



# REPORT OF THE AUDITOR GENERAL

To the House of Assembly



Summary

For the Year Ended  
31 March 2007



*Office of the Auditor General*

Newfoundland and Labrador

January 2008

# Summary

**REPORT OF THE AUDITOR GENERAL  
To the House of Assembly**

*Reviews of Departments and Crown Agencies*

**for the Year Ended  
31 March 2007**

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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 2007*. That Report contains approximately 590 pages of conclusions, commentary, recommendations and auditees' comments.

This document contains summary information on each chapter included in the Report. Information for Chapter 2 has been copied from the Highlight sheets that are located at the beginning of each Part in Chapter 2. 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 2007* 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 2007* which will be submitted to the Speaker of the House of Assembly when available. A report on the operations of the Office of the Auditor General for the year ended 31 March 2007 will be submitted in February 2008.

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## 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.

## Chapter 2

### Comments on Audits and Additional Examinations

#### Part 2.1

#### **MONITORING AGENCIES OF THE CROWN**

The report summarizes our observations of the audited financial statements and management letters of Crown agencies that we have either prepared as auditor or received from private auditors. To assist us in this task, we maintain information found in these documents in our computerized system. This system provides the basis for our monitoring of all Crown agencies. Our observations are as follows:

#### **What We Found**

##### **Compliance with Section 14**

Of the 63 (2006 - 65) entities required to prepare annual financial statements, 30 (2006 - 30) were audited by our Office while 33 (2006 - 35) were audited by private sector auditors.

##### **Statements not released by our Office**

As of 8 January 2008, the audit of the financial statements of the following 5 (2006 - 4) entities audited by our Office could not be completed because the entities either had not provided necessary information or were not ready in time to complete the audit:

- C.A. Pippy Park Commission for the year ended 31 March 2007;
- C.A. Pippy Park Golf Course Ltd. for the year ended 31 March 2007;
- Heritage Foundation of Newfoundland and Labrador for the year ended 31 March 2007;
- Newfoundland and Labrador Legal Aid Commission for the years ended 31 March 2005, 31 March 2006 and 31 March 2007; and
- Newfoundland Government Fund Limited for the years ended 31 December 2004, 31 December 2005 and 31 December 2006.

**Statements not received from private sector auditors as required**

As of 8 January 2008, we had not received the audited financial statements and management letters for 4 of the 33 (2006 - 1 of the 35) entities audited by private sector auditors. These entities include the following:

- Churchill Falls (Labrador) Corporation Limited for the year ended 31 December 2006;
- Gull Island Power Company Limited for the year ended 31 December 2006;
- Lower Churchill Development Corporation Limited for the year ended 31 December 2006; and
- Twin Falls Power Corporation Limited for the year ended 31 December 2006.

For the majority of the remaining 29 entities, we did not receive the audited financial statements and management letters from the private sector auditors on a timely basis. On average, these audits were completed and the auditor's reports signed within 3 months after the year-end. However, in most cases, our Office did 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.

### **Highlights from audited financial statements**

For 2007, 9 (2006 - 9) entities reported a total bank indebtedness of \$57 million (2006 - \$72 million).

As of 15 December 2006, the *Transparency and Accountability Act* requires all Government entities, including Crown agencies, to report financial information in a manner consistent with generally accepted accounting principles. We found that 2 entities did not comply with Canadian generally accepted accounting principles in that:

- for the year ended 30 April 2007, the Marble Mountain Development Corporation did not record and amortize its capital assets; and
- for the year ended 30 June 2006, the Eastern School District did not record and amortize all of its capital assets, and recognized teachers' severance and accrued vacation pay in its financial statements without an offsetting grant receivable from the Provincial government.

## Part 2.2

### **DEPARTMENT OF EDUCATION**

#### Monitoring School Districts

Effective 1 September 2004, 9 of the 11 school districts in the Province were dissolved and three new school districts were created resulting in four English language school districts and one French language school district.

#### **What We Found**

The Province has seen a significant change in the school system during the last 10 years. In the 1997-98 school year, there were 391 schools serving 101,608 students and Provincial grants totalled \$485.1 million. In the 2006-07 school year, there were 285 schools serving 74,304 students and Provincial grants totalled \$596.1 million.

##### *Financial Position*

All five school districts had accumulated deficits as at 30 June 2007. The combined financial position of the five school districts at 30 June 2007 shows total accumulated deficits of \$98.4 million, an 11% decrease from the \$110.7 million reported in 2005. Included in the accumulated deficit is an amount of \$104.6 million related to severance pay and leave accruals, less a net accumulated operating surplus of \$6.2 million. The accumulated deficits will eventually have to be funded by Government.

The Eastern School District accounted for \$54.0 million or 55% of the total \$98.4 million in accumulated deficits.

##### *Operating Results*

Four of the five school districts reported operating surpluses for the year ended 30 June 2007 with the other district, the Western School District, reporting an operating deficit. The total net operating surplus for all five districts was \$2.1 million. Operating surpluses (deficits) ranged from \$1.4 million to (\$448,000).

Overall, the annual operating surplus has decreased since 2005. Two school districts had operating results which were lower than that reported in 2006.

*Non-compliance with the Schools Act, 1997*

Contrary to the *Schools Act, 1997*, none of the five school districts submitted their annual budgets for the fiscal year 2007-08 to the Minister of Education for approval by 31 October 2007 as required by the Minister.

Also, contrary to the *Schools Act, 1997*, two of the five school districts did not submit their audited financial statements for the fiscal year 2006-07 to the Minister by 23 November 2007 as required by the Minister. The Nova Central School District did not submit its audited financial statements until 24 December 2007 and the Eastern School District did not submit its audited financial statements until 4 December 2007.

## Part 2.3

### **DEPARTMENT OF EDUCATION**

#### Debt Reduction Grant Program

Since 1 August 2002, the Department of Education has administered a Debt Reduction Grant Program (DRGP) through its Student Financial Services Division (the Division). The purpose of the program is to provide debt relief to eligible students with student loans whereby an amount up to the full value of the 40% Provincial portion of a student's loan may be automatically converted to a non-repayable grant after the student graduates. This program was preceded by the Loan Remission Program (1995 to 2004). The Loan Remission Program and the DRGP were administered concurrently during a two year transition period which ended on 31 July 2004.

Debt reduction grants are calculated on a semester by semester basis and paid when the student graduates from their program of study. Figure 1 outlines details of the financial assistance paid for the fiscal years 2002-03 to 2006-07.

