



Reports of Standing and Special Committees

**Standing Committee on
Oversight of Government Operations and Public Accounts**

**Report on the Review of the
2009 Reports of the Auditor General of Canada to the
Legislative Assembly of Nunavut on the**

**Financial Management Practices of the
Department of Health and Social Services**

and the

**Follow-up on the 2005 Report to the Legislative Assembly of Nunavut on
the Financial Management Practices of the Government of Nunavut**

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Mr. Speaker, I have the honour today of presenting the report of the Standing Committee on Oversight of Government Operations and Public Accounts on its review of the 2009 reports of the Auditor General of Canada to the Legislative Assembly of Nunavut.

Mr. Speaker, as you will recall, two reports of the Auditor General of Canada were tabled in the House on April 1, 2009. The first of these concerned the financial management practices of the Department of Health and Social Services. The second report was a follow-up to the Auditor General's 2005 report to the Legislative Assembly on the financial management practices of the Government of Nunavut.

Mr. Speaker, since April 1, 1999, every report of the Auditor General to the Legislative Assembly has been referred to a Standing Committee for review. Witnesses from appropriate Government of Nunavut departments, Crown corporations and agencies have been invited to appear in public to account for their responses to the Auditor General's recommendations and the concerns of MLAs.

The Standing Committee held its hearings on the Auditor General's reports from September 29-30, 2009. These hearings were open to the public and news media to observe and were broadcast on local cable television. Witnesses from the Office of the Auditor General, the Department of Finance and the Department of Health and Social Services appeared before the Standing Committee. The transcripts from the Standing Committee's hearings were subsequently posted to the Legislative Assembly's website in both Inuktitut and English.

Mr. Speaker, the Standing Committee wishes to publicly thank the Auditor General for having acted on the motion that was passed by the Legislative Assembly on March 29, 2007. This motion requested the Auditor General to undertake a comprehensive performance audit of the financial management practices of the Department of Health and Social Services.

I would note that this is not the first time that an audit of this nature has been undertaken. In 1991-1992, the Office of the Auditor General undertook a comprehensive audit of the territorial Department of Health at the request of the Legislative Assembly of the Northwest Territories. It is worth recalling that the first chapter in the Auditor General's 1992 report commented that:

“The topic of health in the Northwest Territories is contentious, as demands for more services run into the realities of fiscal restraint ... in particular, we comment on the difficulty in estimating costs, requiring regular requests for Supplementary Estimates, the continuing issue of out-of-territories patient treatment, and unpredictable and hard-to-control medical travel costs.”

Mr. Speaker, the Standing Committee's recent hearings took place seventeen years after these words were written by Ms. Fraser's predecessor.

I would now like to take a moment to list some of the items that were brought forward by the Department of Health and Social Services for approval by the Legislative Assembly in November of last year on the occasion of its consideration of the government's first operations and maintenance supplementary appropriation request for the 2009-2010 fiscal year:

- \$5.148 million for the "increased cost of medical travel";
- \$1.088 million for "increases to contract services provided for lab services";
- \$1.071 million for the "increased cost of providing physicians services";
- \$2.918 million for residential care services "due to an increase in the number of clients requiring services, the complexity of the care and the increased cost of services";
- \$2.566 million for the "increased cost of providing out-of-territory physicians";
- \$1.377 million to "cover the additional expenses for out-of-territory hospital services"; and
- \$540,000 for the "Extended Health Benefits Program, due to both price and volume changes which have led to increased costs to the program."

Mr. Speaker, the items that I just listed added up to over \$14 million in unplanned spending by the department. Since the introduction of the Government of Nunavut's first budget in 1999, almost thirty supplementary appropriation bills have been introduced in the Legislative Assembly containing requests for approval for health-related expenditures. Some of these items have constituted over-expenditures that violate the government's *Financial Administration Act*.

This pattern of over-expenditure has been a cause for significant concern for Members of the Legislative Assembly for many years. By the time that the Legislative Assembly considers the department's requests for supplementary funding, the money has often already been spent. For obvious reasons, Members of the Legislative Assembly would never vote to reject a request to cover the costs of medical evacuations that may have already taken place. The nature of the department's supplementary spending requests are such that it is almost inevitable that they will be approved, given that they frequently deal with matters of sickness and health, life and death.

In the long term, this is not an acceptable situation with respect to other fundamental values and concerns, including sound financial management and accountability. Departmental managers can fall into the habit of poor financial planning, knowing that the Legislative Assembly will have little practical choice other than to rubber-stamp the department's requests.

