



Report on the Investigation of Executive Travel
and Hospitality and Other Expenses

Alberta Health Services

December 12, 2012

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1. Introduction

1.1 Background and Retainer of Ernst & Young

Alberta Health Services (AHS) received a request to release the expenses of the former Executive Vice President and Chief Financial Officer, Allaudin Merali, of the former entity known as the Capital Health Authority (CH), for the calendar years 2005 to 2008 inclusive, under the Freedom of Information and Protection of Privacy Act (FOIP). This information was released by AHS on July 27, 2012.

In August 2012, the Minister of Alberta Health directed AHS to engage an external audit firm to conduct an independent forensic audit of Mr. Merali's expenses for 2005-2008 for compliance with policy. As a result of this direction, AHS engaged Ernst & Young to conduct an investigation of the Executive Travel and Hospitality Expenses and Other Expenses of Mr. Merali. This investigation was to determine if the expenses complied with the policies that existed at the time.

1.2 Scope of work

Based on our discussions with and direction from AHS management, the specific objectives of the investigation were to examine:

- ▶ Travel, hospitality and other expenses of Mr. Merali, for the years 2005 through 2008 inclusive; and
- ▶ To determine if such expenses complied with the policies that existed at the time the expense was incurred.

1.3 Scope Limitations

We have not attempted to audit the records of AHS or CH and have relied on the information provided to us from AHS management in determining the expenses and payments that were included in our investigation. As a result we are unable to comment on the completeness of the expenses examined.

During our work we became aware of the following expenses that were not part of our investigation:

- ▶ Mobile phones of the executive of CH were paid for directly by CH. These expenses were not within the scope of our investigation.
- ▶ CH paid \$84,030 for four sets of corporate flight passes. AHS staff was unable to locate any detailed history of who used the individual flights for three of these sets of flight passes which totaled \$62,610. AHS has requested this information from its Travel Agent. At the time of this report this information had not been received.

- ▶ Certain CH expenses were paid using the purchase card assigned to CH's Executive Director. We understand that the majority of these expenses relate to the Board and the Executives of CH. The supporting documentation for a large number of these expenses does not detail to whom the expense relates. As a result, if some of these expenses were paid on behalf of Mr. Merali using this card, they were not included in our investigation.

Additionally, in certain cases, we noted documentation that would have been relevant to this investigation; however, AHS staff was unable to locate copies of this documentation for us to examine. This included:

- ▶ AHS staff was unable to locate the version of the travel expenses policy for the period July 29, 2005 to February 23, 2006. During this period \$45,672 of travel expenses were incurred. As no policy was available we are unable to assess these expenses against policy. Our observations below do not include these expenses.
- ▶ We identified a number of flights for Mr. Merali, that were expensed and paid for by CH, that were cancelled. No re-imbursements or credits were provided on CH's billings or in Mr. Merali's expenses for the majority of these cancellations. We understand that credits associated with the cancelled flights would have been held by the associated airline for future use. AHS was unable to locate any information detailing if and when these credits were used for CH's benefit. AHS requested this information from its Travel Agent. This information was not received as of the date of this report.
- ▶ AHS was unable to locate amongst CH's archived records all of the supporting documentation for Mr. Merali's expenses. During the course of our investigation a large amount of this documentation was provided to AHS by Mr. Merali. We understand that this information was held by Mr. Merali after his departure from CH in 2008. Even with the information provided by Mr. Merali there remain certain expenses for which the supporting documentation has not been provided. It is apparent that the documentation provided to us for this investigation, by AHS staff or subsequently made available by Mr. Merali, may not be the complete set of records that was available at the time that the expenses were approved. Expenses for which supporting documentation has not been located or provided are highlighted in our report.

We understand through discussions with AHS management that they believe they have undertaken a thorough search of CH records to identify all relevant information and documentation for investigation and have provided such to Ernst & Young.

As part of this investigation, we were not asked to determine if the events attended and the travel undertaken was to the benefit of CH.

1.4 Restrictions on Use of this Report

Although this report has been prepared solely for the use of AHS, Ernst & Young understands that AHS will release this report to the general public. Ernst & Young assumes no responsibility or liability for losses occasioned to any party as a result of circulation, publication, reproduction or use of this report.

This report is based on our review of the documents available to date as described in this report. In the event further documents or other information become available that could impact our findings, we reserve the right to review such records and reconsider and amend the findings set out in this report.

2. Executive Summary

2.1 CH's expense policies

We have a number of observations in relation to the CH policies that were applicable to Mr. Merali. The observations include:

- ▶ Actual expenses for meals were allowed under the policies. The policies did not set any limits on the amount per person that could be spent or type of expenses that could be incurred (i.e. Alcohol).
- ▶ CH's policies on hospitality expenses allowed for a wide range of activities. These policies did not put any limits on the types of expenses that could be incurred and did not require pre-approval. Further the policies did not require that the reason for the function or its resulting outcome, if any, be documented.
- ▶ The policies did not place any limits on the types of accommodation that could be used whilst travelling.
- ▶ The travel policy is not clear on what must be documented in order to obtain pre-approval for travel. As a result, the majority of the travel approvals examined in our investigation did not include any cost estimates for the travel requested.
- ▶ The policies allow for the approver to sign off on expense reports for which supporting documentation is missing as long as the approver initials the individual items. This requirement was less restrictive to the President who was allowed to approve expenses for which the supporting documentation was missing, simply by signing the expense report. The policy does not require that it be documented that the supporting documentation was missing at the time of approval nor does it require justification for why the documentation was missing.
- ▶ The policies do not allow for individuals to sign off on their own expenses and required a higher level of authority to sign off the expenses in these cases.

Our observations on CH's policies are discussed further in Section 5 of this report.

2.2 Mr. Merali's Expenses

We have identified a total of \$368,750 of expenses that were paid to or on behalf of Mr. Merali by CH. AHS staff has provided us with documentation relating to \$361,600 of these expenses, which we have examined as part of this investigation.

