

2.10 Central West Health Corporation

Introduction

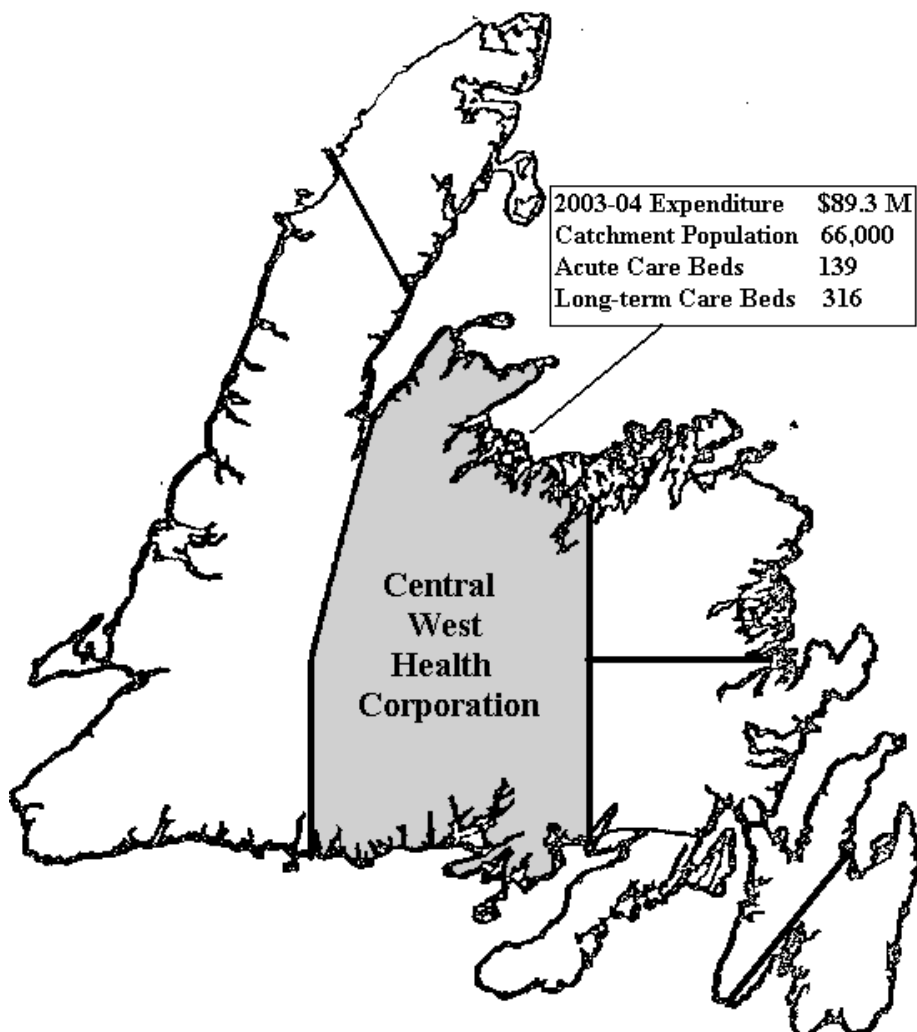
Mandate

The Central West Health Corporation (the Corporation) was established in 1994 and provides primary, secondary, and long term care to approximately 66,000 residents. These services are provided through the Central Newfoundland Regional Health Centre, 8 regional facilities and a number of clinics throughout the region.

Details as to the region covered by the Corporation are shown in Figure 1.

Figure 1

Central West Health Corporation Region



2.10 Central West Health Corporation

Amalgamation Effective 1 April 2005, the Corporation combined operations with the Central East Health Care Institutions Board and the Central Regional Health and Community Services Board and operated as a regional health authority under the Province's restructuring of existing institutional and health and community services boards.

Audit Objectives and Scope

Objectives The objectives of our review were to:

1. Review the financial position and operating results of the Corporation; and
2. Determine if expenditures are properly approved, monitored, controlled, and comply with the *Public Tender Act and Regulations*.

Scope Our review, which we completed in March 2005, covered the fiscal years:

1. 2003-04
2. 2004-05 (up to January 2005)

Conclusions

Findings In our opinion, there are concerns with Central West Health Corporation's financial management practices. A lack of Corporation policy, as well as a lack of adherence to Government policy, has led to questionable transactions.

Conclusions from our review relate to four aspects of the Corporation's finances: (1) Deficits, (2) Compensation Practices, (3) Expenditures, and (4) *Public Tender Act*.

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1. No approval to incur deficits

The Corporation incurred an annual operating deficit in two of the past five years and at 31 March 2004, had an accumulated deficit of \$36.6 million, including \$35.8 million in accrued severance pay, vacation pay accruals, amortization of capital assets, and amortization of capital contributions. Contrary to the *Hospitals Act*, although the Corporation requested approval from the Minister of Health and Community Services to incur annual operating deficits in 2001 and 2004, the Corporation never received approval to incur these deficits.

2. Compensation practices not consistent with Government policy

The Corporation's compensation practices are not consistent with Government's compensation practices. Examples of this include:

Paid leave

There were 10 instances where seven employees received a total of \$134,500 pay in lieu of taking 2,835.5 hours of paid leave.

Incorrect overtime payments

Management and non-bargaining staff were paid double time for overtime worked during the April 2004 public service strike. While the Corporation said this practice is common and in line with Newfoundland and Labrador Health Boards Association policy, Government policy is to pay overtime at time and a half. Our review of 8 management staff identified excess payments of \$48,000.

Unrecorded compensation

In one instance, \$5,000 overtime pay for a senior employee was paid to the hospital foundation as a donation; the amount was not recorded on the employee's T4.

Incorrectly applied salary differential

A senior executive at the Corporation was paid a 1% salary differential above the Vice-President of Medical Affairs' salary. While the 1% differential is accepted practice, it is being incorrectly applied. The position of Vice-President of Medical Affairs cannot be considered the next highest paid position because it is not classified by Treasury Board's Classification and Pay Division, as is required by Government policy. Since January 2003, the Corporation has paid out approximately \$92,373 in salary differential to this senior executive.

Overpaid termination benefits

The Corporation paid redundancy and severance of two years totaling \$360,400, along with \$51,003 for unused paid leave, when a senior executive was terminated in March 2005. However, Government policy states the maximum to be paid for redundancy and severance is 82 weeks. Factoring in termination benefits, the Corporation overpaid the employee a total of \$167,533.

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Costly management decision

When one of the Corporation's Vice-Presidents indicated their intent to resign in 2004 to undertake a private venture, they were entitled to 20 weeks of severance pay totalling about \$35,000. However, the Corporation agreed to an arrangement where the employee 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 in February 2005. The Corporation says the employee was needed to assist with restructuring; however, the employee was on leave for 87.5 of the 137 days of the continuation period and was allowed to overdraw their leave by 48.5 days.

3. Expenditures unsupported and unauthorized

We found issues related to inadequate documentation, non-compliance with Corporation policy, inconsistencies with Government policy, and claims for ineligible expenses when we examined 58 executive, senior management and Board member travel claims, 13 relocation and recruitment expense claims, 20 medical education allowance claims, and Board expenditures. Examples include:

- From July 2003 to August 2004, one of the Corporation's Vice-Presidents claimed travel expenses totalling \$5,900 for 11 trips to St. John's. Leave records indicate the employee was on paid leave at the time.
- Contrary to Government relocation policy, there were two instances where mortgage down payments were considered a moving expense, and there were other instances where items such as a wide-screen television, digital camcorder, global positioning system and mobile telephone were purchased and claimed as moving expenses. There were three instances where employees were provided amounts in excess of the \$12,000 maximum.
- Without authority, the Corporation paid \$10,000 to the hospital foundation on behalf of a senior employee in lieu of payments for professional development. The foundation issued a charitable receipt but the amount was not included on the employee's T4.

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4. Public Tender Act contravened

The Corporation is contravening the *Public Tender Act* in that it does not always call public tenders for purchases greater than \$10,000, does not always obtain three quotes or establish a fair and reasonable price for purchases of \$10,000 and less, and does not correctly communicate exceptions being made.

