

2.1 Inconsistent Compensation Practices

Introduction

Inconsistent compensation practices

The public sector has approximately 41,000 employees located throughout direct Government, the health authorities, the school districts and various Government entities such as Memorial University of Newfoundland and Newfoundland and Labrador Hydro. This number is drawn from the most recent data available to the Public Service Secretariat from the various entities, dating from March 2003 for the health authorities to December 2005 for direct Government, College of the North Atlantic and Memorial University of Newfoundland. Except for the number of teachers, which is based on teaching units, the numbers are counts of employees.

Of the 41,000 employees, approximately 35,000 (85%) are union employees compensated in accordance with various collective agreements while approximately 3,000 are executive and management employees compensated in accordance with salary levels set for the “point value” of a position determined by applying a job classification system such as the Hay Job Rating System used by direct Government. The remaining 3,000 employees are non-bargaining / non-management and other non-union employees.

Since the early 1990s it has been acknowledged by Government that there are inconsistent compensation practices throughout many of the Government entities. These inconsistent compensation practices relate to such items as salaries and termination benefits, leave, overtime, travel allowances and employee computer purchase plans.

Cabinet directive

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

The intention was clearly to ensure that no Government entity would provide compensation to its employees in excess of that which was established for employees in Government departments.

1997 report on compliance with Cabinet directive

For the year ended 31 March 1997, we reported on the compensation practices of Crown-controlled corporations and agencies since the issuance of the directive from Cabinet in 1994.

2.1 Inconsistent Compensation Practices

We reported that Treasury Board had not advised Government entities including boards, agencies and commissions that compliance with Government's compensation practices was mandatory.

During our reviews of Government entities for our 1995, 1996 and 1997 Annual Reports, we had identified numerous incidents where Government entities provided compensation to employees that was not consistent with the compensation practices established for Government departments.

In all instances reported, the entity indicated that they were never informed of the requirement to comply with Government's compensation practices.

In its response, Treasury Board Secretariat indicated that a written directive was not deemed to be practical. It indicated that as a result of a planned Public Service Reform initiative changes could result in the June 1994 Cabinet Directive or there could be other recommendations.

Audit Objectives and Scope

Objectives

Our objectives were to:

- summarize and highlight the inconsistent compensation practices that continue to exist at boards, agencies and commissions; and
 - determine whether a compensation policy had been communicated to all Government entities including boards, agencies and commissions clearly outlining that compliance with compensation practices established for Government departments was mandatory.
-

Scope

We summarized items included in our Annual Reports to the House of Assembly from 1994 to 2005 which included references to compensation practices. We also spoke with officials at Executive Council.

2.1 Inconsistent Compensation Practices

Conclusions

Inconsistent compensation practices without consequence

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

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

No clear policy direction

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

However, adequate steps were not taken at the time to ensure that Government entities comply with Government compensation practices. Specifically, no action was taken to:

- inform Government entities of the Cabinet directive; and
- address incidents of non-compliance with Government compensation practices.

Discussions with officials of Executive Council indicated that, with certain exceptions, there has been no clear policy direction on the extent of conformity required by boards, agencies and commissions with Government compensation practices.

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

2.1 Inconsistent Compensation Practices

Inconsistent salary levels

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

Implications of inconsistent compensation practices

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

Findings and Recommendations

Annual reports containing compensation issues

Subsequent to our 1997 Annual Report, we continued to identify numerous instances of compensation practices in Government entities that are not consistent with those established for Government departments. These inconsistencies relate to matters such as:

- salaries and termination benefits;
- leave;
- overtime;
- travel allowances; and
- computer purchase plans.

This is of particular concern when one considers that many of the inconsistencies in compensation practices relate to the more senior officials at the entities, i.e. not the staff paid in accordance with a collective agreement. Furthermore, these senior officials are often aware of the inconsistencies and in many instances (such as the school boards and hospital boards) even though they were told to stop such practices, they continue to take the higher benefits. From my discussions with many senior officials at Government entities I get the sense that they feel

2.1 Inconsistent Compensation Practices

justified in their actions and have an attitude that, if the other board can do it then so can they.