2.2.1 AHS's press release of August 1, 2012

In AHS's press release of August 1, 2012, AHS stated that they identified expenses totaling \$346,208 relating to Mr. Merali. We have reviewed the supporting schedules AHS used to determine the expenses to be disclosed in relation to the FOIP request and noted that the total expenses AHS had actually identified at that time totaled \$311,120. We have been unable to determine how the original amount of \$346,208 reported in the press release was determined by AHS.

Through the course of our investigation we identified an additional \$57,630 of expenses which were paid to or on behalf of Mr. Merali, resulting in the total of \$368,750 of expenses identified by us.

A detailed reconciliation of these amounts is provided in Sections 4.1 to 4.3 of this report.

2.3 Categorization of Mr. Merali's Expenses

| | Compliant | No Policy Available | Approval Compliant | Non-Compliant | Indeterminable | Total |
|---------------------|----------------|---------------------|--------------------|---------------|----------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Local Expenses | 26,915 | 16,947 | 29,446 | 1,754 | - | 75,062 |
| Travel Expenses | 84,725 | 45,672 | 73,454 | 1,556 | 7,762 | 213,169 |
| Automobile Expenses | 69,019 | 240 | 402 | 2,303 | 1,405 | 73,369 |
| | <u>180,659</u> | <u>62,859</u> | <u>103,302</u> | <u>5,613</u> | <u>9,167</u> | <u>361,600</u> |
| | <u>49.96%</u> | <u>17.38%</u> | <u>28.57%</u> | <u>1.55%</u> | <u>2.54%</u> | <u>100.00%</u> |

As detailed in the table above, we have categorized the \$361,600 of expenses, for which documentation has been provided to us, as follows:

- ▶ \$180,659 as Compliant. Expenses were put in this category if both the nature of and the approval of the expense were in accordance with the applicable CH policy.
- ▶ \$62,859 as No policy available. Expenses were put in this category if AHS was unable to locate: (i) a policy which specifically dealt with the type of expense claimed or (ii) the version of the policy that was applicable for the time period during which the expense was incurred.
- ▶ \$103,302 as Approval Compliant. Expenses were placed this category if the supporting documentation, as required by CH's policies was not provided to us (i.e. not located by AHS or Mr. Merali), but the CH policies in effect at the time allowed for the approval of expenses for which supporting documentation was not provided.

- ▶ \$5,613 as Non-compliant. Expenses were placed in this category if either the nature of or the approval of the expense was not in accordance with the applicable policy.
- ▶ \$9,167 as Indeterminable. Expenses were placed in this category if we were unable to determine if the expense was compliant or not compliant with the applicable policy.

We note that of the expenses we examined, 90% were approved by the CEO or her designate (the Executive Director) and 1% was approved by Mr. Merali. The remaining 9% percent was approved by other staff members within CH's accounting group.

2.3.1 No Policy Available

We have identified \$62,859 of expenses for which no policy was either in effect at the time the expense was incurred or the version that was in effect at the time the expense was incurred could not be located by AHS. As a result there was no policy against which we could assess these expenses. This includes:

- ▶ \$16,947 of local expenses that occurred prior to effective date of the policy which provided guidance on those types of expenditures. We are not aware of any policy which was in effect prior to September 19, 2005.
- ▶ \$45,672 of travel expenses incurred during a period for which AHS has not been able to locate the version of the Travel Expenses policy that was applicable. If we had assessed these expenses against the Travel Expenses policies that existed prior to and after this time period we would have categorized \$26,881 as Compliant, \$18,262 as Approval Compliant and \$529 as Indeterminable.
- ▶ \$240 of automobile expenses incurred prior to September 19, 2005. We have not been provided a policy against which we can assess these expenses.

2.3.2 Approval Compliant Expenses

From September 19, 2005 to the end of the period of investigation, CH's policies allowed for the approver to approve expenses for which the supporting documentation was not provided, as long as the approver initialed the individual expenses which were missing support. CH's policies further allowed the CEO to approve such expenses without initialing the individual expense items. We identified \$103,302 of expenses which were approved by the CEO or her designate, for which the supporting documentation was not provided to us. As a result we have categorized all of these expenses as Approval Compliant as they were approved in accordance with CH's policies.

These expenses include:

- ▶ Expenses for which we were provided Mr. Merali's Diner's Card statement; however the individual supporting receipts were not provided to us. In discussions with CH's former Executive Director and former CEO they both stated that they did not recall ever signing off expense reports for which the supporting documentation was not provided. Except where specifically noted on the expense report, we are unable to confirm whether this information was available at the time the expenses were

approved and has since been misplaced or if the expenses were approved based on the Diner's Card statement.

- ▶ We have also included meal expenses for which the detailed receipt was provided but the details of the attendees were not documented on the receipt or in the expense report as required by policy. In discussions with Mr. Merali and the former CEO, both stated that in some cases when Mr. Merali would meet with public officials, they would choose not to document the attendees in the records of CH.
- ▶ Travel expenses for which the travel pre-approval, as required by CH's policies, was not located.
- ▶ Business class flights for which evidence of prior approval was not located.

2.3.3 Non-Compliant Expenses

We have identified a total of \$5,613 of expenses which do not appear to be compliant with CH's policies. These include:

- ▶ Credit card fees of \$462 and credit card interest of \$211.
- ▶ Expenses approved by Mr. Merali. CH's Delegation of Authority Directive did not allow an individual to approve their own expenses and normally required a person with a higher signing authority to approve them. CH was unable to locate the applicable version of this Directive that was effective prior to December 21, 2005. As a result we are unable to determine if the full \$4,382 of expenses approved by Mr. Merali are non-compliant. The \$2,043 of expenses approved by Mr. Merali after December 20, 2005 have been categorized as Non-Compliant. Mr. Merali approved \$2,339 of expenses prior to December 21, 2005; these have been included in the amounts categorized as No Policy.
- ▶ \$594 for a flight that was expensed for Mr. Merali's wife. Mr. Merali stated this was an error. He referred us to an additional flight on the same Diner's Club statement that he paid for personally. Mr. Merali indicated that they thought the charge they paid for personally was for Ms. Merali and that the \$594 was for himself. As a result he stated that he paid for a flight personally that should have been charged back to CH, and in error charged CH for the flight for Ms. Merali. However, the documentation provided does not support Mr. Merali's claim. As a result we have categorized this flight as non-compliant.
- ▶ \$2,303 paid to install a blue tooth phone kit in Mr. Merali's car.

