Summary of Findings

Introduction

The Eastern Regional Health Authority (the Authority) is a Crown agency reporting to the Department of Health and Community Services (the Department).

The Authority is responsible for the delivery and administration of health services and community services in its health region and provincially as designated by the Minister.

Our review was completed in December 2013 and covered the period April 1, 2011 to March 31, 2013.

The objectives of our review were to determine whether:

1. absenteeism was properly monitored and effectively managed and leave and overtime were properly monitored and recorded;

2. compensation and recruitment practices were in accordance with Government and Authority policy;

3. purchases complied with the Public Tender Act and Regulations;

4. the Authority was adequately monitoring its financial position and operations; and

5. capital assets were monitored and controlled.

Findings

Monitoring of Financial Position

1. The Authority required $74.9 million in additional funding by the Province and incurred an $8.3 million budget deficit, despite the approved budget increasing 22% during the past five years.

2. Position approval processes are not consistent with Government policy, despite the Minister’s direction to align them.
3. The creation of a new position does not require the Authority to ensure that funding is available for the new position.

Compensation and Recruitment

4. Non-physician job competition files did not contain evidence of Director/Site Administrator approval to recruit an employee and were missing screening documentation and applicant assessments resulting from the interview process and were, therefore, not in accordance with Authority policy, Government policy, and best practices.

5. During 2012, there were 132 individuals in receipt of both a Provincial Government pension and a salary from the Authority. In fact, two of these individuals held two positions with the Authority while in receipt of a Provincial Government pension. Where individuals were employed by the Authority while receiving a pension, we found instances where no documentation was available to show that preference had been given to hiring persons other than those in receipt of a pension, as directed by Cabinet.

6. The Authority provided signing bonuses that were beyond that allowed in the Department’s Salaried Physician Quick Reference Guidelines (2006) and the Physician’s Services Memorandum of Agreement (2009-2013). In addition, the Authority provided a signing bonus to a physician beyond the date at which they were told to discontinue the practice by the Department of Health and Community Services.

7. No return-in-service agreements are in place for physicians who received reimbursement of relocation costs. Therefore, the costs would not be recoverable if the physician were to leave before the end of their two year term.

8. The relocation policy is not being followed for both physicians and non-physicians. Therefore, individuals are being reimbursed for amounts higher than to which they are entitled.

9. The classification of some management positions subsequent to the amalgamation of the health boards in the eastern region in 2005 did not occur until 2013. The significant delay resulted in 123 employees being paid at higher than necessary amounts for more than six years after they were placed in management positions with the Authority at the end of 2006, at a cost in the range of $3.6 million to $4.7 million. Because red circling was delayed, other compensation benefits such as pensions and severance will also be higher.
10. Additional workload benefits are compensation payments provided to physicians for additional workload due to vacancies. One physician received $1,473,528 in additional workload payments over a period of approximately 11 years relating to a vacant position that the Authority had never advertised and does not intend to fill. Authority officials indicated that the physician had the same workload as other physicians, in this specialty, employed by the Authority.

11. Educational differentials were being paid to executive and management employees although the education requirements were part of the position requirements and, therefore, would already have been included in the pay scales. This is inconsistent with Government policy.

12. An employee received reimbursement for personal vehicle usage related to travel to and from work, resulting in reimbursement of $2,364 for the year ended March 31, 2013. This is not in compliance with Authority policy.

13. An employee received reimbursement for personal vehicle usage without approval.

14. The Authority was not always declaring positions redundant on a timely basis.

**Leave and Overtime**

15. There is a lack of effective oversight to ensure that employees annual and paid leave is properly approved and documented. Without this oversight, there is a risk that the leave balance is overstated and will cost the Authority more than which the employees would have otherwise been entitled.

16. Annual and paid leave are not being adequately monitored to ensure required leave is taken, carry forward and usage complies with policy and collective agreements, and the leave accruals database is accurate. The Authority has recorded approximately $8.5 million in unused leave to be carried forward and used or paid in subsequent years, which is inconsistent with collective agreements.

17. At March 31, 2013, 712 employees have taken annual or paid leave beyond which they are entitled with a total cost of $192,541.
18. There is a lack of effective oversight to ensure that employee sick leave is properly approved and documented.

19. Sick leave expense of the Authority is approximately 20% higher than that of Government on a relative basis.

20. There is a lack of effective oversight to ensure that overtime is properly approved and documented such as to decrease the risk of unauthorized overtime worked and the risk that employees are being compensated for overtime hours beyond those worked.

21. Callback overtime is when employees are called back to work outside their regular shift hours. Employees receive a minimum of three hours overtime pay at the prescribed overtime rate. Callback unworked is the portion of a callback shift that is unworked. Callback unworked was 48% of the total callback overtime. This resulted in an expense of $1.7 million (2012 - $1.6 million) for overtime hours that were not actually worked.

22. Of 229 callback shifts we reviewed, there were 106 shifts (46%) in which employees had, for example, multiple callback shifts within 90 minutes. In one instance, for example, an employee whose annual salary was $61,831 received overtime pay of $51,887 that was unworked overtime.

23. The management overtime policy is not consistent with Government policy, despite the Minister’s direction to align policy with that of Government policy. The Authority incurred a $0.9 million expense related to leave in lieu provided to management. This was not in accordance with Government policy.

24. The education leave policy of the Authority is not consistent with Government policy.

Internal Controls

25. Current Authority controls are not adequate to prevent or detect fraud or error in areas of purchasing. For example:

- inadequate authorization and review of purchase orders;
- lack of monitoring of final tender costs compared to awarded costs;
- lack of controls over user access to purchase orders;
- no dollar limits on spending authorization for employees; and
- an overall lack of oversight of the purchasing process by the Materials Support Department.
26. The purchasing function was being performed by individuals outside of the Material Support Department. There were 243 users that are able to create purchase orders, however, there were only 140 employees in the Materials Support Department.

27. Internal controls over cheque processing are inadequate. As a result of improper segregation of duties and authorization requirements, there is an increased risk of fraud and error occurring.

28. There was no functioning Internal Audit Department during the period of our review. An effective internal audit function can help ensure that preventative and detective controls are implemented and functioning properly.

**Tendering of Goods and Services**

29. We found instances where purchases made were not in compliance with the *Public Tender Act (PTA)* and where there was insufficient support in tender files. As a result, the Authority could not demonstrate that bids were reviewed for compliance with tender specifications. We also found instances where the purchasing policy of the Authority was not being followed.

30. Form Bs, which document exceptions to the *PTA*, are not always being submitted on a timely basis. As a result, the Authority is not in compliance with the *PTA* and is impacting the timeliness and relevancy of the information being reported to the House of Assembly. Some pressing emergency exceptions and sole source exceptions may not be appropriate. As a result, the Authority may not be getting the most economical price in these instances.

31. We found instances where contract change orders did not comply with the *PTA*.

32. We found instances where the Authority was not in compliance with the *Consultant Guidelines* pertaining to the hiring of external consultants.

**Monitoring of Capital Assets**

33. During the period covered by our review, there was no policy to conduct annual capital asset inventory counts. This increased the Authority’s risk of not detecting lost or stolen capital assets. Also, there is no policy to conduct asset listing reconciliations to the general ledger. This would help ensure the accuracy of both systems by highlighting differences in asset information.
34. The system, which ranks biomedical capital assets for priority replacement, has inaccurate priority rankings. These rankings are a key factor in determining which biomedical assets need to be replaced.

35. The Authority was not monitoring maintenance expenses to provide information pertaining to the efficiency of the biomedical capital assets to assist in decisions regarding the replacement of existing equipment.

36. There was no segregation of duties between asset removal and record keeping and there are no authorization requirements on the biomedical database. Therefore, there was an increased risk that the database contains inaccurate information and assets are not protected against misappropriation.

Background

Overview

The Eastern Regional Health Authority (the Authority) is a Crown agency reporting to the Department of Health and Community Services (the Department). The Authority was established on April 1, 2005, when the Authority assumed the operations of the former Health Care Corporation of St. John’s, Health and Community Services St. John’s, St. John’s Nursing Home Board, Newfoundland Cancer Treatment and Research Foundation, Health and Community Services Eastern, Avalon Health Care Institutions Board and the Peninsulas Health Care Corporation. The Authority is governed by the Regional Health Authorities Act (the Act).

The Authority is responsible to the Minister of Health and Community Services (the Minister) through its Board of Trustees (the Board), members of which are appointed by the Minister.

Figure 1 shows the organizational structure of the Authority as at March 31, 2013.
Eastern Regional Health Authority

Figure 1

Eastern Regional Health Authority
Organizational Structure

Mandate

The Authority is responsible for the delivery and administration of health services and community services in its health region and provincially as designated by the Minister.

As shown in Figure 2, the Authority’s geographical boundaries include the island portion of the Province east of, and including, Port Blandford. Within this geographical region, the Authority serves approximately 306,000 residents.
Figure 2

Eastern Regional Health Authority
Geographical Boundary

Source: Eastern Regional Health Authority

Financial Position

As at March 31, 2013, the Authority reported a net debt of $449.1 million. Table 1 shows the financial position of the Authority at March 31, 2012 and March 31, 2013.
Table 1

Eastern Regional Health Authority
Financial Position
As at March 31
($000’s)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$6,406</td>
<td>$13,288</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>22,684</td>
<td>31,924</td>
</tr>
<tr>
<td>Due from government/other government entities</td>
<td>67,924</td>
<td>62,135</td>
</tr>
<tr>
<td>Advance to General Hospital Hostel Association</td>
<td>1,374</td>
<td>1,248</td>
</tr>
<tr>
<td>Sinking fund investment</td>
<td>12,063</td>
<td>13,506</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>110,451</td>
<td>122,101</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>107,917</td>
<td>106,076</td>
</tr>
<tr>
<td>Due to government/other government entities</td>
<td>24,617</td>
<td>23,087</td>
</tr>
<tr>
<td>Accrued vacation pay</td>
<td>48,132</td>
<td>47,454</td>
</tr>
<tr>
<td>Employee future benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued sick leave</td>
<td>61,508</td>
<td>63,288</td>
</tr>
<tr>
<td>Accrued severance pay</td>
<td>107,068</td>
<td>113,908</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred capital grants</td>
<td>50,597</td>
<td>65,984</td>
</tr>
<tr>
<td>Deferred operating revenue</td>
<td>7,750</td>
<td>12,910</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>141,001</td>
<td>138,473</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>548,590</td>
<td>571,180</td>
</tr>
<tr>
<td><strong>Net Debt</strong></td>
<td>(438,139)</td>
<td>(449,079)</td>
</tr>
<tr>
<td><strong>Non-financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible capital assets</td>
<td>354,867</td>
<td>353,264</td>
</tr>
<tr>
<td>Supplies inventory</td>
<td>14,505</td>
<td>15,397</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>6,271</td>
<td>4,053</td>
</tr>
<tr>
<td><strong>Total Non-financial assets</strong></td>
<td>375,643</td>
<td>372,714</td>
</tr>
<tr>
<td><strong>Accumulated deficit</strong></td>
<td>$ (62,496)</td>
<td>$ (76,365)</td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Audited Financial Statements
Eastern Regional Health Authority

**Increasing accumulated deficit**

As at March 31, 2013, the Authority reported an accumulated operating deficit of $76.4 million, an increase of $13.9 million (22%) from the accumulated deficit of $62.5 million as at March 31, 2012.

The Authority's accumulated operating deficit will be affected by the results of future operations and the level of funding by Government. If the Authority has annual operating surpluses in the future, these surpluses could be used to reduce the accumulated operating deficit. However, if the Authority has annual operating deficits, these deficits, along with the accumulated deficit, will have to be funded by taxpayers.

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**Operating Results**

The Provincial Government provided operating grants of $1.20 billion and $1.15 billion for the fiscal years ended March 31, 2012 and March 31, 2013, respectively.