Examples of contravention of the *Public Tender Act* include:

- Of the 20 purchases sampled that were greater than \$10,000, 6 with a total contract value of \$382,000 were not tendered and the House of Assembly was not informed of the exceptions.
- Of the 14 purchases sampled that were \$10,000 or less, 4 purchases did not have either 3 quotes or documentation of a fair and reasonable price.
- Contract extensions were not always properly approved, tenders were not kept in a locked box until opened, and tenders were not stamped to document date and time of receipt.

Findings and Recommendations

1. Deficit

Deficit increasing

The financial position of the Corporation has declined over the past five fiscal years. As at 31 March 2004, the Corporation had an accumulated deficit of \$36.6 million, an increase of \$16.1 million from the accumulated deficit of \$20.5 million at 31 March 1999. Subsequent to our review, the Corporation's 2004-05 audited financial statements were released. For the 2004-05 fiscal year the Corporation reported an operating deficit of \$4.5 million which increased the Corporation's accumulated deficit to \$41.1 million at 31 March 2005.

Figure 2 shows the Corporation's annual deficits and accumulated deficits to 2004.

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Figure 2

**Annual and Accumulated Deficits
Years Ended 31 March
(\$ Millions)**

	Opening	2000	2001	2002	2003	2004	Accumulated Deficit
Operating surplus (deficit)	0.7	0.2	(1.0)	0.2	0.0	(0.9)	(0.8)
Non-shareable deficit	(21.2)	(2.2)	(3.4)	(3.2)	(3.9)	(1.9)	(35.8)
Total annual deficit		(2.0)	(4.4)	(3.0)	(3.9)	(2.8)	
Accumulated deficit	(20.5)	(22.5)	(26.9)	(29.9)	(33.8)	(36.6)	(36.6)

Source: Audited Financial Statements

As the Figure shows, \$35.8 million of the 2004 \$36.6 million accumulated deficit is the result of non-shareable items such as severance pay accruals, vacation pay accruals, amortization of capital assets, and amortization of capital contributions. The remaining \$0.8 million of the accumulated deficit relates to shareable operations.

Deficits not approved

For each of the fiscal years from 2000 to 2004, the Corporation approved a balanced budget. However, in 2001 and 2004, the Corporation exceeded its budget and incurred operating deficits of \$1.0 million and \$0.9 million respectively. Contrary to the *Hospitals Act*, although the Corporation requested approval from the Minister of Health and Community Services to incur annual operating deficits in 2001 and 2004, the Corporation never received approval to incur these deficits.

Budget not approved on timely basis

The Corporation's annual budgets are not being approved by the Department of Health and Community Services on a timely basis. For the 2003-04 and 2004-05 fiscal years, the Corporation's budgets were approved well into the respective fiscal year.

Budget submission and approved timelines

Fiscal Year	Budget Submission Deadline	Budget Submitted to Department for Approval	Budget approved by Department
2003-04	30 May 2003	3 June 2003	10 July 2003
2004-05	10 July 2004	12 July 2004	21 December 2004

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Large unfunded liabilities

At 31 March 2004, the Corporation had total unfunded liabilities of \$35.2 million. Figure 3 shows the Corporation's total unfunded liability for the last four years.

Figure 3

Unfunded liabilities For the Fiscal Years (\$ Millions)

	2000-01	2001-02	2002-03	2003-04
Cash	1.4	2.1	(0.9)	0.8
Accounts payable	(5.3)	(8.5)	(4.5)	(5.4)
Current long-term debt	(0.3)	(0.4)	(0.8)	(0.8)
Less: Net accounts receivable	2.5	6.0	3.5	3.7
Net liabilities	(1.7)	(0.8)	(2.7)	(1.7)
Long-term debt	(13.1)	(15.2)	(18.8)	(18.7)
Severance pay	(7.6)	(8.3)	(10.0)	(10.5)
Vacation pay	(3.4)	(3.8)	(4.2)	(4.3)
Total unfunded liabilities	(25.8)	(28.1)	(35.7)	(35.2)

Source: Audit Financial Statements

The \$35.2 million in unfunded liabilities at 31 March 2004 will be affected by the results of current operations and the level of Government funding. If the Corporation has annual operating surpluses in the future, these surpluses can be used to fund the liabilities. However, if the Corporation has annual operating deficits, then the deficits, along with the unfunded liabilities, will eventually have to be funded by Government.

2. Accounts Receivable

For the fiscal years ending 2000 to 2004, the Corporation reported significant accounts receivable. At 31 March 2004, there was \$3.8 million in accounts receivable. Figure 4 shows the accounts receivable for the last five years.

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Figure 4

**Accounts Receivable
31 March
(\$000's)**

Accounts Receivable	2000	2001	2002	2003	2004
Doctors/Nurses/Employees	163	48	174	121	96
Patients	375	416	615	518	700
Long-term care residents	615	461	545	652	513
Due from Board Fund	0	230	0	(468)	510
Hospital Foundation	50	183	739	1,364	1,031
Provincial Government	1,173	644	3,402	384	69
Federal Government	126	418	695	847	479
Other	251	327	133	183	439
Total accounts receivable	2,753	2,727	6,303	3,601	3,837
Allowance for doubtful accounts	(238)	(231)	(259)	(126)	(123)
Net accounts receivable	2,515	2,496	6,044	3,475	3,714

Source: Audited Financial Statements

Note: The accounts receivable information reported in the audited financial statements has been re-grouped for report purposes

The Corporation is not adequately monitoring, reporting and collecting its accounts receivable.

As Figure 4 shows, the Corporation reported \$700,000 in patient receivables at 31 March 2004. Our review of the patient receivables identified:

**Incorrect
ageing**

\$211,000 of the patient receivable balance was recorded in the Corporation's patient receivable system. At 31 December 2004, the patient receivable system reported \$222,000 outstanding, of which \$139,000 (or 63%) was over 151 days old. However, a review showed that \$70,000 in credits were not properly aged. As a result, accounts aged 151 days or more were overstated by \$70,000.

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No declaration forms	<p>A review of 7 accounts over \$1,000 and 151 days or more in arrears identified 2 accounts (totalling \$9,113) where declaration forms for out-of-province patients were not completed prior to patient discharge. Without this form, the Corporation cannot bill the other province's medical plan.</p>
Billing errors	<p>Workers compensation patients who return as non-workers compensation patients at a later date do not always have their patient coding changed upon admittance. As a result, workers compensation is incorrectly billed for the service. Furthermore, the Corporation does not send out follow-up invoices to workers compensation if an account is not paid. As a result, the incorrect billing is not detected.</p>
Incorrect classification	<p>\$415,000 of the patient receivable balance was recorded in the Corporation's client receivable system. However, our review found accounts totalling \$312,000 not related to patient services. For example:</p> <ul style="list-style-type: none">• \$231,000 related to an amount owing from the hospital foundation regarding an equipment purchase in January 2003.• \$42,000 related to a \$64,000 no-interest loan to one doctor in June 2002. The account is being repaid at \$1,100 per month.• \$35,000 was due from the Central Regional Health and Community Services Board for a paramedic training program.• \$4,000 related to an amount owing from one employee regarding a return in service agreement in December 2003. The employee resigned in 2004 and is repaying the balance at \$125 per month.
Money owed from Foundation	<p>At 31 March 2004, the Corporation reported \$1,031,000 due from the South and Central Hospital Foundation. Our review identified:</p> <ul style="list-style-type: none">• \$231,000 owing from the Foundation was classified as patient receivables and not included in the \$1,031,000. The total owing from the Foundation should have been reported as \$1,262,000.• \$106,000 was related to recoverable salaries paid on behalf of the Foundation. At 31 March 2004, \$50,000 was over two years old.• \$925,000 related to capital equipment purchases cost shared by the Foundation. At 31 March 2004, \$687,000 was over a year old.

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Money owed by employees and doctors

At 31 March 2004, the Corporation reported \$96,000 owing from employees and doctors. Our review identified \$12,250 related to the balance on a three-year return in service agreement for a physiotherapy student. In September 1999, the student received a training bursary of \$21,000 for a three-year program and in January 2003 began working with the Corporation. At March 2004, the student had worked 15 months into the three-year agreement. The agreement stated that only 10% would be forgiven after 15 months; however, the Corporation had forgiven 42%. Therefore, the \$12,250 receivable was understated and should have been reported as \$18,900.