2.3.4 Indeterminable Expenses

We have identified \$9,167 of indeterminable expenses as follows:

- ▶ \$1,405 of mileage claims made by Mr. Merali during a period in which he was also receiving a monthly allowance for his vehicle. We have not been provided with any policy that allows for claiming of mileage claims while receiving a monthly vehicle allowance. Mr. Merali directed us to a policy which allowed him to claim all of his vehicle expenses, however, there is no indication that this policy was applicable to Mr. Merali at the time the mileage claims were made. As a result, we have categorized these amounts as indeterminable.
- ▶ \$3,420 of expenses that were approved prior to September 19, 2005 for which the supporting documentation required under CH's policies was not provided to us. We are unable to determine if the documentation was not provided at the time of approval or was provided and has since been misplaced.
- ▶ Travel expenses of \$4,342 for which evidence of prior approval was not provided to us. These expenses occurred prior to September 19, 2005 during which time there was no policy in place that allowed for the sign off of expenses which did not have proper supporting documentation. We are unable to determine if the pre-approvals required were ever obtained or have since been misplaced.

Our observations on Mr. Merali's expenses are further discussed in Section 4.7 of this report.

3. Nature and extent of work performed

3.1 Documentation and information relied upon

In performing this investigation we have relied on the following:

- ▶ Various CH Policies (See Schedule 1).
- ▶ Employment agreements of Mr. Merali dated January 9, 1997, August 1, 2000 and November 1, 2007.
- ▶ Transaction listings provided from AHS's accounting system detailing payments made to:
 - ▶ Mr. Merali for expense reports he submitted.
 - ▶ Mr. Merali for his automobile allowance.
 - ▶ Two Diner's Club International Accounts, which we understand were held by Mr. Merali.
 - ▶ Third parties, including other employees and vendors, for expenses incurred by and relating to Mr. Merali.
- ▶ Detailed supporting documentation provided by AHS staff in relation to the above payments, these included copies of payment requisition forms, Travel & Employee Expense Claim forms, copies of receipts and supporting documentation for individual amounts claimed and / or paid.
- ▶ Travel Approval Form / Request for Advances that were completed in relation to Mr. Merali's travel.
- ▶ Documentation supporting payments made to a TD VISA which was a corporate purchase card held by CH's Executive Director.
- ▶ Schedules provided by Jim Patterson Leasing regarding items charged to a fleet card which was assigned to Mr. Merali's vehicle.
- ▶ Schedules detailing flights booked by American Express Travel and paid for directly by CH for the period March 2005 to April 2006.
- ▶ Schedules detailing flights booked by Marlin Travel and paid for directly by CH for the period May 2006 to June 2008.
- ▶ Detailed listings provided by Air Canada in relation to the use of a corporate flight pass by various members of CH staff.
- ▶ Information provided during interviews and discussions with various AHS staff, including former employees of CH.

- ▶ Two banker boxes of information provided by Mr. Merali to AHS, containing supporting documentation for his expenses that he had within his possession.
- ▶ Information provided by Mr. Merali during an interview on November 1, 2012 and through subsequent follow up correspondence.
- ▶ Information provided by the former Executive Director of CH, during an interview on November 12, 2012.
- ▶ Information provided by the former President and CEO of CH, during an interview on November 13, 2012.

3.2 Our approach

In completing this investigation we performed the following tasks:

- ▶ Interviewed AHS staff, some of whom were former employees of CH, to understand the nature of the expenses incurred by Mr. Merali whilst at CH.
- ▶ Reviewed the information released by AHS in response to the FOIP request to further understand the expenses incurred.
- ▶ Obtained from AHS staff listings of payments from the CH electronic accounting data in relation to the types of expenses identified.
- ▶ Obtained from AHS staff the supporting documentation that was available in CH's records for the payments included in the listings provided.
- ▶ Obtained from AHS service providers additional supporting documentation in relation to payments made for flights and automobile expenses where available.
- ▶ Examined the supporting documentation provided by AHS and its service providers to understand the nature of the expenses and the types of documentation that was available in support of these payments.
- ▶ Examined additional supporting documentation provided by Mr. Merali to AHS in relation to the expenses he incurred.
- ▶ Interviewed AHS staff, including some who were former employees of CH, to understand the applicable policies that were in place at the time the expenses were incurred and to obtain copies of those policies.
- ▶ Reviewed the policies and assessed the various expenses against those policies.
- ▶ Interviewed former employees of CH including the former Executive Director, the former CEO and Mr. Merali.

4. Detailed Findings

In the Sections that follow we discuss the detailed findings from our investigation.

4.1 Total Identified Expenses Relating to Mr. Merali

We have identified expenses totaling \$368,750 which were either paid directly to or on behalf of Mr. Merali by CH, hereafter referred to as Mr. Merali's expenses. These expenses include:

| | |
|---|-------------------|
| Expenses claimed by and paid to Mr. Merali | \$ 44,065 |
| Expenses claimed by Mr. Merali and paid to his Diners Club card | \$ 231,384 |
| Expenses paid to other third party vendors on Mr. Merali's behalf | \$ 46,501 |
| Automobile Allowance paid directly to Mr. Merali | \$ 46,800 |
| Total | \$ 368,750 |

4.2 Amount reported by AHS

In AHS's press release of August 1, 2012, AHS stated that they had released expenses totaling \$346,208 in relation to a request they received under FOIP for expenses claimed by Mr. Merali. We have reviewed the supporting schedules AHS used to determine the expenses to be disclosed in relation to the FOIP request and note that those schedules total \$311,120. We have been unable to determine how AHS calculated the amount of \$346,208 included in the press release.