Table 2 provides a breakdown of the revenues and expenditures of the Authority for the years ended March 31, 2012 and March 31, 2013.
Table 2

Eastern Regional Health Authority
Revenue and Expenditures
For the Years Ended March 31
($000’s)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provincial plan</td>
<td>$1,202,911</td>
<td>85.6%</td>
</tr>
<tr>
<td>Provincial plan capital grant</td>
<td>44,800</td>
<td>3.2%</td>
</tr>
<tr>
<td>Other capital contributions</td>
<td>5,083</td>
<td>0.4%</td>
</tr>
<tr>
<td>MCP</td>
<td>73,302</td>
<td>5.2%</td>
</tr>
<tr>
<td>Inpatient</td>
<td>10,260</td>
<td>0.7%</td>
</tr>
<tr>
<td>Resident</td>
<td>18,005</td>
<td>1.3%</td>
</tr>
<tr>
<td>Outpatient</td>
<td>8,015</td>
<td>0.6%</td>
</tr>
<tr>
<td>Other</td>
<td>42,569</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>1,404,945</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient and resident services</td>
<td>365,589</td>
<td>26.2%</td>
</tr>
<tr>
<td>Client services</td>
<td>258,235</td>
<td>18.5%</td>
</tr>
<tr>
<td>Diagnostic and therapeutic</td>
<td>175,989</td>
<td>12.6%</td>
</tr>
<tr>
<td>Support</td>
<td>150,964</td>
<td>10.8%</td>
</tr>
<tr>
<td>Ambulatory care</td>
<td>128,924</td>
<td>9.2%</td>
</tr>
<tr>
<td>Administration</td>
<td>113,574</td>
<td>8.1%</td>
</tr>
<tr>
<td>Medical services</td>
<td>105,373</td>
<td>7.5%</td>
</tr>
<tr>
<td>Amortization of tangible capital assets</td>
<td>31,605</td>
<td>2.3%</td>
</tr>
<tr>
<td>Research and education</td>
<td>18,227</td>
<td>1.3%</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>9,594</td>
<td>0.7%</td>
</tr>
<tr>
<td>Other</td>
<td>24,567</td>
<td>1.8%</td>
</tr>
<tr>
<td>Employee future benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued severance pay</td>
<td>10,125</td>
<td>0.7%</td>
</tr>
<tr>
<td>Accrued sick leave</td>
<td>2,831</td>
<td>0.2%</td>
</tr>
<tr>
<td>Accrued vacation pay</td>
<td>979</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>1,396,576</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Annual Surplus (Deficit)</strong></td>
<td>$8,369</td>
<td>$ (13,869)</td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Audited Financial Statements
Objectives and Scope

Objectives
The objectives of our review were to determine whether:

- absenteeism was properly monitored and effectively managed and leave and overtime were properly monitored and recorded;
- compensation and recruitment practices were in accordance with Government and Authority policy;
- purchases complied with the *Public Tender Act and Regulations*;
- the Authority was adequately monitoring its financial position and operations; and
- capital assets were monitored and controlled.

Scope
Our review was completed in December 2013 and covered the period April 1, 2011 to March 31, 2013. Our review included an examination of the Authority’s policies and procedures, Board and committee minutes, financial information and file documentation, and interviews with Authority officials.

Detailed Observations
This report provides detailed findings and recommendations in the following sections:

1. Monitoring of Financial Position
2. Compensation and Recruitment
3. Leave and Overtime
4. Internal Controls
5. Tendering of Goods and Services
6. Monitoring of Capital Assets
1. Monitoring of Financial Position

Overview

Our review included an analysis of the Authority’s budget, and its effect on the Authority’s financial position and operations.

In reviewing the Authority’s financial position we identified issues in the following areas:

A. Budget Deficit
B. Position Administration

1A. Budget Deficit

Introduction

The budget process for any particular fiscal year usually begins in the fall of the preceding year with the Department requiring the Authority to provide a budget submission, including any proposals for new initiatives or funding changes. The Department, through its Acute Services Division and Financial Services Division, reviews and assesses the budget information. Once the Provincial budget is approved by the House of Assembly, the Authority is provided with a draft Provincial Plan Revenue (PPR) schedule, outlining its funding, for review and comment. Once the PPR is finalized, the Department requests that the Authority submit a revised budget. The budget process concludes with the receipt and approval of this budget.

For the fiscal years ending March 31, 2012 and March 31, 2013, the Authority approved a balanced budget.

Section 21 of the Act states that “except with the prior approval of the minister, an authority shall not make, or contract to become liable for, an expenditure or indebtedness beyond or in excess of the estimated amount of expenditure set out in its budget and approved by the minister under this section.”
On May 13, 2011, the Minister wrote the Chair of the Board concerning budget management and fiscal controls. The Minister informed the Chair of a concern with “the pattern of fiscal expenditures (and resulting deficits) being incurred annually by Eastern Health resulting in the requirement for stabilization funding to be provided by the department.”

The Authority was advised by the Minister, in the letter, that “Section 16 of the Regional Health Authority Act requires that an authority (RHA) manages and allocates resources... and complies with directions that the minister may give...”

The Chair was informed that the Minister did not want or intend to get involved in the day-to-day operational management and decision making processes of a RHA. However, the Minister noted “issues and comments [that] should be considered as directives from [the Minister] to [the Authority] for implementation as it relates to fiscal controls and budgetary management for 2011/12 and onward.” The Minister also noted “Fiscal management and an organization's budgetary performance are seen as being an integral part in the roles and responsibilities of a Chief Executive Officer (CEO). To meet this challenge and recognizing that the CEO is only one person, it is incumbent on everyone, including the Board of Trustees, to ensure that a culture of fiscal responsibility is created and sustained in the organization... However, as I have repeatedly stated, these efficiencies should not be achieved through staff layoffs and/or service delivery reductions...”

The Minister directed that “All current practices that are discretionary in nature and have a significant fiscal liability associated with them should be scrutinized and wherever possible curtailed, if not discontinued....All policies must be reviewed to ensure consistency with comparable Government (Treasury Board) policies. For those policies determined to be in keeping with Government policy and are appropriate to remain in place, your organization must have controls in place to minimize their fiscal impact.”

The letter went on to discuss those areas in particular, in which the Minister had concerns and/or suggestions. These areas included:

- educational differential for management personnel;
- management overtime policy; and
- management of positions.
On June 28, 2011 the Chair acknowledged receipt of this letter, and informed the Minister that “A detailed response to your letter dated May 13, 2011 on budget management and fiscal controls will be provided under separate cover.”

A formal response to the Minister was not issued.

$83.2 million in budget overruns within past 5 years

Table 3 shows the budget of the Authority for fiscal years ended March 31, 2009 through to March 31, 2013.

Table 3

Eastern Regional Health Authority
Budget
For the Years Ended March 31
($000’s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Approved Budget (Note 1)</th>
<th>Budget Overruns</th>
<th>Final Budget (Note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Funded by Province</td>
<td>Deficit Incurred</td>
</tr>
<tr>
<td>2009</td>
<td>$943,594</td>
<td>$17,700</td>
<td>$ -</td>
</tr>
<tr>
<td>2010</td>
<td>1,062,568</td>
<td>22,000</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>1,152,549</td>
<td>22,700</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>1,190,103</td>
<td>12,500</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>1,149,258</td>
<td>-</td>
<td>8,295</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>$74,900</td>
<td>$8,295</td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Budgeting and Decision Support Division

Note 1: Includes net change in deferred revenue and budget adjustments during the year.

Note 2: Deficit incurred not included in Final Budget numbers.
As shown in Table 3, over the past five years, the Authority has received $74.9 million in funding from the Province to cover budget overruns, and has incurred an $8.3 million deficit, for a total of $83.2 million in spending in excess of budgeted amounts during the past five years.

On June 1, 2011, the Minister informed the Chair that “Budget 2011 provides increases in funding to your Authority to sustain existing programs, address program growth, and expand services in a manner consistent with the Department’s strategic directions. It is my expectation that Eastern Health plan for and achieve a balanced budget in keeping with the spirit of the Transparency and Accountability Act. As well, please refer to my letter dated May 13, 2011, on Budget Management and Fiscal controls. Unless approved in writing by me, no deficit should be incurred.”

In the fiscal year ended March 31, 2012, the Authority required funding of $12.5 million from the Province in order to cover its budget shortfall. On March 28, 2012, Treasury Board approved stabilization funding of $10.7 million for the Authority. On April 26, 2012, Treasury Board then approved another $1.8 million in stabilization funding, bringing the total to $12.5 million.

In the fiscal year ended March 31, 2013 the Authority did not obtain funding from the Province to cover its budget shortfall. Instead, it reported a deficit of $8.3 million. On March 28, 2013, Treasury Board authorized the Minister to allow the Authority to incur expenditures in excess of the estimated amount set out in Eastern Health’s budget in 2012-13. The Minister granted approval to the Authority on April 16, 2013.

The funding by the Province to cover budget overruns in the fiscal years 2009 to 2012, and a reported deficit in 2013, were despite continued increases in the approved budget. The approved budget grew from $943.6 million in 2009 to $1.15 billion in 2013, a 22% increase.

**Finding**

1. The Authority required $74.9 million in additional funding by the Province and incurred an $8.3 million budget deficit, despite the approved budget increasing 22% during the past five years.
1B. Position Administration

Introduction
For the fiscal year ended March 31, 2013, the Authority spent $812.5 million (2012 - $823.3 million) on salaries and employee benefits while employing approximately 12,810 employees (2012 - 12,989 employees) on a full or part-time basis.

The Budgeting Department of the Authority maintains an Authorized Position system. The system maintains approved Authorized Position Numbers (Authorized Position Number is a combination of department and job code) through a budget transaction process which logs the Budget Letter reference number that initiates a change in approved authorized positions. Any other change requires the approval of a Vice President or a Chief Operating Officer.

Ministerial Direction
In a letter to the Chair from the Minister dated May 13, 2011 the Minister stated that “Choosing to implement positions without formally approved funding is a significant decision for a RHA to take. Within your global budgets, it is recognized that your organization has the authority to redirect the salary funding for a position to other critical positions or existing unfunded positions as you manage risk. As 70% of a RHA's budget is associated with human resource costs, all RHAs should have processes established to assess the need to refill a position when it is vacated, relative to other HR pressures in your organization, and that the decision to refill a position is appropriately approved at the senior executive level in the RHA. In Government, the decision to fill any position requires the approval of the Minister. Your organization is expected to review your current processes for the creation and/or filling of positions (funded and non-funded) to ensure appropriate need assessments and approval processes are in place and more closely aligned with Government's processes... During the Budget 2011 process, several requests were received from RHAs for the funding of "new" (but already filled) positions that had been requested in previous budget submissions and not approved. Please note that such action is not appropriate and will not result in future budget adjustments.”
Government policy requires the approval of the Minister for filling vacancies and the approval of Treasury Board for the creation of new positions.

Authority policy requires the approval by a Director or Site Administrator for filling vacancies and the approval by a Vice-President or a Chief Operating Officer for the creation of new positions.

As a result, the Authority’s policy was inconsistent with Government.

The Authority’s recruitment authorization policy does not require approval from the Authority’s Budgeting Department to ensure that funding is available for positions prior to the recruitment process.

Given the significant salary costs, we would expect to see controls in place related to the number of employee positions within the Authority and the related salary expenditures and the assurance that funding is available for newly created positions prior to the recruitment process.

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### Findings

2. Position approval processes are not consistent with Government policy, despite the Minister’s direction to align them.

3. The creation of a new position does not require the Authority to ensure that funding is available for the new position.

---

### Recommendations

The Authority should:

- revise the Recruitment Authorization policy to require that appropriate funding is available for a position prior to initiating a recruitment action; and

- comply with Ministerial directives.
2. Compensation and Recruitment

Overview

During the year ended March 31, 2013, the Authority employed approximately 12,810 employees (2012 - 12,989 employees) on a full or part-time basis with expenditures of $812.5 million (2012 - $823.3 million) in salaries and employee benefits.

Direction from Treasury Board on consistency of market adjustment policy

In a letter dated January 3, 2012, the Authority was advised by the Deputy Minister of Health and Community Services (the Deputy Minister) that “The Market Adjustment Policy of Government states that ‘departments, agencies, boards and commissions are prohibited from paying employees any other form of market adjustment outside the terms of this policy. Additional forms of remuneration, unrelated to market conditions, may be permitted, subject to Treasury Board approval.’”

The letter went on to reference an attached listing of market adjustments that had been compiled during 2011. The letter requested the Authority to: “Please review the attached report and indicate by January 31, 2012: 1) Accuracy and completeness to ensure any items that can be considered a market adjustment have been included. 2) The date, within 2012, by which your RHA will submit market adjustment proposals for approval of the items listed. 3) The date by which your RHA will discontinue these adjustments.”

In a letter dated February 17, 2012 the Authority provided the requested information regarding market adjustments and advised the Deputy Minister in the response letter that “We are progressing to align our practices with Government’s Market Adjust Policy and will be submitting further submissions in 2012 as noted.”

On June 4, 2012, the Authority was advised by the Deputy Minister of recent decisions by Treasury Board in relation to market adjustments: “Any market adjustment items in place in your organization that are currently not approved by Treasury Board and which you wish to continue, must be reviewed by the Department of Health and Community Services. Those items that the department supports must then be submitted to Treasury Board by the Department for approval by November 1, 2012. Any market adjustments that are not supported by the Department of Health and Community Services must cease payment by November 1, 2012. In order that the department has adequate time to analyze any proposals to retain these benefits, we ask that your proposals be submitted to the Health Workforce Planning Division not later than September 1, 2012.”
The Authority submitted a ‘Proposal for Market Adjustment for Managers’ to the Department on August 24, 2012 and on October 24, 2012, sent a revised ‘Proposal for Market Adjustment for Managers’.

We were informed by the Authority that they had not received a formal response from the Department. As a result, they continue to provide market adjustments that are not approved by Treasury Board. These market adjustments include such items as: education differentials, paid education leave, management leave in lieu of overtime, membership fees, and professional fees. This is despite the fact that the Market Adjustment policy of Government has been in effect since February 26, 2010 and the Minister first directed the Authority to ensure consistency with comparable Government policies in May of 2011.

In reviewing the Authority’s compensation and recruitment practices we identified issues in the following areas:

A. Job Competitions
B. Individuals Employed by Authority while Receiving a Pension
C. Physician Signing Bonuses
D. Relocation
E. Classification of Positions
F. Additional Workload
G. Educational Differentials
H. Reimbursement for Personal Vehicle Usage
I. Redundancy

2A. Job Competitions

Introduction

The Human Resources Client Services Division of the Authority manages recruitment from internal and external sources, including both temporary and full-time positions.