**Figure 1**  
**Financial Assistance**  
**Fiscal years 2002-03 to 2006-07**

	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Debt Reduction Grants	\$ -	\$ -	\$ 1.4	\$ 5.2	\$ 6.8	\$ 13.4
Number of Students	-	1	502	918	1,223	2,644
Loan Remissions	\$ 5.6	\$ 4.8	\$ 4.7	\$ 1.7	\$ .5	\$ 17.3
Number of Students	634	564	549	279	65	2,091
<b>Total</b>	<b>\$ 5.6</b>	<b>\$ 4.8</b>	<b>\$ 6.1</b>	<b>\$ 6.9</b>	<b>\$ 7.3</b>	<b>\$ 30.7</b>
<b>Total</b>	<b>634</b>	<b>565</b>	<b>1,051</b>	<b>1,197</b>	<b>1,288</b>	<b>4,735</b>

Source: Department of Education

## What We Found

We found that not all eligible students are receiving debt reduction grants as a result of the following:

Although the Division knew that certain students had graduated and it had the necessary information to assess eligibility for a debt reduction grant, the Division did not perform the procedures necessary to determine grant eligibility. As a result of our review of 15 files in this situation, the Division determined that 7 students (47%) should have received grants totalling \$52,591.

- Educational institutions did not provide requested student information and the Division did not follow-up on the outstanding information. As a result of our review of 21 files in this situation, 6 students (29%) should have received grants totalling \$46,799.
- Students who did not apply for a student loan in their final year of study were not identified by the Division as being in their final year of study and therefore were not automatically assessed for debt reduction grant eligibility on graduation. In this situation, students were not advised that they had to apply for a debt reduction grant on graduation.

The Division did not comply with the *Student Financial Assistance Regulations* when it paid \$2 million in loan remissions to 307 students who had not formally applied. Rather than require a formal application from the students as provided for under the *Regulations* and in order to provide students with the maximum assistance, the Division automatically assessed students for eligibility under both the Loan Remission Program and the Debt Reduction Grant Program. In addition, during our testing of debt reduction grants, we found errors in the information contained in the Student Aid Management Information System.

## Part 2.4

### **DEPARTMENT OF EDUCATION**

#### Student Loan Program - Designation of Educational Institutions

Educational institutions play a role in retaining students, ensuring students succeed, and ensuring students improve their overall employability, which contributes to the success that students have in repaying their student loans. In order for a student to be eligible for a student loan from Government, the *Student Financial Assistance Regulations* under the *Student Financial Assistance Act* stipulate that the educational institution they are attending must be formally recognized or “designated” by the Minister (Department of Education).

The Designation Policy Framework introduced in 2004 is a guide for all jurisdictions in Canada in the development of their educational institution designation policies and procedures. The Framework supports government in working with educational institutions to improve the performance and accountability of the student loan portfolio.

The Framework outlines the criteria that should be established to determine whether an educational institution should be and continue to be designated. These criteria are supported by performance standards such as student loan portfolio repayment and default rates, institution administrative compliance and student program completion and employment rates.

Educational institutions that do not meet performance standards of the Framework must take action to improve their performance or face sanctions, including possible de-designation. However, jurisdictions may determine that the role an educational institution plays in fulfilling regional, socio-economic or cultural provincial policy priorities should be taken into account in assessing institutions that do

not meet performance standards. Under the Framework, the Province is required to advise, monitor and assist institutions in taking the appropriate action to ensure compliance.

## **What We Found**

We have concluded from our review that the Department could not demonstrate whether the Province has developed policies and procedures to ensure that educational institutions comply with the designation requirements for the purposes of student loans under the *Student Financial Assistance Act* and *Regulations*.

Furthermore, the Province did not adopt the National Designation Policy Framework developed in 2004 because of the absence of socio-economic indicators which could be used in assessing the performance of educational institutions in the Province, as provided for under the Framework. In addition, the Province did not develop the policies and procedures or enter into formal agreements with educational institutions as outlined under that Framework. The agreements, which are required to be in place to maintain Federal student loan program designation, should outline for example, student loan repayment performance targets, required information exchange between institutions and the Province and tuition refund policies.

As a result of the inaction on the part of Government and in accordance with the Framework, all educational institutions in the Province may be at risk for de-designation for Federal student loan purposes i.e. students will not be eligible for the 60% Federal portion of a total student loan. Educational institutions at particular risk would be the 11 of 43 institutions whose student loan repayment performance in July 2007 was rated as “poor” (student loan repayment rate less than 48.7%).

Of particular note is that Department officials indicated none of the educational institutions have been advised of their student loan repayment performance, whether improvements are required and whether there is risk of de-designation. In addition, the Province still has not taken action to monitor and work with educational institutions to address student loan repayment performance.

## Part 2.5

### **DEPARTMENT OF FINANCE**

#### *Financial Administration Act*

The *Financial Administration Act* (the *Act*) was proclaimed in 1973 and is the primary statute which provides legislative direction and control over the financial administration of the Province. In particular the *Act* provides direction relating to the following:

- the role, responsibility and authority of Treasury Board;
- legislative controls over public money;
- legislative controls over public disbursements;
- legislative controls over public debt; and
- the Public Accounts of the Province (i.e. financial statements).

When the *Financial Administration Act* was proclaimed in 1973, it included many of the same provisions contained in the *Consolidated Revenue and Audit Act* of 1899, which formed the genesis for the *Financial Administration Act*. As a result, although there have been a number of amendments to the *Act*, parts of the legislation still reflect an era when:

- there were few Crown agencies;
- Government, for the most part, administered its programs directly through its departments;
- Government did not provide grants or support directly to private sector entities; and
- there were no generally accepted accounting principles for governments.

In addition to the *Financial Administration Act* there are two other acts which provide legislative direction respecting the financial operations of Government, its departments and Crown agencies. These are:

- the annual *Supply Act* which provides legislative authority for the spending of Public Money as outlined in the annual Estimates presented by Government or as a result of additional special requests approved by the Legislature; and
- the *Transparency and Accountability Act* which provides direction to Government relating to the development and tabling of annual plans and annual reports on its operations.

These three acts are designed to create a system of accountability and control by providing legislative direction to Government respecting the appropriate use of public money and the expectation that Government will report back to the House of Assembly on how public money was spent and what was achieved relative to approved plans. Because of the many changes which have taken place in the way Government operates and in the accounting and reporting standards which it has adopted, it is now time to consider updating the legislative direction provided by the *Financial Administration Act* to reflect current practices.

## **What We Found**

Our review of the *Financial Administration Act* disclosed that it does not provide Government with clear legislative authority for certain transactions and does not provide clear guidance with regards to accounting principles and financial statements. We identified the following:

- Legislation has to be permissive; however, the *Financial Administration Act* does not provide any specific authority to permit investments in private sector companies for innovation and/or economic development purposes. For example, this Annual Report includes information on three equity investments made by the Department of Innovation, Trade and Rural Development totalling \$1.05 million where, in our opinion, such investments were made without clear legislative authority.
- The *Act* does not clearly identify that the financial statements of the Province should be its Consolidated Summary Financial Statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). However, notwithstanding the lack of clarity in the *Act*, Government is in full compliance with GAAP and prepares Consolidated Summary Financial Statements: a fact my Office has commended Government for in recent years.

