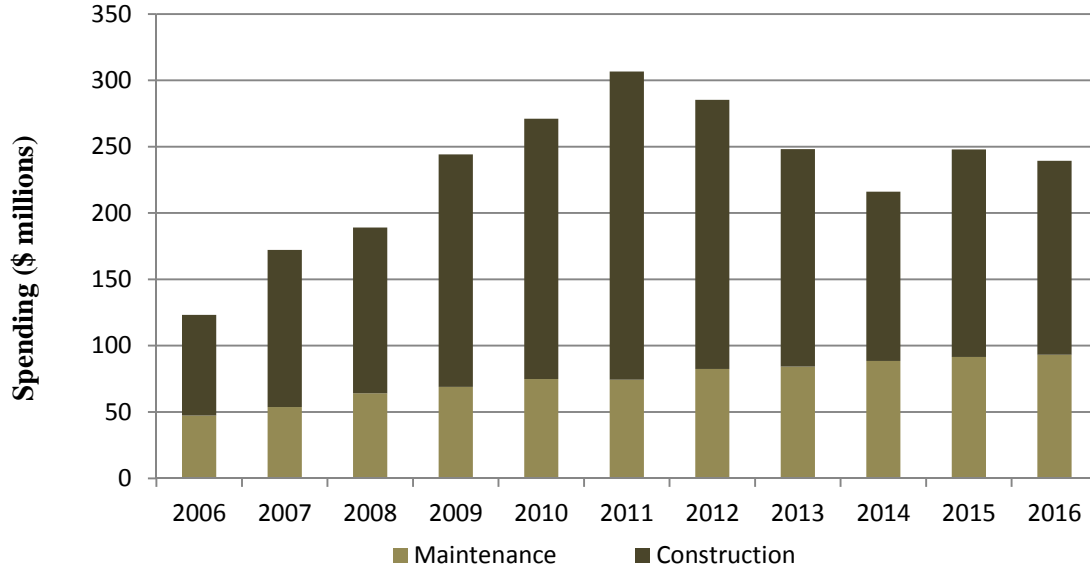
Background

The Department is responsible for all Provincial roadwork. For the purposes of our audit, roadwork included the design, construction, improvement, and repairs and maintenance of asphalt, base, subbase and subgrade materials and culverts.

The Transportation Branch is responsible for overseeing the design of transportation infrastructure, managing and inspecting construction and rehabilitation projects, quality assurance of construction materials, and investigating soil conditions for highways. The Transportation Branch is also responsible for developing and implementing policies and procedures for maintenance of highways, maintaining data on maintenance costs, and administering inventory management systems.

Chart 3

Department of Transportation and Works Spending on Road Maintenance and Construction Years ended March 31 (\$ millions)



Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the Department of Transportation and Works.

Roadwork Contracts

Contractors perform the majority of the road construction and maintenance projects. These roadwork projects are publicly tendered.

Performance Evaluations

There are two types of contractor evaluations for each project:

- an overall performance evaluation for work other than warranty work, and
- an evaluation of warranty work requirements.

The former is used to rate contractor performance based on three main categories: quality of workmanship, timeliness in completing work, and management/ administration of the project. The latter is used to document whether warranty work is needed and if so, whether the performance of the warranty work was satisfactory based on the same three categories.

Overall Performance Evaluation

The overall performance rating is the sum of points in each of the three categories which gives a rating of satisfactory, unsatisfactory, or unacceptable. Receiving a rating of unacceptable requires the Department to review a contractor's future eligibility to bid on projects. Unacceptable performance on a single project may result in the suspension of bidding privileges for a period of time to be determined by the Department.

On the evaluation, 25 points (out of 100) are allocated to timeliness. Timeliness deals with a contractor's performance from the date of award to the date of substantial completion. A contractor is "on-time" if they complete the work in accordance with the schedule that was set out in the contract documents or in a revised schedule provided by the Contractor and accepted by the Department. Where the contractor completes the work during the same fiscal year that the work was scheduled, but not in accordance with the contract, the performance will be deemed "late" and receives 15 points. Where the contractor completes the work during the following or subsequent fiscal year other than the fiscal year the work was scheduled to be completed within, 0 points will be received and it will be defined as "very late".

Warranty Evaluation

The Department requires a warranty work evaluation for each project at the end of the warranty period. This form specifies whether or not warranty work was required and in cases where it was, the form rates the work similar to the overall performance evaluation above.

Liquidated Damages

The Department has the right to apply liquidated damages if completion dates are not met and the delay is out of the Department's control.

Liquidated damages are payable by the contractor to the Department and are calculated at a rate per day. The rate is the total of the Department's direct costs associated with maintaining a presence and carrying out contract administration duties on the project. It also includes salaries (including overtime) for the regular staff compliment on the project, travel costs, vehicle rental charges, fuel, and other equipment rental charges.

Ranking Information

To rank each individual project, Regional Engineers used a weighted scale to score each project based on the following categories:

- Safety (40)
- Condition (30)
- Class (20)
- Economic impact (10)

A weighted scale ranked each project on a 0-5 basis — zero marks the low end of the scale.

Table 5

Province of Newfoundland and Labrador Weighted Ranking Scale

Category	0	1	2	3	4	5
Safety	No Concern	Low	Moderate	High	Very High	Essential
Condition	Excellent	Good	Fair	Fair to Poor	Poor	Very Poor
Class	Local Road (Class IV)	Local	Main Community	Community Access	Collector	TCH
Economic	No Impact	Minimal	Low	Moderate	High	Very High

Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the Department of Transportation and Works (unaudited).

Road Quality

Additional consideration was given to opportunities to bundle projects in a region as well as the safety and condition of the infrastructure. If a project received a ranking of five in safety, it was automatically ranked as an essential project regardless of how it ranked in the other categories. Projects that scored more than 400 were also classified as an essential project.

Regional priority lists were completed annually within each of the Provinces five regions. The lists contained a description of each proposed project along with its ranking within its district and within the region as a whole. Each region is divided into a number of districts.

The Regional lists are sent to the Department's headquarters and an annual Provincial listing for projects to be completed Province-wide was compiled.

Objective

The objective of our audit was to determine whether the Department was adequately managing Provincial roadwork.

Scope

Our audit began in October 2016 and covered April 1, 2011 to March 31, 2016. Our audit examined matters related to Provincial roadwork.

As part of our audit work, we selected a sample of Provincial roadwork projects completed within the scope period. Certain of these contracts extended to prior to the scope period. We did not include the Trans Labrador Highway in our sampling population.

Our audit was performed in accordance with standards for assurance engagements, encompassing value-for-money, established by the Chartered Professional Accountants of Canada and under the authority of the *Auditor General Act*. Sample selections were non-statistical.

We completed our audit in April, 2017.

Use of Expert

During our audit we used the services of an independent engineering firm to provide advice. They advised on project scoping and information on industry practices, and assisted with technical aspects of our audit sampling work.

Subsequent Events

In January 2017, the Department released a “Five-Year Provincial Roads Plan” covering the period 2017 to 2022 and a “Guide to Ranking Road and Bridge Projects”. These documents were outside the scope of our audit.

Criteria

Criteria were developed specifically for this audit based upon Department policies and procedures, roadwork project documentation, reviews of literature including reports of other legislative auditors, consultant input, and consultations with management and other Departmental Officials.

The criteria were accepted as suitable by senior management of the Department of Transportation and Works.

We assessed whether the Department was adequately managing Provincial roadwork against the following criteria:

1. The Department tracks Provincial road information and uses it to make roadwork decisions.
2. The Department completes roadwork based on evaluated risks.
3. The Department has Provincial roadwork standards that are consistent with industry practices.
4. The Department's Provincial roadwork design requirements are specified and are consistent with industry practices.
5. The Department completes roadwork within reasonable timeframes.
6. The Department monitors and evaluates internal and contractor performance of roadwork, including the post construction warranty period, and takes corrective action if needed.

PART 3.2

**GOVERNMENT'S PREPAREDNESS FOR
CHANGING DEMOGRAPHICS**

**DEPARTMENT OF FINANCE
DEPARTMENT OF HEALTH AND COMMUNITY SERVICES
DEPARTMENT OF CHILDREN, SENIORS AND SOCIAL DEVELOPMENT
DEPARTMENT OF EDUCATION AND EARLY CHILDHOOD DEVELOPMENT
DEPARTMENT OF MUNICIPAL AFFAIRS AND ENVIRONMENT**

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Conclusions

Government is not prepared for the impact of changing demographics. It has not assessed future service needs, nor has it planned for future costs.

Government does not have a long-term financial plan that considers the impact of changing demographics. The financial forecast released with Budget 2016-17 does not project future costs related to either an aging population or intraprovincial migration. The long-term revenue projections consider some factors related to changing demographics.

The Departments of Children, Seniors, and Social Development; Education and Early Childhood Development; and Municipal Affairs and Environment have not assessed the impacts of an aging population or intraprovincial migration on their future service demands.

The Departments of Education and Early Childhood Development and Municipal Affairs and Environment do not have a long-term plan to meet future demands.

The Department of Health and Community Services has a long-term plan that focuses on health service delivery and addresses challenges created by changing demographics. It is designed to achieve efficiencies but it is not linked to the overall expected impact from demographic change. Also, the impact of changing demographics is not fully costed and is not integrated into the financial plan of the Province.

Why this audit is important

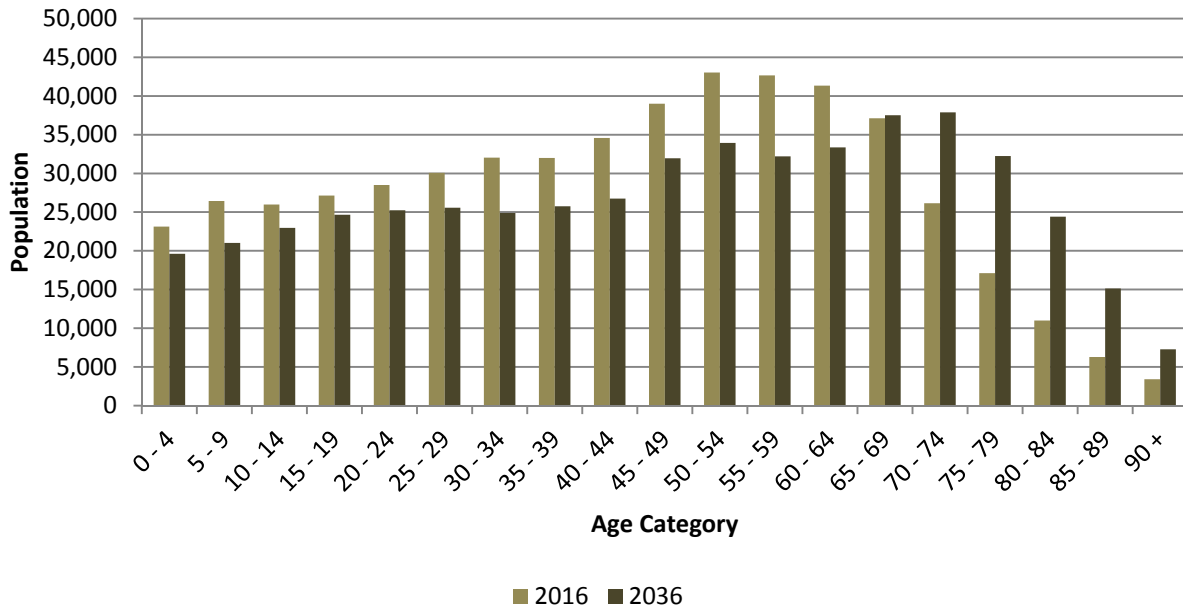
The demographics of Newfoundland and Labrador are changing and will continue to change. Most notably, the average age is increasing and the population is shifting from coastal communities to areas closer to the TransCanada Highway and the Avalon. These shifts in demographics will put a strain on service delivery costs and demands in a number of areas such as education, healthcare and municipal support. The impacts of these expected changes must be considered when planning for the future.

Aging Population

As of July 1, 2016, 19% of the total population of Newfoundland and Labrador was 65 years and over. By 2036, the Province is forecasting that nearly one third of the population will be 65 years and over.

