

- Reductions in ferry operating costs expected from the increased use of the highway have not materialized. In fact, ferry operating costs (net of passenger and freight revenues) are increasing and in 2005-06 are expected to total approximately \$17.7 million. In 2004-05 actual net ferry operating costs were \$14.6 million.

After 2007, Government will have to fund the operations of the Labrador ferry service through its budgetary process -estimated at a net cost of approximately \$18 million per year.

2.9 Monitoring Expenditures of the Consolidated Revenue Fund

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments.

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications.

The results of our review are presented in Part 2.9 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2005*.

2.10 Central West Health Corporation

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. 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.

We have 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.

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.

Compensation practices not consistent with Government policy

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

- 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.
- 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.

- 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.
- 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.
- 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.
- 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 totaling 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.

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.

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.

2.11 Newfoundland and Labrador Prescription Drug Program

The Newfoundland and Labrador Prescription Drug Program (NLPDP) is operated by the Department of Health and Community Services and provides assistance in the purchase of pharmaceuticals and some related medical supplies to residents of the Province who qualify for benefit coverage. Drugs are dispensed mainly through the network of community pharmacies located throughout the Province. Assistance in the purchase of pharmaceuticals and some related medical supplies is provided to three main groups of residents: income support recipients, senior citizens and special needs patients.

In the last 9 years, the cost of the NLPDP has increased by 92%, or \$48.7 million, from \$53.2 million in 1997 to \$101.9 million in 2005. During the same time, the number of clients decreased from 112,206 to 93,284 (a 17% decrease); however, the number of prescriptions increased from 2,131,526 to 2,677,369 (a 26% increase).