## Part 2.6

### **MONITORING EXPENDITURES OF THE CONSOLIDATED REVENUE FUND**

During the past year, we obtained expenditure information from Government's financial management information system relating to all expenditures of the Consolidated Revenue Fund, which for the year ended 31 March 2007 totalled \$5.0 billion. 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. Details of the expenditures in each of these categories are provided as follows:

#### **What We Found**

##### **Grants and Subsidies**

For the year ended 31 March 2007, grants and subsidies amounted to approximately \$2.61 billion or approximately 52.7% of the total expenditures of the Consolidated Revenue Fund. Grants and subsidies are shown in the report by category, department and by type of entity. Also shown in the report are the names of all entities which received grants and subsidies funding in excess of \$10 million for the fiscal year ended 2007 with comparative figures for 2006.

##### **Property, Furnishings and Equipment**

For the year ended 31 March 2007, payments for property furnishings and equipment totalled \$17 million. Shown in the report are the names of all entities which received payments in excess of \$1 million for the fiscal year ended 2007 with comparative figures for 2006.

**Purchased Services**

Payments for purchased services totalled \$216 million for the year ended 31 March 2007. Also shown in the report are the entities which received payments in excess of \$1 million for the fiscal year ended 2007 with comparative figures for 2006.

**Professional Services**

The report shows, by department, payments for professional services for the year ended 31 March 2007 which totalled \$304 million. These figures are shown in the report by department. Also summarized in the report are payments of professional services to show all entities or individuals who received payments in excess of \$600,000 for the fiscal year ended 2007 with comparative figures for 2006.

**Allowances and Assistance**

Payments for allowances and assistance totalled \$361 million for the year ended 31 March 2007. Also summarized in the report are payments of allowances and assistance to show all entities which received payments in excess of \$500,000 for the fiscal year ended 2007 with comparative figures for 2006.

**Transportation and Communications**

Payments for transportation and communications totalled \$40 million for the year ended 31 March 2007. Also summarized in the report are the payments for transportation and communications to show all entities which received payments in excess of \$100,000 for the fiscal year 2007 with comparative figures for 2006.

## Part 2.7

### **DEPARTMENT OF GOVERNMENT SERVICES**

#### **Food Premises Inspection and Licensing Program**

The Department of Health and Community Services (the Department) has the mandate for the food premises inspection and licensing program (the program). The Department's legislative responsibility for protecting the health of the public in the area of food safety is outlined in the *Food Premises Regulations* (the *Regulations*) under the *Food and Drug Act*.

The Department of Government Services, through its Government Service Centres (GSC), provides the general public and the business community with access to one-stop services for their convenience when applying for various permits, licenses, certificates and approvals. The GSC conducts inspections and provides enforcement services on behalf of other Government departments. Through Environmental Health Officers located at its network of offices throughout the Province, the GSC works in conjunction with the Department, and the regional integrated health authorities in implementing the food premises inspection and licensing program and other health programs. In 1995 a Memorandum of Understanding (MOU) was signed and revised in 1999 to establish responsibilities and accountabilities among the responsible parties as they relate to mandated programs and services of the Department, including the food premises inspection and licensing program.

#### **What We Found**

Our review of the food inspection and licensing program indicated that not all of the deficiencies identified in our 2003 report had been addressed by the GSC. In particular:

- (a) Licensing of Food Premises - At the time of our review, 442 or 11% of food premises in the GSC database were indicated as operating without a valid licence as required by the *Regulations*. Furthermore, during the year ended 31 December 2006, we found that 35% of the food premises files that we examined in the database had operated without a valid licence for a period of time during the year. As a result, the GSC did not always ensure that food premises were operating with a valid licence as required by the *Regulations*.
- (b) Risk Management - We found that food premises are not always assessed for health risk in accordance with the Risk Management Framework that was developed under the MOU between the GSC, the Department and the regional integrated health authorities.
- (c) Inspection of Food Premises - For the three year period ending 2006-07, the GSC did not carry out the required number of inspections for moderate and high risk food premises and carried out more inspections than required for low risk and seasonal food premises.
- (d) Information Management - We found that the database was incomplete and inaccurate. Information resulting from inspections such as identified health hazards, compliance dates and inspection scores was not captured in the database. In addition, risk assessment score history and calculation detail was not maintained in the database. As a result, important health information was unavailable to the GSC, the Department, and the regional integrated health authorities.

- (e) Compliance with the MOU - The MOU is not evaluated on an annual basis as required. As a result, it may not be reflective of current practices and issues relating to food premises inspection and licensing. The GSC does not provide the Department with an annual report of statistical and narrative information on program activity as required under the MOU.
  
- (f) Management of the Program - Monitoring of the program by the GSC was inadequate because the database used to monitor inspection activity was not accurate or complete; risk assessment score detail, inspection score detail, identified health hazards and hazard correction dates were not recorded in the database; and management did not always review completed inspection reports and risk assessment worksheets.

## Part 2.8

### **DEPARTMENT OF GOVERNMENT SERVICES**

#### Insurance on Motor Vehicles

The Department of Government Services (the Department) is responsible for motor vehicle registration through its Motor Registration Division (MRD). The main office of MRD is located in Mount Pearl, with district offices located in Harbour Grace, Clarenville, Grand Falls-Windsor, Corner Brook and Wabush.

Motor vehicles are insured so that if a driver causes a motor vehicle accident, damages resulting from that accident will be covered. The *Highway Traffic Act* (the *Act*) states that “[a] person shall not operate, or, being the owner, allow another person to operate, a motor vehicle on a highway unless there is in-force in respect of the motor vehicle a policy of insurance.” The penalty for driving without insurance is a fine of between \$2,000 and \$4,000 for the first offence and between \$3,000 and \$5,000 for the second and subsequent offences. In addition to the monetary fines, the *Act* requires the Registrar of Motor Vehicles to suspend an operator's driver's license and impound the vehicle for 90 days.

#### **What We Found**

Our review of activities at the Motor Registration Division as well as fines imposed and collected indicated there is not a significant deterrent for those who choose to operate motor vehicles without insurance. For the period 1 April 2001 to 31 March 2006, there were 5,161 convictions of driving without insurance against 3,518 individuals, which indicates that a significant number of individuals were operating motor vehicles without insurance. We found the following:

- (a) Commercial Vehicles - The existence of insurance policies for commercial vehicles was not always verified as required. As a result of our review we determined that staff at the MRD office in Mount Pearl did not receive requests from the Clarenville, Grand Falls-Windsor or Corner Brook offices to verify insurance for registrations made at these offices.

