



# REPORT OF THE AUDITOR GENERAL

To the House of Assembly



Summary

For the Year Ended  
31 March 2005



Newfoundland and Labrador

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## **Preface**

This document is presented as a summary 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*. That Report contains approximately 560 pages of conclusions, commentary, recommendations and auditees' comments. This document contains summary information on each item included in the Report. When readers identify a topic of interest, we encourage them to read the relevant section in the Report.

## **Introduction**

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* was prepared in compliance with Section 12 of the *Auditor General Act*. Section 12 requires that the Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in our opinion, should be brought to the attention of the House of Assembly.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 2005* which was submitted to the Speaker of the House of Assembly and released on 29 November 2005.

A report on the operations of the Office of the Auditor General for the year ended 31 March 2005 was submitted to the Speaker and released on 23 January 2006.

## **Chapter 1**

### **Reflections of the Auditor General**

This Chapter provides an introduction to the Report as well as an overview of specific issues identified by the Auditor General relating to:

- inconsistent compensation practices among Government entities;
- financial and administrative practices at the Central West Health Corporation, the Royal Newfoundland Constabulary, Memorial University of Newfoundland, and the Municipal Assessment Agency;
- management practices over the Newfoundland and Labrador Prescription Drug Program;
- the use of secondments in filling positions at the Department of Education;
- licensing, monitoring and inspecting personal care homes;
- the lack of Province-wide coverage for land based 911 emergency response services;
- registering and inspecting petroleum storage systems and enforcing compliance with environmental legislation;
- measures used to monitor the Income Support Program;
- depletion of the Labrador Transportation Initiative Fund;
- Government's investment in Icewater Seafoods Inc. and in a manufacturing company; and
- management of Government's vacant/surplus properties.

## **Chapter 2**

### **Comments on Audits and Additional Examinations**

#### **2.1 Inconsistent Compensation Practices**

The Public Service Secretariat indicates that 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.

There are many examples of inconsistent compensation practices among these Government entities. These inconsistent compensation practices relate to such items as salaries and termination benefits, leave, overtime, travel allowances and employee computer purchase plans.

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.

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. 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.

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.



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.

## **2.2 Monitoring Agencies of the Crown**

A major role of the Office of the Auditor General is to monitor Crown agencies and provide information to the House of Assembly. Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditors' report, audited financial statements and recommendations to management. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies.

Of the 77 (2004 -84) entities required to prepare annual financial statements, 30 (2004 -31) were audited by our Office while 45 (2004 -51) were audited by private sector auditors. Contrary to their governing legislation, the remaining 2 entities, the Memorial University Foundation and the Newfoundland and Labrador Occupational Therapy Board have never submitted audited financial statements.

As of 15 December 2005, we had not received the audited financial statements and management letter for 1 of the 45 entities audited by private sector auditors, the Literacy Development Council of Newfoundland and Labrador. For the majority of the remaining 44 entities, we did not receive the audited financial statements and management letters from the private sector auditors on a timely basis. On average, audits are completed and the auditors' reports signed within 3 months after the year-end. However, in most cases, our Office does not receive the financial statements and related management letters until another 4 months after the audit report date, and often only after follow-up by our Office.

The highlights from our review of audited financial statements and management letters of Crown agencies are presented in Part 2.2 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*.

### **2.3 Memorial University of Newfoundland**

Memorial University of Newfoundland was founded in 1925 (as Memorial University College) and was granted university status in 1949. Today, the University's main campus and Marine Institute are located in St. John's, with other campus locations in Corner Brook (Sir Wilfred Grenfell College) and Harlow, England. Memorial is the largest university in Atlantic Canada, with 17,800 students engaged in full and part-time studies at under-graduate and graduate levels. Each year, the graduating class numbers in excess of 2,000 students. The University employs 950 full-time faculty and 850 sessional instructors, 2,300 administrative and support staff, plus 2,000 students in part-time jobs.

Conclusions from our review are as follows:

#### *Board governance*

The University is excluded from many of the requirements of the *Transparency and Accountability Act* (to be proclaimed). This *Act* is intended to hold Government departments and other Government entities accountable to Government and the House of Assembly.

Although my Office has been recommending for years that the University be included in the Province's Consolidated Summary Financial Statements, this has never happened. I am pleased to report, however, that Government approved consolidation of the University commencing with the 31 March 2006 Public Accounts.

The Chancellor, President, Chairperson of the Board of Regents, vice-presidents and other officers and employees of the University are not compellable to attend as witnesses before committees of the House of Assembly.

Other than approving the University's budget and reviewing other information in relation to Provincial funding, there has been little monitoring of the University's financial affairs by the Department of Education.

While a Strategic Framework was approved by the Board of Regents in 2000, it does not contain the comprehensive objectives and related performance indicators typically provided in such plans for use in assessing future progress. The University has started a new strategic planning process intended to set new goals and develop an integrated planning approach.

The University has established several Separately Incorporated Entities. These entities are controlled by the University and included in its consolidated financial statements; however, management agreements are not in place with all SIEs to address responsibilities and accountabilities.

### *Human resources*

The University's compensation practices are not consistent with those of Government with regard to paying salaries, paying market differentials, paying administrative stipends, issuing forgivable loans, providing free course tuition, and subsidizing membership fees. Many of these benefits would not typically be available to employees in Government departments or other Government entities. These inequities usually result in increased costs and, therefore, less funds available within the University to fund programs.

Our review of human resources also indicated that the University's recruitment policies were not always complied with or compliance was not documented, the computer system used by the University for personnel and payroll purposes was not accurate, and there were inconsistencies in leave management processes and in pension plan requirements.

## *Revenue*

The University had identified at least five instances between April 2002 and July 2004 relating to thefts of funds and missing deposits. One instance was noted in July 2004 where approximately \$90,000 in funds was missing from student registration fees at the University's Marine Institute Offshore Safety and Survival Center. At the time of our review, the matter was under investigation by the Royal Newfoundland Constabulary. Resulting from these issues, the University engaged a firm of private sector auditors to conduct a cash management review. That review had not been completed at the time of our review.

Issues were also noted with inconsistent controls over revenue recording and with the lack of independent appraisals obtained in assigning values for charitable receipts issued for tax purposes. Such receipts relate to Gift-in-Kind donations received by the University.

## *Purchasing*

Our review of purchases, travel claims, relocation expenses and other expenses identified issues related to non-compliance with the *Public Tender Act*, inadequate documentation, non-compliance with University policies, claims for ineligible expenses, and overpayments of travel claims.