The Public Service Commission is responsible for the protection of the merit principle in appointment and promotion to permanent positions within the public service. While the Authority does not fall under the jurisdiction of the Public Service Commission, it would be expected that policies and procedures followed by the Human Resources Client Services Division of the Authority would be consistent with Government policies and procedures since the Authority uses public money to compensate employees.
The Public Service Commission recommends a competition file contain documentation such as screening criteria and details of why applicants were screened out, and applicant assessment details outlining the suitability assessment of each applicant interviewed.

The Authority held more than 7,000 job competitions from April 1, 2011 to March 31, 2013. We reviewed a sample of 44 non-physician job competition files to determine if files were complete and to determine whether hiring practices were in compliance with Government policy. Our review identified the following:

Our review of the 44 job competition files, of which 39 were for union positions and 5 were for management positions, identified issues with the completeness of the documentation to support the competition process. We identified:

- 3 of 39 (8%) union position job competitions reviewed had no Director/Site Administrator approval to recruit an employee; and

- that in all 5 management position job competition files reviewed:
  - screening assessments were not documented in any of the files. As a result, the Authority could not demonstrate that the most suitable candidates were interviewed; and
  - applicant assessments resulting from the interview process were not documented in any of the files. As a result, the Authority could not demonstrate that the most suitable applicant interviewed was selected.

**Finding**

4. Non-physician job competition files did not contain evidence of Director/Site Administrator approval to recruit an employee and were missing screening documentation and applicant assessments resulting from the interview process and were, therefore, not in accordance with Authority policy, Government policy, and best practices.
2B. Individuals Employed by Authority while Receiving a Pension

Introduction
Cabinet directed that, “as a matter of policy applicable to government departments, and all government agencies and Crown corporations, a preference be given in hiring to persons other than those in receipt of a pension under the Public Service Pension Plan, the Uniformed Services Pension Plan, the Teachers’ Pension Plan, and the Members of the House of Assembly Pension Plan, unless there are no other persons qualified to fill the position, with exceptions to this policy to be subject to Cabinet approval.”

Double and Triple Dipping
During the 12 months ended December 31, 2012, there were 132 individuals in receipt of both a Provincial Government pension and a salary from the Authority. Two of these individuals held two positions at the same time with the Authority while in receipt of a Provincial Government pension. Approximately 57% of these pensioners were members of the Newfoundland and Labrador Nurses Union (the NLNU).

Our review of 10 of these pensioners identified that there was no documentation available to show that a job competition had occurred for any of these positions. Authority officials advised that 6 of the 10 were for the rehiring of nurses, and that these nurses were rehired during a nursing shortage. Authority officials advised that 4 of 10 were for the rehiring of Management employees and that these employees were rehired for their expertise.

Preference had not been given to hiring persons other than those in receipt of a pension. Cabinet approval was not obtained to authorize the hiring of these pensioners.

Finding
5. During 2012, there were 132 individuals in receipt of both a Provincial Government pension and a salary from the Authority. In fact, two of these individuals held two positions with the Authority while in receipt of a Provincial Government pension. Where individuals were employed by the Authority while receiving a pension, we found instances where no documentation was available to show that preference had been given to hiring persons other than those in receipt of a pension, as directed by Cabinet.
2C. Physician Signing Bonuses

The Authority provided benefits to some physicians above what was required under the Department’s Salaried Physician Guidelines (2006) (the Guidelines) and the Physician’s Services Memorandum of Agreement (2009-2013) (the MOA).

In a memo to the Authority from the Department dated July 18, 2011, the Authority was informed that “with the advent and expansion of the Provincial Bursary Program, the significant improvement in physician remuneration and the enhancement of the provincially negotiated retention bonuses it has been decided that all four RHAs must conform to provincial standards regarding all physician compensation. Therefore all RHA based physician recruitment bursaries and sign-on bonuses must stop effective immediately.”

Each RHA was requested to forward a list of physicians to the Department where an RHA based sign-on bonus or bursary had been committed in writing or verbally. The Department informed the Authority that they would permit the RHAs to honor commitments made.

During our review, we found that signing bonuses were provided which were not in accordance with the Guidelines and the MOA, as follows:

- 10 salaried physicians were provided signing bonuses that were beyond that allowed in the Guidelines and MOA;
  - 7 of the signing bonuses were included on the list of commitments that were sent to the Department in July 2011 and therefore, were in compliance with Department direction;
  - 2 of the signing bonuses were not included on the list of commitments that was sent to the Department in July 2011. These signing bonuses had been committed to prior to July 2011. A portion of the committed signing bonuses had been previously paid to each of the two physicians. However, an amount of $20,000 remained owing to each physician as of July 2011. These amounts were paid in September 2011; and
• the remaining physician was provided with a $20,000 signing bonus in February 2013. This bonus was not on the list of commitments that was sent to the Department in July 2011. Therefore, this bonus was not in compliance with Department direction to cease signing bonuses immediately.

Finding

6. The Authority provided signing bonuses that were beyond that allowed in the Department’s Salaried Physician Quick Reference Guidelines (2006) and the Physician’s Services Memorandum of Agreement (2009-2013). In addition, the Authority provided a signing bonus to a physician beyond the date at which they were told to discontinue the practice by the Department of Health and Community Services.

2D. Relocation

Introduction

Government’s relocation policy requires a relocated employee to enter into a two year return-in-service agreement with the employer in return for being reimbursed relocation expenses. The Authority reimburses physicians based on this policy and reimburses non-physicians based on an Authority policy that also has a two year return-in-service agreement.

Our review identified that:

No return-in-service agreements for physicians

The Authority had not entered into return-in-service agreements with any of the physicians who received reimbursement of relocation costs. Therefore, if the physicians leave before their two year terms, these costs will not be recoverable.

Application of the relocation policy inconsistent with Government policy for physicians

We reviewed a sample of 5 relocation expense claims for physicians to determine if they were in compliance with policy. Our review identified that:

• One physician was reimbursed for 33 nights’ accommodations for temporary living, although policy only allows for 14 nights’ accommodations for temporary living, resulting in an overpayment of $4,012.
Eastern Regional Health Authority

- One physician was reimbursed for one month’s accommodations for temporary living, although policy only allows for 14 nights’ accommodations for temporary living, resulting in an overpayment of $1,253.

- One physician was reimbursed $22,413 relating to the purchase of a principal residence, although they had not sold, nor were they in the process of selling (e.g. listed with real estate company or broker) the principal residence at the former location, which was required by Government policy.

- Two physicians were directly reimbursed more than $10,000 for the transportation of furniture and household effects, despite Government policy stating that “The selection of movers will be processed in accordance with the established purchasing procedures as outlined by the Government Purchasing Agency,” and therefore, were required to be tendered.

We reviewed a sample of 5 relocation expense claims for non–physicians to determine if they were in compliance with policy. Our review identified that:

- Two non-physicians were reimbursed for the transportation and storage of motor vehicles in the amounts of $6,978 and $7,100. Authority policy only allows $3,000 for these costs, resulting in an overpayment to the two totaling $8,078;

- Four non-physicians were reimbursed for the transportation of furniture and household effects ranging between $19,092 and $26,949. Authority policy only allows $15,000 for these costs, resulting in an overpayment to the four totaling $34,709.

- One non-physician did not enter into a return-in-service agreement with the Authority, therefore, if they leave before their two year term, these relocation costs may not be recoverable;

- Three non-physicians entered into return-in-service agreements after they received reimbursement from the Authority, therefore, if they left before they signed the agreement, these relocation costs may not have been recoverable; and
Within the Authority policy regarding non-physician relocation, transportation of furniture and household effects can be reimbursed up to $15,000. Authority policy also states that “The selection of movers will be processed in accordance with the established purchasing procedures as outlined by the Government Purchasing Agency”. These purchasing procedures require tendering. Four non-physicians were reimbursed more than $10,000 for the transportation of furniture and household effects, without going through a tendering process.

Findings

7. No return-in-service agreements are in place for physicians who received reimbursement of relocation costs. Therefore, the costs would not be recoverable if the physician were to leave before the end of their two year term.

8. The relocation policy is not being followed for both physicians and non-physicians. Therefore, individuals are being reimbursed for amounts higher than to which they are entitled.

2E. Classification of Positions

The Authority was established on April 1, 2005. Starting in 2005 the Authority began filling their management level positions, with the majority (over 98%) of positions being filled by the end of 2006. These positions were filled by employees that had been working in the former Health Care Corporation of St. John’s, Health and Community Services St. John’s, St. John’s Nursing Home Board, Newfoundland Cancer Treatment and Research Foundation, Health and Community Services Eastern, Avalon Health Care Institutions Board and the Peninsulas Health Care Corporation.

There were some changes in the duties of positions that resulted in a classification action, with some employees receiving the same pay, some employees getting paid more, and some employees getting paid less.

In an executive management meeting on May 2, 2007, the executive indicated that “Recognizing that the organization has been delayed with the formal classification process, a decision has been made to delay implementation of the salary decreases until the formal rating process is carried out. The appropriate adjustments as per policy will be implemented at that time.”
Government policy states that “An involuntary demotion is an employer initiated action, beyond the employee's control, resulting in the movement of the employee from an existing position to a position assigned a lower maximum hourly rate of pay. Situations would include:

(i) changes in the duties of the employee's position results in classification action; or

(ii) a position has been re-assessed and determined to be incorrectly classified.

When an employee is involuntarily demoted:

(i) the employee shall be given written notification stating the reasons for demotion;

(ii) the rate of pay shall be established at a rate in the new pay range equivalent to the existing rate, except that:

- Wherever the rate of pay prior to demotion is above the maximum of the pay range established for the position to which the employee is being demoted, the existing rate of pay shall be retained, but for purposes of awarding future salary increases, the "Red Circle" policy shall apply.

- Wherever the rate of pay prior to demotion falls between two steps within the pay range established for the position to which the employee is demoted, it shall be adjusted to the higher step.”

Management employees were responsible for the completion of their own position description evaluation summaries, and the Human Resources Client Services Department of the Authority was responsible for forwarding them to the Human Resource Secretariat (HRS) of Government for formal evaluation and classification.

Figure 3 shows the timeline associated with the formal classification of the Authority’s positions.
Figure 3

Eastern Regional Health Authority
Management Classification Timeline

- 2005
  - Eastern Health established
  - Vice President and Chief Operating Officer ratings received from Government
- 2006
  - Directors/Managers were placed into positions within the Authority
- 2007
- 2008
- 2009
- 2010
  - Directors position descriptions and rating recommendations submitted to Government
  - Directors results received from Government
- 2011
  - Directors new pay implemented
  - Managers position descriptions submitted to Government without rating recommendations, these were returned by the HRS
- 2012
  - Managers position description and rating recommendations submitted to Government
  - Managers results received from Government
- 2013
  - Managers new pay implemented

Source: Eastern Regional Health Authority Human Resources Client Services Division
Managers continued to be paid at higher rate for more than six years

There were 519 management positions that required classification as a result of the formation of the Authority in April 2005. The majority (more than 98%) of management positions were filled by the end of 2006. However, formal classification of 519 management positions did not occur until November 2012, with implementation of the new pay scale classification beginning on April 25, 2013. The results of the classification resulted in 185 positions being classified upwards; 211 positions remaining at the same pay level; and 123 positions being classified downward. The delay in the classification process resulted in 123 employees who continued to be paid at the higher rate for more than six years, from the time they were placed into positions within the Authority in 2006.

Table 4 provides examples of the results of the management classification review that occurred in November 2012. Table 4 shows, in particular, those management positions within the Authority that had the most significant downward scale classification as a result of the Human Resource Secretariat’s classification of those positions. Had the reclassification process occurred on a more timely basis, these individuals would have been paid at a lower rate or red circled earlier.

Table 4

## Eastern Regional Health Authority Management Classification November 2012

<table>
<thead>
<tr>
<th># of Employees</th>
<th>Salary Scales</th>
<th>Pay at Step 1</th>
<th>Pay at Step 25</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before</td>
<td>After</td>
<td>Diff.</td>
</tr>
<tr>
<td>2</td>
<td>HL-24</td>
<td>HL-20</td>
<td>$73,166</td>
</tr>
<tr>
<td>1</td>
<td>HL-25</td>
<td>HL-21</td>
<td>74,546</td>
</tr>
<tr>
<td>2</td>
<td>HL-24</td>
<td>HL-21</td>
<td>73,166</td>
</tr>
<tr>
<td>1</td>
<td>HL-23</td>
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</tr>
<tr>
<td>5</td>
<td>HL-22</td>
<td>HL-19</td>
<td>65,967</td>
</tr>
<tr>
<td>8</td>
<td>HL-25</td>
<td>HL-22</td>
<td>74,546</td>
</tr>
<tr>
<td>3</td>
<td>HL-20</td>
<td>HL-17</td>
<td>59,774</td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Human Resources Client Services Division
In total, at the time of the implementation of the new pay scale classification in 2013, positions that were classified downwards were being paid in the range of $631,373 to $820,806 more annually than what was ultimately paid once the positions were classified.

The process took approximately six years to complete and resulted in employees being paid more than if the classification process was more timely.