Chart 1

Province of Newfoundland and Labrador Population by Age Category 2016 versus 2036



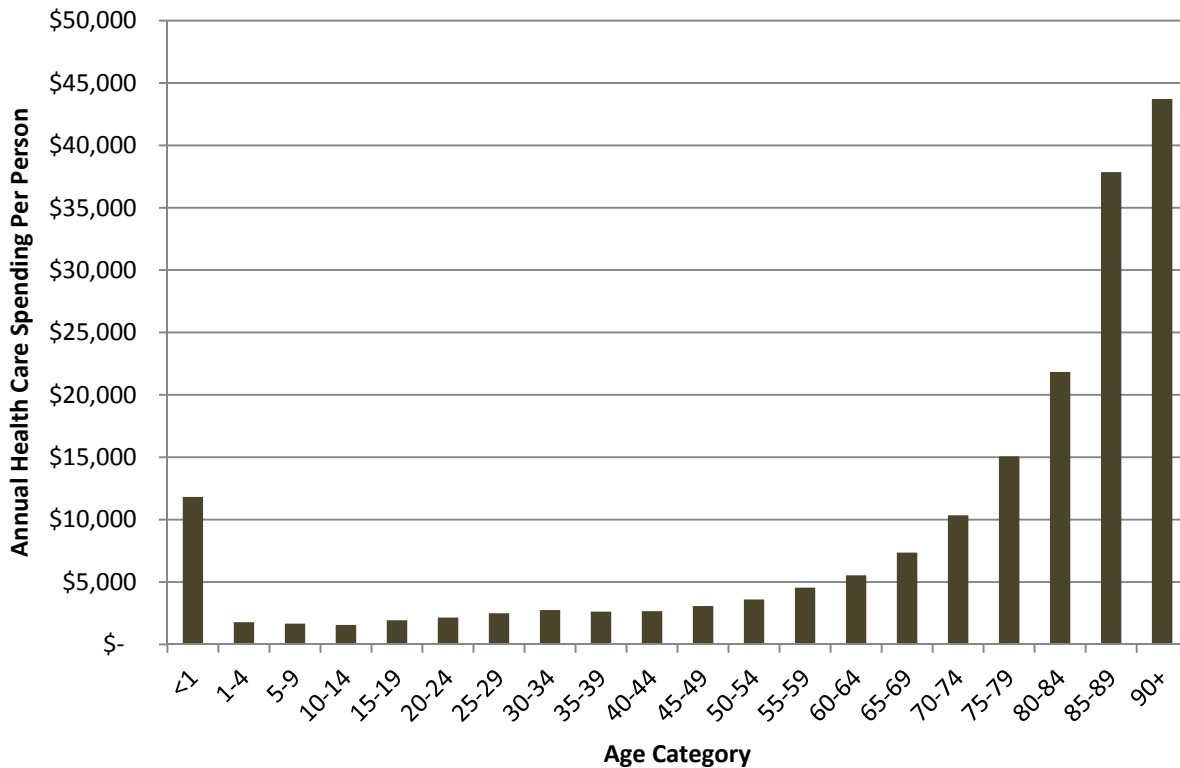
Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon information published by the Department of Finance (medium scenario).

One of the most significant issues arising from an aging population is increasing health care costs. Health care is the largest expense for the Province, making up approximately 40% of Government's yearly spending.

According to data from the Canadian Institute for Health Information (CIHI), on average, the cost of providing health care increases as people age.

Chart 2

**Province of Newfoundland and Labrador
Health Care Spending Per Person by Age Category
2014**



Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon information obtained from the Canadian Institute for Health Information.

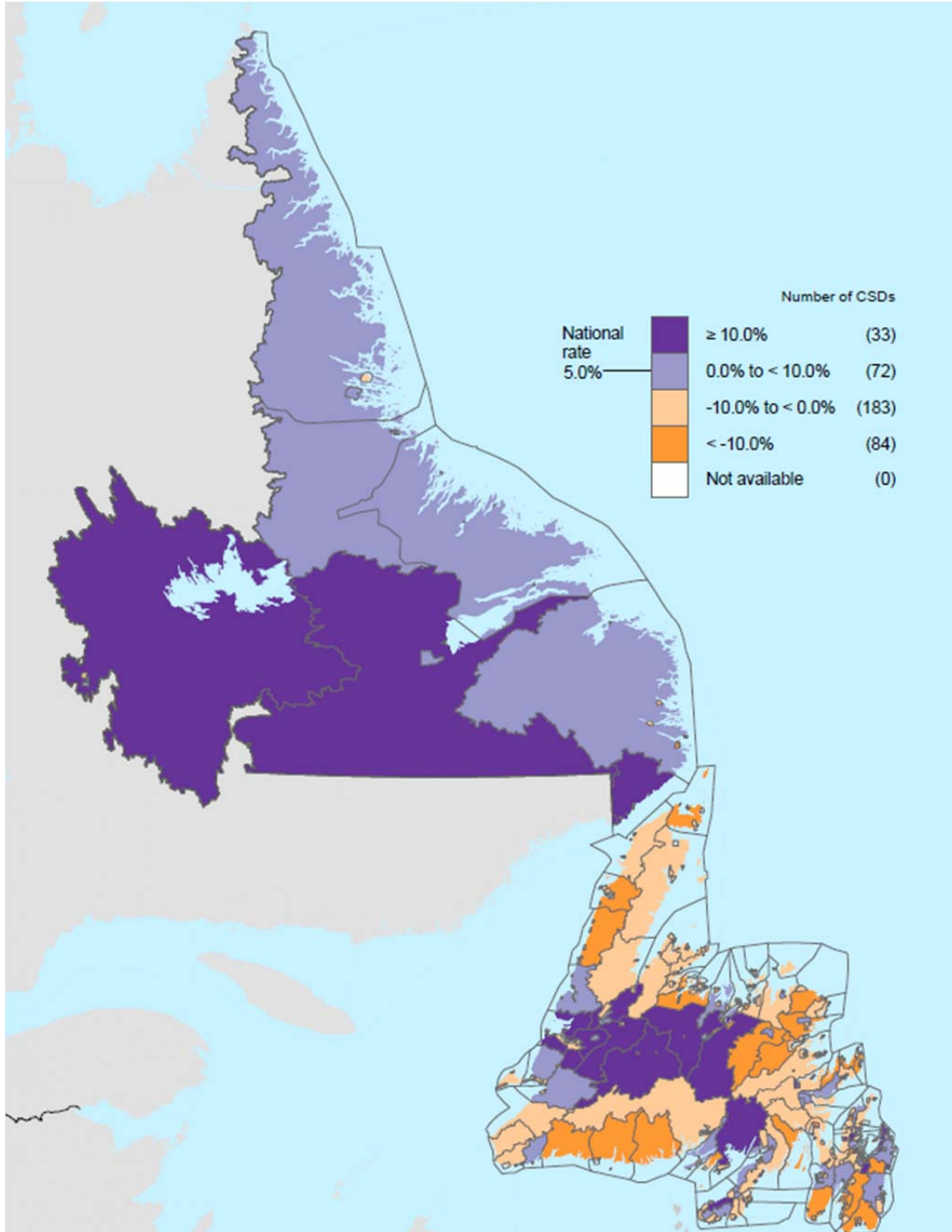
As the number of people over the age of 65 increases so will the total cost of providing health care in the Province. Based on Newfoundland and Labrador population projections and the 2014 data from CIHI, health care costs could increase by approximately \$900 million by 2036, or approximately \$45 million each year solely as a result of an aging population. This does not include changes in costs due to inflation, other demographic factors or service delivery changes.

Intraprovincial Migration

Intraprovincial migration refers to the movement of people within the Province. Data from the most recent Statistics Canada Census shows that, on the island portion of the Province, communities closer to the coast generally are experiencing population declines, while areas closer to the TransCanada Highway and Avalon are growing.

Figure 1

Province of Newfoundland and Labrador
Population Change by Census Subdivision (CSD)
2011 to 2016



Source: Obtained from Statistics Canada, Population change from 2011 to 2016, by Census division.

Intraprovincial migration could create challenges, as changing demands for educational, municipal and other resources impact all areas of the Province. As populations shift, there will be pressures on educational resources and infrastructure as the cost per capita increases in areas experiencing population decreases, and there are increased demands in inland and urban areas.

The overall cost of service delivery changes with population shifts. As the population of an area decreases, the overall cost of service delivery may decrease to some degree. However, the need to maintain a certain base service level in areas experiencing population decline results in an increased per capita cost. For example, physical resources such as hospitals and schools will need capital investments in order to be maintained, but in some areas these buildings may be underused.

In areas with population growth, the same types of physical resources may be stretched to capacity and need upgrades to be able to meet the increased demand.

Findings

Financial Impact of Changing Demographics

Government does not have a long-term financial plan that includes the impact of changing demographics.

The Department of Finance did not provide adequate oversight of Government's long-term financial plan.

Government has not considered the impact of changing demographics on future expenses.

The Department of Finance does consider some aspects of changing demographics in its long-term revenue projections.

Long-Term Financial Plan

Government's long-term financial plan does not include the impacts of an aging population or intraprovincial migration. While the Department of Finance (Finance) is responsible for Government's long-term financial plan, we found that the forecast released with Budget 2016-17 does not include the impacts on future expenses of changing demographics.

The revenue and expense forecasts are compiled separately. The revenue forecast is created by Finance using specific economic assumptions. The expense forecast is created with the input of all departments.

As part of the annual budget process, each department submits a forecast. These submissions are compiled by Finance into Government's long-term expense forecast.

Individual departments are responsible for ensuring that any increases in expenses, such as from changing demographics, are presented accurately in their forecast.

Changing Demographics - Impact on Expenses

The Economic and Project Analysis Division and the Newfoundland and Labrador Statistics Agency are part of Finance and have information available to departments that can be used in financial forecasts. These divisions are responsible for statistical analysis and population projections. Much of this information is compiled at least annually and is publicly available. Other analysis can be done by the divisions upon request from a department.

No department we audited had completed an analysis of their future costs related to changing demographics nor had there been any impact of changing demographics included in their expense forecasts. Government departments are each responsible to ensure it is aware of and prepared for any future costs related to changing demographics.

Changing Demographics - Impact on Revenues

Finance maintains a 10-year revenue forecast that considers an economic forecast that includes population changes, employment, household income, and other factors.

We did not audit the reasonableness of assumptions used in the revenue forecast.

Long-Term Service Demand – Changing Demographics

Department of Health and Community Services

The Department of Health and Community Services has conducted an assessment of the impact of changing demographics.

The Department of Health and Community Services has a long-term plan that focuses on health service delivery and addresses challenges created by changing demographics. It is designed to achieve efficiencies but it is not linked to the overall expected impact from demographic change. Also, the impact of changing demographics is not fully costed and is not integrated into the financial plan of the Province.

The Department of Health and Community Services (HCS) is responsible to provide leadership and direction for effective and efficient delivery of health and community services.

Statistics show that as an individual ages, demand for health care services rise, especially in areas such as long-term care.

In addition to aging, intraprovincial migration also could create a challenge for HCS. As the population shifts within the Province there could be added difficulty maintaining service levels in areas with declining populations, and additional strain on areas with growing populations.

Assessment of Future Impact

HCS has conducted an assessment of the impact of changing demographics on its long-term service delivery, and it has made projections of demand in specific service areas. HCS has also identified that its operations need to be remodeled to more efficiently meet its future service demand, which will be impacted by changing demographics.

HCS expects increased demand for long-term care above its current capacity, as long-term care is an area that will be significantly impacted by an aging population. HCS has identified several alternatives as ways to accommodate this increased demand. Analysis, including projections, has been done on these alternatives. Alternatives identified include: increasing the number of long-term care beds; increasing support available in personal care homes; and increasing supports to allow people to stay in their own homes.

HCS has also developed alternatives to address the challenges it has identified related to intraprovincial migration, such as matching the level of service provided to the population needs in each area, and making use of technology to link patients to medical services.

Long-Term Service Plan

HCS has two long-term service plans.

The Primary Health Care Framework identifies an aging population and growing health care costs as some of the reasons health care reform is needed. The framework includes four goals to implement change up until 2025. HCS also considered an aging population in the Close to Home Strategy and the Improving Health Together Framework.

The second long-term service plan is focused on health service delivery and addresses challenges created by changing demographics. It is designed to achieve efficiencies but is not linked to the overall expected impact from demographic change. Also, changing demographics is not fully costed and is not integrated into the financial plan of the Province.

The Multi-Year Plan for Infrastructure Investments Government released in March 2017 included budget amounts for long-term care. However, HCS does not have a specific plan to complete these projects, and whether it will add to existing facilities, or build new ones.

Department of Children, Seniors and Social Development

The Department of Children, Seniors and Social Development has not performed an assessment of the future impact of an aging population on its operations related directly to seniors and related to its role in providing expertise and knowledge to departments on seniors and aging.

The Seniors and Aging Division of the Department of Children, Seniors and Social Development (CSSD) is responsible to work with Government departments and agencies to promote healthy aging across a person's lifespan and to provide expertise and knowledge on seniors and aging.

While CSSD does not provide any services directly to seniors, it does offer grants and subsidies to external groups who provide services to seniors.

Assessment of Future Impact

CSSD has not performed an assessment of the future impact of an aging population on its operations related directly to seniors and related to its role in providing expertise and knowledge to departments on seniors and aging.

CSSD has completed assessments for some seniors programs being offered in the Province, such as the Age Friendly Transportation Pilot Program and the Age-Friendly Newfoundland and Labrador Grants Program, however, these assessments evaluated how the programs met needs at that time and did not assess future need.

Department of Education and Early Childhood Development

The Department of Education and Early Childhood Development works with the school districts to consider short-term impacts of changing demographics on education delivery, however, the long-term impact of changing demographics on the K-12 school system has not been assessed.

The Department of Education and Early Childhood Development has not ensured there is a long-term plan for the K-12 school system.

The Department of Education and Early Childhood Development's interpretation of the *Schools Act, 1997*, based on advice from the Department of Justice and Public Safety, is that it does not allow the department to direct the two school districts to create policy or perform planning that is not specifically identified in the *Schools Act, 1997*.

The Department of Education and Early Childhood Development (EECD) is responsible for the K-12 school system, early childhood education and public libraries.

An aging population and a shift in population will both have a future impact on the K-12 school system, as the overall trend would be less school-aged children, particularly in areas experiencing declining population. These trends may lead to schools being underutilized in some areas and overcapacity in others. This could impact the quality of education and the efficient provision of education services.

While many of the daily operations related to the school system have been legislated to the two school districts, EECD is responsible for oversight of the school system and ensuring that it meets the long-term needs of residents of the Province.

Interpretation of the *Schools Act, 1997*

EECD's interpretation of the *Schools Act, 1997*, based on advice from the Department of Justice and Public Safety, is that it does not allow EECD the ability to direct the two school districts to create policy or perform planning that is not specifically identified in the *Schools Act, 1997*. This would include any policy or planning regarding the long-term impacts of changing demographics on the K-12 school system.

Assessment of Future Impact

EECD has not ensured an assessment of the long-term impacts of changing demographics on the K-12 school system has been completed. Based on EECD's interpretation of the *Schools Act, 1997*, it believes it does not have the authority to direct the two school districts to complete this assessment.