Through the course of our investigation we identified a number of additional expenses which were paid to or on behalf of Mr. Merali that relate to expenses he incurred. These expenses were not identified in AHS's original search for expenses related to Mr. Merali. The table below summarizes these amounts:

| | |
|--|-------------------|
| Total expenses identified at the time of AHS's press release | \$ 311,120 |
| Additional expenses identified: | |
| Amounts paid by CH on the fleet card assigned to Mr. Merali's automobile | \$ 8,765 |
| Automobile allowance paid to Mr. Merali | \$ 46,800 |
| Amounts paid on Mr. Merali's behalf | \$ 303 |
| Flights purchased directly by CH on Mr. Merali's behalf | \$ 13,733 |
| Amounts repaid to AHS by Mr. Merali | \$ (7,013) |
| Amounts included in FOIP release which were corporate expenses | \$ (910) |
| Reimbursement of flight from third party | \$ (4,048) |
| Total | \$ 368,750 |

4.3 Expenses examined by Ernst & Young

The \$368,750 of expenses was identified through discussions with management, review of general ledger data, and data provided by CH's service providers. In some cases, although a payment was documented in the records of CH, AHS staff were unable to locate the documentation, original expense claim or vendor invoice, which supported the payment. Mr.

Merali was able to provide us with support for some of these missing payments. As detailed in Schedule 2, we have identified a net difference of \$7,150 between the total payments we have identified and the documentary support provided to us. As a result the expenses examined by Ernst & Young for this investigation totaled \$361,600.

4.4 Breakdown of Mr. Merali’s Expenses

We have grouped Mr. Merali’s expenses into three groupings as follows:

- ▶ \$75,062 of local expenses
- ▶ \$213,169 of travel expenses, which are those expenses related to any travel outside of the Edmonton area, and
- ▶ \$73,369 of automobile related expenses.

In the tables provided below, we detail the types of expenses included in each grouping.

| Local Expenses | \$ | Travel Expenses | \$ |
|-------------------------------|----------------------|------------------------|-----------------------|
| Events / Registration | 3,684 | Events Registration | 26,175 |
| Food & Beverage | 55,282 | Flights | 103,580 |
| Memberships | 12,469 | Food & Beverage | 16,741 |
| Local Transport | 2,004 | Hotel | 50,944 |
| Office Supplies | 354 | Taxis | 12,918 |
| Interest and Credit Card Fees | 1,105 | Telephone | 1,627 |
| Other Expenses | <u>164</u> | Other Expenses | <u>1,184</u> |
| Total | <u>75,062</u> | Total | <u>213,169</u> |

| Automobile Expenses | \$ |
|----------------------------------|----------------------|
| Monthly Allowance | 46,800 |
| Fuel | 8,081 |
| Car Washes | 1,597 |
| Fleet Card Fee | 196 |
| Repairs and Maintenance | 10,346 |
| Insurance | 3,299 |
| Mileage | 1,405 |
| Parking | 1,457 |
| Registration | <u>188</u> |
| Total Automobile Expenses | <u>73,369</u> |

4.5 Mr. Merali's Role at CH

We understand through discussions with Mr. Merali and the former CEO of CH that Mr. Merali's role required extensive travel and hospitality initiatives which drove the majority of the expenses he incurred. His role included:

- ▶ Meeting with potential suppliers of medical and information technology equipment. This at times required Mr. Merali to travel to various companies' head offices which were located in various countries around the world.
- ▶ Meeting with business partners and medical partners such as universities.
- ▶ Travelling at the request of the Alberta Government.
- ▶ Attending events and entertaining various partners, donors, and government officials in an effort to obtain continued funding for CH. Some of these events required travel outside of Edmonton.

Mr. Merali and the former CEO both stated to us that due to the personal situation of the former CEO which did not allow her to travel internationally, Mr. Merali was required to travel in her place.

4.6 Approval of Mr. Merali's Expenses

The majority of Mr. Merali's expenses were approved by the office of the CEO and President. We understand through discussions with Mr. Merali and the former CEO that meetings were held on a regular basis to discuss the calendars of the executives, which included discussions on upcoming travel, meetings, hospitality activities etc. We understand that during these meetings the CEO, CH's Executive Director, Mr. Merali and other members of the executive office would be present.

When Mr. Merali would submit his expenses to the executive office they would be reviewed by the Executive Director and the CEO and then approved. In most cases the expenses were signed by the CEO, however, when the CEO was unavailable the Executive Director would sign Mr. Merali's expenses.

Under CH policies a delegation of authority was required for this to occur. AHS staff is unable to locate any record of a delegation of authority to the Executive Director from the CEO. Both the former Executive Director and the former CEO have confirmed that a written delegation of authority did take place.

4.7 Categorization of Expenses

We categorized Mr. Merali's expenses into the following five categories:

- ▶ Compliant - Both the nature of and the approval of the expense were in accordance with the applicable policy.
- ▶ No policy available - There was no policy which specifically dealt with the type of expense or the version of the policy that was applicable for the time period during which the expense was incurred could not be located by AHS.
- ▶ Approval Compliant - Those expenses for which insufficient supporting documentation was provided to us to examine (i.e. documentation was not located by AHS or Mr. Merali), but the applicable policy allowed for the approval of expenses for which support was not provided with the expense claim.
- ▶ Non-compliant - Either the nature of or the approval of the expense was not in accordance with the applicable policy.
- ▶ Indeterminable - We are unable to determine if the expense was compliant or not compliant with the applicable policy.

As part of our assessment of the expenses we did not attempt to assess the reasonability of the expenses nor did we attempt to determine if there was a benefit to CH.