Indeed, it is particularly troubling to note that during her testimony before the Standing Committee, the Auditor General stated that:

“One difference I would note is that we seem to have said in 1992 that the department returned to get authority for more funds. What we are finding in our report on Nunavut is, in fact, funds are being spent without being authorized in advance, which is, as we all know in our system, a very serious matter that the legislature should be approving those funds before they are being spent, which I think is again an indication that this department doesn't have really good financial information.”

I would, however, comment that the department's requests for approval for supplementary funding for its operations are, in many respects, a symptom of its problems, not the cause.

Mr. Speaker, the Department of Health and Social Services faces a number of ongoing and acute challenges, including high staff turnover, difficulties in filling indeterminate professional positions for nurses and doctors and unforeseeable health situations, such as outbreaks of communicable diseases, which often lead to costly medical evacuations.

Mr. Speaker, the high cost of medical travel can be viewed as one of the most critical challenges facing the Department of Health and Social Services. In recognition of this unavoidable aspect of providing services to Northerners, the federal government has, for the past five years, contributed over \$10 million annually for medical travel as part of the Territorial Health System Sustainability Initiative.

I would like to take a moment to pay tribute to all Members of this House for their recent and unanimous support of the motion that was passed on December 4, 2009. This motion called on the Government of Canada to renew the Territorial Health System Sustainability Initiative, including the Territorial Health Access Fund and the Territorial Medical Travel Fund.

The recent federal budget temporarily extended this funding by two years to “consolidate the progress made in reducing the reliance on outside health care systems and medical travel.” While it is clear that Ottawa heard our call, it is also clear that the cost pressures on our health care system have not been resolved.

Mr. Speaker, the Auditor General's report made a number of important observations and recommendations concerning such issues as the department's budget planning, monitoring, information-collection procedures and transaction processing. The report also discussed the steps that have been taken to address these issues with respect to such matters as working relationship between the Department of Finance and the Department of Health and Social Services.

The Auditor General's report contained seven specific recommendations. The Standing Committee concurs with all of them, as did the government in its responses to the report. These recommendations concerned such essential areas as strategic planning, budget management, payment processing and collections.

The Standing Committee notes that that the Department of Health and Social Services, in cooperation with the Department of Finance, has made a number of significant efforts to improve financial management procedures and processes. For example, Members of the Standing Committee were pleased to note that witnesses indicated that a number of problems with respect to processing payments to suppliers have been corrected or significantly improved.

Mr. Speaker, during her appearance before the Standing Committee, the Auditor General made an important observation when she stated that:

“On the question of costs increasing, I think that's going to be a reality going forward with health costs. I think most people would predict that health costs are going to continue to rise ...”

The Standing Committee fully recognizes that this is an issue facing all jurisdictions in the country. Nonetheless, the fact that an issue is national in scope must not be used as a justification for inaction or an excuse for poor management.

Departmental witnesses also noted that growth factors within our population are significant. For example, testimony to the Standing Committee during its hearings indicated that health services usage grew at a rate of approximately 7.7% in 2007-2008.

As recently as last week, testimony provided by departmental witnesses to the Committee of the Whole on the occasion of its consideration of the department's proposed 2010-2011 main estimates noted that the department's costs are being driven up by increases in referrals to southern facilities. Proposed budgets for the Department of Health and Services must explicitly take these types of factors into account if they are to be realistic.

Mr. Speaker, a number of themes and issues emerged during the Standing Committee's review of the Auditor General's report. Accordingly, the Standing

Committee recommends that the Department of Health and Social Services address the following five critical areas for action:

1. The importance of developing realistic plans that are appropriately supported by relevant documentation, analyses of expenditure trends and projections, and which include mechanisms to monitor and evaluate progress towards financial targets or forecasts. This applies to capital plans, work plans and budget plans throughout all divisions of the department. Members recommend that the Department of Health and Social Services works towards strengthening its planning processes.
2. The importance of setting short- and long-term goals within a comprehensive and well-defined model for the delivery of health services across Nunavut that is supported by a strategic plan. At the service delivery level, the Standing Committee also stresses the importance of providing clear guidance and support to managers who have obligations to develop plans and allocate resources to meet the stated objectives of the department. The high rate of staff turnover adversely affects corporate memory and contributes to the lack of awareness of departmental priorities in this area. Greater efforts should be made to orientate and direct new managers. Although other human resources issues also have an impact on budgets and expenditures, the department has devoted considerable effort to addressing these situations, such as the development of its Nursing Recruitment and Retention Strategy. Health service delivery models should take these types of challenges into account.
3. The importance of undertaking realistic budget development exercises and producing realistic, timely and accurate variance reports. According to the government's own employment statistics, the department had almost 300 vacancies as of September 30, 2009. The department has a total of approximately 990 positions. The department must address the practice of budgeting as though all of its positions were actually filled, only to re-allocate salary dollars at a later point in the fiscal year to other areas, such as expenses for consultants and contractors to fulfill the functions of the vacant positions. Budget adjustments of this nature should be made during the planning process instead of at a time when spending is well underway. The lack of realistic expenditure targets leads to unrealistic expenditures, which then exceed approved amounts. The department's unacceptable practice of spending money that has not been approved by the Legislative Assembly must end.
4. The importance of collecting accurate and detailed information for the purposes of billing, payment collection and trend analysis. Placing emphasis on compiling accurate and adequate levels of detail that can be used to complete transactions in a timely manner is important. Although the department has initiated improvements in this area, such as the development

of training programs and procedures manuals, high staff turnover requires constant attention to this issue. In addition, the department's new procedures manuals could be further improved to provide stronger guidance for managers in situations where significant variance has been noted or in how to address specific problems.

5. The importance of providing ongoing, formal reports to the Legislative Assembly on what specific actions are being taken to improve the financial management practices of the department and an accounting of how their effectiveness is being measured. The Standing Committee recommends that the next report on the status of the department's action plan be tabled in the Legislative Assembly on the first day of the fall 2010 sitting of the House.

Mr. Speaker, I will conclude the first part of the Standing Committee's report by noting that the Legislative Assembly recently considered the proposed 2010-2011 main estimates for the Department of Health and Social Services. Although Members of the Legislative Assembly continue to have serious questions as to whether the department's proposed budget for the coming fiscal year is realistic, the improved efforts on the part of departmental witnesses to be frank and forthcoming with Members is welcomed.

Given the ongoing pressures facing the department and the uncertainty of future levels of federal support in respect to its fiduciary obligations to the North, it is more important than ever that the department's financial management practices be strengthened.

Mr. Speaker, I will now turn to the Standing Committee's review of the Auditor General's follow-up report on her 2005 report to the Legislative Assembly on the financial management practices of the Government of Nunavut.

The Standing Committee applauds the Auditor General for having undertaken this important follow-up work, as it allowed for Members of the Legislative Assembly to measure the government's progress in addressing the concerns and recommendations that were made in her 2005 report. I would like to take this opportunity to express the Committee's enthusiasm for reviewing future reports of this nature, including, for example, a follow-up report on the status of the government's actions to address the recommendations contained in the Auditor General's 2007 report on the Nunavut Business Credit Corporation.

The Standing Committee noted with considerable concern that the Auditor General's key finding in her follow-up report was that:

"The Government of Nunavut has made unsatisfactory progress since 2005 toward strengthening its financial management and controls. Despite the Government's efforts at seeking qualified staff, initiating the update of financial directives, and engaging the services of consultants, we found

little improvement in overall financial management. Departments are still spending money before the Legislative Assembly has approved the spending.”

The Standing Committee’s hearings provided the government with the opportunity to account for its actions to date in addressing the Auditor General’s concerns and recommendations. It is noteworthy that the Department of Finance’s 2010-2013 business plan indicates that the government’s action plan to respond to the Auditor General’s report was “proposed, completed and then discussed at the Standing Committee in the fall of 2009. This will be implemented during the next three fiscal years.”

Mr. Speaker, the Standing Committee will hold the government accountable for its progress in this area. A basic measure of progress will be whether or not the government is able to improve its compliance with its own rules. For example, the Auditor General’s report noted that:

“Overall we found that, on average, 19 percent of the transactions we tested contained authority violations.”

Mr. Speaker, the Auditor General’s report contained five specific recommendations. The Standing Committee concurs with all of them, as did the government in its responses to the report.

I would, however, raise one cautionary note with respect to the Auditor General’s recommendation that the government should “continue contracting outside parties to perform the less routine, technical functions, such as the preparation of the financial statements, until qualified resources are in place.” Although the Standing Committee does recognize that the government faces an acute shortage of accountants and other qualified financial professionals, it is important to be mindful that Members have raised serious concerns with respect to the government’s use of consultants and contractors.