Furthermore, certificates of insurance were not always on file as required. Our review of a sample of 100 registrations indicated that 16 did not have the insurance certificate on file and 17 had an insurance certificate on file but the policy number did not agree with the information contained in the MRD database.

- (b) Private Vehicles - There were no controls to prevent individuals from registering vehicles without insurance because MRD did not verify insurance information provided at registration and had no means of verifying the information it received as it did not have online access to insurance industry systems. As well, insurance companies were not required to notify MRD of insurance cancellations. Therefore, MRD was not able to prevent individuals from purchasing insurance when registering a motor vehicle and subsequently cancelling the insurance policy.

- (c) Enforcement - We noted that Highway Enforcement Officers were not able to verify whether an insurance card being presented as proof of insurance actually represented a valid, in-force insurance policy. In addition, in cases where proof of insurance was not presented or was invalid, follow-up letters were not always issued by MRD as required to be certain that all warning tickets to provide proof of insurance had been acted upon. Furthermore, in cases where individuals were convicted of operating a motor vehicle without insurance, MRD is not complying with the *Act*, in that vehicles were not impounded, nor were drivers' licences suspended. Also, many of the fines imposed remained unpaid. As at 31 March 2006, the balance of unpaid fines relating to operating a motor vehicle without insurance totalled \$9.5 million.

## Part 2.9

# DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

## Hospital-Acquired Infections

The Department of Health and Community Services (the Department) provides leadership in health and community service programs and policy development for Newfoundland and Labrador through four regional integrated health authorities (the Authorities). The Authorities deliver services to residents of the Province and oversee community service programs and facilities in their area.

### What We Found

Subsequent to the SARS outbreak in the Spring of 2003, Government appointed a Task Force to review the standards, policies, procedures and resources related to control and prevention of communicable diseases that exist in facilities and medical clinics operated by institutional health boards. In March 2004, the Task Force issued a report titled "*Back to Basics*," which identified that there was a lack of Provincial direction/standards for best practices in infection control, that limited time and resources have been dedicated to developing and implementing policies and procedures, and that training of hospital personnel was inadequate. Over three years later, none of the recommendation areas have been fully acted upon.

Our audit focused on hospital-acquired infections which were included in the issues addressed in the *Back to Basics* report. We concluded that Government does not know either the number of hospital-acquired infections or the number of deaths resulting from such infections in the Province. This situation has resulted because the Department does not require the Authorities to provide information on hospital-acquired infections, and the

Authorities do not accumulate information on hospital-acquired infections using comparable methods. Furthermore, the Authorities do not keep statistics on whether any deaths have resulted from hospital-acquired infections.

Our review indicated that the Department has not developed a Province-wide infection control program relating to the prevention, detection and control of hospital-acquired infections. As a result, there are multiple infection control programs developed by the former health care boards which are currently in use at the four Authorities.

Furthermore, the Department has not made any determination about the adequacy of the various infection control programs currently in use throughout the Province and is not monitoring how such programs are being delivered or their success in preventing, detecting and controlling hospital-acquired infections. Without a determination of program adequacy, including an appropriate assessment of risk and implementation of program monitoring, the Province may not be as well prepared to manage hospital-acquired infections as it should be. This could result in increased risk to the public in contracting hospital-acquired infections.

The following findings identified during our review of the various infection control programs currently in place at the Authorities further illustrate these concerns:

- none of the four Authorities meet the minimum standards for the number of Infection Control Practitioners as recommended by Health Canada;

- only two of the eight former health care boards conducted regular clinical self-audits or equipment/facilities self-audits to assess adherence to infection control practices. The other six former health care boards only conducted self-audits on a reactive basis. The lack of regular self-audits is a concern since issues associated with such items as contaminated gowns, hand washing, and equipment not being cleaned on a regular basis were noted in some Infection Control Committee minutes;
- protective equipment and supplies were not always in place; and
- the Authorities do not always notify discharged patients of their possible exposure to hospital-acquired infections. For example:
  - an improperly cleaned gastrointestinal video scope used on 72 individuals in the former Avalon Health Care Institutions Board; and
  - a scabies outbreak in the former Central East Health Care Board.

## Part 2.10

# LABRADOR-GRENFELL REGIONAL INTEGRATED HEALTH AUTHORITY

The Labrador-Grenfell Regional Integrated Health Authority (the Authority) was established on 1 April 2005 when the Authority assumed the operations of the former Health Labrador Corporation and the former Grenfell Regional Health Services Board. The Authority is governed by the *Hospitals Act* (a new *Regional Health Authorities Act* outlining health and community services to be provided by regional health authorities has not been proclaimed). For 2006-07, the Authority spent \$126.6 million in shareable expenditures and had \$125.8 million in revenue. The \$125.8 million in revenue consisted of Provincial operating grants totalling \$105.0 million, Federal program revenues of \$9.9 million, \$8.7 million relating to user fees and recoveries, and \$2.2 million in other revenue.

## What We Found

Our review identified a number of concerns relating to the operations of the Labrador-Grenfell Regional Health Authority. In particular, after 21 months of integration, as at 31 December 2006, the Authority's financial position continues to deteriorate, it still operated as two separate entities in many areas, continued to follow former board policies/practices and did not have an integrated financial information system. We found the following:

- (a) Financial Position - At 31 March 2003, the Authority's accumulated operating deficit was \$27.1 million and increased to \$34.1 million as at 31 March 2007, an increase of \$7.0 million (26%). The Authority's bank indebtedness increased from \$11.1 million as at 31 March 2003 to \$22.1 million as at 31 March 2007, an increase of \$11 million (100%). Furthermore, the increased bank indebtedness resulted in high annual interest costs

for the Authority - \$1.5 million over the last three fiscal years. This interest bite results in less funds for program delivery.

- (b) Financial Operations - Expenditures have increased in each of the last four years, from \$103.2 million in 2003-04 to \$126.6 million in 2006-07, an increase of \$23.4 million (23%). Furthermore, the Authority incurred annual operating deficits totalling \$6.6 million over the past 4 fiscal years excluding non-shareable expenses such as severance and vacation pay accruals.
- (c) Human Resources - The Authority's human resource practices were not always consistent with those established by Government, hiring and compensation practices were sometimes either inconsistent or in excess of those approved by Government, termination benefits were either not always consistently applied or were in excess of those approved by Government, available leave balances were sometimes exceeded, and overtime payments were sometimes in excess of Government policy.
- (d) Purchasing (the *Public Tender Act*) - The Authority did not tender for 15 purchases (31% of 48 reviewed) totalling \$1,309,761 which were over \$10,000 and did not obtain quotes for 5 purchases (28% of 18 reviewed) totalling \$33,997 under \$10,000. The Authority has neither tendered nor evaluated its food services contracts (2006 - approximately \$2 million) since being integrated in April 2005. In addition, the Authority did not keep tenders in a locked box, date-stamp tender envelopes or document explanations of why rejected tenders did not meet tender specifications.