In the area of travel expenses in particular, the nature and extent of the errors and overpayments identified during our review indicates that the review of travel claims by source faculties, departments and divisions is unsatisfactory and that subsequent review at the Financial and Administrative Services Division is not always detecting errors missed.

Of the 137 purchases sampled that were greater than \$10,000, we found issues with 21. For example, there were 11 instances where the University claimed a sole source exemption when a tender could have been called and 3 instances where the University claimed an exemption for an emergency when a tender may have been able to be called or at a minimum the University could have obtained additional quotes.

The University also contravened the *Public Tender Act* in that the Minister of Government Services (since December 2004, the Government Purchasing Agency) was not always informed of *Public Tender Act* exceptions within 30 days of the acquisition of the goods or services. Therefore the House of Assembly was not informed of these exceptions as required under the *Act*. In addition, the forms required under the *Act* to be forwarded to the Minister of Government Services (since December 2004, the Government Purchasing Agency) to explain these exceptions were not approved by the President or his designate until well after the goods or services had been acquired.

Our review of the use of University procurement cards indicated weaknesses in monitoring card limits and usage, and purchases that were not made in compliance with established University policies.

#### *Facilities management*

Our review indicated concerns with management of the INCO Innovation Centre construction project as well as with vehicle fleet management, campus planning, maintenance (including deferred maintenance), and facilities management contracts.

#### *Capital assets*

While the University has a capital assets ledger, only items above \$2,500 are required to be recorded. Given this limit, a significant quantity of items are not tracked in the system and consequently no control mechanism is in place to track these assets, many of which are more susceptible to theft than items costing over \$2,500. As well, there is no formal policy and procedures manual in place to address how asset additions, transfers, disposals and other changes are to be handled and recorded. Also the University's capital asset ledger is not accurate.

There is no process in place for the periodic selection of auctioneering services relating to the disposal of University assets. In practice, one auctioneering services company has been used by the University whenever the disposal of assets is required.

## 2.4 Seconded Positions

The Department of Education has been seconding teachers to its program consultant positions since the early 1980's. As of January 2005 the Department had 246 employees, of which 32 (13% of all employees) were teachers seconded to fill program consultant positions at the Department.

The Department is not complying with its own secondment policy relating to teachers. For example: of the 32 seconded teachers at January 2005, 16 (50%) had been seconded for periods in excess of the Department's three-year limit; 7 (22%) had no contract in place; and 4 had been promoted to a management position, with 3 of the 4 promoted without a job competition being held.

The Department is contravening the spirit and intent of Government's recruitment process (i.e. the Merit Principle) by filling some seconded positions without a job competition. For example, of the 32 seconded teachers at January 2005, 19 (59%) were seconded without a job competition and 3 of the 19 were promoted to management positions, again without any job competition. As well, 1 seconded teacher who, although not in a seconded position as at January 2005 (i.e. not 1 of the 32), was transferred to a management position in the Department without a job competition, and another seconded teacher not in a seconded position as at January 2005 was seconded to a Departmental consultant position (i.e. non-management) in March 2001 and in September 2003 was appointed to the position on a permanent basis without a job competition.

The Department is not complying with Government's policy relating to payment of redundancy. 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. The Department was involved in this redundancy decision and therefore knew that the employee would be declared redundant. In this case, the seconded employee should have been returned to their permanent position in the Department and no redundancy amount should have been paid.

Although the *Portability of Pensions Act* requires the transfer of pensionable service between various Government pension plans when an employee transfers to a new position, 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. Pension plan transfers were not made in 3 instances by the Department, in 1 instance by the Executive Council, in 1 instance by a school board, and in 1 instance by the Newfoundland and Labrador Teachers' Association.

Contrary to Government's policy, during the year the Department paid approximately \$82,000 to 9 management staff relating to salary differentials. There are two issues relating to these overpayments: first, Government policy only allows salary differentials to be paid based on positions which are classified on a job evaluation plan administered by Treasury Board -teaching positions are not classified on such a job evaluation plan, and second, 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. Contrary to Government policy, the Department included the bonus amount which resulted in some of its management staff receiving a salary differential because of the inflated salary of their subordinates. The practice of paying salary differentials has been ongoing since the Department started seconding teachers into program consultant positions in the early 1980's.

The Department has overpaid one staff member a total of approximately \$2,100 by incorrectly calculating retroactive salary payments.

## **2.5 Monitoring School Boards**

Effective 1 September 2004, 9 of the 11 school boards in the Province were dissolved and 3 new boards were created resulting in four English language school boards and one French language school board. For the 2004-05 school year there were approximately 303 schools in the Province with a total enrolment of 79,439 students.

At 31 December 1996 when the 11 former school boards were created, there were approximately 445 schools in the Province with a total enrolment of 110,450 students.

As part of our work we continue to monitor the financial position and annual operating results of the school boards.

All five school boards had accumulated deficits as at 30 June 2005. The combined financial position of the five boards at 30 June 2005 shows total accumulated deficits of \$110.0 million, a 5% increase from the \$104.4 million reported in 2004. Included in the accumulated deficit is an amount of \$103.6 million related to severance pay and leave accruals. The accumulated deficits will eventually have to be funded by Government. The Eastern Board accounted for \$53.2 million or 48% of the total \$110.0 million in accumulated deficits.

All 5 boards reported operating surpluses for the year ended 30 June 2005 totalling \$6.8 million. Operating surpluses ranged from \$295,000 to \$2.7 million. Because of inconsistent reporting periods resulting from the restructuring of school boards, comparisons with prior years' financial results would not currently be meaningful. It will take a couple of years of consistent reporting of financial information before effective and meaningful comparisons can be performed.

Contrary to the *Schools Act, 1997*, two school boards did not submit their 2005-06 annual budgets to the Minister for approval by 4 March 2005 as required by the Minister. The budget for the Western Board was not submitted until 4 May 2005 and the budget for the Eastern Board was not submitted until 17 May 2005.

## **2.6 Petroleum Storage Systems**

The Department of Environment and Conservation in co-operation with the Department of Government Services is responsible for the registration, inspection and monitoring of petroleum storage systems in the Province. Petroleum storage systems include above-ground and under-ground containers and related piping in a fixed location where gasoline or associated products are stored and would include



for example service stations, bulk plants, and used oil return facilities.

The Department of Environment and Conservation has estimated that there are approximately 7,000 petroleum storage systems in the Province to be registered and monitored. The Department has entered into a Memorandum of Understanding with the Department of Government Services whereby staff at the six Government Service Centres will provide registration, inspection and monitoring services.