EECD has enrollment projections to 2031 prepared by the English School District. However, EECD could not provide long-term analysis of the projections and how the projections could impact the K-12 school system.

Annual capital funding requests from the two school districts require approval by EECD. When a school district submits a request for funding for a current capital project, EECD indicated it uses the opportunity to enquire about the school district's planning and projections specific to that decision. However, the school district is not required to take direction from EECD about the planning and projections.

As part of its analysis of annual capital funding requests, EECD requests an enrollment projection report from the Economics and Project Analysis Division of Finance. The projection report shows a population projection by grade, as well as other information that would affect enrollment such as housing starts in the area. However, this information is not used to complete a long-term assessment of future school system needs.

Long-Term Service Plan

EECD has not ensured that there is a long-term plan for the K-12 school system. Based on EECD's interpretation of the *Schools Act, 1997*, it believes it does not have the authority to direct the two school districts to complete a long-term plan.

Department of Municipal Affairs and Environment

The Department of Municipal Affairs and Environment has documented risks related to changing demographics, however, it has not completed an assessment of how changing demographics will affect future service delivery.

The Department of Municipal Affairs and Environment has begun consultations for a new regional governance plan. The project is still in its preliminary stages. However, the Department does not have a long-term plan to meet its future demands that considers changing demographics.

The Department of Municipal Affairs and Environment (MAE) is responsible to provide programs, services and supports to assist in the financial stability and viability of municipalities, and efficient and effective delivery of municipal services.

As the population ages and shifts between communities, there may be less people remaining to take on municipal governance roles within these communities and a municipality may not be able to carry out its necessary operations independently. An aging and decreasing population may also inhibit a municipal government's ability to maintain a stable tax base.

Assessment of Future Impact

While MAE has identified and documented risks related to changing demographics, it has not completed an assessment of how these risks will affect its future service delivery.

Long-Term Service Plan

MAE does not have any long-term plans to enable them to meet their future service demand.

While MAE has begun consultations for a new regional governance plan, the project is still in its preliminary stages. An advisory council has been formed to oversee this project and there have been public consultations. A plan has not yet been made. The advisory council is still assessing alternatives.

Department officials advised that while regional governance and service delivery projects have been completed in the past, in the early 1990s, 1996, and 2004, the projects, with the exception of regional waste management initiated in 2004, have not resulted in changes to the current regional governance structure.

Recommendations

1. The Department of Finance should ensure that all departments are including costs associated with changing demographics in their expense forecasts.

Department of Finance's Response:

The Minister of Finance acknowledges the importance of long-term fiscal planning to ensure the future sustainability of critical programs and services without creating an insurmountable debt burden on future generations or increasing taxes to manage rising health care costs, among others, due to an aging population and intraprovincial migration.

In the winter/spring 2016, the Minister of Finance gave a presentation on Demographics, Economic Conditions and Tax Base to business and labour leaders as well as caucus to ensure awareness of the province's demographic challenges on the economy and tax base and to generate discussion on potential solutions.

The Department of Finance will continue to make available demographic information at the provincial, regional and community level to leaders at all levels of government, the general public, and labour and business sectors.

The Department of Finance agrees with your findings concerning the potential impact an aging population and intraprovincial migration will have on the province's expenses if mitigating actions are not taken. While Budget 2017 presents attainable expense projections over the short to medium term, the Department of Finance agrees greater efforts need to be made to measure the demographic shifts, which requires longer term planning.

Globally, more governments are recognizing the importance of planning for long-term fiscal sustainability, but this practice is still in the beginning stages. We will monitor developments and identify best practices implemented in other jurisdictions. We will attempt to develop a model that will better quantify the impacts of an aging population and urbanization on program expenses over a 25-year period. Better quantification of these demographic issues will motivate all levels of government and stakeholders to work together to identify innovative policy solutions.

2. The Departments of Education and Early Childhood Development, and Municipal Affairs and Environment should ensure that changing demographics are considered, impacts have been assessed, long-term plans are created, and costs related to changing demographics are integrated into the financial forecast.

Department of Education and Early Childhood Development's Response:

The Department agrees that student demographic projections is a significant factor informing all decisions and recommendations from the school districts relating to new school construction, extensions and closures. In particular, the Newfoundland and Labrador English School District (NLESD) utilizes student projection data for every school (generated annually with a fifteen year horizon) to assist in identifying challenges and priorities. The English School Board (i.e., elected school board trustees) has in place a comprehensive School Review Policy (Policy # Gov-104)

Government's Preparedness for Changing Demographics

which refers to demographic projections as one of the factors in the determination and process of school reviews. Notwithstanding this process, the Department will continue to work with both districts in identifying further opportunities to leverage demographic projections to better inform planning, decision-making and costing.

Department of Municipal Affairs and Environment's Response:

With respect to the consideration and assessment of changing demographics and their impacts, the Department of Municipal Affairs and Environment (MAE) works with groups such as Municipalities Newfoundland and Labrador, NL Statistics Agency, and the Harris Centre, which undertake research relating to changing demographics and its impact on future service delivery. Based on the findings from this research, MAE has begun consultations for a new regional governance plan with a view to implementing a regional governance and/or sharing of services pilot(s) as appropriate. The results of this pilot will serve as the basis for a longer-term plan inclusive of relevant and forecast costs.

3. The Department of Education and Early Childhood Development should consider whether a change in legislation is required to allow the department to provide oversight of the two school districts as it relates to the K-12 school system.

Department of Education and Early Childhood Development's Response:

The Department notes that, within the existing legislative framework, it gains assurance through a variety of means that the school districts are assessing and considering demographic projections in its school planning processes. The Department will continue to assess the necessity of any changes to the legislation, including regulations, which would allow it to exercise more formal oversight of the two districts as it relates to the K-12 school system; particularly school infrastructure.

4. The Department of Children, Seniors and Social Development should ensure that an assessment of future impacts of an aging population is completed on its operations related directly to seniors and related to its role in providing expertise and knowledge to departments on seniors and aging.

Department of Children, Seniors and Social Development's Response:

The Department of Children, Seniors and Social Development is in agreement with this recommendation. The Department will complete an assessment of future impacts of an aging population on its operations and related to the role of the Department on seniors and aging.

5. The Department of Health and Community Services should ensure that its assessments and long-term plans consider all impacts of changing demographics, and costs are integrated into the financial forecast.

Government's Preparedness for Changing Demographics

Department of Health and Community Services' Response:

The Department of Health and Community Services has incorporated demographic projections into its strategic policy frameworks which are designed to guide planning and ensure sustainability for the future delivery of health and community services in Newfoundland and Labrador. These include the Primary Health Care Framework, the Home Support Program Review, the Long Term Care and Community Support Services Strategy, the Policy Framework for Chronic Disease Prevention and Management and the Strategic Health Workforce Plan.

Specifically, the frameworks incorporate demographic changes in the following ways:

- *Primary Health Care Framework: The Framework is designed to reorient the health system from an acute and emergency-centric model to a system better aligned to meet the needs of an aging, less active, and increasingly concentrated population. Actions will focus on using evidence, including population indicators, demographic data, and health utilization information, to meet the specific needs of individual communities including timely access to community-based health care services, an approach that has been proven to help seniors age in place and avoid unnecessary acute care treatment.*
- *Long Term Care and Community Support Services: Actions in this sector consider changing demographics in planning for future service delivery in the following key ways:*
 - *The Long Term Care and Community Support Service Strategy released in 2012 outlines initiatives for a fiscally sustainable system that supports individuals to remain independent in their home communities.*
 - *Population projections have informed the number of long term care beds required in various regions of the province. Additional long term care bed capacity has been announced for Corner Brook and planning is underway for the Central Health area.*
 - *A 2016 review of the Provincial Home Support Program by Deloitte identified 25 improvement opportunities, which if fully implemented, are predicted to reduce expenditures by \$53M annually which will be reinvested to support the projected increased demand for the program. Deloitte completed the review based on factors such as shifting population demographics, public health trends, and historical cost escalation to arrive at the estimate. The Department committed to using the report as a roadmap to move forward with improvements. A three-year implementation plan has been developed and resources are dedicated to support implementation. Strengthening the Home Support Program and implementation of a Home First philosophy will support individuals to remain at home, thereby delaying or reducing long term care admissions and decreasing inappropriate hospitalizations. Further analysis on projected cost savings is underway.*
- *Policy Framework for Chronic Disease Prevention and Management: Using indicators for chronic disease trending and demographic projections, the framework provides policies to coordinate programs and services for individuals with chronic disease and produce changes in the health system that support improvements in the prevention and management of chronic disease.*

Government's Preparedness for Changing Demographics

- *Strategic Health Workforce Plan: The Strategic Health Workforce Plan addresses priority issues facing the provincial health workforce. Workforce demographics are an important consideration for labour market projections and are used to estimate retirement trends. These trends are part of every Workforce Model Report undertaken by HCS.*

Additionally, the Department utilizes the most currently available projections for population aging and intraprovincial migration when initiating any projects that affect health care delivery such as infrastructure planning.

Corrective measures are already being implemented by the department and our ability to keep costs at a stable level in Budget 2017 compared to previous years is evidence of our ongoing success in this regard.

Objectives

The objectives of our audit were to determine whether:

1. Government is prepared for the financial impacts associated with changing demographics.
2. Departments are prepared to meet the long-term future demands for services and supports required by an aging population.
3. Departments are prepared to address the delivery of services in areas impacted by future intraprovincial migration.

Scope

Our audit began in November 2016 and covered Government department plans in place as of March 31, 2017. Our audit examined how Government is preparing for changing demographics, specifically an aging population and intraprovincial migration.

Our audit focused on the Departments of Finance; Health and Community Services; Children, Seniors and Social Development; Education and Early Childhood Development; and Municipal Affairs and Environment. These departments were included as a result of the risks identified and assessed in the planning stage of our audit.

Our audit was performed in accordance with standards for assurance engagements, encompassing value-for-money, established by the Chartered Professional Accountants of Canada and under the authority of the *Auditor General Act*.

We completed our audit in April 2017.

Criteria

Criteria were developed specifically for this audit based upon reviews of literature, Government population statistics, and consultations with management. The criteria were accepted as suitable by the senior management of the Departments of Finance; Health and Community Services; Children, Seniors and Social Development; Education and Early Childhood Development; and Municipal Affairs and Environment.

We assessed Government's preparedness for the financial impacts of changing demographics against the following criteria:

1. Department of Finance has created a long-term financial plan for Government that includes input from all departments.
2. Government has considered the impact of changing demographics on expenses in its long-term financial plan.
3. Government has considered the impact of changing demographics on revenues in its long-term financial plan.

We assessed Government's preparedness for an aging population against the following criteria:

1. Departments have assessed future demand for service delivery required by an aging population.
2. Departments have created long-term plans to be able to meet assessed future demand.

We assessed Government's preparedness for intraprovincial migration against the following criteria:

1. Departments have assessed the future impact of intraprovincial migration on their service delivery.
2. Departments have a long-term plan for service delivery in areas impacted by intraprovincial migration.

PART 3.3

**COMPENSATION PRACTICES IN
GOVERNMENT ENTITIES**

**EXECUTIVE COUNCIL
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
CENTRAL REGIONAL HEALTH AUTHORITY
MUNICIPAL ASSESSMENT AGENCY INC.
NEWFOUNDLAND AND LABRADOR FILM DEVELOPMENT CORPORATION
NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION
WORKPLACENL**

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Conclusions

Compensation policies and practices of Government entities were not always consistent with Government compensation policies. The seven Government entities we audited had a number of compensation policies and practices related to position classifications, salaries, employee benefits and termination benefits that were inconsistent with Government policy.

The Human Resource Secretariat of the Executive Council has not completed its review of Government's compensation practices as directed by Cabinet. The Human Resource Secretariat has not determined whether all Government entities should apply Government's compensation policies.

Why this audit is important

Government is, effectively, the employer of all public employees whether they work for a Government department or a Crown agency, board or commission. In 2015-16, Government paid \$3.7 billion in total salaries and benefits. Nearly 80%, or \$2.9 billion, of these costs were incurred within the 43 Government entities outside of core Government.

Consistent compensation practices and policies across Government ensure compensation equity and fairness. Consistent compensation practices also help ensure that compensation costs are adequately managed and controlled.

We audited the compensation practices of seven Government entities to determine whether the compensation practices for executive, management and non-bargaining unit employee positions were consistent with Government compensation policies.

Findings

Classifications and Salaries

Of the seven entities that we examined:

- All seven entities had employee positions that were not classified by Treasury Board.
- Two of seven entities were using salary scales or classification systems that were not consistent with Government policy.
- Four of seven entities paid salaries that were not consistent with the approved pay scales of their positions.
- Six of seven entities had inconsistencies, as compared to Government policy, in the determination of such items as overtime, step progressions, upscale hires, promotions and demotions, red circling, wage differentials, employee transfers, market adjustments and position eliminations.

Government policy requires that employees of Government entities are to be paid in accordance with position classifications approved by Treasury Board and in accordance with Government compensation policies.

For certain entities, enabling legislation allows the Board of Directors to fix and establish compensation practices for its employees.

Positions Not Classified by Treasury Board

All seven entities that we examined had employee positions that had not been classified by Treasury Board as follows:

Board of Commissioners of Public Utilities (Public Utilities Board)

None of the thirteen non-bargaining/non-management and management positions within the Public Utilities Board were classified by Treasury Board. The Public Utilities Board approved its own position classifications.

Central Regional Health Authority (Central Health)

Central Health had 19 non-bargaining/non-management positions and seven management positions that had not been classified of the 271 non-bargaining/non-management and management positions. Some of these positions had been filled since 1996.