- (e) Travel and Relocation Expenditures - The Authority is not adequately controlling and monitoring its travel and relocation expenditures and is not complying with Government's travel and relocation policies.
- (f) Cellular Telephones - The Authority is not adequately monitoring the usage and cost of its 89 cellular telephones (9 months to December 2006 the Board spent approximately \$59,000).
- (g) Hiring of Consultants - The Authority contravened Government's *Guidelines for the Hiring of External Consultants* for two consulting contracts over \$50,000, by not obtaining 3 proposals or conducting a public call for proposals and in one of the two contracts, relating to the provision of orthodontist services, by not obtaining Cabinet approval for the contract.
- (h) Capital Assets - Controls over the Authority's capital assets are inadequate and could result in missing assets not being detected. The Authority does not tag all of its assets once received and does not maintain a capital asset ledger. As well, periodic inventory counts are not performed and assets are not reconciled to the Authority's financial records.

## Part 2.11

### **DEPARTMENT OF HEALTH AND COMMUNITY SERVICES**

#### MCP Physician Fee for Service Audit Process

The Newfoundland and Labrador Medical Care Plan (MCP) was introduced on 1 April 1969. It is a comprehensive plan of medical care insurance designed to cover the cost of physician services for bona fide residents of the Province. Prior to 1 April 2000, MCP was administered by the Newfoundland Medical Care Commission. On 1 April 2000, Government dissolved the Newfoundland Medical Care Commission and merged its activities with the Department of Health and Community Services (the Department) and in July 2001 transferred the claims assessing and processing section to Grand Falls-Windsor. MCP headquarters, including the Audit Services Division (the Division), remained in St. John's. The Division's main function is to investigate potential over-billings by Fee For Service (FFS) physicians.

#### **What We Found**

In 2006-07, payments to physicians from the MCP amounted to \$289.0 million. Of this amount, approximately \$206.1 million or 71.3% was paid to physicians who submitted claims on a FFS basis. The focus of this review was the audits of FFS payments conducted by the Division. These payments are made on the basis of claims submitted by physicians for insurable services and are paid through a computerized payment system operated by MCP.

We concluded that since the transfer of the MCP to the Department on 1 April 2000, the Division has not been able to carry out its mandate to ensure that only legitimate and accurate claims are paid to FFS physicians. During the 10 years ending 1 April 2000, there were approximately 438 audits (average of 44 audits per year) of FFS physicians started; however, from 1 April 2000 to 31 March 2007 only 48 audits (average of 7 audits per year) in total were started.

The reduction in audit activity came at a time when FFS payments were increasing significantly i.e. from \$127.8 million in 2000-01 to \$206.1 million in 2006-07 (for a total of \$1.2 billion over the seven year period). We would have expected that as FFS payments increased, audit activity would increase rather than decrease. The extent of the reduction is of concern and was attributed by officials to such things as staffing issues resulting from Government regionalization which transferred MCP claims processing to Grand Falls-Windsor 1 July 2001, and audits placed “on hold” during the Joint MCP Audit Review Committee (Report January 2003). We found the following:

- (a) Review of Audit Files - Of the 48 audits which were started since 1 April 2000, 31 were closed and 17 were in progress as at 31 March 2007. Of the 31 closed files, 11 had satisfactory claims documentation, 7 were closed without being completed due to lack of audit resources and 13 were closed for other reasons. It was noted that the 7 files which were closed for lack of resources were flagged for another review after one year; however, this was not done.
- (b) Time Frames for Audits - We found that audits took a significant amount of time to complete. For example, some audits took almost 9 years to complete. These delays have resulted in significant issues in recovering FFS overpayments.

- (c) Varying Recovery Rates - Although audits conducted by the Division result in significant potential to recover monies owed to the Department, in 2003 the Department implemented an Alternate Dispute Resolution (ADR) negotiation process to settle on an amount to be repaid, rather than require the repayment in full. Prior to 2003, there was no ADR process. Instead, any overpayments were fully recovered unless there was a legitimate misinterpretation of the rate schedule or if legal action resulted in a change in the amount recovered. Since the ADR process was implemented in 2003, the recovery of overpayments has been reduced. The recovery of overpayments through the ADR process for a sample of five audits closed in 2006 resulted in an average recovery of 57.2% of the overpaid amounts. The rate recovered varies on a case by case basis as indicated by the negotiated recovery on a \$662,487 overpayment where the recovery was only \$175,000 or 26.4%.

## Part 2.12

# **DEPARTMENT OF HEALTH AND COMMUNITY SERVICES**

## **Monitoring of Regional Integrated Health Authorities**

Effective 1 April 2005, Government established four regional integrated health authorities (the Authorities) throughout the Province by combining the eight health care institutions and integrated boards with the four health and community services boards. In addition, the Eastern Regional Integrated Health Authority assumed the operations of the St. John's Nursing Home Board and the Newfoundland and Labrador Cancer Treatment and Research Foundation.

The financial position of the Authorities has been deteriorating over the past several years. In an effort to control operating deficits, the Authorities have implemented changes to reduce costs and Government has provided additional funding. As in the past, our Office monitors the financial position and annual operating results of the regional integrated health authorities.

### **What We Found**

#### *Financial Position*

The overall financial position of the Authorities improved slightly in the fiscal year 2006-07 with unfunded liabilities declining \$7.7 million (1.5%) from \$525.3 million in the fiscal year 2005-06 to \$517.6 million in the fiscal year 2006-07. All four Authorities had unfunded liabilities at 31 March 2007. The combined unfunded liabilities of the four Authorities for the fiscal year 2006-07 of \$517.6 million is a 5.6% increase from the \$490.3 million reported in the fiscal year 2002-03. The unfunded liabilities will eventually have to be funded by Government.

The Eastern Regional Integrated Health Authority accounted for \$349.2 million or 67% of the total \$517.6 million in unfunded liabilities. Two of the four Authorities, the Central Regional Integrated Health Authority and the Labrador-Grenfell Regional Integrated Health Authority, reported increases in the total unfunded liabilities for 2006-07 over 2005-06.

### *Operating Deficits*

During the year, all four Authorities reported operating deficits totalling \$19.2 million. Operating deficits ranged from \$400,000 for the Western Regional Integrated Health Authority to \$14.8 million for the Eastern Regional Integrated Health Authority. Two Authorities, the Eastern Regional Integrated Health Authority and the Central Regional Integrated Health Authority, reported annual operating deficits higher than that reported for the fiscal year 2005-06.