The Authority’s decision not to demote any managers whose salary was negatively affected through management restructuring until their new positions were formally classified resulted in these employees being paid in the range of $3.6 million to $4.7 million more from the end of 2006, when the majority of management positions had been filled, until the implementation in 2013.

The delay in the classification process resulted in 123 employees being paid more than necessary for more than six years. Additionally, as a result of the delay in the classification process, the red-circling of the positions was also delayed. A job is red-circled when the results of a job evaluation exercise reveal that it has been over-graded, resulting in a higher rate of pay. As a result of pay raises in years subsequent to 2006, the position pay ranges had become higher than they were in 2006 and, therefore, the salaries of the individuals were red-circled at an amount significantly higher than it would have been had the classification occurred earlier. An individual’s position pay shall remain red-circled until such time as their existing regular salary is equal to or lesser than the top step of the position they occupy. At such time employees cease to be red-circled and are placed on a step on the approved pay range.

We were able to determine that if the Authority had classified these positions downward in 2007, all of those employees affected would currently be paid in accordance with their pay scale (ie. no red circling), as the Government’s salary increases that had occurred between 2007 and current would have brought their new pay scale in line with their rate of pay.

It is possible that the salaries of many of the 123 demoted employees will continue to be above the rate of pay for their pay scale, and will, therefore, continue to be red-circled.

Higher pay also results in higher pension, severance, and accrued paid leave payouts on retirement or termination of positions.
Finding
9. The classification of some management positions subsequent to the amalgamation of the health boards in the eastern region in 2005 did not occur until 2013. The significant delay resulted in 123 employees being paid at higher than necessary amounts for more than six years after they were placed in management positions with the Authority at the end of 2006, at a cost in the range of $3.6 million to $4.7 million. Because red circling was delayed, other compensation benefits such as pensions and severance will also be higher.

2F. Additional Workload Benefits

Introduction
The Authority provides additional workload benefits to some physicians under the Guidelines. The Guidelines provide physicians compensation for additional workload due to vacancies. One half of the salary at step 2 of the appropriate scale is available to be distributed to salaried physicians who take on the responsibility of additional work in a salaried position(s) not filled by locums. The daily rate is 50% of the applicable salary scale divided by 240.

Physician getting additional pay for similar workload
Our review identified that a physician had been receiving additional workload payments since December 14, 2001 despite the fact that the Authority did not have a job posting for a vacant position. We were informed by Authority officials that the Authority has no intentions of filling the vacant position. The Authority has also acknowledged that this physician’s workload was consistent with that of other physicians in the physician’s specialty within the Authority. As at March 31, 2013, the physician had received $1,473,528 in additional workload payments since December 14, 2001.

Finding
10. Additional workload benefits are compensation payments provided to physicians for additional workload due to vacancies. One physician received $1,473,528 in additional workload payments over a period of approximately 11 years relating to a vacant position that the Authority had never advertised and does not intend to fill. Authority officials indicated that the physician had the same workload as other physicians, in this specialty, employed by the Authority.
2G. Educational Differentials

Introduction

The Authority pays educational differentials to qualifying nurses in accordance with the Nurses’ collective agreement. In addition, the Authority pays other employees educational differentials that are not provided under collective agreements.

For the year ended March 31, 2013, the Authority spent $2.0 million (2012 - $2.0 million) on educational differentials.

Payments not consistent with Government policy

Education differentials are also being paid to executive and management employees although the education requirements were part of the position requirements and, therefore, would have already been included in the pay scales for the particular position under the HAY rating system which was implemented in the late 1980s. For the 2013 fiscal year, the Authority paid differentials totaling $356,204 (2012 - $343,818) to these executive and management employees.

These education differentials were inconsistent with Government policy.

Finding

11. Educational differentials were being paid to executive and management employees although the education requirements were part of the position requirements and, therefore, would already have been included in the pay scales. This is inconsistent with Government policy.

2H. Reimbursement for Personal Vehicle Usage

Introduction

For the year ended March 31, 2013, the Authority spent approximately $1.7 million (2012 - $2.2 million) on personal mileage claims. Authority policy states “Employees who travel to their office to begin their work day or who travel from their office at the end of their work day shall not receive kilometer reimbursement for such travel.”
Eastern Regional Health Authority

Employee claiming mileage to and from work

Our review of the personal mileage claims for six employees with the highest annual personal mileage reimbursement identified that one employee was being reimbursed for travel from home to their office to begin their work day and from their office to home at the end of their work day. For the fiscal year ended March 31, 2013, this employee received a total of $2,364 (2012 - $8,096).

These reimbursements were not in compliance with Authority policy.

Personnel mileage claims being paid without approval

Our review of the personal mileage claims for six employees with the highest annual personal mileage reimbursement identified that one employee was reimbursed monthly without any approval of the mileage claims. For the fiscal year ended March 31, 2013, this employee received a total of $7,017 (2012 - $8,452) in mileage claim reimbursements.

Findings

12. An employee received reimbursement for personal vehicle usage related to travel to and from work, resulting in reimbursement of $2,364 for the year ended March 31, 2013. This is not in compliance with Authority policy.

13. An employee received reimbursement for personal vehicle usage without approval.

2I. Redundancy

Introduction

The Authority’s policy allows for employees to be provided with an appropriate notice or pay in lieu of notice upon elimination of a position. The period of notice shall depend upon the employee’s age and complete years of continuous service. Where an earlier effective date is required, employees shall receive pay in lieu of notice.

Position redundancy not being declared on a timely basis

We reviewed the files of four former employees whose jobs were deemed redundant and who were, therefore, terminated.
In one instance, a terminated physician’s redundancy letter stated that the “position of Vice-President of Medical Services, [of a] Legacy Board with Eastern Health, has been declared redundant, effective January 14, 2011. This decision has been necessitated because of organizational restructuring.”

The above-noted Legacy Board was assumed into the operations of the Authority on April 1, 2005. Furthermore, the physician had maintained the salary of his former Vice-President position, yet performed the duties of a lower paying position up until the time of his redundancy. The ultimate declaration of the position redundancy coincided with the retirement date of the physician. He had not held the title of the position for more than five years.

As a result of the declaration of the position redundancy, the retiring physician received $287,552 for 57 weeks pay in lieu of notice and 20 weeks of severance pay at the time of retirement. A few months later, the retired physician received an additional $119,737 in retroactive pay on his termination package to account for the new MOA.

**Finding**

14. The Authority was not always declaring positions redundant on a timely basis.

**Recommendations**

The Authority should:

- ensure compensation and recruitment practices are in accordance with Authority and Government policy;
- maintain adequate documentation in competition files;
- calculate employee compensation accurately;
- comply with Government’s relocation policy for all employees and ensure that return-in-service agreements are signed and approved; and
- ensure compliance with its mileage reimbursement policy.
3. Leave and Overtime

Overview

As at March 31, 2013, the Authority reported $110.7 million (2012 - $109.6 million) in accrued sick leave and accrued vacation leave (annual leave and paid leave) owing to its employees.

Authority policy requires use of a Leave Request form to document the request and approval of employee leave. Approved leave forms are held and filed at the Department/site. Leave hours of employees are recorded in bi-weekly payroll reports or schedules and are forwarded to the Authority’s Payroll Division for payroll and attendance processing.

The Authority recorded overtime expense of $25.2 million for the 2012 fiscal year and $23.9 million for the 2013 fiscal year. Overtime represents the hours worked by an employee in the performance of a specific task or designated project that requires the employee to work in excess of his or her regularly scheduled or normal hours of work, and hours of work performed on designated paid holidays.

In reviewing the leave and overtime practices of the Authority, we identified issues in the following areas:

A. Annual and Paid Leave
B. Sick Leave
C. Overtime
D. Management Overtime Policy
E. Education Leave

3A. Annual and Paid Leave

Introduction

Authority policy states that “All unionized employees, with the exception of casual employees ([Newfoundland and Labrador Nurses’ Union] (NLNU) and [Association of Allied Health Professionals] (AAHP) collective agreements), accrue annual leave in accordance with the respective collective agreement. Part-time and temporary employees accrue annual leave benefits on a pro-rated basis based on hours worked. Casual employees (NLNU and AAHP collective agreements) are paid a percentage of their salary in lieu of such benefits.”
Management and management support (non-management/non-bargaining) employees accrue paid leave benefits based on years of service, as per the Authority’s human resources policy.

Employees are eligible to receive payment for their remaining unused accumulated annual leave and/or paid leave when they terminate employment with the Authority (resign, retire, are laid off or upon death). Annual leave payouts are paid at the base salary of the position the employee occupies immediately prior to termination of employment.

**Leave not always approved or documented**

Authority policy states that for pre-planned absences, a Leave Request form must be completed and approval obtained prior to the commencement of leave.

We sampled the files of 52 employees who had taken annual or paid leave during the period of our review. Our review identified that, of those 52 employees, 27 did not have the required Leave Request form on file. Without Leave Request forms on file, the Authority does not have the documentation required by policy and does not have a record that proper supervisor/manager approval was granted for the employee’s leave.

Without adequate documentation, the Authority may not be accurately tracking the amount of annual or paid leave employees have taken, as well as the employees’ remaining annual or paid leave balance. This creates a risk that an employee may take more leave than to which they are entitled.

**Leave usage not adequately monitored**

Authority policy states that management/management support staff must use a minimum of three weeks paid leave during the year, while unionized employees are encouraged to take a minimum of two weeks annual leave each year.

During our review, we determined that the Authority’s human resources information system did not have the ability to generate flags to indicate when employees did not take the required or encouraged amount of paid or annual leave during the year. This inability to flag employees who were not meeting the minimum required paid or annual leave usage reduces the ability of the Authority to adequately monitor leave activity.
Inadequate monitoring of leave used during a period allows employees to carry over more leave each year than to which they are entitled. According to Authority policy, unused leave balances are paid out upon termination of employment, at the base salary of the position held at the time of the leave payout. An annual or paid leave carry forward balance that is overstated has a real cost to the Authority upon termination of the employee and the resultant payout of the balance at the employee’s current salary.

All collective agreements currently in place between the Authority and the unions allow unionized employees to carry forward any proportion of annual leave not taken until the employee has accumulated a maximum of:

- twenty (20) days annual leave if the employee is eligible for twenty (20) days in any year;
- twenty five (25) days annual leave if the employee is eligible for twenty five (25) days in any year;
- thirty (30) days annual leave if the employee is eligible for thirty (30) days in any year.

Table 5 shows the number of employees that, according to the collective agreements, are over their allowable leave carry forward limit as at March 31, 2013. It also outlines the resulting overstated payable balance.

**Table 5**

**Eastern Regional Health Authority**

**Leave Carry Forward**

**As at March 31, 2013**

<table>
<thead>
<tr>
<th>Allowable Leave Carry Forward</th>
<th>Number of Employees Above Limit</th>
<th>Overstated Payable Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 days</td>
<td>686</td>
<td>$2,007,000</td>
</tr>
<tr>
<td>25 days</td>
<td>626</td>
<td>$2,856,000</td>
</tr>
<tr>
<td>30 days</td>
<td>483</td>
<td>$3,598,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,795</td>
<td><strong>$8,461,000</strong></td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division
Authority policy does not state any limitations on the number of annual leave days allowed to be accumulated. Rather, it states that “Annual leave not taken will remain in the employee’s annual leave bank.” Authority policy is inconsistent with collective agreements.

As a result of leave records that appear to follow Authority policy rather than that noted in the collective agreements, our review identified 1,795 employees covered by the collective agreements, who have accrued annual leave balances greater than the maximum allowed in their collective agreements. As a result, the Authority has recorded a liability that is approximately $8.5 million beyond what is otherwise required by the collective agreements.

Authority policy states “Annual leave will be paid out only upon termination, layoff or change to casual employment.” The Authority practice of not enforcing leave carry-forward provisions outlined in the collective agreements allows employees to accrue significantly more leave days which can be paid out in the future at a higher salary.

Employees with overdrawn annual or paid leave balances

Authority policy states: “Employees are responsible for...ensuring benefits are available prior to requesting time off and refrain from taking leave for which they are not entitled.” Authority policy also states: “Managers/Supervisors are responsible for... ensuring employees are eligible and that balances are available prior to approving leave...” Our review identified that as at March 31, 2013, there were 712 employees who had overdrawn annual or paid leave balances with a total cost of $192,541.

Employees accruing two types of leave

Employees in unionized positions accrue annual leave, while those in management/management support positions accrue paid leave. In instances where employees move from a unionized position to a management/management support position, their annual leave bank is transferred into a paid leave bank. Our review identified 20 employees whose annual leave bank was transferred into a paid leave bank during the period of our review. However, the annual leave bank was not deactivated and the employees continued to accrue annual leave. As at March 31, 2013, these employees were simultaneously accruing both annual leave and paid leave.
Findings

15. There is a lack of effective oversight to ensure that employees annual and paid leave is properly approved and documented. Without this oversight, there is a risk that the leave balance is overstated and will cost the Authority more than which the employees would have otherwise been entitled.

16. Annual and paid leave are not being adequately monitored to ensure required leave is taken, carry forward and usage complies with policy and collective agreements, and the leave accruals database is accurate. The Authority has recorded approximately $8.5 million in unused leave to be carried forward and used or paid in subsequent years, which is inconsistent with collective agreements.