Although Government has taken steps to determine the number and type of petroleum storage systems in the Province, improvements are required in registering and inspecting petroleum storage systems, and in enforcing compliance with environmental legislation. Without adequate systems and processes, the risk of environmental damage from petroleum fuel spills is increased. For example:

#### *Registration deficiencies*

Only 3,125 of the estimated 7,000 petroleum storage systems in the Province, required to be registered by 30 November 2004, were registered as at 12 October 2005. Furthermore, the information obtained through the registration process was not verified and has resulted in database errors.

#### *Inspections not performed*

Inspections are not always performed by the Government Service Centres with the frequency established in the *Inspection Frequency Guide for Fixed and Mobile Facilities/Operations*. Furthermore, the Department of Environment and Conservation could not provide information on how many of the 3,125 registered petroleum storage systems required inspection during 2004-05 and how many were inspected with the required frequency.

The information in the Department's database is not used to assess risk for purposes of scheduling inspections. As well, there is no formal system for tracking deficiencies identified during inspections.

We found that inspectors do not always perform verification of information provided by operators during the inspection process. Furthermore, when inspections are performed, there is no required supervisory review of inspection reports.

Since the departure, in October 2004, of the two inspection officers who perform inspections of used oil facilities, there have been no inspections of used oil facilities from October 2004 to March 2005, when we completed our review.

### *Issues not followed up*

Issues identified during inspections are not always followed up. None of the Government Service Centres have a system which could be used to record issues identified during inspections and which could then be used for subsequent tracking.

### *Enforcement inadequate*

Although the *Storage and Handling of Gasoline and Related Products Regulations, 2003* require that abandoned petroleum storage tanks (in disuse for more than 12 consecutive months or if declared to be abandoned by either the owner or the Minister) be removed and the area restored, the Government Service Centres have not been diligent in enforcing the removal of such abandoned tanks. Of 20 inspection files that we examined, none of the 24 abandoned tanks at 4 locations had been removed.

Although the *Environmental Protection Act* provides enforcement provisions, such as stop work orders, for facilities which have not registered petroleum storage systems as required, the Department of Environment and Conservation has not taken any such enforcement action.

## **2.7 Investment in Igewater Seafoods Inc.**

In 2004, the Province agreed to provide \$3.5 million in financial assistance to Igewater Seafoods Inc. relating to the fish plant in Arnold's Cove. In return, the Province, through the Newfoundland and Labrador Industrial Development Corporation (NIDC), would

receive 35,000 Preference II shares of the company. As part of this transaction, the Province, again through NIDC, received a groundfish quota from High Liner Foods Incorporated comprised of allocations for 9 groundfish species totaling 3,676 metric tonnes for 2004-05. In addition, the company agreed to pay NIDC a minimum annual lease fee of \$50,000 relating to this quota.

Contrary to its policy of not providing loan guarantees and direct financial assistance to primary fish processing companies, Government effectively provided \$3.5 million in financial assistance to Icewater Seafoods Inc. relating to the operation of the Arnold's Cove fish plant.

Contrary to Cabinet direction which stated that all carrying costs be recovered, Icewater is required to pay a minimum annual lease payment of \$50,000 and will only approach the total carrying costs (estimated at approximately \$200,000 annually) if the defined annual cash flow of Icewater reaches \$2.5 million.

Government contravened the *Financial Administration Act* when, in 2004, it pre-committed \$1.75 million in the Department of Finance for the 2005-06 fiscal year. In this instance, the pre-commitment related to an advance to a Crown agency (NIDC) to enable the agency to meet its funding requirements under a Subscription Agreement related to its investment in Icewater Seafoods Inc. The Department was not a signatory to the Subscription Agreement and the pre-commitment of funds to NIDC did not provide for goods or services to be provided to the Department. Therefore, the pre-commitment would not meet the requirement in the *Financial Administration Act* for “...an agreement to be entered into for the purchase of goods or services to be delivered in a subsequent fiscal year.”

Government used a Crown corporation (NIDC) to provide the financial assistance in order to address concerns raised by the Federal Government relating to a provincial government holding a groundfish quota. Officials indicated that normally the financial assistance would have been provided through a Government department.

Without the required prior knowledge and approval of NIDC, Icewater Seafoods Inc. transferred a quota for 300 metric tonnes of halibut to a Newfoundland and Labrador based company.

Furthermore, contrary to Government's stated position NIDC gave the company approval to transfer another quota for 72 metric tonnes of halibut to Nova Scotia. Therefore, the primary processing was not performed in this Province.

## **2.8 Labrador Transportation Initiative Fund**

In March 1997, the Government of Canada and the Government of Newfoundland and Labrador entered into an agreement where the Province would assume responsibility for operating marine freight and passenger services on and to the coast of Labrador in exchange for \$340 million plus interest.

The Province received \$347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure. On 19 December 1997, the Province transferred \$349.2 million, representing the \$347.6 million plus accrued interest of \$1.6 million, to the Labrador Transportation Initiative Fund (the Fund).

Although the Federal funding was provided to operate the Labrador ferry service in perpetuity, the Province decided that it could operate the ferries in perpetuity and also fund a portion of a Trans Labrador Highway. The concept was that a highway would reduce the use of the ferries and the resulting reductions in operating costs would be such that the Fund would be sufficient in perpetuity.

The Fund, after only 9 years, is expected to be depleted in 2007 and as such will not be sufficient to operate the Labrador ferry service in perpetuity because:

- \$238 million has been spent and an additional \$24.6 million is expected to be spent on the construction of Labrador highways. Therefore, approximately 63% of the Fund and earned interest will be used for highway related construction.

- 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).

While new drug therapies, higher per capita drug usage and the Province's aging population are significant factors in the dramatic increase in drug costs, we are concerned that poor management practices are not ensuring that program costs are minimized. For example:

- Unlike other provinces there is no on-line, real-time claims system to provide necessary management information on a more timely basis.
- As a result of not having an on-line, real-time system, the Province is unable to take advantage of lower prices related to “deeming” drugs within therapeutic classes as having equal health benefits, thereby setting the price for that class at a lower or median level. Of the 19 drugs we sampled, the Province paid \$754,000 more for 2 drugs than it would have had it deemed the drugs in this class as having equal health benefits and a set class price. Another Atlantic Province was able to take advantage of such lower prices because they had the required systems in place.
- Unlike other provinces, the Department does not have a program to educate doctors on new drugs and does not provide information to each physician on their pattern of prescribing drugs relative to their peers.
- Because of the lack of cooperation from pharmacies regarding the provision of client information, the Department's ability to audit a sufficient number of pharmacies is severely diminished. There are 275 pharmacies in the Province; however, only 6 audits have been undertaken since 2002 and only 1 (no problems identified) had been finalized. Audits are an important way of checking for potential problems such as over billing.
- While there are some system controls in place which are intended to ensure the accuracy of amounts paid for drugs, we found errors in amounts paid for 2 of 19 drugs that we sampled.