Municipal Assessment Agency Inc. (Municipal Assessment Agency)

Seven of eight management positions at the Municipal Assessment Agency were not classified by Treasury Board.

Newfoundland and Labrador Film Development Corporation (Film Development Corporation)

None of the five positions at the Film Development Corporation were classified by Treasury Board.

Newfoundland and Labrador Legal Aid Commission (Legal Aid)

81 of 149 positions at Legal Aid were not classified by Treasury Board.

The *Legal Aid Act* provides that the Board of Commissioners may fix employee remuneration and terms of service.

Newfoundland and Labrador Liquor Corporation (Liquor Corporation)

12 management positions and five executive positions of the 172 non-bargaining/non-management and management positions at the Liquor Corporation were not classified. Five of the management positions had been submitted to Treasury Board and were awaiting classification and it is the Corporation's intention to submit the other seven. The five executive positions were classified by the Board of Directors.

The *Liquor Corporation Act* provides that the Board of Directors may fix employee remuneration and terms of service.

WorkplaceNL

None of the 80 non-bargaining/non-management and management positions at WorkplaceNL were classified by Treasury Board.

The *Workplace Health, Safety and Compensation Act* provides that the Board of Directors shall designate the classifications of employees.

Salary Scales Not Consistent with Government Policy

Two entities were using salary scales that were inconsistent with Government policy as follows:

Public Utilities Board

Salary scales used since 2009 by the Public Utilities Board are not consistent with Government salary scales.

WorkplaceNL

Salary scales used by WorkplaceNL are not consistent with Government salary scales.

Salaries Not Consistent with Approved Pay Scales

Four entities did not always pay employees based on the approved pay scales of their positions as follows:

Central Health

We found two instances in which employees were not paid based on the approved pay scales of their positions.

Municipal Assessment Agency

A position that had previously been classified on the Hay Level scale by Treasury Board was reclassified to an executive position by the Municipal Assessment Agency Board in 2003. The position was paid based on the Executive Pay Plan scale of Government. Executive pay plan appointments are normally done by the Lieutenant-Governor in Council.

Liquor Corporation

In April 2006, the Liquor Corporation increased the salaries of employees that had position classifications approved by Treasury Board. The salaries were increased as the weekly working hours were increased by 2.5 hours, in lieu of executive, management and non-bargaining employees claiming overtime. The approved position classifications were based on an annual salary, and were not reflective of the number of hours worked.

The President/CEO was reappointed by Lieutenant Governor in Council in November 2007, and the salary was established at that time. This was after the weekly working hours had been increased. However, the Liquor Corporation increased the established salary proportionately to account for the increase in hours.

The *Liquor Corporation Act* provides that the Board of Directors may fix employee remuneration and terms of service.

WorkplaceNL

A senior employee is currently paid above the pay scale of their position classification. This is a result of approved salary increases in 2001 and 2007, both of which were above normal step increases within the pay scale of the position classification.

A senior employee was approved to be paid above the top of the pay scale of the position classification. This is not in accordance with Government's upscale hiring policy, which requires a salary to be paid within the pay scale of the position classification.

Two senior employees were paid salaries which were not in accordance with Government's or WorkplaceNL's established pay scales.

Employee Compensation Policies and Practices Not Always Consistent with Government

For the seven entities we examined, we reviewed their compensation policies, analyzed salary data and examined the compensation of either all employees or a sample of employees within our scope period. We found inconsistencies between entity compensation policies and those of Government. We also found instances in which compensation practices had resulted in employee compensation that was inconsistent with Government policy.

Public Utilities Board

With the exception of salary classifications, the Public Utilities Board's compensation policies are intended generally, to follow Government compensation policies.

We found that the Public Utilities Board had policies and practices related to overtime, step progressions and upscale hiring that were inconsistent with Government policy. For example:

- Employee salaries may increase by two steps per year equivalent to 2.5%, based on the results of performance evaluations. This is inconsistent with the Government policy, which has no direct link to performance evaluation and has a three step annual increase, equivalent to 3%.
- New employees start at a salary step that the Board deems appropriate. Government policy requires that new employees are compensated at step one of their salary scale unless upscale hiring has been approved.

Central Health

Central Health compensation policies are intended to follow Government compensation policies.

We found that Central Health had policies and practices related to overtime, upscale hiring, promotion, red circling, wage differentials and employee transfers that were inconsistent with Government policies. For example:

- Government revised its overtime policy in September 2012. However, Central Health did not implement the changes until October 2016.

Compensation Practices in Government Entities

- Wage differentials are not included in an employee's salary when determining salary placement upon promotion or in paying overtime. Government policy considers wage differentials in determining promotions and overtime pay.
- There were five instances where employees received a wage differential, but were not entitled to it according to Government policy. Four positions were not classified and one position had no direct supervisory role.

Film Development Corporation

The Film Development Corporation has documented salary compensation policies, however, it does not cover or follow all Government compensation policies.

We found that the Film Development Corporation had policies and practices related to promotion and employment contracts that were inconsistent with Government policy. For example:

- An employee that receives a promotion is placed on their promoted position scale on a step that is negotiated between the employee and the Executive Director and is then approved by the Board. This is inconsistent with the Government promotion policy, which has defined percentages established.
- Employee contracts are not approved by the Department of Justice and Public Safety and Justice, as required by Government policy.

Legal Aid

Legal Aid does not have documented compensation policies, but advised that it follows Government policies regarding employee compensation.

We found that Legal Aid had practices related to overtime, step progressions and market adjustments that were inconsistent with Government policy. For example:

- Non-executive employees are paid, or accrue, overtime at time and a half with no limit on carry forward balances. Government's overtime policy allows overtime at time and a half for emergencies or on designated statutory holidays only, with a maximum of 70 hours allowed for carryforward.

Also, overtime is accrued and paid without a weekly deduction of 2.5 hours, which is required in Government policy.

- Annual step progressions were provided to four employees up to the maximum of step 33. Government policy limits step progressions to step 25.

The *Legal Aid Act* provides that the Board of Commissioners may fix employee remuneration and terms of service.

Liquor Corporation

Liquor Corporation does not have documented compensation policies but advised that it generally follows Government policies regarding employee compensation.

We found that the Liquor Corporation had practices related to overtime, step progressions, upscale hiring, red circling, wage differentials and promotions/demotions that were inconsistent with Government policy. For example:

- The Liquor Corporation does not follow Government's Management Overtime Policy. In April 2006, the Liquor Corporation increased the work day by one half hour and salaries proportionally, in lieu of executive, management and non-bargaining employees claiming overtime.
- Two employees received wage differentials which were inconsistent with Government policy. One position was not classified and one employee's salary was red circled.
- One employee was promoted and placed on a step that was inconsistent with Government's promotion policy. Another employee who was demoted, was red-circled inconsistently with Government's demotion policy.

The *Liquor Corporation Act* provides that the Board of Directors may fix employee remuneration and terms of service.

WorkplaceNL

With the exception of salary classifications, WorkplaceNL's compensation policies are intended generally, to follow Government compensation policies.

We found that WorkplaceNL had policies and practices related to overtime, step progressions, promotions/demotions, wage differentials, red circling, market adjustments and position elimination that were inconsistent with Government policy. For example:

- Management employee salaries may increase by one step annually equivalent to 5% based on the results of performance evaluations. This is inconsistent with Government policy, which has no direct link to performance evaluation and has a three step annual increase, equivalent to 3%.
- WorkplaceNL was incorrectly applying Government's red-circling policy, and incorrectly calculating cash bonuses. Cash bonuses were paid cumulatively and beyond the 12 months as per Government policy.

Compensation Practices in Government Entities

- Government policy requires a market adjustment to be assessed annually and the adjustment is not pensionable or eligible for general pay increases. A senior employee had been receiving a market adjustment as part of their regular salary since 2009.
- Two employees in positions that were declared redundant were re-employed in new positions during their notice period. However, the employees continued to be paid at the higher salaries for the remainder of the notice period after filling their new positions. This is not in accordance with Government's Position Elimination policy, which states that an employee's notice period, and previous salary, ends the day their new position begins.

Employee Benefits

Six of seven entities we examined did not always determine employee benefits in accordance with Government compensation policies.

For the seven entities we examined, we reviewed their employee benefits compensation policies, analyzed salary data and examined the compensation of either all employees or a sample of employees within our scope period. We found inconsistencies between entity employee benefits compensation policies and those of Government. We also found instances in which employee benefits compensation practices resulted in employee benefits that were inconsistent with Government policy.

Public Utilities Board

The Public Utilities Board has documented employee benefits compensation policies intended generally to follow Government compensation policies.

We found that the Public Utilities Board had a compensation policy related to professional fees that was inconsistent with Government policies. The Chair and CEO decides whether annual professional fees will be paid to an employee, based on whether it is deemed necessary for the job. Government policy requires Cabinet approval for the payment of professional fees.

Central Health

Central Health has documented employee benefits compensation policies intended to follow Government compensation policies.

We found that Central Health had compensation policy and practices related to paid leave, education leave, housing allowances and educational differentials that were inconsistent with Government policy. For example:

- Central Health does not have a process to determine if employees are taking the minimum 10 days paid leave per year. We found six instances in which employees had taken less than the minimum 10 days and carried over the remainder without required approvals.

Additionally, three employees that we examined did not use the required two paid leave days before accessing their sick leave bank in 24 instances.

Part-time employees with less than 50% of full-time hours, were provided with paid leave entitlements, however Government policy requires part-time employees to be paid 4% as vacation pay.

Compensation Practices in Government Entities

- Central Health's Education Leave Policy allows managers to accumulate service for severance and step progression purposes while on unpaid education leave, with no accumulation threshold. Government policy restricts the accumulation of service to 20 days while on unpaid education leave.

Film Development Corporation

The Film Development Corporation has documented employee benefits compensation policies, however, it does not cover or follow all Government compensation policies.

We found that Film Development Corporation had compensation policies and practices related to paid leave, sick leave and working on statutory holidays that were inconsistent with Government policies. For example:

- Employee contracts provide employees with either 20 or 25 annual leave days, without reference to years of service. This is inconsistent with Government policy, which provides management and non-bargaining/non-management employees with paid leave days based on their years of service.
- Employees at the Film Development Corporation were accruing two sick leave days per month. This is inconsistent with Government policy, which provides management and non-bargaining/non-management employees with paid leave days, rather than annual leave and sick leave days.

Legal Aid

Legal Aid does not have documented employee benefits compensation policies, but advised that it generally follows Government compensation policies.

We found that Legal Aid had compensation practices related to Labrador benefits and committee remuneration that were inconsistent with Government policies. For example, four community service workers were not paid a Labrador benefit allowance. Government policy requires all employees working in Labrador to be paid the allowance.

The *Legal Aid Act* provides that the Board of Commissioners may fix employee remuneration and terms of service.

Liquor Corporation

The Liquor Corporation does not have documented employee benefits compensation policies, except for a paid leave policy. The Liquor Corporation advised that it generally follows Government compensation policies.

We found that the Liquor Corporation had compensation policies and practices related to paid leave and professional fees that were inconsistent with Government policies. For example:

- The Liquor Corporation allowed employees to be paid a maximum of 25 paid leave days in a year, compared to 10 days allowed by Government.

Also three employees did not take the minimum 10 paid leave days as required by Government and Liquor Corporation policy.

- Liquor Corporation policy allows the payment of annual professional fees on behalf of its employees, if the Board deems it necessary for the job. Government policy requires Cabinet approval for the payment of professional fees.

The *Liquor Corporation Act* provides that the Board of Directors may fix employee remuneration and terms of service.

WorkplaceNL

WorkplaceNL has documented employee benefits compensation policies and practices intended generally to follow Government compensation policies.

We found that WorkplaceNL had a policy related to paid leave that was applied inconsistently with Government policy. WorkplaceNL's leave policy requires union employees who are temporarily assigned to management positions beyond six months to continue to receive their annual leave and sick leave entitlements. Government policy requires employees to begin receiving paid leave benefits.

Termination Benefits

Four of the seven entities we examined did not always pay termination benefits in accordance with Government compensation policies.

For the seven entities we examined, we reviewed their termination benefits policies, analyzed salary data and examined the compensation of either all employees or a sample of employees within our scope period. We found inconsistencies between entity termination benefits policies and those of Government. We also found instances in which employee termination benefits practices had resulted in termination benefits that were inconsistent with Government policies.

Central Health

Central Health has documented termination benefits compensation policies intended to follow Government compensation policies.

We found that Central Health had compensation policies and practices related to severance, termination payments, position elimination and termination of employment that were inconsistent with Government policies. For example:

- Wage differentials are not included in an employee's salary when determining severance and termination benefits. Government policy considers wage differentials in determining these payments.
- Two employees were terminated with a notice period but did not accrue severance and/or paid leave during the notice period, as required by Government policy.
- Central Health's severance pay policy does not allow employees terminated with cause to receive severance pay. Government policy requires it.

Film Development Corporation

The Film Development Corporation has documented termination benefits compensation policies, however, it does not cover or follow all Government compensation policies.

We found that the Film Development Corporation had a compensation practice related to severance that was inconsistent with Government policies. The Film Development Corporation does not provide for the payment of severance to employees upon termination.

Liquor Corporation

The Liquor Corporation does not have documented termination benefits compensation policies, but advised that it generally follows Government compensation policies.

We found that the Liquor Corporation had practices related to temporary assignments, termination payments, position elimination and termination of employment that were inconsistent with Government policies. For example:

- Four terminated employees received their paid leave days as salary continuance, rather than a lump sum amount, which is inconsistent with Government policy. This resulted in paid leave and pensionable service accruals beyond their entitlements.
- Three terminated employees received additional weeks of pay in lieu of notice beyond the notice period allowed in Government's policy.
- One employee was paid a retirement allowance, which was equivalent to nine weeks salary. Government policy does not provide for the payment of retirement allowances when an employee retires.