17. At March 31, 2013, 712 employees have taken annual or paid leave beyond which they are entitled with a total cost of $192,541.

3B. Sick Leave

Introduction

During the fiscal year ended March 31, 2013, the Authority paid $50.3 million (2012 - $48.9 million) in salaries associated with employees being away from work on sick leave. Table 6 shows salary costs resulting from sick leave taken during the fiscal years ended March 31, 2012, and March 31, 2013.

Table 6

Eastern Regional Health Authority
Sick Leave
Fiscal Years Ended March 31
($000’s)

<table>
<thead>
<tr>
<th>Sick Leave Category</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sick Leave Regular</td>
<td>$29,384</td>
<td>$29,474</td>
</tr>
<tr>
<td>Sick Leave &lt; ½ Day</td>
<td>751</td>
<td>803</td>
</tr>
<tr>
<td>Sick Leave Relief</td>
<td>14,386</td>
<td>15,004</td>
</tr>
<tr>
<td>Overtime Sick Leave Relief</td>
<td>4,367</td>
<td>5,057</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$48,888</strong></td>
<td><strong>$50,338</strong></td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division
Sick Leave Regular is the salary cost associated with an employee being away from work without loss in pay due to the employee being sick. Sick Leave < ½ day is the salary cost associated with an employee being away from work for less than half a day without loss in pay due to the employee being sick for less than half a day. In the case of sick leave < ½ day, there is no reduction in an employee’s sick leave entitlement.

Sick Leave Relief and Overtime Sick Leave Relief are the salary costs associated with replacing another employee who is availing of sick leave. The salary costs incurred in the Sick Leave Relief category represent salary relief costs that were incurred at straight time, while the Overtime Sick Leave Relief salary costs are salary costs that were incurred at overtime premium rates.

As shown in Table 6, the Sick Leave Regular category amounted to $29.5 million in the fiscal year ended March 31, 2013 (2012 – $29.4 million). Sick leave relief (regular and overtime) totaled $20.1 million for the year ended March 31, 2013 (2012 - $18.8 million), which is 68% (2012 - 64%) of regular sick leave.

We reviewed a sample of 63 instances of sick leave usage during the period of our review and identified the following issues:

- **Sick Leave not always approved or documented**

Authority policy requires that for unplanned absences, employees must notify their supervisor or manager on the first shift/day back to work or as soon as possible thereafter and a Leave Request form must be submitted before the end of the pay period in which the leave was taken.

Of the 63 instances of sick leave usage we reviewed, 39 did not have the required Leave Request form on file. Without Leave Request forms, the Authority does not have the documentation required by policy and does not have a record that proper supervisor/manager approval was granted for the sick leave used by the employee.

Without adequate documentation, the Authority may not be accurately tracking the amount of sick leave employees have taken, as well as the employees’ remaining sick leave balance. This creates a risk that an employee may take more sick leave than they are entitled.
We were informed by the Human Resources Secretariat that Government has 8,737 employees and incurred a total sick leave expense for fiscal 2013 of $17.2 million. The Authority has 12,810 employees with a total sick leave expense for fiscal 2013 of $30.3 million. When we compare the Authority’s expense to that of Government, on a prorated basis across the number of Authority employees, the Authority’s sick leave is $5 million, or 20%, higher than Government’s sick leave.

Findings

18. There is a lack of effective oversight to ensure that employee sick leave is properly approved and documented.

19. Sick leave expense of the Authority is approximately 20% higher than that of Government on a relative basis.

3C. Overtime

Introduction

Given the significant cost associated with overtime, we would expect the Authority to have systems and procedures to budget, authorize, record, monitor and control these costs. Such systems and procedures would include a requirement to consider alternate work arrangements in order to minimize overtime costs.

Authority policy requires that prior to overtime costs being incurred there must be approval by the employee’s manager. Proper approval should indicate the necessity for overtime in order to meet the operational requirements of the applicable department.

Overtime is often compensated at a premium rate such as time and one-half or double time. This compensation is determined in accordance with various policies and collective agreements. Table 7 shows the overtime expenses relating to the various overtime rate categories for the fiscal years ending March 31, 2012 and 2013.
Table 7

**Eastern Regional Health Authority**

**Overtime Rates**

**Fiscal Years Ended March 31**

*(000’s)*

<table>
<thead>
<tr>
<th>Overtime Rates</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 times regular pay</td>
<td>$1,908</td>
<td>$1,749</td>
</tr>
<tr>
<td>1.5 times regular pay</td>
<td>13,497</td>
<td>12,152</td>
</tr>
<tr>
<td>2 times regular pay</td>
<td>8,883</td>
<td>9,048</td>
</tr>
<tr>
<td>Statutory holiday premium</td>
<td>883</td>
<td>994</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,171</strong></td>
<td><strong>$23,943</strong></td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division

Table 8 shows the cost of overtime payments to employees, grouped according to union contracts.

Table 8

**Eastern Regional Health Authority**

**Overtime by General Occupation Category**

**Fiscal Years Ended March 31**

*($000’s)*

<table>
<thead>
<tr>
<th>General Occupation Category</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newfoundland and Labrador Nurses’ Union</td>
<td>$10,743</td>
<td>$11,017</td>
</tr>
<tr>
<td>NAPE - Hospital Support</td>
<td>5,717</td>
<td>5,785</td>
</tr>
<tr>
<td>NAPE - Lab/X-ray</td>
<td>3,384</td>
<td>3,560</td>
</tr>
<tr>
<td>NAPE - Hospital Support LPN</td>
<td>1,843</td>
<td>1,734</td>
</tr>
<tr>
<td>Association of Allied Health Professionals</td>
<td>1,257</td>
<td>1,197</td>
</tr>
<tr>
<td>NAPE - Health Professionals Social Workers (Note 1)</td>
<td>1,460</td>
<td>40</td>
</tr>
<tr>
<td>Management</td>
<td>426</td>
<td>401</td>
</tr>
<tr>
<td>NAPE - Health Professionals</td>
<td>173</td>
<td>51</td>
</tr>
<tr>
<td>Non Union Non Management</td>
<td>145</td>
<td>121</td>
</tr>
<tr>
<td>CUPE - Hospital Support</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Professional Association of Interns and Residents</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,171</strong></td>
<td><strong>$23,943</strong></td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division

Note 1: Effective October 31, 2011, social workers were transferred to the Department of Child, Youth and Family Services Department.
Authority policy requires that managers are responsible to review and approve all overtime worked by their employees through the use of overtime forms.

During our review, we sampled the files of 97 employees where policy required documentation for overtime. Our review identified that for 31 employees, or 32%, the required overtime documentation was not on file. Without approved overtime forms on file, the Authority does not have the documentation required by policy and does not have a record that proper supervisor/manager approval was granted for the overtime worked.

Inadequate documentation and approval records increase the risk of unauthorized overtime worked and the risk that employees are being compensated for overtime hours beyond those worked.

Authority policy states that both employees and managers are responsible for ensuring that leave does not unduly interfere with operational requirements. Table 9 shows the overtime expense related to different overtime types.

**Table 9**

**Eastern Regional Health Authority**
**Overtime Classification**
**Fiscal Years Ended March 31**
($000’s)

<table>
<thead>
<tr>
<th>Overtime Type</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational requirements</td>
<td>$10,186</td>
<td>$8,117</td>
</tr>
<tr>
<td>Sick Leave Relief</td>
<td>4,367</td>
<td>5,057</td>
</tr>
<tr>
<td>Callback Worked</td>
<td>1,912</td>
<td>1,874</td>
</tr>
<tr>
<td>Callback Unworked</td>
<td>1,598</td>
<td>1,729</td>
</tr>
<tr>
<td>Extra Workload</td>
<td>1,473</td>
<td>1,737</td>
</tr>
<tr>
<td>Meal Time Coverage</td>
<td>1,234</td>
<td>1,300</td>
</tr>
<tr>
<td>Other Relief</td>
<td>1,215</td>
<td>1,160</td>
</tr>
<tr>
<td>Constant Care</td>
<td>1,194</td>
<td>639</td>
</tr>
<tr>
<td>Stat Holiday Premium</td>
<td>883</td>
<td>994</td>
</tr>
<tr>
<td>Vacation Leave Relief</td>
<td>663</td>
<td>815</td>
</tr>
<tr>
<td>Patient Escort</td>
<td>245</td>
<td>284</td>
</tr>
<tr>
<td>Meetings</td>
<td>201</td>
<td>237</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$25,171</td>
<td>$23,943</td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division
During our review, we identified that a significant portion, approximately 29%, of the overtime expense for 2013 relates to relief work. Sick leave relief is the largest portion of relief work and during the year ended March 31, 2013, accounts for approximately $5.1 million, or 21%, of the overall overtime expense.

Table 10 shows the number of employees whose overtime pay earned was in excess of $10,000.

**Table 10**

**Eastern Regional Health Authority**

**Overtime Pay Earned in Excess of $10,000**

<table>
<thead>
<tr>
<th>Fiscal Years Ended March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Number of Employees</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Overtime Pay Earned</strong></td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>$10,000 - $19,999</td>
</tr>
<tr>
<td>20,000 - 29,999</td>
</tr>
<tr>
<td>30,000 - 39,999</td>
</tr>
<tr>
<td>40,000 - 49,999</td>
</tr>
<tr>
<td>50,000 - 59,999</td>
</tr>
<tr>
<td>60,000 - 69,999</td>
</tr>
<tr>
<td>70,000 +</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division

During our review, we noted that 8,219 individuals earned overtime during the year ended March 31, 2013. Of these, 484 individuals earned overtime in excess of $10,000 for the year ended March 31, 2013 (2012 - 533). 51 individuals earned overtime pay in excess of $30,000 during the year ended March 31, 2013 (2012 - 48).

Table 11 shows the 15 employees with the highest overtime pay earned during the year ended March 31, 2013. The table details the annual salary and overtime pay of the 15 employees. Table 11 also shows the individuals’ callback unworked pay received and the percentage of overtime pay that was comprised of callback unworked pay.
Eastern Regional Health Authority

Table 11
Eastern Regional Health Authority
Employees with Highest Overtime Pay Earned
Fiscal Year Ended March 31, 2013

<table>
<thead>
<tr>
<th>Union Contract</th>
<th>Position</th>
<th>Annual Salary</th>
<th>Overtime Pay Total</th>
<th>Overtime as a Percentage of Annual Salary</th>
<th>Callback Unworked Pay</th>
<th>Callback Unworked as a Percentage of Overtime Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>NLNU</td>
<td>Psychiatric Nurse I</td>
<td>$69,411</td>
<td>$66,271</td>
<td>95%</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Laboratory And X-Ray Technologist</td>
<td>61,831</td>
<td>62,842</td>
<td>102%</td>
<td>51,887</td>
<td>83%</td>
</tr>
<tr>
<td>NLNU</td>
<td>Nurse I</td>
<td>71,098</td>
<td>61,878</td>
<td>87%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NLNU</td>
<td>Psychiatric Nurse II</td>
<td>79,155</td>
<td>60,579</td>
<td>77%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NLNU</td>
<td>Nurse I Permanent Relief</td>
<td>71,098</td>
<td>59,458</td>
<td>84%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NLNU</td>
<td>Nurse I</td>
<td>74,283</td>
<td>58,622</td>
<td>79%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Laboratory Technologist I</td>
<td>59,902</td>
<td>55,504</td>
<td>93%</td>
<td>41,508</td>
<td>75%</td>
</tr>
<tr>
<td>NLNU</td>
<td>Nurse I</td>
<td>71,098</td>
<td>55,229</td>
<td>78%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Diagnostic Imaging Technologist III</td>
<td>68,662</td>
<td>51,949</td>
<td>76%</td>
<td>35,929</td>
<td>69%</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Diagnostic Imaging Technologist III</td>
<td>68,662</td>
<td>47,841</td>
<td>70%</td>
<td>31,973</td>
<td>67%</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Diagnostic Imaging Technologist III</td>
<td>68,662</td>
<td>47,280</td>
<td>69%</td>
<td>33,130</td>
<td>70%</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Diagnostic Imaging Technologist III</td>
<td>68,662</td>
<td>43,571</td>
<td>63%</td>
<td>33,267</td>
<td>76%</td>
</tr>
<tr>
<td>NLNU</td>
<td>Psychiatric Nurse II</td>
<td>79,155</td>
<td>41,983</td>
<td>53%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Laboratory Technologist II</td>
<td>65,118</td>
<td>41,885</td>
<td>64%</td>
<td>25,454</td>
<td>61%</td>
</tr>
<tr>
<td>NAPE LX</td>
<td>Diagnostic Imaging Technologist III</td>
<td>68,662</td>
<td>40,767</td>
<td>59%</td>
<td>26,561</td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division

As shown in Table 11, for some employees detailed, overtime pay is almost equal to the employees’ annual salary. For the 15 employees with the highest overtime pay, their overtime pay for the year ended March 31, 2013 ranged from 53% to 102% of their annual salaries. For example, overtime pay of $62,841 earned by the Laboratory and X-Ray Technologist was 102% of their annual salary of $61,831. Table 11 shows that the Authority may not have an adequate complement of staff to meet operational requirements.
Table 11 also shows the amount of callback unworked overtime included within total overtime pay. The table shows that, for employees who receive callback overtime, the portion relating to callback unworked is comprised of at least 61% of the total overtime, with the highest percentage reaching 83% of total overtime. This results in a significant expense relating to overtime payment for hours that are not worked.