The NLPDP has a budget of approximately \$100 million, which is larger than many Government departments. Yet the Program is the only one in Canada without specific legislation to guide its operations. We would expect such a framework to specify such things as the responsibilities and accountabilities of Government, pharmacies and doctors, as well as provide enforcement provisions. The presence of legislation would also provide information for the Members of the House of Assembly on the effectiveness of this Program.

Prescription drug abuse in the Province is documented at least as far back as 1988. There are two components to the drug abuse problem, i.e. client abuse and indiscriminate prescribing by physicians. The following outlines what was done to try and deal with prescription drug abuse.

### *The Client*

The Department has a system in place to address “double doctoring”. The main focus of the system is to restrict the use of a drug card to a single pharmacy. Our review identified that the Department currently only selects the top 20 clients determined by the number of different physicians visited and who also went to multiple pharmacies. The extent of the review may not be adequate since only 20 of the approximately 1,800 clients were selected. When we questioned as to why only 20 were selected, we were informed by one NLPDP official that the decision was based upon professional judgment and past experience, and determined as being adequate to detect abusers. However, we were informed by another NLPDP official that “...*the process is sometimes placed on a lower priority level as a result of workload issues*”. We also noted a comment in the final report of a Treasury Board/Pharmaceutical Services Joint NLPDP Review completed in 2004 that stated “*efforts were decreased during the operation of the Prescription Monitoring Program and have not yet returned to previous levels due to human resource constraints.*”

We also found that cards are not always restricted by the Department of Human Resources, Labour and Employment (HRLE) on a timely basis. In 6 of the 20 samples we reviewed, it took between 49 and 90 days to have the card restricted.

### *The Physician*

No substantive measures were introduced to deal with suspected indiscriminate prescribing by a relatively small number of general practitioners until the health and safety concerns related to OxyContin became public.

Our review indicated a number of issues regarding the utilization of prescription drugs under the Program. For example:

- 11 general practitioners were on the list of the top 10 prescribers of narcotics and other controlled drugs during the period 1 April 2002 to 31 March 2005. These physicians were writing from 25 to 50 times as many prescriptions for these drugs as most of their peers and accounted for approximately \$560,000 (15%) of the approximately \$3.7 million spent each year related to narcotics and other controlled drugs.
- The Department was not proactive in dealing with the small number of general practitioners suspected of indiscriminate prescribing.

Although officials indicated that information on possible indiscriminate prescribing was provided to the Newfoundland Medical Board (now called the College of Physicians and Surgeons), the Board in the final OxyContin Task Force Report indicated that, due to the Board's interpretation of its legislation, "*...it is limited in its ability to fulfill its mandate of public protection*".

It was not until the public outcry related to OxyContin abuse that Government amended the *Medical Act* to provide the Board with more comprehensive powers and requirements to deal with issues identified regarding such things as indiscriminate prescribing by doctors.

Lack of controls over drug cards provides the potential for drug abuse. This is particularly the case for the manual drug cards that are prepared in the various HRLE district offices when a client services officer issues cards after hours, or in emergency situations.

There are inconsistent criteria applied by HRLE and Integrated Health Authority (IHA) staff in issuing drug cards because of inconsistent policies for determining eligible client expenditures. We found one instance where a client was refused a drug card at a HRLE office but was approved for a card for the same time period at an IHA office.

## **2.12 Personal Care Homes**

The *Health and Community Services Act* (the *Act*) provides that the Department of Health and Community Services has overall responsibility for governing personal care homes in the Province. The *Personal Care Home Regulations* (the *Regulations*) under the *Act* contain requirements relating to licensing, monitoring and inspecting these homes.

Licensed personal care homes are privately owned and operated facilities which provide residential accommodation to 5 or more adults who require care and assistance. Residents of these homes do not require daily services of professional staff such as physicians or nurses. They may, however, require assistance with their daily living activities such as bathing, dressing, or eating. As of November 2004 there were 93 personal care homes licensed in the Province with a total of 2,676 available beds, 2,139 of which were occupied.

Under the *Regulations*, applicants for licensing as a personal care home must have their premises inspected by an official of a Government Service Centre operated by the Department of

Government Services. The applicant must then have their application reviewed by a regional health and community services board with respect to personal care standards. If all standards are met, the regional board will issue a licence.

The Department of Health and Community Services is not doing an adequate job in determining whether the regional health and community services boards are complying with *Personal Care Home Regulations* and Departmental policies. This is evidenced by the fact that the Department does not require information relating to licensing, monitoring and inspecting. Instead, the Department receives monthly statistical reports which only show the number of beds (occupied, vacant, and subsidized), residents' level of care and whether a sprinkler system is in place.

The Department does not assess whether residents are receiving a consistent and adequate level of care. Residents are assigned a level of care by board staff using an assessment process which requires significant professional judgment. A Manager at the Department indicated that there are discrepancies in how the boards are assessing the level of care for the residents. Furthermore, a report prepared for the Department in 2004 stated that personal care home owners indicated that the “...*determination of the levels of care seem to be subjective and not a true representation of client care requirements.*” The Department does not review resident assessments to ensure consistency across the Province.

The Department has not established performance indicators which could be used to assess the effectiveness of the personal care home program in providing residents with the required care. As a result, the Department cannot conclude whether the personal care home program is producing the desired results.

The regional health and community services boards are not fully complying with the *Personal Care Home Regulations* and Departmental policies. Our review of the activities at the boards disclosed serious concerns relating to how personal care homes are licensed, monitored and inspected. Examples of deficiencies noted in our review of 24 homes during the period April 2002 to January 2005 indicated that:

- licensing standards were not enforced;
- monitoring of care standards require improvement; and
- annual fire and life safety, and environmental health inspections were not completed within the required annual time frame.