Upon integration in the fiscal year 2005-06, the Department imposed funding reductions totalling \$7 million on the newly integrated Authorities in expectation of administrative/integration cost savings. However, targeted savings did not materialize in fiscal year 2005-06, and administration and support expenditures continued to increase, even in the second year after integration. Since integration, administration and support expenditures for the four Authorities increased from \$319.2 million in the fiscal year 2004-05 to \$371.0 million in the fiscal year 2006-07, an increase of \$51.8 million or 16%.

Part 2.13

**NEWFOUNDLAND AND LABRADOR HOUSING CORPORATION**

Rental Housing Program

The Rental Housing Program (the Program) is the oldest and largest housing assistance program administered by the Newfoundland and Labrador Housing Corporation (the Corporation). The purpose of the Program is to provide affordable housing to low-income individuals and families.

Housing Administration Officers (HAO) are responsible for delivery of the Program in four regions and are located at seven offices across the Province. The HAOs report to the applicable Regional Director in Eastern and Western regions and Managers in Labrador and Central regions. The Corporation's headquarters is located in St. John's. At the time of our review there were 26 HAOs employed by the Corporation. Figure 1 shows the rental unit portfolio by region.

**Figure 1**

**Newfoundland and Labrador Housing Corporation  
Rental Unit Portfolio by Region  
As at 8 November 2007**

Region	Type of Rental Unit						Total
	Bachelor	One Bedroom	Two Bedroom	Three Bedroom	Four Bedroom	Five Bedroom	
Eastern	80	678	659	2,006	492	19	3,934
Central	1	155	160	841	94	-	1,251
Western	4	159	202	745	100	14	1,224
Labrador	1	16	54	169	27	-	267
<b>Total</b>	<b>86</b>	<b>1,008</b>	<b>1,075</b>	<b>3,761</b>	<b>713</b>	<b>33</b>	<b>6,676</b>
<b>Occupied</b>	<b>83</b>	<b>986</b>	<b>1,020</b>	<b>3,394</b>	<b>650</b>	<b>30</b>	<b>6,163</b>

Source: Newfoundland and Labrador Housing Corporation Rental Management System

## **What We Found**

The Corporation is unable to match the client demographics to its rental unit portfolio and as a result has an excess bedroom capacity in many of its units i.e. “over-housed.” The Corporation has 14,077 tenants occupying 6,163 rental units with a total of 16,041 available bedrooms. Therefore, even assuming that each tenant will occupy a separate bedroom, there is still an excess of 1,964 bedrooms. In fact, since 2002, the percentage of units with more bedrooms than occupants has increased from 35% to 40%.

In March 2006 the Corporation completed a Housing Administration Study (the Study) of its Rental Housing Program and identified 48 recommendations in 9 areas of the Program. The purpose of the Study was to identify and recommend efficient and effective use of the Corporation's rental housing resources and improvements to client service. The Corporation identified 32 recommendations as priority to be implemented by 1 April 2007.

The Corporation did not fully meet its goal of maximizing the efficiency and effectiveness of its rental housing resources as evidenced by the fact that the Corporation did not comply with all of the 32 recommendations by 1 April 2007. Recommendations which were not complied with covered such areas as: inspections prior to a tenant vacating, inaccurate waitlists, no certified tax returns obtained from new tenants, delayed collection efforts, no agreements to pay arrears, termination notices not always issued after 45 days of arrears, the need for improved contact with tenants and inconsistent applicant assessment among regions.

## Part 2.14

# **DEPARTMENT OF INNOVATION, TRADE AND RURAL DEVELOPMENT**

## Small Business Funding Programs

The Department of Innovation, Trade and Rural Development (the Department) provides programs and services to assist small and medium-sized businesses. Funding programs are intended to support new growth opportunities in the economy such as value-added manufacturing and export activities. Until 2005-06, funding had been provided through the Small Business Seed Capital Equity (SEED) Fund and the Small Business and Market Development (SBMD) Program.

In 2005-06, the Province established a \$10 million Small and Medium-sized Enterprise (SME) Fund that combined new funding of \$7.9 million dollars with the previous \$2.1 million in funding from the SEED Fund. The new fund is used to provide term loans of up to \$250,000 and equity investments of up to \$50,000 per year with a maximum of \$100,000 in aggregate to small and medium-sized businesses. The funding targets specific growth sectors with particular emphasis on businesses that have export potential and need assistance to enter or expand into external markets.

### **What We Found**

Our review indicated that there were weaknesses in the Department's assessing, approving, disbursing and monitoring of loans and investments under the SME Fund and the SBMD Program. For example:

- we identified 2 instances where loans were provided to businesses which appeared to be non-financially viable;

- in 1 instance a loan was provided to a business which appeared to be in a financial position to access private sector financing;
- complete application information was not always obtained;
- funding was not always approved in accordance with Department policy;
- security was either not always obtained or not always registered;
- adequate documentation was not always provided to support expenses claimed;
- the required applicant investment was not always verified;
- companies provided with funding were not always adequately monitored; and
- companies which had not complied with conditions in previous Offers of Financing were provided additional funding.

We are of the opinion that there is no explicit authority under the *Financial Administration Act* for the Department to make direct investments in companies. During 2005-06, the Department made three such investments totalling \$1,050,000 to three companies. Furthermore, there are no documented due diligence procedures for approving, disbursing and monitoring such investments. We found inconsistencies between the requirements under the SME Fund and for the three investments. For example:

- none of the three companies were required to repay the investment contingent on either income earned or a maximum seven year period;

- one company was not required to submit documentation to support specific expenditures;
- shareholders for one company who received \$500,000 were not required to make new equity investments as part of their contribution to the project; instead, previous investments were accepted;
- shareholders for one company who received \$500,000 were not required to provide personal net worth statements; and
- Department officials were not entitled to attend any company meetings for one company even though the company was provided with funding totalling \$500,000.

## Part. 2.15

### **DEPARTMENT OF JUSTICE**

#### Adult Custody Program

The Department of Justice (the Department) through the Adult Custody section of the Corrections and Community Services is responsible for accommodating and managing: offenders sentenced to provincial terms of imprisonment (two years less a day); accused persons remanded in custody by the courts; and low risk offenders sentenced to federal terms of imprisonment (two or more years). Services are provided through seven centres comprised of five correctional centres and two detention centres which have a total capacity for 281 inmates, employ 214 permanent staff, 54 temporary staff (full-time equivalent) and are overseen by a Superintendent. For 2006-07, average expenditures per inmate totalled approximately \$66,000.