For employees who are called back to work outside their regular shift hours, the various collective agreements state that the employee is to receive a minimum of three hours overtime pay at the prescribed overtime rate.

Our review identified that the total callback expense at March 31, 2013 was $3.6 million (2012 - $3.5 million). Of the total overtime callback expense, 48% (2012 - 46%) related to callback overtime unworked. Some hospitals had a high percentage of callback unworked as a percentage of total callback overtime pay received. Specifically:

- Bonavista Home and Health Centre 82%;
- Placentia Health Center 79%; and
- Newhook Clinic 77%.

During our review, we obtained details of 229 overtime callback shifts. There were 106 overtime callback shifts in which employees had multiple callback shifts within a 90 minute time period. The majority of these 106 overtime callback shifts were compensated at a rate of 1.5 times regular pay. A breakdown of these instances is detailed in Table 12.

**Table 12**

<table>
<thead>
<tr>
<th>Time Out Between Shifts</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;15 minutes</td>
<td>19</td>
</tr>
<tr>
<td>15-30 minutes</td>
<td>24</td>
</tr>
<tr>
<td>30-45 minutes</td>
<td>23</td>
</tr>
<tr>
<td>45-60 minutes</td>
<td>21</td>
</tr>
<tr>
<td>60-90 minutes</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Payroll Division
Pyramiding results when employees are called back to work, work less than three hours, but earn the three hour pay minimum, and are then called back multiple times during the same three hour period, earning three hours of overtime pay for each of the callbacks.

Pyramiding is not allowed under some collective agreements, but not addressed in others.

Specific examples of those instances within Table 12 include:

- Three instances where an employee received three overtime shifts within a 1.5 hour time period. This resulted in employees being paid for 9 hours of overtime in 1.5 hours.

- Two instances where employees received three overtime shifts within a 2 hour time period. This resulted in employees being paid for 9 hours of overtime in 2 hours.

- One instance where an employee received five overtime shifts within a 3.5 hour time period. This resulted in an employee being paid for 15 hours of overtime in 3.5 hours.

- One instance where an employee received six overtime shifts within a 4 hour time period. This resulted in an employee being paid for 18 hours of overtime in 4 hours.

- One instance where an employee received five overtime shifts within a 5 hour time period. This resulted in an employee being paid for 15 hours of overtime in 5 hours.

- One instance where an employee received six overtime shifts within a 7 hour time period. This resulted in an employee being paid for 18 hours of overtime in 7 hours.

Our review also identified nine instances where there were two employees of the same position working overtime callback in the same Authority department at the same time.
We also identified two employees who received callback overtime for working overtime immediately following their regular shift. This overtime should have been compensated as regular overtime, not callback overtime. One of the employees received callback overtime immediately following their regular shift in four instances within our samples. We also identified an instance where this employee received callback overtime for showing up for work 15 minutes before the start of a regular shift.

**Findings**

20. There is a lack of effective oversight to ensure that overtime is properly approved and documented such as to decrease the risk of unauthorized overtime worked and the risk that employees are being compensated for overtime hours beyond those worked.

21. Callback overtime is when employees are called back to work outside their regular shift hours. Employees receive a minimum of three hours overtime pay at the prescribed overtime rate. Callback unworked is the portion of a callback shift that is unworked. Callback unworked was 48% of the total callback overtime. This resulted in an expense of $1.7 million (2012 - $1.6 million) for overtime hours that were not actually worked.

22. Of 229 callback shifts we reviewed, there were 106 shifts (46%) in which employees had, for example, multiple callback shifts within 90 minutes. In one instance, for example, an employee whose annual salary was $61,831 received overtime pay of $51,887 that was unworked overtime.

**3D. Management Overtime Policy**

**Introduction**

Authority policy provides managers one week (35 hours) of leave in lieu of general day-to-day overtime and travel time. In addition, in instances when managers are required to perform work that results in significant overtime, Authority policy provides that, “they will be compensated at the rate of time and one-half (1 ½) at the manager’s rate of pay, for the time spent working.”
During the period of our review, up to and including August 31, 2012, Government policy permitted the payment of overtime for management if they accrue more than 35 hours of overtime in an 8 week period. Effective September 1, 2012, Government policy permits management employees to be compensated at straight time for each hour of overtime worked in excess of two and one half (2½) hours per week, based on the employee’s current salary. The Authority’s policy is inconsistent with Government policy.

In a letter to the Chair from the Minister dated May 13, 2011, the Minister stated that “The fiscal impact of this policy has been roughly estimated to cost $1 million annually in unproductive, non-worked hours. This does not include the payment of any approved overtime that relates to their performance of their job responsibilities….Unless such a policy has been authorized by Treasury Board and appropriately funded, they should be discontinued immediately.”

Subsequent to May 13, 2011, the date of the letter to the Chair from the Minister, and throughout the period of our review, Authority policy and practice did not change and, therefore, was not in accordance with the direction provided by the Minister.

Our review of management overtime identified the following issues:

- Leave in lieu expense for management was $0.9 million for fiscal 2013 (2012 - $0.9 million).

- Management overtime expense was $0.4 million for fiscal 2013 (2012 - $0.4 million).

- 625 employees were provided with 35 hours of leave in lieu in 2013 (2012 - 664 employees).

### Finding

23. The management overtime policy is not consistent with Government policy, despite the Minister’s direction to align policy with that of Government policy. The Authority incurred a $0.9 million expense related to leave in lieu provided to management. This was not in accordance with Government policy.
3E. Education Leave

Authority policy allows managers to enroll in post-secondary programs. The policy states, “one semester may be approved where 50% of the study weeks will be funded education leave and 50% of the study weeks will be taken by the manager as either earned paid leave or approved unpaid leave”. In addition, Authority policy also states, “Eastern Health will provide up to five days per year paid education leave for those enrolled in post-secondary academic programs to assist in preparation of academic papers, study or exams.”

Government does not have a policy that allows management to enroll in post-secondary programs and receive paid education leave.

Our review of education leave identified education leave expense of $191,668 for the year ended March 31, 2013 (2012 - $324,676) and that education leave was used by 162 employees in the year ended March 31, 2013 (2012 - 226 employees).

Finding

24. The education leave policy of the Authority is not consistent with Government policy.

Recommendations

The Authority should:

- amend policies to ensure consistency of Authority policies as compared to Government policies and collective agreements;
- monitor and record employee leave and overtime in accordance with Government and Authority policy, and collective agreements; and
- review policies and practices to identify ways in which to cut associated costs.
4. Internal Controls

Overview

Internal control is comprised of the control environment, accounting systems and control policies and procedures established and maintained by management to assist in achieving the orderly and efficient conduct of the affairs of an organization. It is essential that there be adequate controls to ensure proper stewardship over public money.

The primary objectives of internal control systems are to ensure:

- the reliability and integrity of information;
- compliance with procedures, policies, plans and legislation;
- the economical and efficient use of resources;
- the safeguarding of assets; and
- the accomplishment of established objectives and goals.

General computer control systems affect various areas of applications and are intended to establish a framework of overall control over information systems processing activities. Controls should be considered in computerized information systems design and operations. They should be in place to provide reasonable assurance that systems are efficient and function in a manner consistent with organizational objectives. Many preventative controls are built into computer systems (e.g. edits, security access restrictions, authorization requirements, etc.).

It is the responsibility of management to ensure that the following basic general controls, amongst others, are part of the internal control processes of an organization:

- authorization of transactions - each organizational process must have authorization requirements for transactions within the process; and
- segregation of duties - each organizational process must have an appropriate distribution of incompatible tasks amongst multiple individuals within the process. The primary objective of the segregation of duties is the prevention of fraud and error. Examples include: the separation of vendor creation and the initiation of purchase orders and the separation of the initiation and approval of purchase orders.
We would expect to see effective internal controls at the Authority to ensure safeguarding of assets, and proper stewardship over public money.

In reviewing the Authority’s purchasing processes, we identified issues in the following areas:

A. Internal Controls over Purchasing
B. Internal Controls over Payments
C. Internal Audit Function

4A. Internal Controls over Purchasing

Introduction

The Materials Support Department has the exclusive authority to commit the Authority to legal contracts for the acquisition of goods and services. Authority policy states: “The Materials Support Department, acting on behalf of the President and CEO, has the authority to commit Eastern Health to legal contracts for the acquisition of goods and services. Other staff are not permitted to commit Eastern Health to contracts, either verbally or in writing.”

According to Authority policy, the Materials Support Department is responsible for all aspects of the purchasing process.

Authority policy requires a properly authorized purchase requisition for the acquisition of goods and services. The requisition must be approved by a director or delegate before being sent to the Materials Support Department. Authority policy also requires that the Materials Support Department issue a properly authorized purchase order.

Our review identified the following:
Purchasing function performed outside of Materials Support Department

During our review, we noted that the purchasing function is being performed by individuals outside of the Materials Support Department. This is in contravention of Authority policy. Authority officials within the Materials Support Department advised that they do not have systematic internal control audit processes or reviews that would detect unauthorized purchasing or prevent it from occurring. We obtained a listing of user accesses for the purchasing system. These reports contained 243 names of users that, as of November 22, 2013, had access to perform certain functions, such as creation of a purchase order, within the system. As of the same date, there were only 140 employees in the Materials Support Department. Materials Support Department officials were not aware that there were a significant number of employees with system accesses that were not in compliance with Authority policy.

Inadequate authorization and review processes

Authority policy requires a properly completed and approved purchase order prior to initiation of the purchasing process. The purchase order is also required as support of the purchase prior to payment processing by the Accounts Payable Division of the Authority. Although payment processing was completed by the Accounts Payable Division, Department officials advised it was most often performed by an official without seeing the original documentation. Purchase order authorization is a manual process within the Authority’s processes and is evidenced by an authorizing signature on the purchase order.

During our review, we identified instances in which the initiator of the purchase order was also the approver of the purchase order. This is not proper authorization of the transaction. These are incompatible functions and should be segregated.

We also noted instances in which the Accounts Payable Division was processing payments without purchase orders. This increases the risk that purchases are being made without the approval of the Materials Support Department. Since only the Materials Support Department has the authority to commit the Authority to legal contracts for the acquisition of goods and services, purchases made without their approval are in contravention of policy. The Materials Support Department cannot ensure Authority policy, the Public Tender Act (PTA) and Government’s Guidelines for the Hiring of External Consultants (Consultant Guidelines) are being followed for the purchase of goods and services when they are not aware of the purchases. For example, during our review, we noted an instance where a consultant was hired for $210,000 to manage an infrastructure project. This hire was made without a purchase order, the Materials Support Department was not involved in the transaction, and the Consultant Guidelines were not followed.
The Materials Support Department was not monitoring purchasing activity to prevent these unauthorized transactions from occurring.

Inadequate segregation of duties

During our review of user access listings for the purchasing system and associated manual processes, we identified 143 individuals on the listing that had current access that allowed them to:

- set up a new vendor;
- initiate a purchase order; and
- receive goods on the system.

These processes are incompatible, as they provide an individual with access to the purchasing process from beginning to end, without any systems authorization required. The access to these incompatible functions increases the risk of fraud or error occurring without detection. Purchase order approval is a manual process outside of these system accesses.

Lack of monitoring of final tender costs

During our review of the tendering processes, we would have expected to see evidence of monitoring, by the Materials Support Department, of the final costs of tendered work as compared to the awarded costs to ensure proper fiscal management and internal control.

The Materials Support Department was unable to provide us with a complete listing of tenders, and also could not provide any analysis of the final costs of the tendered work as compared to the awarded costs.

Lack of controls over changing purchase orders

During our review of the purchase order process, we would have expected to see controls in place to ensure the proper approval of any purchase order changes.

Purchase orders can be changed by anyone with access to the purchasing module. Therefore, a purchase order that was created and approved can be subsequently modified by the creator of the purchase order, the approver of the purchase order, or any other employee with access to the purchasing module. The access to these incompatible functions increases the risk of fraud or error occurring without detection.
In addition, we determined that purchase orders are being changed without the necessary approval required. For example, the Materials Support Department does not require a copy of a signed change order relating to a tender, prior to changing the amount of a purchase order. As a result, it is possible that change orders may occur without the approval of the head of the Government Funded Body, or the Board.

**No review of computer access**

System access to the purchasing system was not being adequately monitored during the period of our review. We identified the following concerns:

- system access logs were not being reviewed;
- employees outside the Materials Support Department had access to the purchasing module; and
- terminated employees’ accounts were not being removed.

Without adequate monitoring and maintenance, there is an increased risk of improper transactions occurring, as a result of either fraud or error.

**Lack of automated controls in purchasing module**

Automated controls within a system allow certain preventative measures without significant manual intervention. Automated controls have not been integrated into the purchasing system to reduce the risk of fraud or error from occurring. We identified that the system does not:

- require a purchase requisition number to be entered;
- restrict purchasing authority limits for employees;
- require purchase orders to be approved on the system, by an individual other than the creator of the purchase order;
- require a Tender or Form B number when purchases are greater than $10,000; and
- restrict the delivery locations of goods.
Lack of these automated controls increase the risk of fraud or error, as a system user has access to create and approve a purchase order of any dollar amount and also has access to set the delivery of goods or services to any location of their choosing.