In July 2002, the St. John's Regional Health and Community Services Board decided that it could not approve the licence of a home which did not meet building standards for minimum room sizes. Based on a complaint, the Board determined in March 2003 that the home was operating without a licence. The home continued to operate without a licence and in June 2003 the Minister of Health and Community Services directed the Board to issue the licence to the home even though it did not meet licensing requirements. Based on this direction, the Board issued the licence in September 2003.

### **2.13 Monitoring Health and Community Services Boards**

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western Regions. Each of these boards has local offices throughout the Province. Health and community services in Northern Newfoundland and Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation, respectively. The health and community services boards provide traditional community health services including health promotion and protection, mental health services, continuing care, and immunization services. In addition, community service programs including Child Welfare, Community and Corrective Services, and Family Rehabilitative Services, are delivered under the health and community services boards.

Effective 1 April 2005, the four health and community services boards combined with the eight health care institution and integrated boards to establish four regional health authorities throughout the Province.

As a part of our audit work, we continue to monitor the financial position and annual operating results of the four boards.

The overall financial position of the four boards has deteriorated every year since 2000-01. All four boards had unfunded liabilities as at 31 March 2005. The combined financial position of the four health and community service boards at 31 March 2005 shows total unfunded liabilities of \$36.3 million, an 83% increase from the \$19.8 million reported in 2000-01. The unfunded liabilities will eventually have to be funded by Government.

The St. John's Regional Health and Community Services Board accounted for \$16.8 million or 46% of the total \$36.3 million in unfunded liabilities. The largest increase in unfunded liabilities during the year was at the Western Regional Health and Community Services Board, where the total unfunded liabilities increased 71% from \$3.5 million to \$6.0 million.

During the year, two of the four boards had operating deficits totalling \$5.9 million and two had surpluses totalling \$1.0 million. For 2004-05, only one board, the St. John's Regional Health and Community Services Board, reported an annual operating deficit higher than the previous year.

Since 2000-01, total annual operating deficits have generally declined because Provincial funding has increased more than expenditures. For example, Provincial funding increased \$47.1 million (28%) from \$165.3 million in 2000-01 to \$212.4 million in 2004-05. During this same period, program costs increased \$40.5 million (25%) from \$160.2 million in 2000-01 to \$200.7 million in 2004-05.

At 31 March 2005, one of the health and community services boards, the St. John's Regional Health and Community Services Board, was in contravention of the *Financial Administration Act* in that the board had long-term debt totalling approximately \$850,000 to entities outside of the government reporting entity without legislative authority.



## **2.14 Monitoring Health Care Institutions and Integrated Boards**

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions and integrated boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards. The financial position of the boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding.

Effective 1 April 2005, the eight boards combined with the four health and community services boards to establish four regional health authorities throughout the Province.

As a part of our audit work, we continue to monitor the financial position and annual operating results of the eight boards.

The overall financial position of the eight boards has deteriorated every year since 2000-01. All eight boards had unfunded liabilities as at 31 March 2005. The combined financial position of the eight boards at 31 March 2005 shows total unfunded liabilities of \$453.6 million, a 24% increase from the \$366.1 million reported in 2000-01. The unfunded liabilities will eventually have to be funded by Government.

The Health Care Corporation of St. John's accounted for \$242.4 million or 53% of the total \$453.6 million in unfunded liabilities. Six of the eight boards reported increases in the total unfunded liabilities for 2004-05.

During the year, six of the eight boards had operating deficits totalling \$17.4 million and two had surpluses totalling \$1.2 million. For 2004-05, two boards, the Central West Health Corporation and Western Health Care Corporation, reported an annual operating deficit higher than the previous year.

Since 2000-01, total annual operating deficits have generally declined because revenues have increased more than expenditures. Most notably, Provincial funding increased \$201.0 million (29%) from \$692.7 million in 2000-01 to \$893.7 million in 2004-05. During this same period, total expenditures increased \$187.7 million (23%) from \$816.8 million in 2000-01 to \$1,004.5 million in 2004-05.

## **2.15 Income Support Program**

The Province's income support program is delivered by the Department of Human Resources, Labour and Employment (the Department) under authority of the *Income and Employment Support Act*. Since 2001, the Department has served an average of 36,334 cases each year.

Due to an increased emphasis on assisting clients to find and maintain employment, improved technology, and declining case loads the Department has reduced the number of district offices and has changed the manner in which it delivers its programs, particularly in the information it collects and the ways that clients can apply for, and continue receiving, income support. The Department made the requirement for home visits discretionary in the mid-1990's because they determined that home visits did not add significant value to ensuring that only eligible clients actually received benefits.

The Department has instituted integrity measures to ensure it has current and accurate client information on file and that errors are not made in approving applications for income support or in the continuing provision of income support.

While the Department has instituted a number of useful measures to monitor the Income Support Program, these measures are not being employed as effectively or thoroughly as they should be.

### *Weakness in Departmental structure*

There are weaknesses with the Department's structure as it relates to the Income Support Program. Responsibility for ensuring appropriate income support payments are made to clients is divided

between the Eligibility Assurance Section (EAS) and the Internal Audit Division. The integrity measures of EAS are inter-related with and complimentary to audit activities and should be under single direction.

### *Interfaces not effectively performed*

Interfaces refers to the practice of cross-referencing cases with other income programs (Federal and Provincial) to determine if clients are receiving income from other sources. In the past two years, 1,815 clients have either been suspended and/or had an overpayment set up as an account receivable (\$1 million). We found that the interface process:

- is not always performed or acted upon in a timely manner; and
- does not include a formal process for communicating results to senior staff or Executive.

### *TEC not applied widely enough*

The Telephone Eligibility Confirmation (TEC) process establishes a recipient's continued eligibility to receive income support and determines their interest in employment and/or training. In the last two fiscal years, there were records kept for telephone contact with 2,868 clients. Of this number, 2,471 interviews were completed. We found that while the TEC process works well to reveal errors, ultimately saving the Department money, it is not being applied widely enough. These are the results of the call program for the last two fiscal years:

- 206 of the 2,868 clients were not interviewed and were suspended from income support because they could not be contacted;
- There was no follow-up action for 191 of the 2,868 clients where some form of action was required;

- 45 of the 2,471 clients interviewed were suspended because they were not entitled to receive income support;
- \$964,377 in savings was projected due to the suspensions;
- a further \$24,255 in overpayments were identified; and
- personal information errors were identified.

Furthermore, there is no evidence that errors identified have been corrected in the Department's database.