Based on our examination we have categorized Mr. Merali's expenses as follows:

| | Compliant | No Policy Available | Approval Compliant | Non-Compliant | Indeterminable | Total |
|---------------------|----------------|---------------------|--------------------|---------------|----------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Local Expenses | 26,915 | 16,947 | 29,446 | 1,754 | - | 75,062 |
| Travel Expenses | 84,725 | 45,672 | 73,454 | 1,556 | 7,762 | 213,169 |
| Automobile Expenses | 69,019 | 240 | 402 | 2,303 | 1,405 | 73,369 |
| | <u>180,659</u> | <u>62,859</u> | <u>103,302</u> | <u>5,613</u> | <u>9,167</u> | <u>361,600</u> |

4.7.1 Local Expenses

Based on our examination of the supporting documentation provided to us for Mr. Merali's local expenses we have categorized the expenses as follows:

| | Compliant | No Policy Available | Approval Compliant | Non-Compliant | Indeterminable | Total |
|-------------------------------|---------------|---------------------|--------------------|---------------|----------------|---------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Events / Registration | 1,096 | 650 | 1,898 | 40 | - | 3,684 |
| Food & Beverage | 12,764 | 15,154 | 27,364 | - | - | 55,282 |
| Memberships | 11,213 | 280 | - | 976 | - | 12,469 |
| Local Transport | 1,513 | 371 | 120 | - | - | 2,004 |
| Office Supplies | 230 | 60 | 64 | - | - | 354 |
| Interest and Credit Card Fees | - | 432 | - | 673 | - | 1,105 |
| Other Expenses | 99 | - | - | 65 | - | 164 |
| Total | 26,915 | 16,947 | 29,446 | 1,754 | - | 75,062 |

4.7.1.1 No Policy Available

The Expense Policy was effective September 19, 2005, AHS staff is unable to locate any policy that dealt with employee expenses incurred whilst in town that would be applicable to these expenses prior to this date. As a result we are unable to assess the following expenses and have categorized them as No Policy Available:

| | \$ |
|-------------------------------|---------------|
| Events / Registration | 650 |
| Food & Beverage | 15,154 |
| Memberships | 280 |
| Local Transport | 371 |
| Office Supplies | 60 |
| Interest and Credit Card Fees | 432 |
| Other Expenses | - |
| Total | 16,947 |

We note that of these expenses \$14,254 was approved by the CEO, \$917 by the Executive Director, \$1,439 by Mr. Merali, and \$337 by other individuals.

4.7.1.2 Approval Compliant Expenses

Based on examination of the records of CH a portion of Mr. Merali's expenses were approved by the CEO and the Executive Director who was delegated the CEO's signing authority, for which the supporting documentation required by the CH's policies was not provided to us. For the majority of these items Mr. Merali's Diner's Card statement was provided, however, the individual supporting receipts were not. We note that both the former Executive Director and the former CEO stated to us that they do not recall approving expenses for which the supporting documentation was not available nor do they recall approving expenses for which

only the Diner's Card statement was provided as support. We are unable to determine if this documentation was in fact provided at the time the expenses were approved.

In relation to Food & beverage expenses, numerous meals were supported by detailed receipts; however, we have identified these meals as being for multiple attendees and the details of the attendees have not been provided. Both the former CEO and Mr. Merali stated that in some cases when Mr. Merali met with public officials, they would make a decision to not document the attendees of these meetings in CH's records.

As discussed in Section 4.6 of this report, the CEO and Executive Director have stated that they had access to Mr. Merali's calendar through their status meetings and were aware of his activities.

As further discussed in Section 5.2 of this report, the Expense Directive allows for the approver to approve expenses for which the detailed support is not provided.

Those local expenses that were approved for which the supporting documentation available was not in accordance with policy have been categorized as Approval Compliant. These expenses include:

| | \$ |
|-----------------------|---------------|
| Events / Registration | 1,898 |
| Food & Beverage | 27,364 |
| Local Transport | 120 |
| Office Supplies | 64 |
| Total | <u>29,446</u> |

4.7.1.3 Non Compliant Expenses

4.7.1.3.1 Approvals

CH's Delegation of Signing Authorities Corporate Administrative Directive 4.4.1 (Delegation Directive) provides guidance on the level of authority required to approve expenses. AHS was unable to locate the version of this policy that was in place prior to December 21, 2005. The versions of this directive that were in effect after December 21, 2005, which AHS was able to locate, provided guidance on who within CH could sign the various expenses of CH and the various authority limits for these individuals.

We note that the Delegation Directive included the following:

"Staff with delegated signing authority by virtue of this Directive shall not authorize procurements or payments when they are the direct or indirect beneficiaries or for Capital Health expenses that may have an element personal to them (e.g. travel expense claims, cell phones, etc.). Another authorized person, usually the person of next higher authority, must approve such transactions."

Based on this directive any expense paid to or on behalf of Mr. Merali would usually require authorization from the next higher authority who was the CEO or the Executive Director who was delegated the CEO's signing authority.

We have identified a number of expenses which do not appear to have been approved in accordance with the Delegation Directive. These include expenses approved by Mr. Merali.

Those expenses which were approved by Mr. Merali post December 20, 2005, for local expenses, have been categorized as Non-Compliant. Those expenses include:

| | \$ |
|-----------------------|--------------|
| Events / Registration | 40 |
| Memberships | 976 |
| Other Expenses | 65 |
| Total | <u>1,081</u> |

4.7.1.3.2 Credit Card Fees and Interest Charges

Additionally, we identified \$462 for annual fees for Mr. Merali's credit cards which were charged back to CH. Mr. Merali indicated that a credit card was required for his various expenses. As a result these costs were charged back to CH. We note that the card was not used exclusively for business purposes and Mr. Merali could have used a no fee credit card for business purposes. Any benefit derived from the use of this credit card and payment of the annual fee would have been a personal benefit. We therefore have categorized these expenses as Non-Compliant.

Additionally we identified \$211 of interest on his credit cards also charged to CH. Although there is no policy which deals with personal credit cards, we do note that CH's Corporate Administrative Directive on CH Sponsored Credit Cards stated that the employee is responsible for any interest charges due to late submissions. As a result we have categorized these expenses as Non-Compliant.

We note that of the total of \$673 of credit card fees and interest \$508 was approved by the CEO and the remaining \$165 was approved by the Executive Director.