No dollar limits on spending

Government policy regarding delegated purchase authority requires limits on spending authority.

Authority Policy does not require limits on spending authorizations. Authority practice does not have spending limitations in place for the purchasing function.

This does not allow for proper fiscal management.

Lack of oversight by Materials Support Department

Government policy surrounding delegated purchasing authority includes:

- placing limits on spending authority;
- ensuring that financial authorities are clearly assigned, properly approved, and that delegation instruments are regularly updated;
- ensuring that appropriate officers are delegated authority that enables them to effectively administer programs within their budget responsibility; and
- ensuring that an appropriate financial control framework is maintained which permits a balance of risks, costs and efficiencies.

The Materials Support Department has not ensured that the appropriate internal controls around the purchasing processes are in place at the Authority.

This has been demonstrated by the lack of:

- segregation of duties;
- review of computer accesses;
- automated controls in the purchasing system; and
- overall monitoring regarding the purchase of goods and services.
Without properly working internal controls surrounding the purchase of goods and services, the Authority cannot ensure compliance with policies and procedures, the economical and efficient use of resources and the adequate safeguarding of assets.

**Findings**

25. Current Authority controls are not adequate to prevent or detect fraud or error in areas of purchasing. For example:

- inadequate authorization and review of purchase orders;
- lack of monitoring of final tender costs compared to awarded costs;
- lack of controls over user access to purchase orders;
- no dollar limits on spending authorization for employees; and
- an overall lack of oversight of the purchasing process by the Materials Support Department.

26. The purchasing function was being performed by individuals outside of the Material Support Department. There were 243 users that are able to create purchase orders, however, there were only 140 employees in the Materials Support Department.

**4B. Internal Controls over Payments**

Employees have the ability to prepare, approve, and print cheques without requiring supervisory approval.

During our review of the purchasing processes, we would have expected adequate segregation of duties around cheque processing. During our review, we identified that there are 26 individuals within the Financial Services, Budgeting, and the Healthcare Technology and Data Management (HTDM) Departments that have system access to prepare, approve, and print cheques, all without any level of supervisory approval.

Without the proper segregation of duties and authorization requirements, there is an increased risk of fraud or error occurring.

**Finding**

27. Internal controls over cheque processing are inadequate. As a result of improper segregation of duties and authorization requirements, there is an increased risk of fraud and error occurring.
4C. Internal Audit

An internal audit function is an integral part of an effective internal control system, particularly for an organization the size of the Authority. Without such a system, including the presence of an internal audit function, instances of the following may go undetected:

- public money not being appropriately collected and disbursed;
- non-compliance with legislation and/or Government policies;
- lack of safeguarding and accounting for the Authority's assets; and
- accounting and management control weaknesses.

We would expect the Authority to have an Internal Audit Department which would have an independent, functional responsibility to the Finance and Audit Committee of the Board of Trustees for the adequacy and effectiveness of internal controls.

There was no functioning Internal Audit Department during the period of our review.

An effective internal audit function can help ensure that preventative and detective controls are implemented and functioning properly.

Finding

28. There was no functioning Internal Audit Department during the period of our review. An effective internal audit function can help ensure that preventative and detective controls are implemented and functioning properly.
Eastern Regional Health Authority

Recommendations

The Authority should:

- strengthen internal controls relating to purchasing and payments;
- complete regular reviews of internal controls to ensure they are operating effectively;
- create a delegation of authority policy that is consistent with Government;
- consider the need for an Internal Audit Department; and
- consider the need for an overall review of purchasing.

5. Tendering of Goods and Services

Overview

The Authority spent approximately $357.1 million during the year ended March 31, 2013 (2012 - $356.1 million) on goods and services. The Materials Support Department of the Authority is responsible for the procurement of goods and services, related to both operating expenses and acquiring capital assets. To acquire goods and services, the Authority must comply with the requirements of the Public Tender Act (PTA) and the Public Tender Regulations, 1998 (the Regulations).

In reviewing the Authority’s tendering of goods and services practices we identified issues in the following areas:

A. Tendering and Purchasing Policies
B. Tender Exceptions - Form Bs
C. Infrastructure Projects
**5A. Tendering and Purchasing Policies**

**Introduction**

Table 13 summarizes certain requirements of the *Public Tender Act* (*PTA*) based on the cost thresholds of the goods and services.

**Table 13**

**Eastern Regional Health Authority**  
**Public Tender Act Requirements**

<table>
<thead>
<tr>
<th>When goods and services cost …</th>
<th>Or a public work costs …</th>
<th>Then the Authority must …</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than $10,000</td>
<td>More than $20,000</td>
<td>Invite tenders</td>
</tr>
</tbody>
</table>
| $10,000 and less              | $20,000 and less         | • Obtain quotations from at least 3 legitimate suppliers, or  
                           |                           | • Establish for the circumstances a fair and reasonable price. |

**Purchases not in compliance with *PTA* and Authority policy**

Our review included a sample of 20 purchases for the period April 1, 2011 to March 31, 2013 to assess the Authority’s compliance with the *PTA* and the *Regulations*.

Our review identified the following:

- 2 purchases totaling $3,875 did not have the 3 required quotations; and
- 3 purchases totaling $17,040 did not contain any support to indicate a fair and reasonable price.

**Insufficient support in Tender files**

Our review of 9 tender files identified issues with the completeness of the documentation to support the tender awarding process. Specifically, bid checklists were not completed by the Materials Support Department in 8 of the 9 files. As a result, the Authority could not demonstrate that bids were reviewed for compliance with tender specifications. This creates a risk that tender requirements are not consistently applied to each tender bid.
The purchasing policy of the Authority for acquisition of professional services states that for professional services valued at $10,000 or greater, approval must come from a Vice-President, or Chief Operating Officer. Our review identified that senior management other than the Vice-President or Chief Operating Officer are approving professional service contracts valued at $10,000 or greater.

**Finding**

29. We found instances where purchases made were not in compliance with the *Public Tender Act (PTA)* and where there was insufficient support in tender files. As a result, the Authority could not demonstrate that bids were reviewed for compliance with tender specifications. We also found instances where the purchasing policy of the Authority was not being followed.

**5B. Tender Exceptions – Form Bs**

Section 3(1) of the *PTA* states that: “*Where a public work is to be executed under the direction of a government funded body or goods or services are to be acquired by a government funded body, the government funded body shall invite tenders for the execution or acquisition.*” Although the *PTA* makes public tendering a requirement when acquiring goods or services, it does specify instances in which tenders are not required. These instances are commonly referred to as "tender exceptions". All tender exceptions require a “Form B” to be completed and tabled in the House of Assembly.

Our review included a sample of 33 Form Bs for the period April 1, 2011 to March 31, 2013 to assess compliance by the Authority with the *PTA* and Regulations.

Our review of Form Bs identified issues in the following areas:

Of the 33 Form Bs sampled, we noted 10 instances where the Form Bs were not submitted within the required timeframe. The extent to which the form B submissions were overdue ranged from 5 to 255 days.

By not submitting Form Bs on time, the Authority is not in compliance with the *PTA* and is impacting the timeliness and relevancy of the information being reported to the House of Assembly.
Eastern Regional Health Authority

Inappropriate pressing emergency exceptions

Our review of Form Bs indicated that the Authority did not always apply section 3(2)(d) of the PTA, the pressing emergency exception, appropriately. Of the 33 Form Bs reviewed, 12 were categorized as a pressing emergency. In 2 of the 12 instances, we question the appropriateness of the rationale:

- Rental of two suites ($23,922): the Authority indicated on the Form B, “Emergency Purchase - This was needed ASAP - no time to tender”. However, documentation about the rental indicated that the Materials Support Department was contacted on January 24, 2013 to book the rental of the two suites for March 1, 2013. In our view, the Authority had enough time to tender the contract.

- Central laundry equipment ($38,409): the Authority was unable to provide documentation to support the pressing emergency claim.

As a result, the Authority may not be getting the most economical price in these instances in which a pressing emergency exception may not have been required.

Inappropriate sole source exceptions

Our review indicated the Authority did not always apply section 3(2)(e) of the PTA, the sole source exception, correctly. Of the 33 Form Bs reviewed, we found 21 instances where the sole source exception was reported.

In 8 of these 21 instances, we question the appropriateness of the rationale. As a result, the Authority may not be getting the most economical price in these instances in which a sole source exception may not have been required.

Finding

30. Form Bs, which document exceptions to the PTA, are not always being submitted on a timely basis. As a result, the Authority is not in compliance with the PTA and is impacting the timeliness and relevancy of the information being reported to the House of Assembly. Some pressing emergency exceptions and sole source exceptions may not be appropriate. As a result, the Authority may not be getting the most economical price in these instances.
5C. Infrastructure Projects

Introduction

The Infrastructure Department of the Authority is responsible for the development and monitoring of capital infrastructure projects.

Each capital infrastructure project has a reporting structure as shown in Figure 4.

Figure 4

Eastern Regional Health Authority
Infrastructure Department
Project Reporting Structure

Regional Director, Infrastructure Support
(Eastern Health)

Project Manager
(Eastern Health)

Consultant
(External Consultant)

Contractor
(Tendered Contract)

Source: Eastern Regional Health Authority

Under the terms of the PTA, subject to the prior approval of the head of the government funded body, “A government funded body may authorize change orders within the requirements of a contract or authorize extensions of the contracts.”

The PTA provides for extensions or change orders within the scope of the original contract up to: $15,000 for contracts under $100,000; $15,000 or 10%, of the contract price, whichever is greater, for contracts over $100,000 and less than $500,000; or $50,000 or 5% of the contract price, whichever is greater, for contracts over $500,000.
Eastern Regional Health Authority

These extensions or change orders require prior approval of the head of the government funded body, which in the Authority, is the CEO. Extensions or change orders above these limits must have the prior approval of the Board of Trustees.

We reviewed a sample of 10 infrastructure projects in which change orders were issued. Our review identified the following:

- A tender for $1,397,327 for a lab development received 48 change orders totaling an additional cost of $928,465. According to the PTA, the change orders required CEO and Board approval. However, the change orders were completed without prior approval by the Board.

- A tender for $98,750 for the replacement of 56 windows was increased by $154,974 for an extra 70 windows. According to the PTA, the change order required CEO and Board approval. However, the change order was completed without prior approval of the CEO or the Board. Furthermore, the change order pertained to replacing windows that were not within the scope of the original contract.

- A tender for $211,250 for an Electric Arc Flash Study was increased by $42,250 to add another hospital. According to the PTA, the change order required CEO and Board approval. However, the change order was completed without prior approval of the CEO or the Board.

- A tender for $640,000 for Cardiac Catheterization Lab Re-Development was increased by $11,907 at the request of the Authority. Additional enclosures were requested by Authority officials, which were outside the scope of the original tender.

CEO approval of change orders within legislative thresholds, and CEO and Board approval of change orders in excess of the legislated thresholds is required by the PTA, and contributes to effective budget monitoring. Our review indicated instances of a lack of compliance with the PTA. Issuing change orders outside the scope of the original tender is not in compliance with the PTA and is ineffective in terms of fiscal controls and budgetary management.
Eastern Regional Health Authority

Noncompliance with Guidelines for hiring external consultants

Authority Policy states that they are required to follow Treasury Board guidelines when acquiring professional services. The Consultant Guidelines provides the requirements for proposals, approvals, selections, and expenditures. The Guidelines require that when engaging consultants for the express purpose of design or project management of the construction or major renovation of a government facility, water and sewer project, or public road that:

- Departments may use their discretion and not request limited or public proposals when fees and expenses are not estimated to exceed $100,000.

- Departments may suspend the requirement to request public proposals but must request limited proposals when total consultant fees and expenses are estimated to be in range of $100,000 - $150,000.

- Departments must prepare and advertise a public "Request for Proposals" when total consulting fees and expenses are estimated to exceed $150,000.

- If a department deems it impractical to request either type of request for proposal for those projects in excess of $100,000, it must receive specific Treasury Board approval to suspend the request for proposals.

- In situations of multi-phased projects where it is in Government's best interest, a department has discretionary authority to retain the same consultant on all phases without a need to invite proposals for each phase.

We reviewed the listing of consultants used on capital infrastructure projects from April 2011 to March 2013 to assess whether the Authority was adhering to the Consultant Guidelines.

Our review identified the following:

- A consultant was hired to manage an infrastructure project at a cost of $135,000. Authority officials indicated there was only one consultant suitable to provide the service, and therefore did not issue any requests for proposal. However, the Authority did not receive Treasury Board approval as required by the Consultant Guidelines.
A consultant was hired and paid $210,000 to manage an infrastructure project. The consultant was not selected through a request for proposal process as required by the Consultant Guidelines. Furthermore, there was no formal contract signed between the Authority and the consultant. The project was not authorized by the Materials Support Department, as required by Authority policy.

The Authority was not in compliance with the Consultant Guidelines for these contracts.

**Findings**

31. We found instances where contract change orders did not comply with the PTA.

32. We found instances where the Authority was not in compliance with the Guidelines pertaining to the hiring of external consultants.