#### **What We Found**

Our review of the Adult Custody Program identified a number of concerns as follows:

- (a) Planning and Reporting - Our review indicated there are no long-term goals and objectives relating specifically to adult custody services; there are no operational plans relating to the provision of adult custody services; and centres are not reporting (e.g. overtime, sick leave, training and food services) quarterly to the Superintendent as required by policy. As well, some of the centres do not report semi-annually, and others which do report semi-annually do not include all of the required information; required contingency plans were not in place for all identified critical situations such as natural disaster, loss of utilities, noxious/toxic substance threats and suspicious letter/parcel; and none of the centres have an Emergency Planning Committee in place and, as a result, a statement of

training requirements specific to each critical situation has not been developed.

- (b) Human Resource Management - As salary costs account for 82% of total expenditures, we would expect adequate controls over staffing, callback and overtime, and sick leave. Our review indicated that callback and overtime, and sick leave are not being adequately monitored and controlled and has increased in the last three years.

For example callback and overtime increased by 158% in the last three years, from \$455,000 in 2004-05 to \$1.17 million in 2006-07 (HMP increased by 291% from \$153,000 to \$597,000). Sick leave increased by an estimated 33% in the last three years, from \$918,000 in 2004-05 to \$1.23 million in 2006-07 (HMP increased by 54% from \$553,000 to \$659,000). In addition, no procedures manual has been developed outlining the objectives, administration procedures and controls related to tracking leave and overtime, centres are not reporting quarterly information to the Superintendent and annual staff performance appraisals are not being performed.

- (c) Purchasing and Tendering - Our review indicated that the Department did not comply with the *Public Tender Act* (six purchases totalling \$94,473 were not publicly tendered) and the *Financial Administration Act* (18 instances totalling \$87,000 where goods and services were ordered and received without the prior issuance of a purchase order). In addition, issues with the on-site food service contracts at four centres were identified, the on-site food service operator is not complying with the food services contracts and the centres are not complying with policies in relation to food service contracts e.g. providing written reports to the Superintendent on nutritional adequacy of meals and menu planning effectiveness.

- (d) Inventory and Capital Assets - Our review indicated that there is inadequate control over inventory and capital assets and not all cost information is provided to the Comptroller General as required by Government's financial management policy and procedures.
- (e) Information Management and Technology - The Department's IT practices are inadequate in that backups are not tested regularly for data integrity, network passwords are not changed on a regular basis and there is no documented disaster recovery plan. In addition, physical security over adult custody services' files is inadequate in that in some cases inmate records are kept in unlocked file cabinets.
- (f) Legislation - The Department is not in compliance with the *Adult Corrections Act* in that the Departmental Board of Corrections has never been established. In addition, the Department is not in compliance with the *Prisons Act* in that the Superintendent does not submit any reports to the Minister containing information pertaining to prisoners released.

## Part 2.16

### **DEPARTMENT OF MUNICIPAL AFFAIRS**

#### Employment Support Programs

The Department of Municipal Affairs (the Department) provides services and assistance to municipalities throughout Newfoundland and Labrador. The Employment Support Division administered employment support programs during 2005-06 and 2006-07 ranging from short-term employment programs to community enhancement projects. The main program is the Community Enhancement Program (CEP), an ongoing employment support program, which was known as the Job Creation Program prior to 2005-06. In 2006-07, \$4.3 million was used to fund 287 projects under the CEP (2005-06 - \$6.0 million to fund 375 projects). Other programs were specifically created in response to employment needs in communities. During 2006-07, the Department spent a total of \$10.2 million on all employment support programs, including the CEP (\$13.2 million for 2005-06).

#### **What We Found**

Our review focused on the main program, the CEP; however, we also reviewed the other employment support programs. Our findings are as follows:

##### *Community Enhancement Program*

Overall, the Department did not adequately administer the CEP. Significant concerns were noted with regard to how funding was allocated to electoral districts in the Province, how projects were selected and how projects were monitored. In particular:

- (a) District Funding Allocation - While Department officials indicated that funding allocations were made by electoral district, this allocation process was never documented. As a result, the Department could not demonstrate the basis for

allocating the extent of funding by district. Furthermore, there was not always documentation in project files to demonstrate that MHAs were advised as to the level of funding approved under the CEP for their district. In addition, due to the allocation being by electoral district, the merit of a project was not evaluated on a Province-wide basis.

- (b) **Project and Applicant Selection** - Our review of the project and applicant selection criteria indicated that the Department could not demonstrate: whether the criteria of “relatively short-term” and “small scale” were met; that the funded projects were approved based on recommendations from MHAs; the basis on which additional funding was approved; whether all applications were received before the deadline date; that all approved applicants met the eligibility criteria for the CEP; justification for continuing to provide project funding to sponsor groups who showed non-compliance in prior years; justification for not approving the funding or official notification to the sponsor group that the funding request was not approved.
  
- (c) **Project Monitoring** - We found that the Department issued contradictory guidelines for 2005-06, did not always follow-up on non-compliance by sponsor groups, did not adequately review the final reports submitted by sponsor groups, released final funding for projects even when required information was not provided or there were documented instances of non-compliance, and released portions of the final payment either before projects were completed or before final reports were received and reviewed.

### *Other Employment Support Programs*

We also identified similar issues with the following employment programs:

- Crab Workers' Support Program
- Fish Plant Workers' Employment Support Program
- Harbour Breton FPI Workers' Employment Support Program
- Community Enhancement Program - Fish
- Fortune Support Program

## Part 2.17

### **DEPARTMENT OF NATURAL RESOURCES**

#### Firearms Program

The Department of Natural Resources (the Department) is responsible for enforcement activities of the Province's *Forestry Act*, *Animal Protection Act*, *Motorized Snow Vehicle and All-Terrain Vehicle Act*, *Provincial Offences Act*, *Wilderness and Ecological Reserves Act*, *Wildlife Act* and *Endangered Species Act*. In addition, it collaborates with other government departments and agencies in enforcement activities of the *Federal Fisheries Act* (Inland Fish), *Species at Risk Act*, *Wild Animal and Plant Protection and Regulation of International and Inter-provincial Trade Act*, and the *Migratory Bird Convention Act*.

Conservation Officers conduct patrols, carry out investigations and interact with resource users and the general public on a day-to-day basis. All Conservation Officers in the field are equipped with sidearms (effective June 2006), ammunition, pepper spray, hand cuffs, protective vests and batons. Conservation Officers responsible for destroying nuisance animals are also equipped with rifles, shotguns, tranquilizer guns and starter pistols (for noise) where applicable.