*Internal Audit Division does not audit district offices frequently enough*

Based on a review of the Division's records, we found that divisional offices are not being audited frequently enough. Specifically:

- thirteen of the 28 district offices have not been audited since 2001-02;
- based on the current rate, district offices will only be audited every six or seven years; and
- audits the Division conducted in 2003-04 and 2004-05 revealed:
  - errors in payment of income support (14 overpayments and 1 underpayment in 256 items tested);
  - payment of income support without adequate documentation (eg: 4 of 38 medical transportation payments); and
  - errors in the Department's database (similar to errors detected by telephone eligibility confirmation).

*Cycle reviews not completed in accordance with established frequency*

The Department requires cases be regularly reviewed “to ensure information is current, and to confirm eligibility for income support.” One of the procedures used is a cycle review, which consists of a mail out / mail back form. Forms are mailed to clients based on how long they have been receiving income support. We found that cycle reviews are not always completed in accordance with established frequency.

*Investigations take too long to complete*

An investigation can occur when an officer becomes aware that a client is receiving income support where there is no entitlement. We observed weaknesses in the Department's handling of investigations as follows:

- 482 investigations were outstanding at 28 February 2005, of which 205 were older than four months. Based on the Department's interpretation of the *Income and Employment Support Regulations* (that investigations must be completed within four months), the Department terminated the 205 cases. We could not determine if any would have led to suspensions or legal proceedings, and
- 39 cases approaching the four month mark are scheduled to be terminated in the new year.

We do not agree with the Department's interpretation of the *Regulations* whereby they terminate an investigation just because the investigation has not been completed within the required four month time frame.

### *Performance indicators not established for integrity measures*

The Department has not established performance indicators which could be used to assess the effectiveness of the integrity measures which are designed to increase assurance that only eligible clients are receiving income support and that employment support is being provided to clients in cases where it would be beneficial.

#### **2.16 Newfoundland and Labrador Housing Corporation Employee Computer Purchase Loan Program**

Newfoundland and Labrador Housing Corporation provides its employees with computer purchase loans. Employees are required to provide proof of purchase to the Corporation for a loan to be advanced. The advance can be issued to either the employee or the vendor. The loans are then recovered through employee payroll deductions over a period not to exceed 36 months (defined in loan agreements between the Corporation and the employees). These loans bear interest at the Corporation's demand rate and the interest rate is adjusted semi-annually. The maximum loan is \$5,000.

All departments, boards, agencies and commissions, for which Government is the ultimate employer, are using public money to compensate employees. Therefore, it would be reasonable to expect that similar compensation practices would be consistently applied. However, the employee computer purchase loan program offered by the Corporation is not available for employees in central government. As a result, this compensation practice is inconsistent with Government's compensation practices.

Offering this sort of loan program exposes the Corporation to unnecessary risk. To illustrate, the program was briefly suspended in 2004 when the Corporation discovered that an employee received a computer purchase loan even though a computer had not been purchased. In this case, it was determined that insufficient documentation was provided. Eventually, a senior official was terminated and two others were suspended.

Since 1989, the Corporation has advanced approximately \$1 million to over 200 employees for 538 computer purchase loans. However, it has not determined the additional costs of administering the program such as staff time in administration, payroll and accounting.

## **2.17 Investment in a Manufacturing Company**

Government has invested a total of \$750,000 in a manufacturing company in the City of Mount Pearl.

Contrary to the recommendations of officials at the Department of Finance and the Department of Innovation, Trade and Rural Development (INTRD), a directive from the Premier's Office in December 2003 resulted in the manufacturing company being provided with a \$300,000 loan in 2004. Officials cited issues such as:

- the loan would not be secured in that prior liens of other investors would have claim to the company's assets in the event of bankruptcy;
- the investment would not generate additional employment in the Province;
- a revised business strategy of the company was not advanced enough to determine if the company would be viable; and
- several other existing investors were not prepared to increase their investment.

Furthermore, officials were aware that this company had been experiencing financial difficulties since it commenced operations in 2001 and was unable to make any payments on the \$450,000 loan which Newfoundland and Labrador Industrial Development Corporation (NIDC) provided in 2001. In fact, in 2003 the company requested and received Government approval to convert the NIDC loan to redeemable preference shares of the company. As a result, the company does not have to repay the \$450,000 loan and the Province now holds 43,269 Class D redeemable preference shares of the company.

Officials at INTRD have determined that repayment of the \$300,000 loan is doubtful and accordingly a provision for this expected loss has been recorded in the Province's financial statements for the year ended 31 March 2005.

At the time of our review in November 2005, the company was not in compliance with two conditions relating to the \$300,000 loan:

- The company had not maintained the required employment level of 30 full-time equivalent employees in the Province. In December 2004, when the company had 22 full-time equivalents, it formally requested the required employment level be reduced. Although the 30 full-time employees is still a requirement of the loan, as of November 2005, the company only employed 17 full-time equivalents.
- The company had not provided Government with the required audited financial statements for the year ended 31 July 2005 and were a year late in providing the financial statements for the year ended 31 July 2004.

## **2.18 Royal Newfoundland Constabulary**

The Royal Newfoundland Constabulary (RNC) operates under the authority of the *Royal Newfoundland Constabulary Act, 1992* and *Regulations*. The Chief of Police, appointed by the Lieutenant-Governor in Council, is responsible for the RNC's general control and administration, and reports to the Minister of Justice and Attorney General. The RNC's mission is to work with the people of Newfoundland and Labrador to foster safe communities by providing quality, professional, assessable, timely and fair police services to all. At 31 March 2005, there were 309 RNC members and 76 civilian staff at the RNC. The RNC polices three regions of the Province - the Northeast Avalon, Corner Brook, and Labrador West. The population of these regions is approximately 201,000 (2001 Census).



### *Planning and reporting*

We found weaknesses in planning and reporting practices. This was evident in that:

- the long-term strategic plan expired in 2004 and has not been updated;
- a system to report on plan objectives has not been implemented;
- operational plans have not been developed for any of the 14 divisions;
- a multi-year training plan has not been developed and approved; and
- all quarterly quality reviews were not submitted by 7 of 14 divisions for 2004.

### *Human resource management*

The RNC does not have a system in place to monitor the amount of time members spend on administrative tasks. Using fewer police resources to perform administrative tasks would free up members to perform core police functions. The RNC had hoped to achieve this objective by introducing the Integrated Constabulary Automated Network (ICAN) system; however, we found that the ICAN system is not being used to generate reports to determine if the objective is being met.