The Standing Committee’s position with respect to this specific recommendation of the Auditor General should in no way be interpreted by the government as constituting an endorsement of its record with respect to engaging consultants and contractors, especially in such areas as policy development.

Mr. Speaker, a key observation in the Auditor General’s report was that:

“In our view, the underlying cause of the Government’s lack of progress on our previous recommendations is its limited human resource capacity. Simply put, there are not enough qualified financial staff to properly carry out basic financial functions.”

The Standing Committee's hearings provided witnesses from the Government of Nunavut with the opportunity to account for their efforts to address human resources capacity issues.

I would also note that the Department of Finance's proposed 2010-2013 business plan indicates that two of its goals for the 2010-2011 fiscal year are to "promote training and development across all financial groups in the GN, including the administrative, technical and professional levels" and to "establish and implement a professional training regime to enhance the financial expertise of the territory at all levels."

The hearings also provided a valuable opportunity to engage in a broader dialogue with respect to such issues as the importance of clearly defining and distinguishing between the concepts of education and training. Mr. Speaker, I would like to take this opportunity to note that the Standing Committee applauds the cooperation that is being undertaken by the Office of the Auditor General and the Department of Finance to undertake staff secondments. This is a praiseworthy initiative.

I would also like to take this opportunity to note that the Standing Committee looks forward to considering the Auditor General's 2010 *Report to the Legislative Assembly on Human Resources Capacity in the Government of Nunavut*. I am confident that these hearings will provide Members with the opportunity to explore these issues in detail and I anticipate that the Standing Committee will present detailed recommendations concerning human resources capacity and development issues following its hearings. The Standing Committee has also noted that the government announced on March 11, 2010, that the position of Deputy Minister of Human Resources will "be filled through a competitive executive search process over the coming months."

Mr. Speaker, a number of themes and issues emerged during the Standing Committee's review of the Auditor General's report. Accordingly, the Standing Committee recommends that the Department of Finance address the following five critical areas for action:

1. The importance of providing ongoing, formal reports to the Legislative Assembly on what specific actions are being taken to improve the financial management practices of the government and an accounting of how their effectiveness is being measured. The Standing Committee recommends that the next report on the status of its action plan be tabled in the Legislative Assembly on the first day of the fall 2010 sitting of the House. The Standing Committee further recommends that the report account for what actions the government has taken in respect to such initiatives as the use of collections agencies to collect monies owing to the government, including those in relation to loans issued by the Nunavut Business Credit Corporation. The Standing Committee further recommends that the report provide an

accounting of the government's actual expenditures, actions and results to date in relation to the \$23 million that the 2007 federal budget announced would be provided to the Government of Nunavut to "strengthen its financial management practices and systems."

2. The importance of ensuring that the Public Agencies Council issues and enforces direction to Crown corporations and agencies to provide their annual corporate plans for tabling in the Legislative Assembly at the same time that the government's main estimates are introduced. This direction is particularly required in the case of the Qulliq Energy Corporation, the Nunavut Business Credit Corporation and the Nunavut Development Corporation. The Standing Committee notes that the plans for Nunavut Arctic College and the Nunavut Housing Corporation are presently included as part of the government's annual business plan document.
3. The importance of ensuring that the Public Agencies Council issues and enforces direction to all Crown corporations and agencies to provide annual reports on their procurement, contracting and leasing activities for tabling in the Legislative Assembly. The Standing Committee notes that on September 18, 2008, the Government of Nunavut's response to a report by a Committee of the previous Legislative Assembly was tabled in the House. This document indicated that Crown corporations would be directed to "provide information for tabling in the Legislative Assembly on their procurement, contracting and leasing activities." However, the government has failed to act on this commitment.
4. The importance of ensuring that Memorandums of Understanding with all Crown corporations and agencies regarding governance, roles and responsibilities are tabled in the Legislative Assembly on the first day of the fall 2010 sitting of the House.
5. The importance of ensuring that the government fully complies with the provisions of Financial Administration Manual Directive 302, which requires the Chairperson of the Financial Management Board to provide the Standing Committee, on a quarterly basis, "with a report, by department, that identifies all capital adjustments made in that quarter." To date, these reports have not been provided on a regular basis and it is important that the government comply with its own rules.

Mr. Speaker, I will conclude by noting that the Standing Committee, pursuant to Rule 91(5), formally requests that the government table a comprehensive response to this report within 120 days.

Mr. Speaker, I move that the report of the Standing Committee be received by the House. Thank you, Mr. Speaker.