The *Liquor Corporation Act* provides that the Board of Directors may fix employee remuneration and terms of service.

WorkplaceNL

WorkplaceNL has documented termination benefits compensation policies intended generally to follow Government compensation policies.

We found that the WorkplaceNL had policies and practices related to severance, termination payments, position elimination and termination of employment that were inconsistent with Government policy. For example:

- WorkplaceNL's position elimination policy does not allow employees to accrue paid leave or receive step progressions and insurance benefits during the notice period, if not worked. This is inconsistent with Government policy, which provides for these benefits whether the employee works the notice period or not.
- One employee whose position was eliminated was paid nine weeks more than their notice period in salary continuance.
- WorkplaceNL's severance pay policy does not allow employees terminated with cause to receive severance pay. Government policy requires it.

Review and Communication of Compensation Policies

The Human Resource Secretariat has not reviewed all of Government's compensation practices as directed by Cabinet.

The Human Resource Secretariat has not determined whether all applicable entities should apply Government's compensation policies.

Departments were not effectively communicating Government's compensation policies to the Government entities for which they were responsible.

In 1994, Cabinet directed Treasury Board to advise all Government entities that compliance with compensation standards which have been established for Government departments is mandatory.

In 2010, Cabinet directed the Human Resource Secretariat to review Government compensation policies and submit any revised and/or new policies to Treasury Board for approval. Upon Treasury Board approval, the Human Resource Secretariat was to notify Departments to communicate these policies to their reporting Government entities. Nalcor Energy, Memorial University of Newfoundland and the Research and Development Corporation were exempt from this direction.

Compensation Policies Not All Reviewed by Government

As at December 31, 2016, the Human Resource Secretariat had reviewed nine of 30 Government compensation policies that were in effect in 2010. Many of the compensation policies that have not been reviewed are outdated and include language that at times is ambiguous, difficult to understand or may not be applicable to all entities. At times, these policies were incorrectly applied by the seven entities that we examined.

Policies and Procedures Manual Outdated

Government's compensation policy and procedures consists of both hardcopy and electronic documents. The hardcopy manual has not been updated since 1996. There are only certain sections of policies and procedures that are available electronically.

Policies that were Outdated or Required Clarity

We identified the following Government policies that were either outdated or required clarity and at times were incorrectly applied by the seven entities that we examined:

- Position Elimination policy – This policy requires an entity to request approval from Treasury Board to eliminate a position that is classified by Treasury Board. The Human Resource Secretariat indicated that Treasury Board approval is not required when an entity intends to eliminate a position.

- Red-circling policy – This policy requires that an employee is to receive a cash bonus in the year that a general economic increase occurs, calculated on the difference between the old and new salary. However, the wording of the policy is not clear and may be interpreted that cash bonuses be paid each year subsequent to the increase being calculated based on the old salary.
- Upscale hiring policy – This policy is only applicable to external candidates and contractual employees. However, in at least one instance, the Human Resource Secretariat had instructed an entity to use this policy when determining the salary of a successful internal candidate rather than the promotion policy for placement on the pay scales.
- Position Classification System - The hardcopy policy and procedures manual provides a listing of Government entities that should adopt the Hay Scale for rating management and non-bargaining/non-management position classifications. Four of the seven entities that we examined were not included in the listing (WorkplaceNL, Film Development Corporation, Legal Aid and Municipal Assessment Agency).

If Government's compensation policies are not reviewed and updated, Government entities may incorrectly apply compensation practices that are outdated or unclear.

Applicable Government Entities Not Identified

The Human Resource Secretariat has not provided clear direction that all Government entities should comply with Government's compensation policies. In 2010, the Human Resource Secretariat prepared a listing of assessed entities that should comply with Government's compensation policies. Nine Government entities were not included in this listing. These nine Government entities, and one entity that has been created since, have not been assessed by the Human Resource Secretariat and have not been specifically identified as having to apply Government compensation policy. There have been no updates to this listing.

This lack of direction may have contributed to the inconsistent compensation practices by Government entities.

Compensation Policies Not Effectively Communicated to Government Entities

In April 2012, the Human Resource Secretariat, based on direction from Treasury Board, directed all Departments to notify their respective entities to ensure that their compensation policies were consistent with recently reviewed and approved Government policies. Six of the seven entities that we examined were not advised by their responsible Department of the direction provided by the Human Resource Secretariat.

Recommendations

1. The Human Resource Secretariat should complete its review of Government compensation policies, as directed by Cabinet.

Human Resource Secretariat's Response:

The HRS has been mandated by Cabinet to complete a review of compensation policies and seek Treasury Board direction on revisions and whether or not any or all of the policies should apply to any or all agencies, boards and commissions (TBM2010-323). The review of compensation policies commenced in 2011 and is ongoing. To date, nine compensation and related policies have been reviewed and revisions have been approved by Treasury Board and communicated to Departments.

The HRS is continuing with the review of Compensation Policies and Procedures, as well as the on-line HR Policy Manual. Additional drafts have been prepared but have not yet been finalized. During this same period, additional significant projects have been implemented, impacting on the resources allocated to this initiative such as:

- *The development and implementation of the Job Evaluation System*
- *Government Renewal Initiatives/Departmental restructuring*
- *Implementation of the exercise to align reporting structures and management positions within core Government departments.*

The HRS will continue working to finalize draft policy and procedure updates for Treasury Board review and approval.

2. The Human Resource Secretariat should determine which Government entities should comply with existing and revised compensation policies.

Human Resource Secretariat's Response:

As above, the HRS has been working to complete the review of compensation policies and seek Treasury Board direction on revisions and whether or not any or all of the policies should apply to any or all agencies, boards and commissions, as per TBM2010-323. The HRS will continue to make revisions and make recommendations to Treasury Board regarding approval and application of the revised policies.

3. The Human Resource Secretariat should work with the departments to ensure they effectively communicate Government compensation policies to their respective entities.

Human Resource Secretariat's Response:

The HRS will continue to work with departments to ensure the respective entities are advised of Government policies in a timely manner. As newly revised policies are approved by Treasury Board, the HRS communicates them to Departmental Executives and requests that communication occur with the respective agencies, boards and commissions. We will review this process with departments to assess whether this can be communicated in a more efficient manner. As highlighted by the AG Review, some ABCs have enabling legislation that impacts decision-making regarding compensation matters.

4. The Human Resource Secretariat should consider whether legislative change is necessary to clarify the role of boards of directors of Government entities in following Government compensation policies.

Human Resource Secretariat's Response:

Work has already commenced in this area and legislation will be introduced by Government to ensure compliance and streamline compensation policies and practices of ABCs. In The Way Forward, Government has also committed to a more efficient Public Sector which includes a review of ABCs with the goal of reducing the overall number by 20%, as well as implementing a shared-services model for financial matters such as accounting, collections and purchasing; human resource issues, including payroll; and information technology. These efforts will all contribute to consistency in the application of Government policy across public sector organizations. HRS will consult with Government's Audit Committee with respect to developing a plan for monitoring future compliance of compensation policies.

5. The seven entities that we examined should work with the Human Resource Secretariat to determine whether their compensation policies and practices should be consistent with Government policy, and where deemed appropriate, identified inconsistencies should be assessed.

Board of Commissioners of Public Utilities Response:

The Board welcomes the opportunity to work with Government's Human Resource Secretariat for guidance on the applicability and consistency of Government policies and practices with its existing compensation policies and practices.

Central Regional Health Authority Response:

Central Health agrees with this recommendation. We recognize the importance of clear communication of public sector human resources policies so that they may be understood and applied consistently across public entities. We also acknowledge that policies affecting regional health authorities' staff are sometime unique and as such, consistent application of policies where possible through established, regular communication practices is essential. We look

Compensation Practices in Government Entities

forward to continuing to work in collaboration with the Human Resource Secretariat around administration of compensation policy in order to be compliant, fiscally responsible and to provide benefits consistent with other public entities, in particular regional health authorities.

We would like to acknowledge the findings of this audit and that where we have practices that are not compliant due to lack of communication or miscommunication from Human Resource Secretariat or errors by Central Health, we are taking the following measures:

- we have already instituted measures to ensure all management and non-union, non-management employees take the requisite 10 days of paid leave each year;*
- we are committed to putting into place a robust, consistent practice with accompanying policy to ensure current and future positions are submitted for classification within an accepted, established timeframe;*
- Central Health will be employing measures to ensure supervisors are requiring management and non-union, non-management staff to be deducted the requisite 2 days of paid leave before paid sick leave benefits are approved.*
- Central Health is in the process of reviewing all of its human resources compensation and benefits policies to ensure they are a reflection of, and compliant with Government's Human Resources Secretariat policies for management and non-union, non-management employees.*

Municipal Assessment Agency Inc. Response:

The Agency agrees to continue to work with the Human Resource Secretariat. Following its 2013-14 review of the classification of management positions in the Agency, the Secretariat conducted an organizational review in 2015.

We welcome further discussion with HRS as applicable.

Newfoundland and Labrador Film Development Corporation Response:

The NLFDC confirms that it will work with the Human Resource Secretariat to determine whether our compensation policies and practices should be consistent with Government policy, and where deemed appropriate, identified inconsistencies should be assessed.

Newfoundland and Labrador Legal Aid Commission Response:

The Legal Aid Commission will work with the Human Resource Secretariat to determine if the Commission's compensation policies and practices are required to be consistent with Government policy, and what if any, autonomy has been delegated to the Commission's board under the Legal Aid Act. The Commission further commits that management will examine inconsistencies identified in the audit report, and where appropriate, take measure to address them.

Newfoundland and Labrador Liquor Corporation Response:

Recognizing the statutory framework within which crown corporation must operate, NLC agrees that within the context of the Liquor Corporation Act, Labour Standards Act, Shop Closing Act and other legislation governing the Corporation, the NLC will work with the Human Resource Secretariat to align policy where possible.

WorkplaceNL Response:

WorkplaceNL will work with the Human Resource Secretariat to identify those compensation policies and practices that should be consistent with Government policy, and identify inconsistencies and changes as required.

Background

For the year ended March 31, 2016, Government paid salaries and benefits totalling \$3.7 billion, which included expenses of \$2.9 billion for employees at its 43 Government entities.

The *Financial Administration Act* states that Treasury Board may:

- provide for the classification of positions;
- determine the pay to which persons are entitled for services rendered, the hours of work and leave of those persons employed; and
- provide for other matters, including terms and conditions of employment

within the public service and within a board, corporation, commission or similar body, by order of the Lieutenant-Governor in Council.

The Human Resource Secretariat is responsible to provide:

- effective management of human resources policies, programs and services; and
- leadership in the initiation and development of human resources practices and services that support the overall effectiveness of Government and the provincial public sector.

Objective

The objective of our audit was to determine if compensation practices in Government entities are consistent with Government compensation policies.

Scope

Our audit covered the period January to December 2016. Our audit included an examination of compensation policies and practices for executive, management and non-bargaining/non-management employees. We also examined the roles and responsibilities of the Human Resource Secretariat as it relates to compensation policies of Government entities.

We audited the compensation practices at seven Government entities:

- Board of Commissioners of Public Utilities;
- Central Regional Health Authority;
- Municipal Assessment Agency Inc.;
- Newfoundland and Labrador Film Development Corporation;
- Newfoundland and Labrador Legal Aid Commission;
- Newfoundland and Labrador Liquor Corporation; and
- WorkplaceNL.

Our audit did not include remuneration paid to Board members.

Our audit included interviews with officials at the Human Resource Secretariat and the seven Government entities and their responsible departments to determine the legislative requirements of each entity in following Government's compensation policies and whether the Government entities followed Government policy. We examined each entity's compensation policies and practices. We examined and analyzed payroll, leave and severance databases. We also sampled employee salaries and benefits to determine whether Government compensation policies were followed. Sample selections were non-statistical and selected judgmentally.

Our audit was performed in accordance with standards for assurance engagements, encompassing value-for-money, established by the Chartered Professional Accountants of Canada and under the authority of the *Auditor General Act*.

We completed our audit in May 2017.

Criteria

Criteria were developed specifically for this audit based upon relevant legislation, Government's compensation policies and procedures, our related work, and consultations with management. The criteria were accepted as suitable by the senior management of the Human Resource Secretariat and each of the seven Government entities.

We assessed compensation policies in Government entities against the following criteria:

1. Government entities paid employees in accordance with approved classified positions and Government compensation policies.
2. Government entities provided employee benefits in accordance with Government compensation policies.
3. Government entities paid employee termination benefits in accordance with Government compensation policies.
4. Government has reviewed, documented and communicated its compensation policies to applicable Government entities.
5. Government entities have documented compensation policies that are consistent with Government compensation policies.

PART 3.4

PROVINCIAL HOME SUPPORT PROGRAM

**EASTERN REGIONAL HEALTH AUTHORITY
WESTERN REGIONAL HEALTH AUTHORITY**

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Conclusions

The Eastern Regional Health Authority (Eastern) and Western Regional Health Authority (Western) (collectively, the Authorities) assessed seniors for home support services in accordance with most operating standards, policies and procedures. However, both Authorities did not always complete clinical and financial assessments within established timeframes and did not reassess seniors every year.

Eastern and Western did not monitor home support services in accordance with operating standards, policies and procedures. The Authorities did not always contact seniors in accordance with established timeframes. Annual financial reports and financial records of seniors who self-managed their home support services were not always received or reviewed by the Authorities. Annual agency audits identified recurring agency issues that were not resolved prior to approvals to operate being renewed.