In 2002, the RNC purchased a Mobile Report Entry module, four lap top computers and related software for a total cost in excess of \$52,000. These computers were to be used in police cars to allow members to save time by entering investigative information and preparing police reports directly. However, the computers were never installed in the police cars. Furthermore, the computers are still in storage and the RNC continues to pay annual software maintenance and support service fees of \$3,600.

Two staffing areas need attention within the RNC: the ratio of members to civilian employees and the lack of performance evaluation systems. Currently, the RNC is using members to perform tasks that could be done by civilians.

Overtime costs continue to increase and represent a significant cost to the RNC. Overtime paid in the past three years and projected for 2005-06 is as follows: 2005-06 -\$2,784,508 (projected by RNC); 2004-05 -\$2,129,600 (plus \$743,200 for April 2004 strike); 2003-04 -\$1,132,350; and 2002-03 -\$1,007,102.

Over 7,500 individual entries were not keyed into the RNC's Resource Utilization System (RUS) during 2004-05 and, as a result, employee detail reports from the system do not reflect all the overtime paid during 2004-05. In addition, Divisional or District Commanders are not submitting monthly summaries of their overtime expenditures to the Director of Finance and General Operations, as required. The RUS was expected to provide all necessary information for the RNC Executive to monitor and control overtime. However, RNC officials indicated that the RUS is unable to produce the required detailed reports to adequately monitor overtime. Therefore, overtime cannot be reviewed, monitored and controlled without the monthly summaries from the Divisional or District Commanders.

The issues of significant sick leave among members and the link between sick leave and overtime, both of which were identified as issues by the Department of Justice in March 2004, continue to be a concern. The average number of sick leave days used by members in 2004-05 was approximately 13 days (central Government average was 11.57 days for full-time permanent staff) and in that year sick leave costs totaled in excess of \$800,000.

### *Purchasing and tendering*

We found weaknesses in the RNC's purchasing and instances of non-compliance with legislation regarding financial controls and tendering. The following issues were identified:

- Contravention of the *Public Tender Act* in that it does not always call public tenders for purchases greater than \$10,000 and does not always obtain either three quotes or establish a fair and reasonable price for purchases \$10,000 and less.
- Contravention of the *Financial Administration Act* in 15 instances by ordering goods and services without encumbering funds.
- Purchase orders, providing the required authorization, are not being prepared until after the receipt of goods and services and related invoices.
- Examples where documentation to support payments was inadequate.

### *Information technology*

The RNC is not complying with its own rules regarding information systems management. While there are clearly established policies and procedures in place to ensure the security of automated systems, these policies and procedures are not being followed.

### *Information management*

Police investigation files are not being reviewed in a timely manner to ensure that all tasks associated with investigating and concluding files are carried out. At the time of our review, there were over 21,000 overdue diary dates (dates assigned to police investigation files to ensure that all tasks associated with investigating and concluding files are carried out as promptly as possible) on the Integrated Constabulary Automated Network system for the period January 1999 to December 2002.

The records sign-out database is used by the Information Management Division to record files removed from and returned to the Division. The database system is not accurate. For example, of the 40 files indicated as “overdue”, we reviewed 20 and found that 12 were not with the member to whom the file was signed out and could

not be located. Furthermore, 6 of the 20 files were located in the Division; however, the database had not been updated.

### *Inventory*

There are significant weaknesses over inventory of computers, quartermaster store items, and office furniture and equipment at the RNC. Although there are inventory control procedures to record acquisition, disposals and transfers, these procedures were not always complied with. For example, assets were not tagged, inventory counts were not performed, and inventory listings were either not maintained or inaccurate. During our testing the RNC could not account for all assets and in other instances assets were found in locations other than that indicated on the system.

There is no tracking and reporting of vehicle mileage, fuel consumption and maintenance for the 118 police vehicles. Furthermore, there are no policies covering preventive maintenance and replacement.

The Property Control Centre is used to store evidence which is found, seized or confiscated. We found that systems and controls at the Property Control Centre were not adequate. There were items on the inventory listing which could not be located, items examined which were not recorded on the inventory listings, and access to the area was not adequately restricted. Furthermore, although there are processes in place to ensure that evidence no longer required is disposed of, we found that this did not always occur and as a result, the area was unnecessarily cluttered. These significant weaknesses at the Property Control Centre could result in exposure to the RNC in that evidence is not properly safeguarded.

## **2.19 "911" Emergency Response Service**

In 1972, Canada recognized the three-digit telephone number "911" as the "Universal Emergency Number" for citizens to request emergency assistance. The number is a nationwide telephone number that gives the public fast and easy access to a Public Safety Answering Point (PSAP) where the PSAP answers and routes the callers to the appropriate emergency responders.

The 911 service allows individuals to dial one three digit number to access any emergency services including medical, fire and police. Without the 911 service, an individual would have to either know or find the applicable emergency number and dial up to eleven digits to access these services.

Newfoundland and Labrador is the only Atlantic Province without Province-wide coverage for land based 911 emergency response services. Currently, only 40% of the Province's population and less than 10% of communities on the island portion of the Province have access to this 911 service. Furthermore, there is no land based 911 service in Labrador.

The 911 services currently operating in the Province are "basic" 911 services. In contrast, the other Atlantic Provinces have "enhanced" 911 services which use the telephone number of the calling party to capture information related to the location of the emergency. This is particularly significant where the caller's ability to communicate is impaired.

Without a 911 service, individuals can experience delays in contacting the appropriate emergency service since they have to either know or find the emergency number and dial up to eleven digits to contact emergency services in their area. There is an added risk for the traveling public who may not be aware that there is no land based Province-wide 911 service.

## **2.20 Municipal Assessment Agency**

The Municipal Assessment Agency, a Crown-owned agency created in 1997, is the only source of residential and commercial property assessment services for 230 municipalities which levy property taxes. The exception is the City of St. John's, which performs its own assessments.

The Agency performs assessments on the following types of properties: approximately 122,000 residential, approximately 35,000 vacant land parcels, approximately 12,500 commercial/industrial and approximately 6,400 other properties. Mass appraisal techniques are used to assist in valuing properties. Mass appraisal provides that

properties with similar characteristics and circumstances are valued similarly. The Agency charges an annual fee to municipalities for assessment services.

The Agency is not assessing property values in a timely, complete and consistent manner. As a result, municipalities may not be receiving the most accurate and complete assessed property values to ensure they maximize their revenues.

We examined several aspects of the Agency's property assessment process, as well as its expenditures, and reached the following conclusions.