3. Compensation Practices

Not consistent with Government compensation practices

During 2003-04, the Corporation spent \$68.1 million, or 76%, of its \$89.3 million in total expenditures on salaries and benefits. Our review disclosed that the Corporation's compensation practices are not consistent with Government policy with regard to:

- A. Payment of paid leave
- B. Overtime payment during strike action
- C. Payment of salary differential
- D. Termination benefits

Excess compensation paid to staff and payments made in advance of due dates reduces amounts available for program delivery.

A. Payment of paid leave

Paid leave payments inconsistent with Government policy

Government policy permits an employee who has more than 180 days paid leave to receive payment for up to 10 days per year as long as the employee's leave bank remains above 180 days. However, Corporation paid leave policy allows employees who have over 30 years of service and are older than 55 to receive payment for up to 40 days of paid leave per year, regardless of their leave bank balance. Therefore, this is not consistent with Government policy.

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Our review identified 10 instances where 7 employees (executive, management and non-bargaining) received a total of \$134,444 pay in lieu of taking 2,835.5 hours of paid leave. Paid leave by employee ranged from 143 hours (19 days) to 1,100 hours (147 days) as shown in the table. None of these employees had the 180 day leave bank balance required by Government policy.

Paid leave for April 2003 - January 2005

Employee	Date	Paid Leave		Amount
		Hours	Days	
1	April 2003	250	33	\$ 11,153
2	June 2003	300	40	13,327
	March 2004	300	40	14,002
	February 2005	500	67	23,336
3	August 2003	250	33	8,745
4	September 2004	160	21	2,533
5	October 2004	157.5	21	11,003
	February 2005	525	70	36,678
6	November 2004	143	19	4,025
7	January 2005	250	33	9,642
Total		2,835.5	377	\$ 134,444

Individual overpayment

In another instance, an employee who had a 180 day leave bank balance required by Government policy was paid for 65.6 days (\$15,212), 55.6 days in excess of Government's 10 day annual limit.

Overtime paid above Government policy

B. Overtime payment during strike action

The Corporation paid employees (executive, management and non-bargaining) double time for overtime worked during the April 2004 public service strike. Corporation staff stated the policy is common throughout the health care system in the Province, and is in line with policy directions received from the Newfoundland and Labrador Health Boards Association. However, Government policy provides for the payment of overtime at time and a half, other than for statutory holidays when overtime is paid at double time.

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The Corporation paid out or accrued overtime pay totaling \$1.2 million related to the strike. Based on double time, the Corporation paid an estimated \$300,000 in excess overtime pay. Our review of overtime paid to 8 employees (executive and management) during the strike identified \$47,694 in excess overtime pay. The table summarizes these payments.

Excess overtime payments

Senior Employee	Overtime Hours	Payment at Double Time	Payment as per Government Policy	Excess Overtime
1	197.5	\$ 34,955	\$ 26,217	\$ 8,738
2	239.0	43,746	32,809	10,937
3	156.0	14,624	10,968	3,656
4	230.0	21,560	16,169	5,391
5	151.25	14,180	10,635	3,545
6	236.0	20,182	15,137	5,045
7	175.75	15,950	11,962	3,988
8	274.0	25,576	19,182	6,394
Total	1,659.5	\$190,773	\$143,079	\$47,694

Compensation not recorded on T4

A senior executive donated 50 hours of banked overtime hours, or approximately \$5,000, to the hospital foundation. In May 2004, the Corporation paid the \$5,000 to the hospital foundation, and reduced the employee's overtime bank by 50 hours. Our review found:

- The Corporation did not include the \$5,000 on the employee's T4.
- The foundation issued a receipt in the employee's name in May 2004.

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Salary differential above Government policy

C. Payment of salary differential

Government's salary differential policy states a manager receives 1% above the base salary of the highest classified management subordinate's pay scale.

The salary differential policy is not applicable:

- If either position is not officially classified on a job evaluation plan administered by Treasury Board's Classification and Pay Division; or
- When the subordinate is:
 - paid based on individual qualifications;
 - red-circled; or
 - paid higher than the regular rate of pay for the position.

A senior executive at the Corporation was paid a 1% salary differential above the Vice-President of Medical Affairs' salary, exclusive of any retention bonuses paid. However, the position of Vice-President of Medical Affairs is not officially classified. As such:

- the position should not be considered as the highest paid subordinate; and
- the salary differential should not be paid since the senior executive's salary is already 1% above the next highest paid subordinate.

Since 1 January 2003, the Corporation has, contrary to Government policy, paid \$92,373 in salary differential to this senior executive.

Senior executive's salary differential payments

Effective Date	Salary based on 1% differential	Approved Salary per Point Scales	Annual Salary Differential	Calculated Overpayment
1 Jan 2003	\$164,929	\$124,761	\$40,168	\$20,084
1 July 2003	\$164,929	\$127,889	\$37,040	18,520
1 Jan 2004	\$172,565	\$131,077	\$41,488	41,488
1 Jan 2005	\$180,200	\$131,077	\$49,123	12,281
Total				\$92,373

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In May 2000, the Department of Health and Community Services directed the Corporation to discontinue the senior executive's salary differential. The Corporation did not comply with the Department's direction and continued to pay the salary differential.

In addition to the salary differential of \$41,488 in 2004 on the regular salary, the Corporation paid an additional \$11,837 in salary differential on overtime earned during the April 2004 public sector strike and an advance payment for paid leave.

**Costly
management
decision**

D. Termination benefits

On termination of employment, Government policy allows severance payment up to a maximum of 20 weeks of pay – one week for each year worked to 20 years. Furthermore, when a position is declared redundant, an employee is entitled to redundancy pay based on their age and years of service up to a maximum of 62 weeks. Therefore, an employee whose position is declared redundant may receive a maximum of 82 weeks pay.

During the summer of 2004, one of the Vice-Presidents indicated their intent to resign to undertake a private venture. This employee had over 20 years service with Government and therefore, was entitled to 20 weeks of severance pay totalling approximately \$35,000.

Although the Corporation was aware of the planned restructuring of health boards, it agreed to an arrangement where the employee would remain with the Corporation until health care restructuring in the region was complete. As a result, when the employee's position was declared redundant, the Corporation had to pay this employee an additional \$102,000 in redundancy pay (58 weeks) upon termination in February 2005.

Furthermore, from 3 August 2004 to 11 February 2005, although the Corporation indicated that the employee was needed to assist with the restructuring, the employee took 87.5 of the 137 working days for this continuation period in paid leave and, as a result, was available only 36% of the time. The employee only had 39 days of leave available during this period and on termination in February had overdrawn their paid leave balance by 48.5 days. Although the leave was recovered from the employee's termination benefits, Government policy does not permit leave to be taken in advance.

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Contract not consistent with Government policy

Our review of one senior executive's employment contract indicated that the termination benefits were not consistent with Government policy.

The contract states that, if the employee is dismissed without just cause, an amount equivalent to 2 years (i.e. 104 weeks) remuneration (including continued coverage of all health benefits and pension benefits for that period) would be provided. The contract also states that, should the Corporation be restructured and the employee is no longer employed with the Corporation or the newly established entity, it would be regarded as dismissal without just cause.

On 31 March 2005, the Corporation terminated its contract with this executive employee. Their termination pay is summarized as follows:

Termination pay

Termination Pay	Number of periods	Amount paid by Corporation	Amount per Government policy	Overpayment
Severance pay	20 weeks	\$ 69,308		
Redundancy pay	63 weeks	218,319		
Bridging to pension date*	21 weeks	72,773		
Total severance /redundancy	104 weeks	360,400	\$ 206,698	\$ 153,702
Unused paid leave	553 hours	51,003	37,172	13,831
Total termination benefits		\$ 411,403	\$ 243,870	\$ 167,533

* Bridging amount paid bi-weekly up to pension date

The termination pay included an overpayment of \$167,533 as follows:

- Government policy states the payment of redundancy is based on years of service and employee age up to a maximum of 62 weeks, and severance pay up to a maximum of 20 weeks, for a total of 82 weeks. However, based on its contract, the Corporation paid the senior executive 22 weeks (104 weeks - 82 weeks) in excess of the maximum provided for under Government's redundancy policy.