My Office has been reporting inconsistencies in compensation practices among Government entities since the early 1990s and yet the practices continue. It is my opinion that the inconsistent compensation practices continue because:

- with certain exceptions, no clear policy direction has been provided; and
 - there is no consequence of knowingly taking higher benefits.
-

Inconsistent salary levels

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

Examples of inconsistent compensation practices

Figure 1 summarizes examples of inconsistencies between compensation practices followed by Government departments and other Government entities for the period 1994 to 2005. The inconsistencies can result from entities: not being informed of Government's compensation practices, not complying with legislation, and not complying with Government policy or direction.

Implications of inconsistent compensation practices

All departments, boards, agencies and commissions are using public money to compensate employees. Government is the ultimate employer of all public employees whether they work for Government departments or a Government entity.

However, as Figure 1 shows, we continue to see that Government employees are not all compensated on a consistent basis. Furthermore, these inequities usually result in increased costs for Government.

2.1 Inconsistent Compensation Practices

Figure 1

Inconsistent Compensation Practices in Government Entities 1994 to 2005

Annual Report	Review title	Compensation issues
2005	2.2 Monitoring of Agencies of the Crown	<p>Included in section entitled Highlights from Management Letters for Government Entities Audited by Private Auditors or Our Office:</p> <p>4 letters identified issues with payrolls such as payroll advances and the approval of time sheets.</p>
2005	2.3 Memorial University of Newfoundland	<p>Our review disclosed the following inconsistent compensation practices:</p> <ul style="list-style-type: none"> - Salary scales at MUN are significantly higher than in Government departments or other Government agencies. - MUN offers some faculty members a market differential as an incentive to attract qualified candidates. - Administrative stipends paid to academic deans and department heads ranged from \$6,000 to \$25,000. - Forgivable loans are used to attract qualified candidates. - Free tuition is provided to staff at the rate of one course per semester; and - A cost -shared membership fee subsidy for The Works fitness facility is currently offered to over 600 employees.
2005	2.4 Seconded Positions	<p><i>Secondment policy</i></p> <p>The Department of Education is not complying with its own secondment policy relating to teachers. For example:</p> <ul style="list-style-type: none"> - Although secondments are designed for a temporary period of time, 16 (50%) of the 32 seconded teachers at January 2005, had been seconded for periods in excess of the Departments three-year limit. - Although the Department's policy provides that seconded teachers will not normally be placed in management positions, 4 of the 32 seconded teachers at January 2005 had been promoted to a management position.

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
2005	2.4 Seconded Positions	<p><i>Payment of redundancy</i> In one instance, a Department employee was seconded to a position with a school board and was paid a redundancy amount of \$82,323 when the seconded position at the board was declared redundant.</p> <p><i>Portability of Pensions Act</i> We found 6 instances where individuals on secondment, who were subsequently transferred to permanent positions, were permitted to continue to pay into a pension plan even though they no longer belonged to the group the plan was designed for.</p> <p><i>Salary differentials policy</i></p> <ul style="list-style-type: none"> - During the year the Department paid approximately \$82,000 to 9 management staff relating to salary differentials. Government policy only allows salary differentials to be paid based on positions which are classified on a job evaluation plan administered by Treasury Board. These positions are not classified on such a job evaluation plan. - By filling program consultant positions through secondments, the Department is paying these individuals more than the position value because of a bonus amount required by the Newfoundland and Labrador Teachers Association collective agreement.
2005	2.10 Central West Health Corporation	<p>Examples of non-compliance with Government's compensation practices and Corporation policy included:</p> <p><i>Paid leave</i> There were 10 instances where 7 employees received a total of \$134,500 pay in lieu of taking 2,835.5 hours of paid leave.</p> <p><i>Incorrect overtime payments</i> Management and non-bargaining staff were paid double time for overtime worked during the April 2004 public service strike. Government policy is to pay overtime at time and a half. Our review identified excess overtime payments of \$48,000 to 8 management staff.</p> <p><i>Incorrectly applied salary differential</i> Since January 2003, a senior executive was paid approximately \$92,373 due to the incorrect application of a 1% salary differential above the Vice-President of Medical Affairs salary level.</p>