#### **What We Found**

Our review identified weaknesses relating to how the Department records, monitors and secures its firearms, ammunition, pepper spray, hand cuffs, protective vests and batons. We also found noncompliance with the Department's Firearms Policy. Our conclusion is based on the following:

- Although the Department has a firearms inventory system, it is not used to control sidearms (controlled separately), ammunition or pepper spray. Furthermore, the system was not accurate in that: 16 rifles and shotguns which had either been

transferred or returned to the owner were still recorded in the system, 45 rifles and shotguns were either located at a different district office or assigned to a different Conservation Officer, 125 rifles and shotguns had incomplete information as to the firearm make, model, caliber and serial number, and 19 seized rifles and shotguns as well as 5 tranquilizer guns were not recorded in the system.

- The Department has a Firearms Policy; however, it does not address a number of significant areas relating to firearms usage. It does not: address how ammunition and pepper spray should be accounted for; provide guidance for conducting semi-annual firearms policy audits; require periodic reports; require the reporting of damage to rifles and shotguns; and require rifles and shotguns to be returned during periods of leave.
- We identified instances of noncompliance with the Firearms Policy which included: only one of the three regional offices indicated that semi-annual firearms policy audits were conducted and in that case no documentation was retained; no written report had been prepared nor had the police been informed about a missing rifle; instances where Conservation Officers had not reported damaged sidearms to the Regional Compliance Manager; rifles and shotguns were transferred to police agencies without obtaining a receipt; violation reports were not fully completed and not all issued or reissued firearms were inspected by a gunsmith.

- Information on the annual sidearms recertification and use of force training is not maintained in a database and, as a result, the Department does not readily know either when officers are due for recertification or whether officers are currently certified.
- Safety issues were identified where outdated pepper spray was still in use by Conservation Officers.

Although there has been funding approved since March 2005 for a Firearms Control Officer, the position has not been filled. As a result, it is not clear who has overall responsibility for the recording and control of the Department's firearms and this may have contributed to the issues identified during our review.

## Part 2.18

### **DEPARTMENT OF TRANSPORTATION AND WORKS**

#### Equipment Maintenance Program

The Department of Transportation and Works (the Department) is responsible for the construction and maintenance of the Province's road system including management of Government's fleet of vehicles. The equipment maintenance program for all of Government's fleet of light vehicles and heavy equipment consists of three sub-programs as follows:

**Administration:** management and administration of the equipment maintenance function, vehicle fleet policy and the cost of public liability insurance for the vehicle fleet.

**Maintenance of equipment:** equipment maintenance for Government's light vehicle fleet and heavy equipment.

**Equipment acquisitions:** acquisition of heavy equipment, light vehicles and communication systems used in heavy equipment.

#### **What We Found**

Our review indicated that there are significant weaknesses in the Department's equipment maintenance program for heavy equipment. For example:

- Despite recent increased investment in heavy equipment, primarily snow clearing equipment, much of the Department's heavy equipment fleet remains past the point where they can continue to operate economically. Although the Department has determined that repair costs become quite significant for heavy trucks 10 years old and greater and heavy equipment 20 years old and greater, our review indicated that:

- of the 322 heavy trucks, 109 or 34% were 10 years old and greater.
- of the 284 pieces of other heavy equipment 90 or 32% were 20 years old and greater and 24 of the 90 pieces were 30 years old and greater.
- There is no overall replacement strategy in place for heavy equipment which would assist in optimizing acquisition decisions and in determining the appropriate level of required funding for the future operation of the heavy equipment fleet. Current replacement decisions are made largely on an annual budgetary basis by region without the benefit of an overall analysis and a comprehensive replacement strategy.

While the Department is expected to be allocated funding to 2010-11 to address most of the current replacement requirements, additional funds will be required to replace vehicles which are not currently past the age identified for replacement.

- The Department did not comply with the spirit of the *Public Tender Act* when it purchased 15 used loaders in June 2006. The terms and conditions of the tender were so specific that only the eventual supplier would be in a position to be awarded the tender. In particular, the Department set a maximum required bid of \$2.5 million and reduced the quantity from 16 loaders to 15 to match the number of loaders available from the eventual supplier.

- Due to deficiencies in the Department's Equipment Management System (EMS), it was not possible to assess the costs associated directly with the heavy equipment fleet and whether recent investments in equipment have led to reductions in repair costs or down-time.

As the result of the issues of completeness and accuracy identified with the Department's EMS, the reliability and usefulness of information contained within the system is limited. The system is not operating as intended and as a result, management lacks the information required to effectively manage the Province's heavy equipment fleet.

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## 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 2005 and prior *Reports of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies*.

## Chapter 4

### Special Reports

#### Reports under Section 15 of the *Auditor General Act*

##### House of Assembly

Section 15 of the *Auditor General Act* requires that “*Where during the course of an audit, the auditor general becomes aware of an improper retention or misappropriation of public money or another activity that may constitute an offence under the Criminal Code or another Act, the auditor general shall immediately report the improper retention or misappropriation of public money or other activity to the Lieutenant-Governor in Council.*”

In January 2006, the Office commenced a review of constituency allowances claimed by Members of the House of Assembly. This initial review resulted in the issuance of 9 reports relating to excess constituency allowances claimed by 5 Members, 2 reports relating to double billings by 2 Members, as well as 1 report on issues relating to payments made by the House of Assembly to certain suppliers. The

reports were provided to the Lieutenant-Governor in Council and tabled in the House of Assembly.

In addition to the above reports, in July 2006, the Lieutenant-Governor in Council requested that the Office review all constituency allowances paid to Members of the House of Assembly for the period covering the fiscal years 1990 to 2006. A report on the first part of this review, relating to excess constituency allowance claims, was included in item 2.1 of my *Report to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2006* which was provided to the Speaker of the House of Assembly in January 2007. The report on the second part of the review relating to the appropriateness of expenditures claimed and adequacy of supporting documentation was included in my *Report to the House of Assembly on a Review of Constituency Allowance Claims from 1989-90 through to 2005-06* which was provided to the Speaker of the House of Assembly in September 2007.

### **Report under Section 16 of the Auditor General Act**

#### **Fibre Optic Deal**

Section 16 of the *Auditor General Act* requires that “*The auditor general may, where in his or her opinion such an assignment does not interfere with the auditor general's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.*”

On 2 November 2006, Government announced it would “...invest \$15 million, over the next two fiscal years on the installation of a fully redundant fibre optic link which will run from St. John's to Halifax along two diverse routes to connect the national carriers into mainland Canada.” On 22 November 2006, the House of Assembly passed a resolution requesting that the Office “...investigate all the details and circumstances of the fibre optic deal.”

The report resulting from this review was included in my *Report to the House of Assembly on a Review of the “Fibre Optic Deal”* which was provided to the Speaker of the House of Assembly in September 2007.

## **Access to Reports**

Special reports issued by the Office of the Auditor General are available on our web site at:

<http://www.gov.nl.ca/ag/reports.htm>.