Furthermore, the Corporation calculated the redundancy and severance pay using the senior executive's annual salary, including salary differential. Since we have concluded the salary differential should not have applied, the properly calculated severance and redundancy on the 82 weeks, excluding the salary differential, should have been \$206,698 and not the \$360,400 paid. This amounts to an overpayment of \$153,702.

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In addition, in November 1993, this employee was paid severance of 11 weeks (\$21,364) from previous employment at another Crown agency. There was no evidence this amount was repaid or adjusted in the current calculation as required under Government policy.

- The Corporation calculated the payment of unused paid leave using the senior executive's annual salary, including salary differential. Since we have concluded the salary differential should not have applied, the properly calculated payment of unused paid leave should have been \$37,172. This amounts to an additional overpayment of \$13,831.
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4. Expenditures

Overview

For the year ended 31 March 2004 the Corporation spent about \$19.6 million to purchase goods and services. We reviewed, for the period 1 April 2003 to January 2005:

- A. Travel claims
- B. Relocation expenses
- C. Other expenses

We found issues with:

- inadequate documentation;
 - non-compliance with Corporation policy;
 - inconsistencies with Government policy; and
 - claims for ineligible expenses.
-

A. Travel claims

Issues identified

During the 2003-04 fiscal year, the Corporation spent approximately \$514,000 on travel. For the 9-month period ending 31 December 2004 in the 2004-05 fiscal year the Corporation spent \$327,000. In our review of travel expenses, we examined 58 executive, senior management and Board member travel claims and found issues related to:

- inadequate documentation;
 - non-compliance with Corporation and Government policy;
 - claims for ineligible expenses; and
 - travel expenses for a senior executive.
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Inadequate documentation

Government and Corporation policy requires a travel claim be completed to support the reimbursement of all travel costs. Our review found:

- None of the 58 travel claims examined provided departure and arrival times to determine if proper meals rates were claimed.
 - Travel claims did not always provide the purpose of travel to determine whether the travel was for legitimate purposes. 31 claims had vague reasons provided such as “administrative” or “meetings-St. John's” or “various meetings” while 2 claims had no reason provided.
 - One senior executive's travel claim, submitted in December 2004, and covering the period June 2004 to December 2004, claimed \$8,535 but could not be located at the time of our review.
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Non-compliance with policy

Corporation policy requires employees to submit travel claims within two weeks of travel. Three senior managers submitted travel claims up to six months, three months, and one month after their travel (respectively).

Ineligible expenses

Five instances were identified where ineligible expenses were claimed:

- Two claims by one employee included restaurant charges for \$39 and \$15 even though the employee also claimed the per diem rate.
 - One employee claimed a movie rental for \$15.
 - Two employees claimed the dinner meal rate even though they are noted as attending a dinner meeting for which another employee claimed \$137.
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Travel expense issues for a senior executive

One of the Vice-Presidents reported mileage from 1 May 2003 to 18 March 2004 of approximately 34,000 kilometres (\$10,710) relating to 34 trips from Grand Falls-Windsor to and from St. John's. A number of concerns have come to light regarding this senior executive's travel expenses as follows:

- At the time of our review, there was no indication on the travel claims as to the purpose of the trip. Upon enquiry we were provided with explanations to support the travel.

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- We identified 11 instances where Corporation records indicated this employee was on paid leave while on travel status and claimed travel expenses totalling \$5,900.
 - At the time of our review, in anticipation of the employee's termination, the Corporation reconciled the employee's travel claims dating back to 2002-03 and determined that the employee had been over-advanced by \$9,881. The \$9,881 was recovered from the employee's termination benefits.
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B. Relocation expenses

Overview

The Corporation does not have written relocation expense reimbursement policies. It does, however, provide up to \$12,000 for staff relocation expenses. Corporation officials indicated that:

- claims can be made for relocation of employees and their possessions (or purchasing items upon relocation if it is more cost efficient);
- expense claims must be supported with receipts; and
- employees must sign a two-year return of service agreement in return for the claim.

In reviewing relocation expenses, we examined 13 claims and identified issues with:

- inadequate documentation;
 - payments in excess of the Corporation's \$12,000 maximum; and
 - inconsistencies with Government's relocation policy.
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Inadequate documentation

Two relocation claims were paid the maximum of \$12,000 even though they did not have adequate documentation to support the full \$12,000 amount. One doctor moving from St. John's only provided support for \$7,358, while the other doctor moving from Qatar only provided support for \$2,510.

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Payments in excess of the Corporation's \$12,000 maximum

The Corporation reimburses the costs of relocating employees; however, some claims exceeded Government and Corporation policy:

- A nurse was paid \$12,354 for moving from Alberta, \$354 in excess of the maximum allowable claim of \$12,000.
 - A married couple was paid \$29,097 for moving from St. John's, \$17,097 in excess of the maximum allowable claim of \$12,000. Both were employed with the Corporation; however, Government policy states married employees should be treated as one individual for claim purposes (i.e. a maximum \$12,000 allowable claim for the couple).
 - A married couple was paid \$24,000 for moving from St. John's, \$12,000 in excess of the maximum allowable claim of \$12,000. Both were employed with the Corporation; however, Government policy states married employees should be treated as one individual for claim purposes (i.e. a maximum \$12,000 allowable claim for the couple).
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Non-compliance with Corporation policy

Corporation policy requires new employees to sign a two-year return of service agreement in return for reimbursing relocation expenses. However, service agreements were not always entered into with the individual:

- A return of service agreement could not be found for one doctor who moved in August 2002; however, staff said the individual had provided two years of service.
 - Two doctors who began their service with the Corporation in May 2004 and August 2004, respectively, did not enter into a return of service agreement with the Corporation until after our review.
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Inconsistencies with Government's relocation policy

Our review of reimbursements for relocating medical staff identified items not claimable under Government policy:

- The only support for a \$24,000 claim for moving from St. John's (\$12,000 each for a married couple) was a \$50,000 receipt for a progress payment on the building of a house in Grand Falls-Windsor. As this type of payment is not eligible for reimbursement under the Government's policy, the payment was inappropriate.

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- One \$12,000 claim for a doctor moving from Nova Scotia included a \$5,897 claim relating to a down payment on a house in Grand Falls-Windsor. As this type of payment is not eligible for reimbursement under the Government's policy, this portion of the \$12,000 payment was inappropriate.
 - Two claims included the purchase of items that were not claimable under Government policy. One doctor who moved from St. John's in August 2002 received \$12,000 for relocation reimbursement expenses which included a claim for \$3,312 for a wide-screen television, \$1,638 for a digital camcorder, \$1,146 for a global positioning system, and \$265 for a mobile phone. Furthermore, the purchase dates for these items went to December 2003. Another doctor who moved from England and received \$12,000 for relocation reimbursement expenses claimed \$5,013 for the purchase of a wide-screen television.
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C. Other expenses

Medical education allowances

While the Corporation does not have criteria in place to determine which expenditures are eligible for reimbursement relating to medical education allowances, Corporation officials indicated that \$1,200 will be provided annually to medical staff for professional development purposes, with chief service providers given an increased allowance of \$2,500. Our review of 20 claims indicated that:

- A duplicate payment for \$1,200 was made to one doctor in March 2004. Subsequent to our inquiry, we were informed that the duplicate payment was recovered.
 - One chief service provider was paid \$5,700 for attending two conferences in 2003-04. This is \$3,200 more than the \$2,500 annual maximum for this position.
 - One doctor was paid \$1,800 during 2003-04 for 3 months accommodation while studying in Halifax. This is \$600 more than the \$1,200 annual maximum for this position.
-

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Board Fund discretionary expenditures

The Corporation's Board Fund is used for discretionary spending. The Department of Health and Community Services' guidelines require Board funds be used for the benefit of health care, and not for personal benefit or gain of any employee. We found:

- In May 2004, \$10,000 was paid to the hospital foundation on behalf of a senior executive. Although Corporation officials could not provide a copy of the employee's employment contract, they indicated that under the contract the amount was paid to the hospital foundation in lieu of annual \$5,000 education allowance for a two year period. Without a contract, we could not confirm this condition or whether receipts should have been provided by the employee to support the education allowances paid.

Also, although the hospital foundation indicated that a receipt was issued for \$10,000 in the employee's name, the payment was not noted on the employee's T4.

- In December 2003 and December 2004, amounts of \$1,507 and \$1,841 were spent from Board funds respectively on Christmas dinners.