Eastern and Western subsidized seniors for home support services for seniors in accordance with operating standards, policies and procedures. However, they did not monitor and follow up on instances in which seniors were not provided with the home support hours they had been approved to receive.

Why this audit is important

Currently, the number of seniors age 65 and older in the Province is approximately 101,000. Over the next 20 years, the number is expected to increase by more than 50% to 154,000. As the number of seniors continues to increase, it is expected that there will also be an increase in the demand for home support services.

Providing home support services allows seniors to live at home independently while preventing or delaying placement in a long-term care facility or personal care home, which can be more costly. It is important that Regional Health Authorities have effective assessment and monitoring processes to ensure seniors are provided with timely and safe home support services.

During 2015-16, the Province spent over \$90 million subsidizing home support services to seniors.

Findings

Assessment of Home Support Services

Clinical Assessments

The Authorities completed assessments of seniors in line with most of the Provincial Home Support Program Operational Standards and Authority policies. However, they did not always complete the assessments within the established Authority timeframes.

The Authorities did not always clinically assess seniors annually, as required by the Provincial Home Support Program Operational Standards, to determine if their home support needs had changed.

The Provincial Home Support Program Operational Standards (the Operational Standards) outline assessment requirements for referrals and applications. Assessments of seniors are used to determine home support needs and eligibility, and provide information to develop a service delivery plan to meet those needs. Home support services may include household management, personal care, behavioral aid and respite services.

Completion of Clinical Assessments of Seniors

The Authorities completed and documented assessments of seniors in line with most of the Operational Standards and Authority policies. However, our audit of 35 client files in each of Eastern and Western identified the following:

Eastern

- Eastern did not complete and approve seven clinical assessments within its established practice time of 14 days. Completion times of the delayed clinical assessments had an average completion time of 40 days, and ranged between 20 and 82 days. Eastern did not have a written policy to guide the timeline for completing and approving assessments and notifying individuals of its clinical assessment results.
- Approximately one-third of the assessments at Eastern did not have the required Falls Prevention Screening tool completed. This screening tool is important in assessing a senior's mobility and risk of falling. The tool also determines whether interventions are required to reduce the risk.
- In 14 of 35 cases, Eastern assessed household management hours that were significantly higher than its established guidelines for assessing hours.

Western

- Four of 30 clinical assessments were not approved within the approval timeframe threshold of five days Western had set in policy. The delayed assessments were approved within 22 days, on average, and approval times ranged between 10 and 50 days.
- Approximately one-third of the clinical assessments did not have the required Falls Prevention Screening tool completed.

If clinical assessments are not complete and timely, this may result in a senior not receiving or delays in receiving needed home support services.

Seniors Not Always Clinically Assessed Annually

The Authorities did not always clinically assess seniors at least annually to determine if their home support needs had changed. The Operational Standards require a senior to be reassessed whenever their condition or needs change or, at a minimum, annually.

Our audit identified the following:

Eastern

- Seven of the 26 files (27%) we audited that required a reassessment during the scope period, did not have an assessment done annually. In five of the seven cases, assessments had not occurred in more than eighteen months.

Western

- Five of the 27 files (19%) we audited that required a reassessment during the scope period, did not have an assessment done annually. In two of the five cases, assessments had not occurred in more than eighteen months.

If seniors are not assessed at least annually they may not receive the support required to meet their changing needs.

Financial Assessments

Eastern and Western completed and approved financial assessments of seniors in accordance with Department guidelines and Authority policies and procedures. However, the Authorities did not always complete the assessments within the required timeframes.

The Authorities must assess the financial position of a senior requesting home support services based on Department guidelines, and then use the results of the financial assessment to determine eligibility for funding and any required personal contribution by the senior.

Authorities are required to complete the financial assessment within five days of receiving all required financial information from the senior. Seniors are to be reassessed at least annually.

Financial Assessments Completed as Required

Overall, based on our examination of 35 senior files at each Authority, the Authorities completed financial assessments in accordance with Department guidelines and Authority policy. However, our audit identified the following:

Eastern

- Eastern did not complete and approve 14 of 32 financial assessments, that were required to be completed during our scope period, within the required five days of receiving the information. The delayed financial assessments took on average 22 days to be completed and approved. The financial information was not date-stamped in 11 of the files we examined, therefore, we were unable to determine the timeliness of the financial assessments.

Western

- Western completed and approved 25 of 28 financial assessments, that were required to be completed during our scope period, within five days of receiving the information. The financial information was not date-stamped in two of the files we examined, therefore, we were unable to determine the timeliness of the financial assessments.

Monitoring of Home Support Services

Periodic Contact with Seniors

Eastern and Western did not always contact seniors in accordance with timeframes outlined in the Operational Standards and Authority policy.

The Operational Standards require a home visit at least annually and both Authorities have policies that require quarterly contact with a client.

In our examination of 35 client files at each of Eastern and Western, we found the following:

Eastern

- Fourteen of 35 clients at Eastern had not been contacted at the minimum quarterly frequency during our 20 month scope period. Six of those clients had been contacted less than half of the required times and two had not been contacted at all.

Western

- Four of 35 clients at Western had not been contacted at the minimum quarterly frequency during our 20 month scope period.
- Western also requires a case manager to visit a senior within 15 working days of the home support services commencing to ensure the service plan meets the needs of the senior. Of the 14 seniors within our sample that had commenced home support services within our scope period, Western had not visited six (43%) of them within the required 15 day time period after services had commenced.

If seniors are not contacted as required, issues with their home support services may go undetected.

Financial Review of Self-Managed Services

Annual financial reports and financial records were not received by Eastern for half of the files we examined. These are required by the Operational Standards.

Western did not require seniors to submit annual financial reports and financial records, except upon request, which is not consistent with the Operational Standards. As a result, none of the seniors within our samples had submitted annual financial reports and financial records.

The Authorities did not always review the financial records of seniors who were in the initial year of self-managing their home support services, as required by the Operational Standards. Western's policies were not consistent with the Operational Standards and did not require reviews to be completed.

After the first year, the Authorities could use their discretion as to how often reviews of financial records of self-managed services would be completed. During our scope period, neither Eastern nor Western regularly reviewed the financial records of self-managed seniors that we examined that were beyond their first year of home support services.

The Operational Standards require a senior that self-manages their home care to complete and submit an Annual Financial Report, with supporting financial records, each year to an Authority. The Annual Financial Report provides information about a senior's use and maintenance of funds. Seniors with excess funds remaining at the end of the year are required to reimburse the Authority. Under the Provincial Paid Family Caregiver Option program, family members provide home support services to seniors. This program requires a senior to submit quarterly compliance reports, which must be reviewed by a case manager.

The Operational Standards require the Authorities to review the submitted financial records of a senior to validate the details of their Annual Financial Report when the senior is within the first year of receiving home support services. The Operational Standards allow the review frequency beyond the first year to be at the discretion of the Authority. Reviews ensure that the financial position and financial details within the submitted Annual Financial Reports are accurate and confirm that funds are being spent in line with the client's Funding Agreement.

Eastern subsidized 727 and Western subsidized 319 seniors who self-managed their services, including those under the Paid Family Caregiver Option program, during the year ended March 31, 2016. Within the 35 client files we audited at each Authority, 13 Eastern files and eight Western files were those of seniors who self-managed their services.

Required Financial Reports were not Always Received by the Authorities

Eastern

- Eastern had not received the required Annual Financial Report and financial records for six self-managed files we examined.

Western

- Western policy only requires seniors to submit Annual Financial Reports and financial records upon their request. This policy does not comply with the Operational Standards. Western had not requested any of the seniors in our audit sample to submit Annual Financial Reports and financial records during the scope period of our audit.

If seniors do not submit required financial reports, Authorities cannot determine whether subsidies paid to the seniors were used for their intended purposes or whether excess funds existed that should have been returned to the Authority.

Submitted Financial Records of Seniors Not Always Reviewed

Eastern

- Eastern did not review the financial records of seniors that self-managed their services for five of the files we examined. One review was not completed for the initial year and four were not completed beyond the initial year.
- Eastern did not have a policy to guide its review of a senior's financial records after their initial year of home support services.

Western

- Western policy was not consistent with the Operational Standards, as it did not require the financial records of a senior to be reviewed during the initial year of receiving home support services. As such, Western did not review the initial year financial records of seniors for the three client files we examined.
- Western did not have a policy to guide its review of a senior's financial records after their initial year of home support services. None of the financial records of the five seniors in our sample had been reviewed by Western during the scope period of our audit.
- In one instance, Western did not review a senior's financial records submitted within the scope period of our audit, even though the senior had previously not complied with the Funding Agreement.

If the Authorities do not perform reviews of the financial records of seniors that self-manage their services, both during the first year and thereafter, on a more regular basis, there is an increased risk that funds may not be spent in compliance with the funding agreements.

Audits of Home Support Agencies

Non-compliance issues that had been identified by both Eastern and Western during their audits of home support agencies were often found again in the subsequent audits. The Authorities did not require non-compliance issues to be corrected prior to agencies being subsequently approved to operate by the Authorities.

Audits by both Eastern and Western were not always completed in accordance with the Operational Standards.

Authorities are required to complete annual audits of home support agencies to assess their compliance with the Operational Standards and Authority policies. The annual approval to operate an agency is contingent on the results of the audit.

Non-compliance issues may include such items as: outdated employee first aid training, no employee code of conduct, client service plans that do not comply with assessed hours and unresolved client complaints.

Eastern uses the home support services of 26 agencies (total of 39 sites) and Western uses four agencies (total of nine sites). We examined 29 site audit files for Eastern and all nine site audit files for Western and found the following:

Recurring Non-compliance Issues Identified During Audits

Eastern

- In 19 of the 29 audits we examined, non-compliance issues that Eastern identified in the 2015 audit of an agency recurred in the 2016 audit of that agency.

Eastern renewed the approvals to operate for each of the 19 agencies in 2016 despite the recurring non-compliance issues that had been identified. Eastern had issued a letter on the non-compliance issues to each of the agencies when it re-issued the approvals to operate.

- Almost all of the 29 agency audit files that we examined for Eastern had identified issues of non-compliance with the Operational Standards and/or respective Authority policies.

Western

- Western practice does not require follow up of non-compliance audit issues until the approval period has ended, and the next audit is scheduled, usually one year later. For two of the nine audits we examined, probationary approvals were issued for nine months, with follow-up required at the end of nine months.
- Western completed subsequent audits on seven of the nine agencies that we examined during our scope period. For these seven agency audits, many of the non-compliance issues that Western identified in a previous agency audit recurred in the following audit of that agency.
- All nine agency audit files that we examined for Western identified non-compliance issues with the Operational Standards and/or respective Authority policies.

If agency audits continue to identify similar issues each year, and the Authorities continue to re-issue approvals to operate despite these recurring issues, the audit process is not leading to agency compliance with the Operational Standards and Authority policy.

Required Audit Work Not Completed

Agency audits were not always completed in accordance with the Operational Standards.

Eastern

- Seven of the 29 agency audits at Eastern that we examined had not reviewed at least 20% of employee files, the minimum percentage required by the Operational Standards. The percentage of employee files reviewed ranged from 5% to 18% in these audits.

Western

- Three of the nine agency audits at Western that we examined had not reviewed at least 20% of employee files, the minimum number required by the Operational Standards.

Both Authorities had reviewed the required minimum of 10 senior files during each agency audit to ensure that required documentation was maintained by the agencies to support the services they provided.

Complaints and Occurrences

Eastern and Western were both recording and resolving complaints and occurrences in accordance with their policies. However, at both Authorities, managers were not reviewing occurrences within the timeframes required by policy.

A complaint is an identified concern where a need or expectation is not met. An occurrence is an undesired or unplanned event directly related to the care or services provided to a senior.

All occurrences and complaints recorded by both Eastern and Western during the scope period of our audit had been actioned and resolved within established timeframes set out in their policies. However, occurrences did not have evidence of review by the designated manager within 72 hours of being documented, which is required by policy.

Provision of Home Support Services

Receipt of Assessed Hours

Eastern and Western did not monitor and follow up on instances in which seniors were not provided with the home support hours they had been approved to receive.

Assessed Hours Not Always Received

The Authorities did not monitor and follow up on instances in which seniors did not receive the home support hours they had been approved to receive. Shortages ranged from fewer hours per day, to fewer days per week, to extended breaks.

In our examination of 35 client files at both Eastern and Western, we found the following:

Eastern

- Nine seniors had services provided that were less than the approved hours. These files each indicated a shortage between 7% and 40% of total approved hours.

Western

- Six seniors had services provided that were less than the approved hours. These files each indicated a shortage between 6% and 15% of total approved hours.

Although both Authorities indicated that there could be multiple reasons for shortages, many of which could be outside of their control, the Authorities had not monitored or followed up on shortages as they occurred to determine whether there was a reasonable explanation for the shortage. As a result, there was a risk that seniors may not have been provided with the required safe and quality home support services.

Receipt of Home Support Subsidy

Eastern and Western both paid home support subsidies to seniors in accordance with established subsidy rates, and correctly calculated the subsidies based on supporting documentation.

Department guidelines outline established hourly subsidy rates for self-managed and agency services. An Authority subsidizes home support services based upon submitted supporting documentation.

Based on our sample of 35 senior files for both Eastern and Western, both Authorities paid home support subsidies in accordance with established subsidy rates outlined in the Department guidelines.

Subsidy payments were correctly calculated based on supporting documentation. Where applicable, client contributions were correctly deducted within the calculation of the net subsidy payment.

Timeliness of Home Support Services

Seniors received their home support services in a timely manner once the home support services were first approved.