4.7.2 Travel Expenses

Based on our examination of the supporting documentation provided for Mr. Merali's travel expenses we have categorized the expenses as follows:

| | Compliant | No Policy Available | Approval Compliant | Non-Compliant | Indeterminable | Total |
|---------------------|---------------|---------------------|--------------------|---------------|----------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Events Registration | 7,969 | 7,700 | 8,864 | 962 | 680 | 26,175 |
| Flights | 37,672 | 17,911 | 45,991 | 594 | 1,412 | 103,580 |
| Food & Beverage | 2,281 | 4,075 | 8,289 | - | 2,096 | 16,741 |
| Hotel | 28,748 | 12,027 | 7,007 | - | 3,162 | 50,944 |
| Taxis | 7,553 | 2,603 | 2,470 | - | 292 | 12,918 |
| Telephone | 176 | 1,077 | 374 | - | - | 1,627 |
| Other Expenses | 326 | 279 | 459 | - | 120 | 1,184 |
| Total | 84,725 | 45,672 | 73,454 | 1,556 | 7,762 | 213,169 |

In the Sections below we detail our observations in relation to these expenses.

4.7.2.1 No Policy Available

Throughout the investigation period several versions of CH's Travel Expenses policy were applicable. AHS staff is unable to locate the versions of the policy applicable for the period commencing July 29, 2005 and ending April 30, 2006. As a result we have been unable to assess the expenses incurred during this period for compliance with CH's policies. Expenses incurred during this period totaled \$45,672. We have categorized these amounts as No Policy Available and have not included these expenses in the Sections that follow.

If we had assessed these expenses against the Travel Expenses Policies that existed prior to and after this time period we would have categorized \$26,881 as Compliant, \$18,262 as Approval Compliant and \$529 as Indeterminable.

4.7.2.2 Approval Compliant Expenses

A number of expenses were identified for which the supporting documentation available was not in accordance with the Travel Policy. Under the Expense Directive, the CEO is authorized to approve expenses for which supporting documentation was not provided. The Expense Directive was effective September 19, 2005. Therefore, we have categorized expenses which were approved by the CEO after April 30, 2006, (the date after which we have an applicable Travel Expenses policy to assess costs against) for which insufficient supporting documentation was provided, as Approval Compliant. These expenses include:

| | \$ |
|---------------------|---------------|
| Events Registration | 8,864 |
| Flights | 45,991 |
| Food & Beverage | 8,289 |
| Hotel | 7,007 |
| Taxis | 2,470 |
| Telephone | 374 |
| Other Expenses | 459 |
| Total | <u>73,454</u> |

These amounts include expenses for which the supporting documentation was provided however the appropriate pre-approvals were not located by AHS staff. They are detailed in the sections that follow.

4.7.2.2.1 Travel Approvals

The Travel Expenses Policy requires that employees obtain prior approval before travel. This approval is supposed to be documented on the Travel Approval Form/Request and forwarded to accounts payable prior to the travel taking place.

In a number of instances AHS staff was unable to locate travel approvals for trips taken by Mr. Merali. In addition, we noted some instances where the travel approval was signed after the trip had occurred.

Mr. Merali stated that the CEO's approval of his expenses confirmed that she was aware of and approved his trips, even if a travel approval was not on file. The Travel Expenses Policy does allow for exceptions to the travel pre-approval requirement, however, exceptions are required to be approved and documented and then forwarded to accounting services. We were not provided with any such exceptions. We note that the majority of these expenses were approved by the CEO or the Executive Director.

The \$34,399 expenses that were approved after April 30, 2006, for which a travel approval was not located, have been categorized as approval compliant. These expenses are included in the \$73,454 discussed in Section 4.7.2.2.

4.7.2.2.2 Business Class Flights

The Travel Expenses Policy required that employees travel in the most economical or lowest economy fare, depending on which version of the policy was in place. We have identified a number of cases where business class fares were used by Mr. Merali. These flights cost CH a total of \$31,803. We note that in some of these cases, not all legs of a flight routing were in business class, and therefore there are flight legs included in this amount that are economy fares. The Travel Expenses Policy required written pre-approval if the lowest economy class was not used. We were not provided with any such documentation for these flights.

Mr. Merali stated that near the end of calendar year 2006, the CEO provided him verbal approval to use business class when flying. The Travel Approvals we reviewed did not indicate flight classes, however, Mr. Merali stated that the fact that the CEO approved his expenses, which contained business class fares, is evidence that this approval did occur. All of the business class flights we identified were included on payments that were approved by the CEO or the Executive Director.

The former CEO stated to us that she approved the use of business class travel in certain circumstances such as when Mr. Merali was travelling with another individual who was travelling business class, including donors or other government officials. Other instances included times where Mr. Merali may have been travelling for speaking arrangements on behalf of other organizations. The expenses related to these trips were normally reimbursed to CH by the organization. With the exception of one flight that was reimbursed to CH, as identified in our reconciliation in Section 4.2 of this report, CH's records did not allow us to track or identify the repayment of these expenses. Therefore, some of the amounts included in the \$31,803 may have been repaid to CH by a third party.

We note that \$4,900 of these flight costs were incurred during the period of July 29, 2005 to April 30, 2006, for which we have not been provided a copy of the travel policy. These costs have been included in the amounts categorized as No Policy Available.

We also note that \$8,007 of flight costs were included on trips for which no Travel Approval was provided. These expenses have been included in the amounts discussed above in Section 4.7.2.2.1.

All of the remaining \$18,896 of business class flights were approved after April 30, 2006. As a result we have categorized these costs as Approval Compliant. These amounts are included in the \$73,454 discussed in Section 4.7.2.2.

4.7.2.3 Non-Compliant Expenses

4.7.2.3.1 Approvals

As discussed in Section 4.7.1.3.1 of this report Mr. Merali's approval of his own expenses was not in accordance with the Delegation Directive. Expenses totaling \$962 which were approved either prior to July 29, 2005 or after April 30, 2006 by Mr. Merali for local expenses have been categorized as Non-Compliant.

4.7.2.3.2 *Flight for Ms. Merali*

Throughout our examination of Mr. Merali's expenses we identified a number of expenses that were charged to his Diner's Card that related to his wife. Mr. Merali stated that his wife did travel with him at times while he was travelling for CH business. Ms. Merali's flights and other expenses would be paid personally by the Meralis and would not be charged back to CH. However, we did identify one instance on where the charge for Ms. Merali's flight was incorrectly charged back to CH. This flight was charged to Mr. Merali's Diner's card occurred in January 2008 and was related to a business trip to Japan on which Ms. Merali accompanied Mr. Merali. The cost was \$594 and was for a flight from Seoul to Tokyo. This expense was approved by the CEO.