Retirement gifts

The Corporation has a policy of providing gifts to retiring staff based on years of service. This policy is not consistent with Government's policy regarding retirement receptions. Government's policy states that retirement-related expenses can only be provided for employees who are paid on the Executive Compensation Plan. The Corporation provided the following retirement gifts to individuals who were not on this plan.

Retirement gifts

Fund	Date	Retirees	Total	Gift Amounts
Operating	1 June 2004	6	\$1,050	\$125-\$200
Operating	10 June 2004	1	150	\$150
Board	25 Nov. 2004	1	329	\$329
Board	30 Nov 2004	6	1,400	\$100-\$300
Board	8 Dec 2004	7	1,070	\$120-\$200
Total		21	\$3,999	\$100-\$329

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5. *Public Tender Act*

Overview

Whenever the Corporation acquires goods and services, the Corporation must comply with the requirements of the *Public Tender Act* and *Public Tender Regulations, 1998*.

This table summarizes the requirements of the *Public Tender Act*.

When goods and services cost . . .	Or a public work costs . . .	Then the Corporation must . . .
More than \$10,000	More than \$20,000	Invite tenders
\$10,000 and less	\$20,000 and less	<ul style="list-style-type: none">• Obtain quotations from at least three legitimate suppliers, or• Establish for the circumstances a fair and reasonable price

The *Act* provides exceptions where tenders may not be required. In such cases, the Corporation must inform the Chief Operating Officer of the Government Purchasing Agency, who must submit a report to the House of Assembly for tabling.

No tendering for goods and services over \$10,000

Our review included a sample of 20 purchases greater than \$10,000 for the period 1 April 2003 to 31 December 2004. We used these samples to assess the Corporation's compliance with the *Public Tender Act* and *Regulations*. For the 20 purchases over \$10,000:

- 6 purchases were not tendered (3 of the 6 purchases not tendered were deemed emergency purchases or sole source; however, the Government Purchasing Agency and therefore the House of Assembly was not informed);
- 11 purchases were tendered; and
- 3 purchases met one of the exception provisions and the House of Assembly was informed (tender exceptions not approved by the head of the government-funded body, i.e. the Chief Executive Officer).

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Details on the 6 purchases not tendered are as follows:

Invoice Date	Amount (net of HST)	Description
September 2003	\$78,400	House for Doctor in Lewisporte <ul style="list-style-type: none"> - No evidence of quotes or specifications to determine on what basis the house was selected.
March 2004	\$38,770	Two used vehicles <ul style="list-style-type: none"> - Purchased from a company associated with a Board member. - No invoice available to support purchase amount - paid based on quotation. - Purchase not done through Corporation's Purchasing Department. - Quotation documents had to be obtained from the Ambulance department - no specifications were provided. - For one of the vehicles, the highest quote was selected.
November 2004	\$16,705	Used vehicle <ul style="list-style-type: none"> - Purchased from a company associated with the same Board member. - Quotation received 7 days after other quotations. - Purchase not done through the Corporation's Purchasing Department. - Quotation documents had to be obtained from the Ambulance department - no specifications were provided and the lowest priced vehicle was purchased.
July 2003	\$103,037	Soil remediation resulting from Botwood oil spill deemed to be an emergency purchase; however, the Minister of Government Services and therefore, the House of Assembly was not informed.
May 2004	\$124,196	Oil spill clean up in Botwood deemed to be an emergency purchase; however, the Minister of Government Services and therefore, the House of Assembly was not informed.
November 2004	\$21,087	Six telescopes deemed to be a sole supplier purchase; however, the Minister of Government Services and therefore, the House of Assembly was not informed.

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Change orders not approved as required

The *Act* provides for extensions or change orders within the scope of the original contract up to:

- \$15,000 for contracts under \$100,000;
- \$15,000 or 10% of the contract price, whichever is greater, for contracts over \$100,000 and less than \$500,000; or
- \$50,000 or 5% of the contract price, whichever is greater, for contracts over \$500,000.

These extensions or change orders require prior approval of the head of the government-funded body. Extensions or change orders above these limits must have the prior approval of the Board of Directors.

Our review identified three instances where extensions or change orders were not approved as required:

- A tender for \$18,345 for concrete walkway repairs was extended to include an additional \$6,679 in repairs without the CEO's approval.
- A tender for \$184,490 for window replacement was increased by \$4,000 for additional windows without the CEO's approval.
- In 2002, the Corporation entered into a 5-year contract for the cost of dialysis treatments on a cost per treatment basis of \$63.50. In July 2004, the cost per treatment increased to \$73.47 (as a result of a change in the dialysis machines to accommodate poor water quality). With monthly payments based on 740 treatments per month, this equals an additional annual cost of \$88,533. The Board of Directors did not approve the change order as required.

Issues with goods and services under \$10,000

Our review included a sample of 14 purchases that were \$10,000 and less for the period 1 April 2003 to 31 December 2004. We used the sample to assess the Corporation's compliance with the *Public Tender Act* and *Regulations*. For the 14 purchases \$10,000 or less we found:

- 4 purchases did not have the required 3 quotes or documentation that a fair and reasonable price was obtained;
- 7 purchases were tendered;

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- 1 purchase was an existing contract; and
- 2 purchases had quotes requested.

Other weaknesses

The following weaknesses were also found with the tendering process:

Weakness	Consequence
Tenders not kept in locked box until opened.	Integrity and security of tender bids may be compromised.
Tenders not stamped with date and time received.	Ability to determine if bid was received on time compromised.
Explanations for not obtaining quotations not always documented.	Ability to explain why three quotes were not obtained compromised.

Recommendations

We recommend that the Corporation:

- *not incur deficits without the explicit prior approval of the Minister of Health and Community Services;*
- *ensure that its accounts receivable are properly classified and accurately aged;*
- *be consistent with Government compensation policies with regards to paid leave, overtime pay, salary differentials and termination benefits;*
- *monitor travel expenditures to ensure compliance with Corporation policy and consistency with Government policy;*
- *ensure relocation expense reimbursement is consistent with Government policy; and*
- *comply with the Public Tender Act and Regulations.*

Government should ensure that processes are in place to provide for timely budget approval.

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Corporation's Response

During the 10 years of its existence, the Central West Health Corporation had the best financial record of any health board in the province. This was conveyed to the Corporation by ministers and senior officials within Government on a yearly basis. Year after year the Corporation had a break-even position in its annual operating budget. No other health care board in the province can make the same claim. Over the last 10 years the Department of Health and Community Services provided the Corporation in excess of \$650 million for its operating expenditures. During that time frame the Board incurred an accumulated debt of \$800,000 on its day to day operations. The accumulated debt for health boards in the province over the same time frame on its day to day operations is over \$100 million.

*Although the Central West Health Corporation received over eight per cent of the province's total health budget on a yearly basis, its debt is **.8 per cent (less than one percent)** of the total provincial health care debt. This demonstrates the Corporation's outstanding financial management record and is a remarkable achievement in today's health care environment. External organizations such as the Canadian Council of Health Services Accreditation (a national body dealing with national health care standards) recognized this achievement for Central West during its November 2003 survey and congratulated the Corporation on its outstanding financial management. The Council noted on page 4 of its report... "There is exemplary management of financial resources". The Corporation believes that its practices have led to financial stability, improved access to patient care services, improved recruitment and retention of physicians and other health care professionals, and subsequently the best and widest possible provision of cost-effective health care services in the history of Central Newfoundland.*

No Approval to Incur Deficits

The Auditor General notes that the Corporation did not receive approval to incur deficits in 2001 and 2004. For each of these fiscal years the Corporation had developed a plan of action which would have resulted in a balanced budget. These plans of action were submitted to the Department of Health and Community Services. Some of the measures outlined in the Corporation's action plan were accepted, others were not. The Corporation received instructions from Government to carry on with existing service levels, even though this would result in an operating deficit. The fact that the Corporation did not receive explicit written approval from the Department to incur these deficits, even though approvals were requested, is a problem outside the control of any health board and is one that has to be dealt with by Government.

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Compensation Practices Not Consistent with Government Policy

In his conclusions the Auditor General states that the Corporation's compensation practices are not consistent with Government's compensation practices.