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
2005	2.10 Central West Health Corporation	<p><i>Overpaid termination benefits</i> The Corporation overpaid an employee a total of \$167,533 related to termination benefits such as redundancy and severance.</p> <p><i>Costly management decision</i> The Corporation agreed to an arrangement whereby an employee who wished to resign would stay until health care restructuring in the region was complete. As a result, the Corporation had to pay this employee an additional \$102,000 in redundancy pay on termination.</p>
2005	2.16 Newfoundland and Labrador Housing Corporation Employee Computer Purchase Loan Program	<p>The Corporation provides its employees with computer purchase loans which are inconsistent with benefits provided to employees of Government departments.</p> <p>Since the program began in 1989, over 500 loans worth more than \$1 million have been advanced to over 200 employees.</p>
2005	2.18 Royal Newfoundland Constabulary	<p><i>Overtime</i></p> <ul style="list-style-type: none"> - Officials of the RNC had identified in one detachment that members were working overtime on their days off and going on sick leave on their scheduled days of work. - Although there is no provision in the employment contract with the Chief of Police regarding any compensation over and above the base salary, overtime payments totaling \$9,417 were made relating to the April 2004 public sector strike. <p><i>Employee benefits</i></p> <ul style="list-style-type: none"> - Contrary to his employment contract, the Chief of Police was provided with employee benefits (CPP, EI, Group Life and Group Medical) totaling \$17,015. - Although the error was detected by the Department of Justice, the Department forgave \$12,872 and required that only \$4,143 (relating to Group Life and Group Medical) be repaid at the rate of \$92 per pay period.

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
2005	2.20 Municipal Assessment Agency	<p>The following expenses paid by the Agency were not consistent with Government policy:</p> <ul style="list-style-type: none"> - Golf fees for staff and Board totaling \$907; - Liquor for Board conferences and staff golf functions totaling \$505; - Christmas dinners for Board (including spouses) totaling \$3,952; and - Christmas luncheon for staff totaling \$305.
2004	2.5 Monitoring of Agencies of the Crown	<p>Included in section entitled Highlights from Management Letters for Government Entities Audited by Private Auditors or Our Office:</p> <ul style="list-style-type: none"> - 10 letters identified issues with payroll such as payroll advances.
2004	2.7 Corner Brook/Deer Lake/St. Barbe School Board	<ul style="list-style-type: none"> - Government policy limits the advancement on management salary scales to step 25; whereas, 3 executive Board staff were being paid on step 33 (an annual total of \$38,702 contrary to Government policy).
2004	2.8 Lewisporte/Gander School District	<ul style="list-style-type: none"> - Government policy limits the advancement on management salary scales to step 25; whereas, 4 executive Board staff were being paid on step 33 (an annual total of \$37,831 contrary to Government policy). - No support for need for Controller to be paid an \$85 per month travel allowance.
2004	2.10 Newfoundland School for the Deaf	<ul style="list-style-type: none"> - Employees at the School were earning excessive amounts of overtime.

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
2004	2.11 School Board Executive Compensation Practices	<p>New Boards</p> <p>The Department of Education created inconsistencies in the salary scales of newly created school boards similar to the inconsistencies that were created in 1996 including:</p> <ul style="list-style-type: none"> - No adjustment was made for excess salaries of old board employees taking positions with new boards that were not in compliance with Government policy; and - The Department of Education placed 5 Education Officers above step 25 on their salary scale contrary to Government policy. <p>Former Boards</p> <p>Inconsistencies in the former school boards include:</p> <ul style="list-style-type: none"> - 10 of 11 school boards approved annual salaries for 38 of 42 executive totaling \$322,000 in excess of salaries approved by Cabinet; - The Department of Education approved certain salary top-ups while it refused other salary top-ups leading to inconsistencies within the system; - One board reimbursed 4 executives \$12,096 annually for local travel in lieu of submitting travel claims; - Assistant Director of Finance of a board was paid \$34,000 for leave and overtime in contravention of executive compensation practices; and - The same individual was allowed to accrue annual leave and sick leave instead of paid leave as per Government policy.
2004	2.24 Grenfell Regional Health Services Board	<ul style="list-style-type: none"> - The Board funded an employee computer purchase plan for equipment which cost \$206,000 for 2002-03 and 2003-04 in contravention of Department policy and compensation practices for Government.
2004	2.31 Review of the Board of Commissioners of Public Utilities	<ul style="list-style-type: none"> - An annual pension of \$24,000 was paid to a former Commissioner since November 1999 without obtaining the required Cabinet approval under the <i>Public Utilities Act</i>.