Mr. Merali stated to us that this was an error and referred us to an additional flight, in the amount of \$735, charge to his Diner's card on December 20, 2007. He stated that this flight was for the same trip and that he paid for it personally. Ernst & Young confirmed that this flight was not charged back to CH. He stated that they thought the amount of \$735 was for Ms. Merali and the \$594 was for him, when in fact it was the reverse. Therefore, Mr. Merali stated that he believes that CH should have paid for the flight costing \$735 and not the one for \$594. The documentation provided to us does not support Mr. Merali's claim as both flights appear to have been for Ms. Merali. Further, Ernst & Young identified a credit on Mr. Merali's Diner's card on February 4, 2008 in the amount of \$735. We understand that this relates to the original flight booking which was cancelled. This credit was not provided to CH. As a result we have categorized this flight as non-compliant.

We note that there is no way for us to determine if the meals or hotels costs claimed by Mr. Merali whilst travelling include any expenses for Ms. Merali.

4.7.2.4 **Indeterminable Expenses**

4.7.2.4.1 *Missing documentation*

As previously discussed, the Expense Directive, which allowed for the approval of expenses for which supporting documentation was not provided, was effective September 19, 2005. Expenses totaling \$3,420 were approved without supporting documentation prior to this policy. All of these expenses were approved by the CEO or the Executive Director. We have categorized these expenses as Indeterminable. They include:

| | \$ |
|---------------------|--------------|
| Events Registration | 680 |
| Flights | 754 |
| Food & Beverage | 1,626 |
| Hotel | 212 |
| Taxis | 28 |
| Other Expenses | 120 |
| Total | <u>3,420</u> |

4.7.2.4.2 Travel Approvals

As detailed in Section 4.7.2.2.1 we have identified a number of expenses incurred in relation to trips for which travel pre-approvals have not been located. Expenses totaling \$4,342 were approved prior to the existence of the Expense Directive and during the period for which we have been provided a copy of the Travel Expenses Policy (i.e. January 1, 2005 to July 28, 2005). The majority of these expenses were approved by the CEO or the Executive Director. We are unable to determine if travel pre-approvals were obtained prior to the related travel and those approvals have since been misplaced or if no such pre-approval was obtained. As a result for we have categorized these expenses as Indeterminable. They include:

| | \$ |
|-----------------|--------------|
| Flights | 658 |
| Food & Beverage | 470 |
| Hotel | 2,950 |
| Taxis | 264 |
| Total | <u>4,342</u> |

4.7.3 Automobile Expenses

4.7.3.1 Background

Per Mr. Merali's employment agreement dated August 1, 2000, he was entitled to an automobile allowance of \$1,200 per annum. Mr. Merali was paid a monthly automobile allowance of \$100 a month until June 2005. A letter dated June 24, 2005 increased his allowance to \$900 a month. This increase was retroactive to April of 2004. Mr. Merali received a retroactive payment of \$12,000 (\$800 * 15 months) in June of 2005.

Mr. Merali provided to AHS a copy of a Memorandum dated May 19, 2006 from Sheila Weatherill to Mr. Merali and to the Executive Vice President & COO, Health Services. The subject line of this memorandum was "Executive Vehicles Policy". The memorandum stated:

"You will be entitled to the benefits under the Executive Vehicles Policy (attached). The only modification to this policy is that the leasing costs will be payable by you and you will receive a monthly allowance of \$900. You will also be entitled to claim for reimbursements of expenses as per the policy"

Attached to this memorandum was a document entitled "Executive Vehicle Leasing Information". This document states:

"The President and CEO and any other Capital Health employee designated by the President and CEO will be eligible for the provision of [sic] vehicle."

The document details that the President will approve the monthly lease cost for other staff members. The documents also states that the following in relation to automobile expenses:

- ▶ "CH's master insurance coverage will provide full insurance for the vehicle."

- ▶ A fleet card will be issued and should be used for operating and maintenance charges and gas for the vehicle. CH will pay all costs on the fleet card.
- ▶ "Any operating and maintenance costs paid by you personally may be claimed by completing the Travel and Employee Expense Claim form."

This document was signed by Sheila Weatherill and the Chairman of the Board of Directors and is dated November 1, 2005.

Mr. Merali signed a revised employment agreement effective November 1, 2007 which states that Mr. Merali will receive "Executive car benefits". The agreement does not define what those benefits are and does not include the provision of the monthly car allowance or refer to the May 2006 memorandum.

4.7.3.2 Effective Policies

CH's Corporate Administrative Directive 5.2.1 "Mileage Reimbursement/Car Allowance" was originally approved on November 29, 1996 and then revised on September 15, 2003 and again in August 2008. We were provided the 2003 and 2008 versions. Both versions of this policy do not appear applicable to Mr. Merali's situation as under Limitations these policies state:

"This directive will not apply to individuals where a different car allowance arrangements [sic] has been pre-authorized or calculated and included as part of the individual's income."

Other than the "Executive Vehicle Leasing Information" document we are not aware of nor have been provided with any other policy that deals specifically with automobile expenses. As such we do not have a specific automobile expense policy or document against which we can assess the amounts claimed, from January 1, 2005 to May 2006, by Mr. Merali in addition to his automobile allowance. In lieu of such a policy we have used the Corporate Administrative Directive 4.4.3 "Employee Expense Claims and Hosting Guidelines" to assess the amounts claimed by Mr. Merali during this period. However this policy only came into effect on September 19, 2005. As a result we do not have any policy against which to assess these expenses prior to September 19, 2005.

After this period we have assessed the amounts claimed against the document attached to the May 2006 memorandum discussed in Section 4.7.3.1.