Generally, the Corporation practices are in line with corporate policies. Health care corporations throughout Newfoundland and Canada have always had flexibility to develop policies separate from public service policies, including compensation policies.

Paid Leave:

The Auditor General notes that there were instances when employees received pay in lieu of taking paid leave hours. It is important to understand that paid leave is an earned entitlement of individuals and is accumulated for management employees similar to the way unionized employees accumulate annual leave through their collective agreements. Consequently, any paid leave provided to employees was leave that was owed to them.

Incorrect Overtime Payments:

During the Public Service Strike in April 2004, management and non-union employees received double pay for "overtime". A strike in health care is an extraordinary situation whereby management and non-union employees perform a wide array of duties outside of their normal duties to keep the organization operating 24 hours per day, seven days a week. The Corporation had no control over the strike, but had a responsibility to maintain a certain level of essential services during the strike. The Newfoundland and Labrador Health Boards Association has had a policy regarding health care corporations paying double overtime in strike situations going back as far as 1977. Senior officials within Government have been aware of this policy.

When the strike was over, Corporation officials, at the request of the Department of Health and Community Services, sent in the "overtime" accumulated by each employee. This "overtime" was reviewed and approved by Government and payments were made to employees accordingly. These payments were outside of the general operating budget of the Corporation, i.e., they were fully funded by the Department outside of its day-to-day budget. Every health care corporation in the province participated in this arrangement, and in excess of 1000 management and non-union employees throughout the province received the double "overtime" pay. Consequently, if there is an issue with this, it does not rest with the Corporation but with Government.

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Incorrectly Applied Salary Differential:

The Auditor General states that, in his opinion, the Corporation incorrectly applied a one per cent salary differential within its senior executive based on his view that the position of Vice President of Medical Affairs was not classified officially by Treasury Board. In the Corporation's opinion, the position of Vice President of Medical Affairs **was classified** by Treasury Board based on the documentation the Corporation received from Treasury Board. As well, the Corporation is a legal entity established pursuant to the Hospitals Act and has the legislated authority to determine and pay the salary of its senior executive. This will be discussed more fully in the detailed findings and recommendations section of the report.

Overpaid Termination Benefits:

The Auditor General indicated that termination benefits were overpaid to a senior executive when his position was declared redundant in March 2005 and he received a two-year payout, rather than the 82 weeks which is Government's maximum for redundancy and severance. The Corporation strongly objects to the use of the term "overpaid". The amount of money paid to the employee was in accordance with a termination payout in a legally binding contract that the Corporation had the authority to establish with its senior executive. Senior officials within Government were aware of the terms of this contract. More details will be provided in the detailed findings and recommendations section of the report.

Costly Management Decision:

In its 2004/05 budget Government announced the restructuring of health boards in the province. During the summer of 2004 this employee indicated to the organization that he did not wish to apply for any of the soon to be posted new positions within the new board and instead would opt for a redundancy package. In addition to the severance payout outlined by the Auditor General, employees are entitled to be paid for any accumulated leave they have on the books. Employees generally have the ability take their redundancy payout in a lump sum, a bi-weekly basis, or some combination of both.

In anticipation of the pending announcement and posting of the new positions, the organization agreed to allow the employee to start drawing down on their redundancy payout starting with the leave bank. The employee agreed to provide 2 days a week to the organization while waiting for the new jobs to be posted. This arrangement continued until mid September when the employee had used up his leave bank. There had been a delay in getting the new job posted so the employee agreed to provide 2 days a week to the organization. The organization agreed to continue to pay the employee on a bi-weekly basis with these payments to

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be applied against the employee's severance. The organization recorded these payments by overdrawing the employee's leave bank. These payments were deducted by the organization from the employee's severance pay.

We disagree that this was a costly management decision. Rather, it was a decision that allowed the organization to continue to avail of the employees expertise and knowledge while at the same time actually saving money on the employee's salary. In addition, the severance payment to the employee was not an expense to the Central West Health Corporation. The organization received funding from the Department of Health and Community Services for this employee's severance as part of the more than \$1.8 million the organization has received for redundancy payout as a result of health board restructuring.

Expenditures Unsupported and Unauthorized

The Auditor General references expenditures that are unsupported and unauthorized. The relocation payments made to physicians basically were recruitment expenses. When physicians were given the \$12,000 maximum as a recruitment incentive, they had the option of moving household effects or buying these household effects when they moved to the central region. The Corporation has had tremendous success with the recruitment and retention of physicians at a time when most health boards across the country are experiencing difficulties. In fact, many rural boards have had to decrease services as a result of the unavailability of physicians. The recruitment costs incurred by the Corporation were not significant, given this success with recruitment and retention. Sometimes judgment decisions have to be made with respect to incremental costs versus the availability of services to the public, and these incremental expenses were relatively small compared to the costs avoided in physician turnover, ongoing recruitment and locum payments for physician replacement.

The Auditor General also states that the Corporation paid \$10,000 to the Hospital Foundation on behalf of a senior employee in lieu of payment for professional development and this was not included on the employee's T4. On two separate occasions the Corporation outlined to the Auditor General's staff the background regarding this payment. When the Foundation issued a charitable receipt in error to the senior employee, it was immediately returned to the finance department of the Corporation and destroyed. The employee in question did not claim this amount as a deduction under Charitable Expenses, and indicated his willingness to provide access to his personal tax returns to prove beyond any doubt that there was no financial benefit to the employee. Nor was there any public recognition given to this employee in the Foundation's newsletters,

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publications, reports or on the Foundation's Donor Wall. The Foundation, and subsequently the patients who receive services through the Corporation's health facilities, were the beneficiaries of this donation.

Public Tender Act Contravened

The Auditor General indicates there were instances in which the Corporation contravened the Public Tender Act. The Corporation appreciates the recommendations from the Auditor General with respect to "tightening up its tendering practices", and would like to note that no individual employed with the organization benefitted from these transactions. The Corporation was involved with over 30,000 transactions per year, and all were undertaken with the view of obtaining the best product or service available at the best price.

Findings and Recommendations

The following comments relate to the findings and recommendations of the Auditor General:

Deficit:

Deficit Increasing:

The Auditor General notes that as of March 31, 2004, the Corporation had an accumulated debt of \$36.6 million which is an increase over previous years. It is important to note that of this \$36.6 million, \$35.8 million is considered non-shareable and outside of the control of the Corporation. The non-shareable debt results from Government's policies, capital construction programs and employee benefits implemented by Government. The Corporation had control only over its shareable operating grant from Government or \$800,000 of the \$36.6 million. The non-shareable long-term debt of the Corporation consists of:

- (a) Mortgages on nursing homes and cottages which the Corporation assumed in 1994.*
- (b) Approximately \$10 million pertaining to the construction of a new Carmelite House. The Corporation assumed this debt at the request of Government so it would not have to show on Government's books.*
- (c) Items such as severance pay accruals, vacation pay accruals, etc. The long-term debt for these items increases with the size of the organization, e.g., the more employees the bigger the debt.*

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If one were to look at other institutional health care boards in the province in terms of long-term non-shareable debt, the amounts are significant, totaling over \$424 million in 2003, up from \$286 million in 2000.

*It is unfair to characterize the total long-term care debt of a health care corporation by including both its non-shareable deficits and its operating deficits/surpluses. Increases in long-term non-shareable deficits are not the fault of the corporations. Corporations have control only of their shareable portion of the debt. In the case of the Central West Health Corporation this is a total of \$800,000 on the \$36.6 million reported by the Auditor General. **As noted earlier, a total accumulated shareable debt of \$800,000 on expenditures in excess of \$650 million reflects an excellent financial record.** This operating debt is the result of the rapid growth of one program -- the dialysis program -- which was under-funded by Government.*

Deficits Not Approved:

As noted earlier, the Corporation requested approval from the Department of Health and Community Services to incur annual operating deficits in the 2001 and 2004 fiscal years. The Corporation did not receive explicit approval from the Government to incur these deficits. However, the Government did indicate that the Corporation could not proceed with all of the measures outlined in its plans of action for these two fiscal years in order to break even, thereby implicitly giving approval to the Corporation to incur these deficits.

Budgets Not Approved on Timely Basis:

The Corporation has no control over Government's delays in approving budgets on a timely basis. Consequently, this item and the one noted immediately above are issues to be dealt with directly by Government.