### *Property Assessment issues*

According to the Agency's database at the time of our review, nearly half of the 20,055 properties sold during the period 2002 to 2005 were never inspected. It is important that these sales inspections be completed to assist in ensuring that the three year revaluations, which rely on market information, are accurate.

Contrary to policy, approximately 74% of inspections did not include an interior inspection of the property. A contributing factor to this situation is that there is no follow-up if the property owner is not home.

Staff at the Agency indicated that, as a result of the lack of guidance provided to assessors, there are inconsistencies in the completion of assessment forms. Therefore, properties are not always valued on a consistent and uniform basis.

The *Assessment Act* requires that all properties be visited for inspection at least once every 10 years. This portion of the *Act* became effective in 1998; therefore the Agency has until 2008 to ensure that all properties have been visited in 10 years. In accordance with the Agency's Data Tracking policy, these visits are exclusive of visits required for other purposes. To satisfy the requirements of this policy, the Agency has a plan in place to inspect 10% of properties each year, starting alphabetically by street in each municipality.

However, supplementary inspections and appeals inspections take precedence over the 10 year visits.

As the Agency has approximately 176,000 properties that would require inspection, it has inspected only 6% of the properties in 2005 instead of its target of 10%. Not achieving this target in any given year increases the risk that all properties will not be inspected by 2008 as required.

In addition to the review performed by assessment staff, the Agency also uses accepted statistical measures to determine whether assessed market values are accurate. When the Agency applied these statistical measures to the 49 municipalities in the Province which had sufficient property sales to apply the measures, it was revealed that:

- 5 municipalities had poor assessment quality;
- 4 municipalities lacked good appraisal uniformity in properties with similar characteristics; and
- 29 municipalities had high value properties under-appraised.

The Agency runs annual exception reports to identify database anomalies. For example, in December 2003, 3,243 anomalies were identified while in December 2004, 7,627 anomalies were identified. There was no indication, during our review, that these anomalies were being addressed.

### *Expenditure issues*

Although the Agency has adopted Government's travel policy, we found instances of non-compliance. For example, during the period May 2003 to January 2005, we found:

- airfare and meals for spouses of Board members and employees, totalling \$1,930 was claimed;

- “business lunches” totalling \$301 were claimed when only Agency officials were present;
- expenses exceeded allowable limits by \$982 for meal per diems; and
- meal per diems totalling \$348 were claimed when meals were already provided.

In 2003, without the use of an objective means of evaluation such as the Province's *Consultant's Guidelines*, the Agency selected a consultant to design and implement a new management structure. Officials indicated that the consultant was selected as a result of previous work. This consultant received a total of \$81,000.

Other instances of expenditures which were not consistent with Government policy included:

- Golf fees for staff and Board -\$907;
- Liquor for Board conferences and staff golf functions -\$505;
- Christmas dinners for Board (including spouses) -\$3,952; and
- Christmas luncheons for staff -\$305.

## **2.21 Vacant/Surplus Properties and Unused Space**

The Department of Transportation and Works is responsible for managing and maintaining approximately 653,000 square metres of floor space in 900 Government-owned buildings and properties, including vacant/surplus properties and unused space.

The vacant/surplus properties inventory per region as at 31 March 2005 comprises 62 buildings within 27 sites. This inventory includes 5 buildings not classified as vacant but which have a significant amount of unused space. The estimated value of this space, were it to be replaced today, is over \$183 million.



In our opinion, Government is not efficiently managing Government-owned vacant/surplus properties. Government does not have a long term strategy for the disposal or alternate use of Government-owned vacant/surplus properties. As a result, vacant/surplus properties continue to deteriorate while the Department incurs ongoing operational costs and increasing environmental remediation costs. More attention must be paid to timely environmental remediation of these sites and their subsequent disposal, re-use or re-sale. In particular we found:

#### *Inaccurate inventory database*

The Department's database on Government-owned buildings contains detailed information necessary for management. However, it is not kept current; at the time of our review in March 2005, the last inventory update began in September 2003 and was not completed until March 2004. We also found that the database was not accurate in that one vacant/surplus property was not included in the database, while in another instance a vacant/surplus property was recorded in the wrong category.

#### *Operating costs*

Government continues to incur significant annual operating costs for Government-owned vacant/surplus properties, with an annual average of over \$573,000 for the last five years. Approximately \$470,000 of the \$573,000 average annual costs relates to the Grace, the old Janeway and the former College of the North Atlantic.

#### *Environmental assessment and remediation costs*

Our review showed the cost of restoring vacant/surplus properties for an alternate use or re-sale (through environmental remediation) can significantly increase when those buildings are not maintained. The accumulating costs can make negative assets out of otherwise re-usable properties.

Although environmental remediation and demolition costs have not been determined for all vacant/surplus properties, the Department has estimated the following:

- Environmental remediation: \$5.87 million for nine vacant/surplus property sites; and
- Demolition costs estimated at \$6.23 million for twelve vacant/surplus property sites.

### *Alternate uses*

The Government does not have a process in place to deal with the timely disposal of vacant/surplus properties by finding alternate uses for them. For example: slow handling of an entrepreneur's request to take over the building site of the former Young Offenders' Institute in Whitbourne in 2001 resulted in losing an opportunity to dispose of a vacant/surplus property. Because the process took so long, the building deteriorated to an unacceptable condition and in 2003 the entrepreneur decided the building was no longer suitable for their business.

Likewise, the Government has not identified alternate uses for other vacant/surplus properties still suitable for occupancy. Some are being used for storage only.

### *Disposal strategies*

The Department has not demonstrated, through planning and budgeting, a commitment to disposing of unwanted vacant/surplus properties. For example, in its budget submission for 2005-06, the Department included a listing of environmental remediation program requirements for 2005-06 as well as future requirements. However, this listing did not include all the costs identified to date for the environmental remediation and/or demolition of all of its vacant/surplus properties. The Department did include \$2.0 million for future environmental assessments and remediation requirements but did not identify the vacant/surplus property sites to which these costs pertained.

## *Space allocation*

Although Government started a process in late 2004 to determine if there is any existing unused space within existing leased or owned buildings (covering Government departments, agencies, boards and crown corporations) which could be better utilized, no savings had been realized to the time of our review.

## **Chapter 3**

### **Update on Prior Years' Report Items**

This year we continued a process whereby our recommendations are monitored and the results reported within two years of the original report date. This Chapter provides the results of this monitoring process relating to the recommendations contained in 2003 and prior *Reports of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies*.