In our sample of 35 senior files at each Authority, seniors who were initially approved for home support services during our scope period received their services within one month.

Recommendations

1. The Authorities should complete clinical and financial assessments within established timeframes and should assess home support services for seniors at least annually.

Eastern Regional Health Authority's Response:

Eastern Health agrees with this recommendation.

Eastern Health makes every effort to comply with provincial standards pertaining to clinical and financial timeframes. However, this is contingent on receiving required clinical and financial documentation from the client/family in a timely manner; the client being available to receive home supports (i.e. not residing in a rehab center or patient in acute care); and the client's availability to receive a home visit as part of the clinical assessment process.

Western Regional Health Authority's Response:

The current Provincial Home Support Program Operational Standards do not include timelines for completion of initial clinical and financial assessments. To support timely access, Western Health has established policies and procedures that outline the required timelines for completion of clinical and financial assessments. Compliance with these timelines is monitored on a quarterly basis within the Community Support Program, communicated to key stakeholders and information is utilized to support continuous quality improvement. The results of the Office of the Auditor General audit indicate a high level of compliance with 81% of clients having a clinical assessment completed annually. As well, these audit results indicate that 89% of clients had a financial assessment completed within five days, as required. Western Health will continue to monitor compliance and address opportunities to further enhance compliance with established requirements.

2. The Authorities should ensure that they contact seniors in accordance with established timeframes.

Eastern Regional Health Authority's Response:

Eastern Health agrees with this recommendation.

Eastern Health is committed to ensuring seniors are contacted via telephone or home visit in accordance with established timeframes. However, adherence to this timeframe is sometimes impacted by caseload volume, case complexity, client hospitalizations, and client/family availability.

Provincial Home Support Program

Western Regional Health Authority's Response:

The current Provincial Home Support Program Operational Standards do not include timelines for contact with seniors receiving home support. Western Health has established policies and procedures that outline the timelines for contact with clients in receipt of home support services. Compliance with these timelines is monitored quarterly within the Community Support Program. The results of the Office of the Auditor General audit indicate a high level of compliance with 89% of clients being contacted at the minimum quarterly frequency. Compliance will continue to be monitored and opportunities addressed, as required to further enhance compliance with established requirements.

3. The Authorities should ensure that they receive required financial reports and records annually from seniors that self manage their home support services. The Authorities should review these reports and any financial records in the initial year as required and establish a process to review financial records on a more frequent basis beyond the initial year.

Eastern Regional Health Authority's Response:

Eastern Health agrees with this recommendation.

Eastern Health recognizes this issue and has had previous communication with the Department of Health and Community Services on this matter. Eastern Health currently does not have the human resources to comply with this guideline for all cases in pay. Cases are reviewed as required based on level of risk. Financial audits of Paid Family Caregivers (all 117 cases in pay) are completed annually by Financial Assessment Officers of Eastern Health.

Western Regional Health Authority's Response:

Western Health acknowledges that there are opportunities to improve the monitoring of financial records. Western Health will update the current funding agreement to ensure consistency with operational standards. Western Health will implement an audit tool and audit plan to support the review of financial records within the initial year of initiation of home support services and to support review of financial records for existing clients beyond the initial year. Western Health is committed to addressing identified opportunities to support achievement of this recommendation.

4. The Authorities should ensure that recurring issues identified in annual agency audits are adequately resolved prior to approving agencies to operate.

Eastern Regional Health Authority's Response:

Eastern Health agrees with this recommendation.

All Home Support Agency non-compliance issues addressed in the Eastern Region are time framed for resolution and monitoring. Eastern Health works in collaboration with agencies to ensure continuity of care for clients, in addition to provision of safe quality care. Non-approval

Provincial Home Support Program

or discontinuation of an agency's approval to operate would occur only if the assessed risk cannot be mitigated.

Western Regional Health Authority's Response:

Western Health acknowledges that there are opportunities to improve the level of follow up completed with agencies when there are recurring issues identified in annual agency audits. Western Health established mechanisms in the 2017 annual agency audits to notify agencies of non-compliance and provide direction on actions required to improve compliance within shortened timeframes. As well, agencies have been informed that failure to comply with requirements will result in limitations on the approval up to and including no approval to operate in the region. Western Health will ensure that agencies adhere to these requirements.

5. The Authorities should monitor the home support hours received by seniors and follow up on instances in which seniors were not provided with the home support hours they had been approved to receive.

Eastern Regional Health Authority's Response:

Eastern Health agrees with this recommendation.

There are a multitude of factors that may impact client utilization of approved Home Support hours including client hospitalization, availability of home support workers, availability of other supports (including family and friends). Eastern Health remains committed to monitoring ongoing trends/patterns of unused Home Supports to ensure client safety and well-being, and that the appropriate level of Home Support is approved. Clients/families also have a responsibility to advise their case manager if they are unable to secure the hours approved, or if Home Support workers are not delivering these hours as contracted.

Western Regional Health Authority's Response:

Western Health monitors home support hours received by seniors in keeping with the operational standards. The Provincial Home Support Operational Standards do not require that the client be contacted if the submitted invoices are less than the approved hours. There are multiple factors that may contribute to seniors not receiving the home support hours approved. The home support standards outline the client's responsibilities in relation to notifying the RHA when there are changes to home support hours. Standard 5.50 states, "It is the responsibility of the individual (client) to advise the service provider and the RHA of any break in or discontinuation of home support services as soon as a decision is made". In addition, the Program Contract (Appendix C) Home Support Standards, section 1.20 states, I agree to "Advise the social worker and program professional of any changes in staffing needs". The funding agreement states, "The individual shall notify or arrange for notification to be sent to the RHA: a) within 48 (48) hours of his/her admission to a hospital, long term care facility or other care facility (e.g. Personal Care Home); or the commencement of any continuous period of two weeks or more during which he/she will not require home support services".

Background

The goal of the Home Support Program is to provide safe and quality home support services across the Province to allow seniors, adults with disabilities and children with disabilities to live independently at home. Home support services are meant to supplement services provided by an individual's family or support network. Health authorities provide services to clients at minimum levels while living at home, which may prevent or delay an individual's placement in a long-term care facility or personal care home.

Home support services can be provided to an individual either through an approved home support agency or through services provided by home support workers employed directly by an individual. Depending upon an individual's liquid assets and income level, Authorities may provide a financial subsidy up to established maximum ceilings.

The Operational Standards, which were established under the authority of the *Health and Community Services Act* and the *Self Managed Care Act*, guide administration of the Home Support Program.

The Authorities are accountable to the Department of Health and Community Services. Authorities are responsible for developing and implementing the Home Support Program according to the Operational Standards and Authority policies and procedures.

The *Regional Health Authorities Regulations* under the *Regional Health Authorities Act* state that Authorities shall supervise, direct and control the delivery of community supports and home care.

Table 1 provides number of seniors subsidized and subsidies provided to seniors at Eastern and Western during our scope period.

Provincial Home Support Program

Table 1

**Eastern Regional Health Authority
Western Regional Health Authority
Home Support Program - Seniors
Home Support Subsidies
April 1, 2015 to November 30, 2016**

Regional Health Authority	Year Ended March 31, 2016		Eight Months Ended November 30, 2016	
	# of Seniors Subsidized	Total Subsidies Paid	# of Seniors Subsidized	Total Subsidies Paid
Eastern				
Agency-Managed	1,518	\$28,600,000	1,360	\$19,900,000
Self-Managed	636	12,000,000	570	7,700,000
Paid Family Caregiver	91	1,000,000	101	1,000,000
Total Eastern	2,245	\$41,600,000	2,031	\$28,600,000
Western				
Agency-Managed	1,361	\$16,400,000	1,236	\$11,200,000
Self-Managed	287	4,400,000	265	2,600,000
Paid Family Caregiver	32	100,000	24	300,000
Total Western	1,680	\$20,900,000	1,525	\$14,100,000

Source: Department of Health and Community Services' Client Pay System and Regional Health Authorities Meditech system

Objectives

The objectives of our audit were to determine whether:

1. Regional Health Authorities assessed seniors for home support in accordance with operating standards, policies and procedures.
2. Seniors received home support in accordance with the Regional Health Authority assessments.
3. Regional Health Authorities effectively monitored home support provided to seniors.

Scope

Our audit covered the period April 1, 2015 to November 30, 2016. Our audit examined home support services provided to seniors within the Eastern Regional Health Authority and the Western Regional Health Authority. Our audit did not include home support provided in the Central Regional Health Authority and the Labrador-Grenfell Regional Health Authority or home support services provided to adults and children with disabilities.

Our audit included interviews with officials from the Department, the Eastern Regional Health Authority and the Western Regional Health Authority. We examined documentation maintained by the Authorities to assess policies and procedures and the provision of services to seniors. We also sampled files to determine if home support services were assessed and provided in accordance with operating standards, policies and procedures. Sample selections were non-statistical.

Our audit was performed in accordance with standards for assurance engagements, encompassing value-for-money, established by the Chartered Professional Accountants of Canada and under the authority of the *Auditor General Act*.

We completed our audit in April 2017.

Criteria

Criteria were developed specifically for this audit based upon relevant legislation, operating standards, policies and procedures, our related work, reviews of literature including reports of other legislative auditors, and consultations with management. The criteria were accepted as suitable by the senior management of the Eastern Regional Health Authority and the Western Regional Health Authority.

We assessed the assessment of home support services against the following criteria:

1. Authorities complete and approve required clinical assessments and reassessments.
2. Authorities complete and approve required financial assessments and reassessments.

We assessed the provision of home support services against the following criteria:

1. Seniors receive the home support hours that were assessed.
2. Seniors receive the home support subsidy that was assessed.
3. Seniors receive home support services within a reasonable timeframe.

We assessed the monitoring of home support services against the following criteria:

1. Authorities review home support services that are provided by private agencies and resolve non-compliance issues identified.
2. Authorities review home support services that are self-managed by seniors and resolve non-compliance issues identified.
3. Authorities communicate with seniors as required by Authority policy.
4. Authorities document and resolve complaints and occurrences in accordance with Authority policy.

PART 3.5

CLIMATE CHANGE

EXECUTIVE COUNCIL

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Conclusions

Government committed to a 2020 greenhouse gas emissions reduction target of 10% below 1990 levels, but did not implement sufficient measures to achieve its target. Government is not on track to meet its 2020 greenhouse gas emissions reduction target.

While Government implemented the 2011 Climate Change Action Plan (Action Plan) to guide the Province towards reduced greenhouse gas emissions, most of the individual action items were not expected to contribute significantly to greenhouse gas emissions reductions.

Government has taken measures intended to adapt to the impacts of climate change.

Why this audit is important

Climate change is one of the greatest challenges facing the planet. Greenhouse gas emissions are the primary cause of climate change.

As a coastal province, the majority of our population lives near the Atlantic Ocean. Newfoundland and Labrador is exposed to many impacts of climate change including sea-level rise, flooding, more storm surges, greater coastal erosion and volatile changes in seasonal weather patterns. These changes could have severe economic and social implications, affecting our land, forestry, fishery, oceans, infrastructure and communities.

Findings

Reducing Greenhouse Gas Emissions

Greenhouse Gas Emissions Reduction

The Office of Climate Change developed a Climate Change Action Plan intended to make progress towards achieving its greenhouse gas emissions reduction targets.

Government adopted greenhouse gas emissions reduction targets for the Province. However, it is not on track to meet the 2020 greenhouse gas emissions reduction target.

In 2001, the Province, as a member of the Conference of New England Governors and Eastern Canadian Premiers, committed to reduce regional greenhouse gas emissions to 10% below 1990 emissions levels by 2020. This commitment was further articulated in the Province's Energy Plan released in 2007.

In 2011, the Office of Climate Change (the Office) released the Climate Change Action Plan (Action Plan). In the Action Plan, Government reaffirmed the Province's commitment to specific greenhouse gas emissions reduction targets that were first established in the 2007 Energy Plan.

The Action Plan outlined an approach to reducing greenhouse gas emissions between 2011 and 2016. The Action Plan stated that the actions outlined would not be sufficient to allow the Province to meet its 2020 greenhouse gas emissions reduction target. Government is not on track to meet the 2020 greenhouse gas emissions reduction target.

Government stated in the Action Plan that major offshore and industrial developments in the Province, such as the Hebron offshore oil production, would substantially increase greenhouse gas emissions while generating economic growth and employment. The Muskrat Falls hydroelectric project would reduce greenhouse gas emissions due to the closure of the Holyrood Thermal Generating Station. However, this was not expected to be enough to allow the Province to reach its 2020 target.

Current Nalcor projections show that the Holyrood Thermal Generating Station will operate into 2020.

Mitigation Action Items

The mitigation action items outlined in the 2011 Climate Change Action Plan were not sufficient to allow the Province to achieve the 2020 target it originally committed to as a member of the 2001 Conference of New England Governors and Eastern Canadian Premiers and reaffirmed in both the 2007 Energy Efficiency Action Plan and the 2011 Climate Change Action Plan.

Most action items related to mitigation that we examined had been implemented by the Government department or agency responsible.

The Office of Climate Change monitored progress towards greenhouse gas emissions reduction targets.

Mitigation action items are intended to reduce greenhouse gas emissions. Of the 75 action items in the Action Plan, 57 related to mitigation. The action items covered various sectors of the economy, including government, large industry, households and transportation.

The Office was responsible for oversight of the Action Plan and leading implementation of 13 mitigation action items. The remaining action items were the responsibility of 12 Government departments and agencies that were directed by Cabinet to complete those action items that were within the scope of their mandates.