Accounts Receivable:

The Auditor General refers to the accounts receivable of the Corporation. In general terms, the Corporation collects over 85 per cent of its accounts receivable. Those that end up being written off as bad debts relate to patient accounts for programs such as ambulance services and long-term care. With respect to the \$1,000,000 due to the Corporation from the South and Central Health Foundation, it should be noted that the Corporation collects 100 percent of its receivables from the Foundation. Under an agreement with Government the Corporation and the Foundation undertook a \$4,000,000 capital campaign, \$2,000,000 of which was provided by the Government, and the Foundation committed to solicit \$2,000,000 from residents of Central Newfoundland and other areas of the province. The Corporation's practice was to purchase major priority medical equipment such as a CT scanner when needed and collect

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payments from the Foundation as it completed its collection of pledges. There is usually a one to three year lag period from the time the equipment is purchased to the collection of pledges.

Compensation Practices:

Payment of Paid Leave:

*The Auditor General indicates that there was payment of paid leave to employees in a manner not consistent with Government policy. Government policy allows up to 10 days pay as long as an individual has 180 days paid leave remaining in his/her bank. He notes one instance where an employee was paid for 65.6 days of leave which is in excess of Government's 10 day limit. The payments were made in accordance with the Corporation's own paid leave policies. **It is important to note that no employee was paid more than what the employee had earned and was owed by the Corporation.** As a result of these payments, the Corporation actually saved money since the amounts paid out were at a lower hourly rate than the payout would be in subsequent years when the employee's hourly rates would likely be higher. Therefore, there is a cost-avoidance factor to be considered. It is also interesting to note that while the Auditor General expresses concerns about the long-term debt accruing to health boards for severance pay and vacation pay, concern is also expressed when a corporation pays out some of the paid leave accruals and thereby reduces this long-term debt.*

Overtime Payment During Strike Action:

The Auditor General references the overtime payments made to employees during strike action in April 2004. As noted earlier, these payments were made in accordance with the policy of the Newfoundland and Labrador Health Boards Association. This policy has been in place for more than 30 years and was known by senior officials within Government. The Auditor General references eight employees of the more than 1000 employees throughout the province in all health care corporations who received this payment. The payments were made to the Central West Health Corporation and others throughout the province after the Department of Health and Community Services requested, received, reviewed and then paid the overtime amount to these employees. These payments were made outside of the Corporation's annual operating budget and therefore did not impact the bottom line for the fiscal year.

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Payment of Salary Differential

The Auditor General indicates that, in his opinion, the Corporation incorrectly paid a one per cent salary differential to a senior executive of the Corporation. He notes that the payment was incorrect since the subordinate position of Vice President of Medical Affairs was not officially classified. The Corporation strongly disagrees with the term “overpayment” and believes that it followed proper procedure and paid an appropriate and legitimate salary based on the following:

- (a) Under the terms of the Hospitals Act (An Act to Provide for the Management and Operation of Hospitals in the Province - June 1971), under which the Central West Health Corporation was constituted in 1994, the Corporation has the authority under Section 17 of the Act “Appoint an administrator of any hospital under its jurisdiction. . . . and other staff of any kind . . . and may provide such payment or other remuneration for them as it thinks fit”. A copy of this Act was sent to the Corporation by Government when it was constituted in 1994. Consequently, the Corporation has the statutory right to enter into a contract and to determine compensation for its administrator and other staff. This legal authority supercedes policy. Over the years there was from time to time discussion by various ministers as to whether Government would propose an amendment to Section 17 of the legislation restricting a corporation’s right to establish remuneration. This was never done.*
- (b) When the Corporation established its policy on remuneration, it did not do so in isolation. The Corporation policy of a one per cent salary differential for all of its management employees (unionized employees are covered by collective agreements) was based on Treasury Board’s own policy for its executives which states as follows under Section 3.9: “Executives who are in a pay anomaly situation with a subordinate position will receive a wage differential of at least one per cent”. There are no provisos or conditions attached to this policy. Its spirit and intent is that the one per cent differential applies.*
- (c) The Auditor General states that, in his opinion, the one per cent does not apply because the subordinate position of Vice President of Medical Affairs reporting to the senior executive was not officially classified by Treasury Board. The Corporation’s opinion is that the position was classified by Treasury Board similar to the way it has classified other senior positions in the past. This opinion is based on the fact that over a period of years the Corporation has received copies of letters from Treasury Board*

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indicating that it has approved the classifications with applicable salary scales for Medical Directors/Vice Presidents of Medical Affairs. As an example, on March 17, 2000, “Treasury Board circulated information to health corporations which states Treasury Board has approved the implementation of a revised Medical Directors Pay Plan effective 2000/04/01 (TBM 2000-072 refers). A copy of the revised plan is attached for your action”. This plan outlines the categories of Medical Directors in the province and the pay ranges for Medical Directors in these categories.

On August 7, 2003 corporations were sent a memo from the Deputy Minister of the Department of Health and Community Services which stated: “Treasury Board, in accordance with TBM 2003-176, approved a new pay scale for Medical Directors in Health Boards”. The pay ranges for Medical Directors for a three-year period were outlined in the details attached to the Deputy’s letter. The definition of classification in collective agreements signed off by Treasury Board is... “Classification means the identification of a position by reference to a class title and pay range number”. Based on the fact that Treasury Board established the classifications of Medical Directors and the pay ranges within these classifications, the Corporation contends that the positions of Medical Directors were in essence classified by Treasury Board similar to the way other senior positions were classified.

- (d) Further, the Corporation did not attempt to hide its remuneration policy for management staff or its remuneration level for its senior executive. When the compensation policy was established and the senior executive’s contract renewed in the spring of 2001, the Chair of the Health Corporation hand-delivered a copy of the contract and the Corporation’s remuneration policy to the then-Minister of Health. The Chair also provided the information to the subsequent health minister. The Deputy Ministers of the Department at the time this information was provided to the ministers both subsequently became the most senior official of Government. At no time after the Corporation implemented the salary differential in June of 2001 (and notified the Department accordingly) did it receive any indication from Government that the salary differential was ineligible and should not be applied.*

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- (e) *Every year the Central West Health Corporation submitted its annual operating budget to the Department of Health and Community Services. Every year during which the one per cent salary differential was paid, the Corporation outlined the salary plus the wage differential for the senior executive in the executive portion of the budget sent to the Department. The Department approved these operating budgets each year. At no time after the Corporation implemented the salary differential and reported it on an annual basis to the Department did the Department question or indicate to the Corporation that the salary differential was ineligible and should not be paid.*

Based on the factors noted above, the Corporation acted within its legal capacity pursuant to the Hospitals Act to establish remuneration for its senior executive. The Corporation disclosed this information through the Board Chair to Ministers of Health and Community Services, and one would reasonably presume that the ministers would have disclosed this information to their deputies. The Corporation also disclosed this information in its yearly budgets to Government. At no time was any direction given to the Corporation that it should cease paying the one per cent differential to its senior executive after the salary differential was implemented in June 2001. Consequently, the senior executive was not overpaid any salary during his tenure with the Central West Health Corporation.