**Recommendations**

The Authority should:

- comply with the Public Tender Act and Regulations; and
- comply with Authority policy, which requires following Government’s Consultant Guidelines for the Hiring of External Consultants.

**6. Monitoring of Capital Assets**

**Overview**

As at March 31, 2013, the Authority reported capital assets with a cost of $889.4 million (2012 - $859.3 million). Table 14 provides a summary of the capital assets of the Authority.
Table 14

Eastern Regional Health Authority
Capital Assets (original cost)
As at March 31
($000’s)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and improvements</td>
<td>$ 2,810</td>
<td>$ 2,810</td>
</tr>
<tr>
<td>Buildings</td>
<td>351,727</td>
<td>362,377</td>
</tr>
<tr>
<td>Equipment</td>
<td>441,116</td>
<td>459,470</td>
</tr>
<tr>
<td>Equipment under capital lease</td>
<td>15,445</td>
<td>15,445</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>48,221</td>
<td>49,317</td>
</tr>
<tr>
<td><strong>Total Capital Assets</strong></td>
<td><strong>$859,319</strong></td>
<td><strong>$889,419</strong></td>
</tr>
</tbody>
</table>

Source: Eastern Regional Health Authority Audited Financial Statements

The HTDM Department is responsible for the monitoring of biomedical assets. The Infrastructure Support (IFS) Department is responsible for the monitoring of infrastructure assets.

In reviewing the Authority’s monitoring of capital assets we identified issues in the following areas:

A. Policies and Procedures
B. Priority Rankings for Equipment Replacement
C. Monitoring for Efficiency
D. Database Management

6A. Policies and Procedures

Introduction

To ensure adequate control and monitoring of capital assets, the Authority must ensure that policies and procedures are documented and communicated to employees, and that assets are identified and recorded when purchased, periodically inventoried and reconciled to financial records.

We would expect to see well defined policies and procedures within the Authority to ensure proper monitoring of capital assets. Our review of policies and procedures identified issues in the following areas:
Eastern Regional Health Authority

No policy to conduct annual capital asset inventory counts

During the period covered by our review, the Authority did not have a policy to conduct regular capital asset inventory counts. By not having this policy, the Authority was at an increased risk of not detecting lost or stolen capital assets. Subsequent to the period covered by our review, Authority officials approved a policy to conduct annual capital asset inventory counts.

No policy to conduct asset listing reconciliations to the General Ledger

The Authority does have a policy on the disposal of capital assets, which addresses the removal of the items from the asset listings upon disposal. However, the policy does not require a procedure to reconcile capital assets to the general ledger. Regular reconciliations done between the information systems and the general ledger would help ensure the accuracy of both systems by highlighting differences in asset information.

Finding

33. During the period covered by our review, there was no policy to conduct annual capital asset inventory counts. This increased the Authority’s risk of not detecting lost or stolen capital assets. Also, there is no policy to conduct asset listing reconciliations to the general ledger. This would help ensure the accuracy of both systems by highlighting differences in asset information.

6B. Priority Rankings for Equipment Replacement

The HTDM Department assigns a priority ranking to each biomedical capital asset in the database. The priority ranking is meant to indicate the urgency for replacement. For example, a ranking of 5 indicates the biomedical capital asset is in excellent condition, whereas a ranking of 1, indicates a more urgent need for replacement.

Based on our review of 24 items with staff of the HTDM Department, 8 items had inaccurate ratings. According to Authority officials, ratings should have been adjusted down to reflect the deteriorating condition of the equipment, but this had not been done.

As priority ratings are a key factor in determining which biomedical capital assets need replacement, it is necessary to have accurate priority ratings in the database.
Finding

34. The system, which ranks biomedical capital assets for priority replacement, has inaccurate priority rankings. These rankings are a key factor in determining which biomedical assets need to be replaced.

6C. Monitoring for Efficiency

We would expect the HTDM Department to monitor biomedical capital assets for efficiency; that is, review the ongoing maintenance cost of equipment as compared to the equipment replacement cost. This could be done by tracking the maintenance expense incurred on each piece of equipment and comparing this information to equipment replacement cost.

Our review indicated the HTDM Department tracks the number of work orders associated with each biomedical asset. However, Authority officials were unable to provide a listing of maintenance expenses for the biomedical capital assets. Monitoring biomedical capital asset maintenance expenses would give the Authority better information pertaining to the efficiency of the equipment, and better equip the Authority to make decisions regarding the cost/benefit to replacing existing biomedical capital assets.

Finding

35. The Authority was not monitoring maintenance expenses to provide information pertaining to the efficiency of the biomedical capital assets to assist in decisions regarding the replacement of existing equipment.

6D. Database Management

We would expect to see preventative controls built into the HTDM database, such as: segregation of duties between custody of assets, record keeping, and authorization requirements for decommissioning biomedical capital assets. This would help ensure the database is accurate, and help safeguard biomedical assets against loss and theft.
Our review indicated there was no segregation of duties between officials that physically remove biomedical assets, and officials that have access to edit the database.

Furthermore, we found that the biomedical equipment database did not have any authorization requirements to decommission equipment. For example, an official could remove an item from the database without management approval.

Given that there are no segregation of duties between asset removal and record keeping, and there are no authorization requirements on the database, there was an increased risk that the biomedical database contains inaccurate information and assets are not protected against misappropriation.

### Finding

36. There was no segregation of duties between asset removal and record keeping and there are no authorization requirements on the biomedical database. Therefore, there was an increased risk that the database contains inaccurate information and assets are not protected against misappropriation.

### Recommendations

The Authority should:

- develop and implement policies and procedures for the identification, recording, controlling and monitoring of capital assets; and

- ensure asset purchases and disposals are recorded in a capital asset ledger, and assets are periodically inventoried and reconciled to the financial records.
Authority’s Response

Eastern Health was formed on April 1, 2005, bringing together seven previous health and community services boards serving the eastern region of Newfoundland and Labrador. Eastern Health offers the full continuum of health and community services – from prenatal to end-of-life care. With an annual budget of over $1.3 billion, Eastern Health is the largest, integrated health authority in the province serving a regional population of over 300,000 people. In addition to its regional role, Eastern Health is responsible for provincial tertiary level health services, such as paediatrics, and provincial programs, such as cancer care.

Eastern Health welcomes the review by the Auditor General and is actively working to implement changes in accordance with recommendations where appropriate.

In many cases Eastern Health has already changed its practices, policies and oversight. In other cases, more work remains to be done by Eastern Health and in a very few cases more investigation is required.

Eastern Health has provided responses to the Office of the Auditor General’s recommendations as outlined in the sections of its report:

1. Monitoring of Financial Position
2. Compensation and Recruitment
3. Leave and Overtime
4. Internal Controls
5. Tendering of Goods and Services
6. Monitoring of Capital Assets

I. Monitoring of Financial Position

Recommendations
The Authority should:

1i) Revise the Recruitment Authorization policy to require that appropriate funding is available for a position prior to initiating a recruitment action; and

1ii) Comply with Ministerial directives.
Eastern Health’s Response

1i) Eastern Health is embedding position control within its Human Resources Information System (HRIS) that will validate there is funding available for a position prior to a recruitment action beginning. This has been in a pilot phase for the past four months and will be fully implemented in 2014-15.

Since 2010-11 Eastern Health is working to eliminate unfunded positions or to secure permanent funding for those positions. This work continues with our Operational Improvement Plan. Currently, there are 144 unfunded full-time equivalent (FTE) positions within Eastern Health, down from 630 in 2010-11.

1ii) Eastern Health will continue to comply with Ministerial directives.

2. Compensation and Recruitment

Recommendations
The Authority should:
2i) Ensure compensation and recruitment practices are in accordance with Authority and Government policy;
2ii) Maintain adequate documentation in competition files;
2iii) Calculate employee compensation accurately;
2iv) Comply with Government's relocation policy for all employees and ensure that return-in-service agreements are signed and approved; and
2v) Ensure compliance with its mileage reimbursement policy.

Eastern Health’s Response

2i) Eastern Health will ensure its compensation and recruitment processes and policies are comparable to those of the Provincial Government and the Public Service Commission, where appropriate.

2ii) Eastern Health will ensure that appropriate documentation is maintained in competition files.

Of note, Eastern Health recruits for approximately 3,000 positions annually.
2iii) Eastern Health will ensure that it calculates compensation accurately.

Eastern Heath implemented process changes in 2013 to ensure timely classification occurs. Eastern Health acknowledges that it took a significant amount of time for the classification process to conclude. Management positions were benchmarked within the Authority as positions were created. The Authority did not anticipate the changes that occurred when positions were formally classified. In fact, the majority of the 519 positions classified either remained at the same level or were higher than what was proposed by Eastern Health.

2iv) Eastern Health implemented a new relocation policy in September 2012 to align more closely with Provincial Government policy. Eastern Health processes have been tightened to ensure that any return-in-service agreements are signed prior to the individual starting work.

2v) Eastern Health will strive to ensure compliance with its mileage reimbursement policy.

For one of the instances referenced by the Auditor General, the employee is a retired employee who was hired to provide relief for the only permanent employee in this classification at a rural facility. Part of the agreement for the employee to return to work was that Eastern Health covered travel expenses for the employee to and from work. Failure to agree would have jeopardized continued provision of emergency medical services to the community. Recruitment efforts will continue to allow Eastern Health to comply with its mileage reimbursement policy.

3. Leave and Overtime

Recommendations
The Authority should:
3i) Amend policies to ensure consistency of Authority policies as compared to Government policies and collective agreements;

3ii) Monitor and record employee leave and overtime in accordance with Government and Authority policy, and collective agreements; and

3iii) Review policies and practices to identify ways in which to cut associated costs.
Eastern Regional Health Authority

**Eastern Health’s Response**

3i) Eastern Health will ensure there is consistency with its policies as compared to Government policies and collective agreements.

As of January 13, 2014, Eastern Health received direction from the Department of Health and Community Services to eliminate management education differentials for all managers with the exception of nurse managers; eliminate the management education leave policy; and change the management overtime policy to mirror that of the Provincial Government. That will be implemented in 90 days.

3ii) and 3iii)

Eastern Health will work to improve its monitoring and recording of employee leave and overtime.

Eastern Health has recognized for some time the use of sick leave and overtime at Eastern Health has exceeded our counterparts in parts of Newfoundland and Labrador and across Canada. As part of its Operational Improvement Initiatives Eastern Health has tightened controls on the use and approval of these benefits in an effort to reduce costs.

The Human Resources department of Eastern Health conducts both regular and ad-hoc audits of compensation and benefits items. Eastern Health will continue and expand the audits as necessary to ensure employees accrue benefits correctly and supporting documentation is in place.

In addition to leave request forms, both Managers and Directors review and approve an “Attendance Data Hours Check Report” after each pay period. This report breaks down how each employee was paid during each two week period i.e. regular hours, annual leave hours, paid leave hours etc. so management is aware of all leave that was taken during each pay period.

Eastern Health has an Attendance Management Program which was developed to help assist employees to return to work as quickly as possible after a period of sick leave. The Authority will be undergoing a review of the program given the sick leave usage and also pilot new programming in areas experiencing higher than average levels of sick leave.
Oversight for overtime is a responsibility for all managers. Given the 24/7 nature of most units/departments at Eastern Health, overtime will occasionally occur when a manager is not available to preauthorize. Eastern Health will ensure managers follow-up with their employees to verify and validate the use of overtime when it occurs without prior approval.

4. **Internal Controls**

**Recommendations**

The Authority should:

4i) Strengthen internal controls relating to purchasing and payments;
4ii) Complete regular reviews of internal controls to ensure they are operating effectively;
4iii) Create a delegation of authority policy that is consistent with Government;
4iv) Consider the need for an Internal Audit Department; and
4v) Consider the need for an overall review of purchasing.

**Eastern Health’s Response**

Eastern Health will review all recommendations made in this section of the report with its Board Finance Committee and with its auditors. Recommended changes, as appropriate, will be achieved within the next 12-18 months.

Eastern Health’s Board has initiated an organization wide process to assess Enterprise Risk Management. Internal Audit has been identified as a component of that assessment and will be addressed during the process.

5. **Tendering of Goods and Services**

**Recommendations**

The Authority should:

5i) Comply with the Public Tender Act and Regulations; and
5ii) Comply with Authority policy, which requires following Government's Guidelines for the Hiring of External Consultants.

**Eastern Health’s Response**

Eastern Health is committed to following all policies and procedures, best practices and legislation in relation to tendering for Goods and Services. Where Eastern Health has been found to be lacking, Eastern Health will take immediate remedial measures.
6. Monitoring of Capital Assets

Recommendations
The Authority should:
6i) Develop and implement policies and procedures for the identification, recording, controlling and monitoring of capital assets; and
6i) Ensure asset purchases and disposals are recorded in a capital asset ledger, and assets are periodically inventoried and reconciled to the financial records.

Eastern Health’s Response

Eastern Health is in the process of establishing policies and procedures related to the monitoring of capital assets. Many have been implemented and Eastern Health continues to strengthen this area of control within Eastern Health.

In October 2013, Eastern Health implemented an equipment inventory policy requiring that a current medical equipment inventory for each site be kept on file in Eastern Health’s Computerized Maintenance Management System and that inventory be reviewed annually.