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
2003	2.14 Newfoundland and Labrador Liquor Corporation	Board per diems paid to Chair included: <ul style="list-style-type: none"> - Insufficient support for amounts claimed totaling \$31,920 to determine compliance with Government policy; and - \$10,830 paid for ineligible items.
1999	3.18 A Review of the Multi-Materials Stewardship Board	<ul style="list-style-type: none"> - Payments of \$9,995 and \$7,885 to a Board member lacked support for the type of work performed and consequently, it could not be determined if the Board member should have been remunerated.
1999	3.27 The Western Health Care Corporation	<ul style="list-style-type: none"> - Concerns were identified with the amount due from employees to the Corporation including amounts related to salary advances. - At 31 March 2003, there was \$552,513 in outstanding accounts receivable related to employee loans. - Long Term Disability premiums were paid in excess of Government policy costing \$10,627 for 1998-99.
1998	3.8 Transfer of School Board Assets and Liabilities (Avalon East, Avalon West, Lewisporte/Gander and Labrador)	<ul style="list-style-type: none"> - Executive salaries were in excess of levels approved by Cabinet by \$162,504. - Compensation was paid to Board members for lost wages in the amount of \$7,800. - Redundancy pay was in excess of Government policy by \$144,946. - Employees accepted voluntary demotions without a deduction in salary at a total cost \$29,814 for 5 years. - Payments made to employees for unused vacation pay were not in accordance with Government policy. - Payments to redundant employees for unused vacation pay were not in accordance with Government policy. - Car allowances were paid in excess of Government policy by \$55,000. - Board dinners and gifts totaling \$97,000 were identified.

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
1998	3.8 Transfer of School Board Assets and Liabilities (Avalon East, Avalon West, Lewisporte/Gander and Labrador)	<ul style="list-style-type: none"> - \$42,000 was paid to an executive of a former Board for two thirds of unused accumulated education leave.
1998	3.16 Health Labrador Corporation	<ul style="list-style-type: none"> - Senior officials received compensation in excess of Government policy as follows: <ul style="list-style-type: none"> - An official was paid about \$12,000 for 2 months during which he was not required to work; and - Gifts totaling \$12,120 paid to employees in recognition of years of service. - Provision of non-monetary and monetary benefits totaling \$39,797 to a senior employee included: <ul style="list-style-type: none"> - \$600 per month for use of private vehicle; - Reimbursement for 2 round trips for an employee and family; and - Payment of annual fee on personal credit card.
1998	3.25 The John Cabot (1997) 500th Anniversary Corporation	<ul style="list-style-type: none"> - The Corporation did not use pay scales similar to that of Government. - \$34,000 was paid to staff for unused vacation despite lack of proper records to support balances.
1997	3.14 School Board Expense Review	<ul style="list-style-type: none"> - Instances in 7 of 10 new School Boards where Directors and Assistant Directors paid at higher levels than approved by Cabinet. - Prior one-time bonuses were included in funding submissions for established new minimum salary levels for directors and assistant directors. - 2 instances noted where employees declared redundant were maintained at their old salary rate rather than the rates associated with lower paying positions to which they moved. This was not in compliance with Governments voluntary demotion policy. - Numerous leave and compensation issues were identified related to compliance with direction of the Minister of Education and the <i>Schools Act</i>.

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
1997	3.15 Newfoundland Farm Products Corporation	<ul style="list-style-type: none"> - Payments totaling \$76,106 were made to 3 senior officials which did not comply with Government's compensation policies.
1997	3.18 Central Regional Community Health Board	<ul style="list-style-type: none"> - A request for reclassification of 12 management positions refused by the Minister of Health however, Board proceeded with reclassification and paid \$69,302 in retroactive salary to 12 staff. - The Board paid 2 financial assessment officers at a higher than approved salary scale.
1997	3.22 Newfoundland Cancer Treatment and Research Foundation	<ul style="list-style-type: none"> - New recruited physicians were appointed by the Foundation at salary levels in excess of that authorized by Department of Health.
1997	3.23 Workers Compensation Commission	<ul style="list-style-type: none"> - An instance was noted where an employee was reimbursed for professional fees in the amount of \$700 per annum for a total of \$2,100 . The payment was not in compliance with Cabinet direction that had discontinued future employees from reimbursement for professional fees.
1996	3.7 Western Memorial Hospital Corporation	<ul style="list-style-type: none"> - There was a \$630,000 receivable balance at 31 March 1995 for employees and associates loans and salary advances. - Some members of the executive had received salary up to 6 months in advance. - 2 computers costing \$14,646 were purchased by the Corporation on behalf of a senior employee. - \$109,645 was paid in monetary supplements during 1994/95 on behalf of employees for long term disability insurance, group health, group life and voluntary insurance, and dental plan premiums. - Some gifts given for retirement and service recognition (watches).
1996	3.8 Newfoundland Medical Care Commission	<ul style="list-style-type: none"> - \$1,675 was paid in 1994/95 for an executive car allowance. - 2 employees were reimbursed for 100% of tuition and books for courses whereas the Government policy for tuition reimbursement was 50%.