With the exception of Muskrat Falls and the development of a greenhouse gas reduction strategy for large industry, mitigation action items were not expected to contribute significantly to greenhouse gas emissions reductions. The Government could not measure the contribution of most mitigation action items to the Province reaching its overall greenhouse gas emissions reduction targets.

We examined 27 of the 57 action items related to mitigation to determine whether they had been implemented. Most action items examined had been implemented by the Government department or agency responsible.

The Office monitored Provincial greenhouse gas emissions against Government's 2020 greenhouse gas emissions reduction target, as well as the progress of action items. The Office monitored greenhouse gas emissions reduction by various sectors of the economy.

Public Reporting - Greenhouse Gas Emissions Reduction

The Office of Climate Change reported to the public on progress of mitigation action items and progress towards achieving Government's 2020 greenhouse gas emissions reduction target.

Public reporting helps to hold Government accountable for its actions. We assessed whether the Office reported to the public on its progress in reducing greenhouse gas emissions and implementation of mitigation action items.

The Office publicly issued a mid-term progress report in 2014. The mid-term update provided overall progress of the Action Plan including the progress of mitigation action items implementation and the progress towards Government's 2020 greenhouse gas emissions reduction target. The Office is currently working on a final update on the Action Plan to be released in 2017.

Adaptation to Impacts of Climate Change

Assessment of Risks and Opportunities

The Office of Climate Change assessed risks and opportunities associated with the impacts of climate change.

Risk assessment supports decision making and provides the Office with knowledge of key vulnerabilities and opportunities related to climate change. Without a comprehensive Province-wide risk assessment, resources may not be directed to where they are required most.

The Office had identified risks and opportunities, analyzed consequences and assessed the impact of climate change for communities and the economy. Government had developed and updated a variety of tools and resources to assist in preparing for the impacts of climate change. For instance, Government conducted studies on coastal erosion, rising sea levels, flood risks, climate projections and monitoring.

Adaptation Plan

The Office of Climate Change developed a Climate Change Action Plan to support the Province's adaptation to the impacts of climate change.

Adaptation includes actions by governments, communities, businesses and individuals to understand, plan for, and respond to unavoidable changes in climate.

Climate change affects human health and safety, the environment and the economy. The Action Plan provides goals to prepare the Province to adapt to the impacts of climate change. Of the 75 action items in the Action Plan, 18 related to adaptation. The action items covered various activities including raising awareness and understanding, capacity building and integrating adaptation considerations into decision-making.

The Office was responsible for oversight of the Action Plan and leading implementation of five adaptation action items. The remaining action items were the responsibility of other Government departments and agencies that were directed by Cabinet to complete those action items that were within the scope of their mandates.

Adaptation Action Items

Government had implemented all adaptation action items examined.

The Office of Climate Change monitored progress of all adaptation action items. However, the effectiveness of the adaptation action items will be determined in the future.

We examined 8 of the 18 action items related to adaptation to determine whether they had been implemented.

All action items examined had been implemented by the Government department or agency responsible.

The Office monitored progress of all adaptation action items within the Action Plan. The action items were designed to increase resilience to climate impacts by raising awareness and understanding, building capacity and integrating adaptation into decision-making. However, the effectiveness of the adaptation action items will be determined in the future.

Public Reporting of Adaptation Measures

The Office of Climate Change reported to the public on adaptation action items.

Public reporting helps to hold Government accountable for its actions. We assessed whether the Office reported to the public on its progress towards implementation of adaptation strategies.

The Office publicly issued a mid-term progress report in 2014. The mid-term update provided overall progress of the Action Plan including the progress of adaptation action items implementation. The Office is currently working on a final update on the Action Plan to be released in 2017.

Recommendations

1. When designing a plan to meet greenhouse gas emissions reduction targets, Government should ensure that the expected impact of the actions set out is sufficient to achieve the targets.

Office of Climate Change's Response:

Climate change is one of the most challenging long-term problems facing the world today. Given the urgency and severity of the issue, the provincial government, along with the most other provinces and territories in Canada and most countries around the world, has adopted shorter and longer term greenhouse gas reduction targets that are consistent with what science says is necessary to avoid dangerous climate change. These targets are intended to be challenging and are designed to motivate action and raise levels of ambition. For example, the provincial government has a long-term target to reduce its greenhouse gas emissions by between 75-85% below 2001 levels by 2050. This target is generally consistent in terms of stringency with targets in other provinces and territories that have set long-term targets. The scale of the required long-term reduction in greenhouse gas emissions to achieve this target is enormous, will require the development and application of technologies that do not exist today, will require sustained effort by government and the private sector over multiple five-year planning cycles, and must deal with long term uncertainties including:

- *Changes in industrial production in the province, such as in the mining, oil and gas and manufacturing sectors, including the timing and pace of new investments, output and energy use;*
- *The pace and outcomes of technological development and deployment in the province and in its competitor jurisdictions;*
- *The fact that economic projections modeling, which underpin energy demand and GHG projections, is less precise over the longer term than the shorter term; and*
- *The pace and stringency of federal policy.*

Given these challenges, Government could not design a plan today containing measures that can be quantified to achieve a target more than 30 years in the future. However, Government will seek to ensure that regulatory, policy, program and public awareness actions taken over multiple five-year planning cycles achieve progress toward long-term GHG reduction targets.

2. Government should consider whether additional action items could be designed which would result in measurable greenhouse gas emissions reductions that contribute to the Province reaching its overall greenhouse gas emissions reduction targets.

Office of Climate Change's Response:

Government is committed to making progress on the challenging but critically important issue of climate change. Government is working toward reducing provincial greenhouse gas emissions to ten percent below 1990 levels by 2020. While this is a challenging goal that will require concerted action from all aspects of society and our economy, Government has taken key steps and is committed to doing more to close the gap to the set target. In December 2016, the provincial Government adopted the Pan-Canadian Framework on Clean Growth and Climate Change and committed to develop a "made-in-Newfoundland and Labrador" approach to carbon pricing. Government has also committed to releasing a new climate change action plan in 2017-18.

Background

Climate Change

Climate change is about shifts in long-term weather patterns due to human activities that release greenhouse gases, such as carbon dioxide. According to Natural Resources Canada, severe weather patterns will become more frequent and continue to increase in intensity and occurrence.

Climate change is an important issue for Newfoundland and Labrador because it has economic, social and environmental implications. Action plans that are implemented to address this issue can also present future opportunities for job growth, innovation, and clean energy development.

Greenhouse Gas Emissions

Greenhouse gas emissions levels within Canada are reported in the National Inventory Report, which is released annually by Environment and Climate Change Canada. The most current National Inventory Report, which is dated 2017, presents the 2015 data.

Table 1

**Greenhouse Gas Emissions
Canada, Provinces, and Territories
2015**

	Total Emissions * (megatonnes)		Emissions Per Capita ** (tonnes)
	Total	%	
Alberta	274.1	37.98	65.6
Ontario	166.2	23.03	12.0
Quebec	80.1	11.10	9.7
Saskatchewan	75.0	10.39	66.2
British Columbia	60.9	8.44	13.0
Manitoba	20.8	2.88	16.0
Nova Scotia	16.2	2.24	17.2
New Brunswick	14.1	1.95	18.7
Newfoundland and Labrador	10.3	1.43	19.5
Prince Edward Island	1.8	0.25	12.0
Northwest Territories	1.4	0.19	32.6
Yukon	0.3	0.04	6.8
Nunavut	0.6	0.08	17.2
Canada	721.8	100.0	20.1

Source: * National Inventory Report, 2017

** Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon information from the National Inventory Report 2016 and Statistics Canada.

The Office of Climate Change

The Office of Climate Change (the Office), a central agency within Executive Council, was established in 2009 and is responsible for policy and strategy development relating to climate change and energy efficiency.

The mandate of the Office is:

- To advance sustained action on climate change and energy efficiency that effectively balances economic and environmental considerations, including deepening public awareness, understanding and engagement.
- To undertake focused research and analysis to enable the Province to maximize opportunities and minimize risks from the impacts of climate change and the move towards a lower-carbon global economy.
- To work with Government departments to better integrate climate change and energy efficiency considerations into their current and future programs, services, legislation and regulations, and ensure effective coordination across Government.

- To advance the Province's interests and priorities in regional, national and international forums on climate change and energy efficiency, and engage external stakeholders to deepen and widen Government's dialogue on next steps.

The Office is responsible for overseeing Government's plans to meet its greenhouse gas emissions reduction targets and climate change adaptation measures.

Climate Change Action Plan

Government released two prior plans, the 2005 Climate Change Action Plan and the 2007 Energy Plan. In 2011, Government released the Climate Change Action Plan (the Action Plan) to build upon these strategies to enhance efforts to reduce greenhouse gas emissions and to improve resilience to impacts of climate change. The purpose of the Action Plan was to integrate action on climate change into policy, planning and programs in a way that supported future economic, social and environmental success.

The Action Plan was the most recent plan, and is within the scope of our audit. Climate change is an ongoing issue and the Government is developing a new action plan that is expected to be released in 2017-18.

Targets

In the 2011 Action Plan, Government reaffirmed its commitment to the Province's specific greenhouse gas emissions reduction targets that were first established in the 2007 Energy Plan.

Table 2

Office of Climate Change Provincial Greenhouse Gas Emissions Reduction Targets

Year	Targets
2020	Reduce provincial greenhouse gas emissions to 10% below 1990 levels.
2050	Reduce provincial greenhouse gas emissions to 75-85% below 2001 levels.

Source: 2007 Newfoundland and Labrador Energy Plan

Action Items

Actions designed to address climate change are categorized as either mitigation or adaptation measures. Mitigation focuses on limiting or reducing greenhouse gas emissions; whereas adaptation focuses on activities that reduce the negative impacts of climate change and promote new long-term opportunities. In addition, there is a focus on leadership to promote economy-wide action on climate change through policies and operations.

Climate Change

Examples of action items within the Action Plan include:

- Mitigation - Pursue the development of the Muskrat Falls hydroelectric project and, through an interconnect with the island of Newfoundland, eliminate 1.2Mt of greenhouse gas emissions from the Holyrood Thermal Generating Station.
- Adaptation - Continue to implement and enforce the Land Use Policy for Flood Risk Areas.

Newfoundland and Labrador's 2011 Climate Change Action Plan contained 75 action items to achieve four main goals:

- (1) Enhance Newfoundland and Labrador's resilience to the impacts of climate change.
- (2) Reduce greenhouse gas emissions levels in Newfoundland and Labrador.
- (3) Demonstrate Provincial Government leadership on climate change.
- (4) Advance action on climate change through collaboration with other governments.

Table 3

**Newfoundland and Labrador
2011 Climate Change Action Plan
Action Items by Type**

Action Items	Mitigation	Adaptation	Total*
Number of Action Items	57	18	75
Percentage of Total Action Items	76%	24%	100%
Number of Action Items Examined	27	8	35
Percentage of Action Items Examined	77%	23%	100%

Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from the 2011 Climate Change Action Plan

* Certain action items can be categorized as either mitigation or adaptation.

The implementation of specific action items was the responsibility of Government departments and agencies, as directed by Cabinet. We examined 35 action items to assess progress on reaching Government's targets and commitments.

Objectives

The objectives of our audit were:

1. To determine if Government is making progress towards its commitments to reduce greenhouse gas emissions.
2. To determine if Government has taken measures to adapt to the impacts of climate change.

Scope

Our audit covered the period January 1, 2010 to December 31, 2016. Our audit included an assessment of whether Government is making progress towards its commitments to reduce greenhouse gas emissions and to adapt to the impacts of climate change.

Our audit included an examination of relevant plans, legislation, and processes. We interviewed Office of Climate Change officials, as well as officials of Government departments or agencies as necessary, related to specific action items in the Action Plan. We selected a sample of action items and assessed Government's progress on these action items. Sample selections were non-statistical and judgmentally selected.

Our audit was performed in accordance with standards for assurance engagements, encompassing value-for-money, established by the Chartered Professional Accountants of Canada and under the authority of the *Auditor General Act*.

We completed our audit in April 2017.

Collaborative Audit

Climate change is a shared challenge that requires strong collaboration among Government departments and agencies, as well as with communities, industry, academia, and other levels of government.

The Auditors General from all provinces, territories and the Office of the Auditor General of Canada have agreed upon a partnership to work towards a shared vision and commitment to deliver a collaborative audit on climate change.

This audit is part of a collaborative approach to determine the extent to which federal, provincial and territorial governments in Canada are meeting commitments to reduce greenhouse gas emissions and adapt to climate change.

Criteria

Criteria were developed specifically for this audit based upon relevant legislation, policies and procedures, our related work, reviews of literature including reports of other legislative auditors, and consultations with management. The criteria were accepted as suitable by management.

We assessed whether Government is making progress towards its commitments to reduce greenhouse gas emissions against the following criteria:

1. Government has established greenhouse gas emissions reduction targets for Newfoundland and Labrador.
2. The Office has developed plans to achieve Government's provincial greenhouse gas emissions reduction targets.
3. The Office monitors progress towards Government's provincial greenhouse gas emissions reduction targets and monitors the progress of action items in its plans.
4. Government is on track to implement all action items in its plans.
5. Government is on track to meet its greenhouse gas emissions reduction targets.
6. The Office reports publicly on progress with implementing the action items in its plans and its progress towards achieving Government's greenhouse gas emissions reduction targets.

Climate Change

We assessed whether Government has taken measures to adapt to the impacts of climate change against the following criteria:

1. The Office has assessed risks and opportunities associated with the impacts of climate change for Newfoundland and Labrador.
2. The Office has a plan for Government's actions to support adaptation to the impacts of climate change.
3. Government has implemented adaptation action items.
4. The Office monitors progress of adaptation action items.
5. The Office reports publicly on progress of adaptation action items in its plans.

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