Termination Benefits

Contract Not Consistent with Government Policy:

The Auditor General indicates that one senior executive's contract contained termination benefits which were not consistent with government policy. He indicates that the employee received a 2-year payout which was over and above the maximum amount authorized by Government for its employees, so therefore there was an overpayment of total termination benefits. The Corporation strongly objects to the use of the term overpayment. The Corporation did not do anything that was wrong or illegal, and the payout on termination merely reflects the difference between one payment process versus another. The Corporation wishes to make the following points:

- (a) *Contracts are the norm for senior executives with health care corporations across the country, and have been for many years. In this case the payout was not a severance pay for the senior employee, but was a payout in accordance with a legally binding contract. A two-year payout is not uncommon for senior executives in any industry with 30+ years of service. The contract provisions for termination are not consistent with Government policy, otherwise there would be no need for a contract.*

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- (b) *The 82-week maximum that Government allows is not a fixed maximum. There have been instances where Government has allowed the payment of more than 82 weeks. For example, with the restructuring of school boards in 2004 some of the outgoing senior executives received two-years termination pay; there have been instances in the past where senior government employees have received more than 82 weeks termination pay; and with the recent restructuring in the health sector Government has permitted some employees to work a notice period of a year or more and still allow them to obtain 82 weeks severance pay. (Government policy generally allows for the provision of notice in lieu of severance pay, or severance pay in lieu of notice, but not both.)*
- (c) *As noted above, the Corporation fully disclosed the senior executive's contract to Government, so Government was familiar with its termination provisions. It should be noted that when this senior executive was offered a senior position with the current government in 2004, Government's verbal offer indicated a provision that he could work with them on a seconded basis for three years, following which he could return to the new Health Authority in Central Newfoundland and receive a two-year termination payout based on his salary at the time of his proposed secondment which was the same salary used to calculate his termination pay on March 31, 2005.*

Expenditures

Travel Claims:

Inadequate Documentation:

The Auditor General notes that one senior executive's travel claim submitted in December 2004 and covering the period June to December 2004 claimed \$8,535 but could not be located at the time of the review. When the Auditor General's staff initiated their review in January 2005, one staff member obtained the travel claims for all senior executives and photocopied them. The travel claim for this particular senior individual had been approved by the Corporation's Finance Department, a cheque was processed and a posting to the general ledger was completed. The approval and processing of the cheque could not be done without the travel claim being provided. It was several weeks later when the Auditor General's staff indicated they could not find this particular travel claim. A search was initiated within Financial Services to determine if it had been re-filed incorrectly; however, the original travel claim could not be found. The senior employee in question reproduced the travel claim for Financial Services and subsequently made it available again to the Auditor General's staff.

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Travel Expenses Issues for a Senior Executive

The Corporation has reviewed the instances where the corporation had recorded the employee on paid leave. The Corporation will correct the errors in the recording of paid leave and reconcile the employee's paid leave bank.

This employee traveled on a regular basis and was provided with travel advances on a regular basis. These advances were recorded on the Corporation's books. At the request of the employee the Corporation recorded the advance payments with the travel claims to ensure any outstanding balances were recorded. This was carried forward and the outstanding amounts were deducted from the employee's termination benefits.

Relocation Expenses:

The Auditor General indicates that there were a few instances where the Corporation paid relocation expenses to physicians and these were not in accordance with Government's travel policy. The Corporation provides a \$12,000 relocation expense to physicians. Physicians have the option of moving household effects with them or purchasing these household effects when they arrive at their new location. If two physicians are married to one another, the relocation expense is provided to both physicians. In two cases this was done because a specialist and a general practitioner who were married to one another were recruited and both established practices within the Grand Falls-Windsor area. These physicians provide a two-year return in service to the Corporation for the relocation allowance. The relocation allowance is one of the factors which has enabled the Corporation to improve its recruitment and retention of physicians. The Corporation has an excellent track record of recruiting and retaining physicians, particularly given the shortage of physicians across the country. Sometimes the Corporation has to make a judgment call regarding incremental costs over and above the \$12,000 allowance, but this is more than offset by the savings in overall recruitment and provision of locum services.

Other Expenses:

In the Auditor General's report statements regarding the board fund discretionary expenditures indicate that in May of 2004 \$10,000 was paid to the Hospital Foundation on behalf of a senior executive. This money was paid to the Foundation in lieu of an annual professional development fund for the executive which was provided to him following a special meeting of the Board of the Health Corporation in 1998. It was not part of the executive's original employee contract and this was indicated to the Auditor General's staff. The employee did not receive any benefit from this transaction. Although the Foundation issued a charitable receipt to the

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employee, the employee realized this receipt was in error and returned it to the Corporation's Department of Finance, which then destroyed the receipt. No claim was made as a charitable donation for tax purposes, and the employee in question offered to provide his tax returns to the Auditor General's staff to verify this. There was no recognition of the employee in the Foundation's newsletters, publications, reports or on its Donor Wall. The beneficiary of this transaction was the Health Foundation, which uses donated money to acquire medical equipment for the benefit of residents and patients in the central area.

*In the report it is noted that the Corporation paid out \$1,507 and \$1,841 in December 2003 and 2004 respectively on Christmas dinners. These dinners were provided to the **volunteer members** of the Corporation in recognition of their significant contributions to the Corporation.*

Retirement Gifts:

*The Auditor General notes that the Corporation provides retirement gifts to its employees. He further notes that this is not consistent with Government policy, which states that retirement-related expenses can only be provided for employees who are in Government's executive compensation plan. The Corporation's policy is to provide retirement gifts to **all** employees based on years of service with the organization. The policy is not consistent with Government policy but has been in existence with the Corporation for many, many years. Similar corporations around the province have similar retirement policies.*

Public Tendering Act

Section 5 of the Auditor General's Report deals with the Public Tender Act. On a yearly basis the Central West Health Corporation solicits quotations, tenders, etc., approximately 30,000 times. The Corporation appreciates the recommendations of the Auditor General regarding the public tendering legislation, and some of these have already been implemented. However, some commentary is necessary on some of the items noted in the report.

Purchases Not Tendered:

It is noted that the Corporation purchased a house for a doctor in Lewisporte in September of 2003. The Corporation does not go to tender for the purchase of houses. Contact is made with representatives in the local real estate market. Arrangements are made to view all houses that are listed for sale in the local market, and the appropriate house is then selected and price negotiated - just as any individual buying a house would do. Prior experiences have proven that this will save thousands of dollars versus going the public tendering route.

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Change Order Not Approved as Required:

The report identifies three instances where extensions or change orders were not approved as required. The extension of the tender for repairs to walkways and for the purchase of additional windows were both done with the knowledge of the CEO who delegated the necessary authority to the Chief Operating Officer of the Central Newfoundland Regional Health Centre to proceed as necessary.

It is also noted that the Corporation entered into a five year contract for the cost of dialysis treatment based on \$63.50 per treatment and subsequently changed that to a cost per treatment of \$73.47. The Board of the Corporation did not explicitly approve this change order; however, the Board of the Corporation was fully aware of the change. Issues associated with the dialysis program were among the most discussed issues at Corporation board meetings during its last five years.

Summary

The Corporation appreciates the recommendations of the Auditor General and notes that the Auditor General's report highlights areas where there are delineations from Government policy. It does not indicate whether these delineations are right, wrong or cost effective, etc but simply they are delineations from Government policy. Health care organizations throughout Newfoundland and Canada for the past 35 years have had authority to determine policies or to institute policies different than public service policies and have legislated authority to do things over and above regular Government departments. It should also be noted that rarely do health care organization receive from Treasury Board copies of circulars, policies, letters, etc outlining specific Government policy or indicating that boards are subject to specific policy. Similarly, employees who work with health care boards are not considered to be Government employees in many senses. They do not receive any service awards from Government, they do not participate in Government employee days, they are not eligible to participate in Government programs such as the Channing Fellowship, etc. If Government wishes to ensure that there is 100% consistency in both policy and pay levels between health boards, school boards, government employees, etc significant changes have to be made in the way these organizations conduct their business and in the way Government communicates to these boards.

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Department of Health and Community Services' Response

With respect to government communication concerning the salary differential, please note the following. An official of Treasury Board sent a letter to the Newfoundland & Labrador Health Boards Association dated March 5, 2002 advising the wage differential does not apply to CEOs in relation to Medical Directors. Furthermore, on April 9, 2002 the Minister of the Department of Health and Community Services wrote Health Board Chairs regarding the previously noted letter.

I have also been advised by the former deputy minister that in 2001 a copy of the contract was not provided to officials within the Department of Health and Community Services and officials did not have knowledge of the contents of the contract. Repeated requests by officials of the Department for a copy of the contract were met with no response by the Board until 2002. At that time, faced with a binding contract entered into between the CEO and the Chair of the Board, it was clear that the CEO was legally entitled to the compensation in the contract even though the contract was contrary to government policy. In this specific case, the former Board knew that Department officials were not aware of the contents of the contract because requests were being made to obtain a copy.

With respect to the termination benefits issue, the Clerk of the Council has advised that the Government started the negotiation by rejecting the possibility that the two year payout should continue to exist if the incumbent took the new position in the government.

During the course of negotiations, government changed its offer and proposed a lower base salary over three years in order to fully offset the costs of the extra payout at the end of the period. Although an agreement could not be reached, Government's approach showed clearly that it could not condone the extra value of a two year payout.