2.1 Inconsistent Compensation Practices

Annual Report	Review title	Compensation issues
1996	3.13 Burin Peninsula Integrated School Board	<ul style="list-style-type: none"> - \$1,000 was paid to Board members for lost wages after the Board was advised by the Dept. of Education to cease the practice as it was in contravention of the <i>Schools Act</i>.
1995	3.1 Marble Mountain Development Corporation	<ul style="list-style-type: none"> - There was a lack of support for increases in staff salaries and overtime.
1994	5.1 Public Sector Restraint Act, 1992	<p>10 Agencies of the Crown were reviewed including:</p> <ul style="list-style-type: none"> - Cabot College; - Enterprise Newfoundland and Labrador Corporation; - Newfoundland Cancer Treatment and Research Foundation; - Newfoundland Hardwoods Ltd.; - Waterford Hospital Corporation; - Labrador Community College; - Board of Commissioners of Public Utilities; - Marystown Shipyard Limited; - Notre Dame Integrated School Board; and - The General Hospital Corporation. <p>All reviews noted instances where compensation practices were not consistent with those of Government. These instances included:</p> <ul style="list-style-type: none"> - Some agencies did their own position classification whereas others had the classifications done by Treasury Board Secretariat; - Reclassifications implemented earlier than the date of approval by Treasury Board Secretariat; - Remuneration received by staff in addition to a regular salary; - Professional fees paid to employees hired subsequent to MC 1887-90 which ceased the practice in Government; - Payment of club membership fees without Treasury Board Secretariat approval; - Interest free salary advances; - An individual was paid an additional salary while also being paid on education leave; - Payment was made for annual leave in excess of the amount allowed to be carried over from prior year; and - Temporary assignment not in compliance with promotion formula.

2.1 Inconsistent Compensation Practices

Recommendations

The Public Service Secretariat should consult with Government as to whether Government's compensation practices should be applied to all Government entities.

Government should consider articulating, communicating and imposing meaningful consequences on Government entities and/or persons who continue to knowingly disregard their direction regarding compensation practices.

Government should determine whether current inconsistent compensation practices (i.e. higher pay for similar classification) caused by not requiring its compensation standards be used by Memorial University of Newfoundland and Labrador and Newfoundland and Labrador Hydro should continue.

Executive Council's Response

Government entities have varying degrees of autonomy as provided for by the Government in their enabling legislation. It is noteworthy that the Department of Health and Community Services communicated in writing to health boards twice in 1999 that Boards and agencies should comply in all respects with Government's compensation standards. As well, the Schools Act is clear that salaries should be paid according to scales approved by Government. The Public Service Secretariat will review the current situation with respect to the variability in compensation and present policy options for the consideration of Treasury Board.

It is the responsibility of Government to ensure that departments, boards and agencies have clear mandates and that the funding allocated to these organizations is spent efficiently to achieve their mandates. Last year, the Transparency and Accountability Act was passed. This legislation requires that departments, boards and agencies make public their strategic plans, report on the progress of these plans, and adhere to high standards of financial accountability. This Act allows Government to exercise better oversight than ever before regarding the plans and procedures of departments, boards and agencies.

In situations where entities and/or persons required to apply Government's compensation practices knowingly disregard Government's direction regarding compensation practices the reporting and control structures in place provide a framework for addressing such instances.

2.1 Inconsistent Compensation Practices

Memorial University of Newfoundland and Newfoundland and Labrador Hydro have a degree of autonomy as provided for by the legislation governing these entities. This matter will be taken under advisement in conjunction with the Public Service Secretariat review referenced above.