4.7.3.3 Categorization of Automobile Expenses

Below we present the automobile expenses paid to or on behalf of Merali:

| <i>Automobile Expenses</i> | Allowance | Fuel | Car Washes | Fleet Card Fee | Repairs and Maintenance | Insurance | Mileage | Parking | Registration | Totals |
|---------------------------------------|-----------|-------|------------|----------------|-------------------------|-----------|---------|---------|--------------|--------|
| To September 18, 2005 | 15,300 | - | - | - | - | - | 875 | 240 | - | 16,415 |
| September 19, 2005 to March 29, 2006 | 4,500 | - | - | - | - | - | 530 | 171 | - | 5,201 |
| March 30, 2006 to May 18, 2006 | 2,700 | 624 | 96 | - | - | 989 | - | 32 | 56 | 4,497 |
| May 19, 2006 to October 31, 2007 | 15,300 | 4,539 | 933 | 115 | 5,223 | 1,153 | - | 652 | 132 | 28,047 |
| November 1, 2007 to end of employment | 9,000 | 2,918 | 568 | 81 | 5,123 | 1,157 | - | 362 | - | 19,209 |
| | 46,800 | 8,081 | 1,597 | 196 | 10,346 | 3,299 | 1,405 | 1,457 | 188 | 73,369 |

These expenses include amounts paid by AHS directly to Mr. Merali through payroll benefits or through expense claims, paid to his Diner's card or to the fleet card assigned to his vehicle.

We have categorized these expenses as follows:

| <i>Automobile Expenses</i> | Compliant | No Policy Available | Approval Compliant | Non-Compliant | Indeterminable | Totals |
|---------------------------------------|-----------|---------------------|--------------------|---------------|----------------|--------|
| To September 18, 2005 | 15,230 | 240 | 70 | - | 875 | 16,415 |
| September 19, 2005 to May 18, 2006 | 9,088 | - | 80 | - | 530 | 9,698 |
| May 19, 2006 to October 31, 2007 | 25,583 | - | 161 | 2,303 | - | 28,047 |
| November 1, 2007 to end of employment | 19,118 | - | 91 | - | - | 19,209 |
| | 69,019 | 240 | 402 | 2,303 | 1,405 | 73,369 |

4.7.3.4 No policy available

In relation to the automobile expenses claimed up to and including to September 18, 2005 we have not been provided with any policy that would allow us to assess these expenses. We have therefore categorized the \$240 of expenses incurred up to September 18, 2005, except for mileage and Mr. Merali's automobile allowance, as No Policy Available.

In relation to Mr. Merali's allowance, although there is no policy dealing with his allowance prior to the May 2006 Memorandum, this does appear to be a modification of the terms of his employment and as a result we have categorized these expenses as Compliant.

4.7.3.5 Approval Compliant

We identified \$402 of parking expenses for which no support was provided. These expenses were approved by the CEO and as a result they have been categorized as Approval Compliant.

4.7.3.6 Non-Compliant

We identified \$2,303 paid to a car dealer where Mr. Merali had his car serviced which had a handwritten notation of "car phone" on Mr. Merali's Diner's Card statement. Mr. Merali stated to us that this related to the installation of a car phone. The invoice from the supplier noted "Install Bluetooth System" and included the costs of a mirror, phone kit, blue tooth adapter, and phone brackets, as well as labour and taxes. Mr. Merali also stated that this expense was properly approved by the CEO and that there were others with car phones at Capital Health. We note that this expense was approved by the CEO.

We do not believe this would be considered regular operating or maintenance costs that are covered by the policy in place. Rather this appears to be a modification to Mr. Merali's car. As Mr. Merali was paid a monthly car allowance we have categorized this cost as non-compliant.

4.7.3.7 Indeterminable Expenses

Mr. Merali claimed only mileage and parking expenses up to March 29, 2006. No mileage was claimed after March of 2006. After March 2006 all of the operating and maintenance expenses appear to have been claimed.

In relation to the \$1,405 of mileage claims we have the following comments:

- ▶ \$1,338 of these claims was approved by the CEO and the remaining \$67 was approved by the Executive Director.
- ▶ Mileage rates paid are normally intended to cover those car expenses that were incurred as a result of business use; those expenses normally include: maintenance and operating expenses and capital cost of the vehicle. We note that the CH directive which allowed employees to claim mileage did not apply to those employees who were receiving an automobile allowance.
- ▶ Mr. Merali was provided an automobile allowance to cover the cost of his vehicle; as a result CH was essentially paying for the vehicle capital cost twice.
- ▶ Mr. Merali stated to us that the finalization of the policy on executive vehicles was delayed. As a result he claimed mileage until the policy was completed in May 2006.
- ▶ The former CEO stated to us that at the time of the change to Mr. Merali's allowance it was known that an executive leasing policy was under development and it was not finalized until a later date. When the policy was finalized it was back dated. We note that the policy is dated November 1, 2005
- ▶ Mr. Merali stated that Executive Vehicle Leasing Policy should be applied retroactively to include the time period during which he received the increased monthly car allowance. He further stated that had he gone back to January 2005 and claimed the \$7,100 of actual expenses he believes he was entitled to (i.e. gas, maintenance, insurance) he would have claimed more expenses than the \$1,405 of mileage that he did claim. The former CEO agreed with this assessment. We note that there is no indication in the May 2006 memorandum that this policy should be applied retroactively.
- ▶ Without any documented basis for the retroactive application of the policy we are unable to conclude if these expenses are compliant with CH's policies. Therefore we have categorized these costs as Indeterminable.

5. Policies

Based on our discussions with current AHS staff we understand that a number of policies were in place during the years the 2005 to 2008, (the “investigation period”) which were applicable to Mr. Merali’s expenses.

Different versions of the same policy were applicable for different time periods during the period of investigation. AHS is not able to locate all of the versions of the policies that were applicable. We have not attempted to assess the compliance with policy of any expense incurred during a period for which we were not provided the applicable version of a policy.

We have a number of observations in relation to the CH policies that were applicable to Mr. Merali’s expenses. They are detailed in the Sections that follow.

5.1 Travel Expenses Policy

In relation to CH’s Travel Expenses policy we have the following observations:

- ▶ This policy required that all travel be approved in advance and that a copy of the travel approval be forwarded to Accounts Payable prior to the travel date. The policy stated that the Travel Approval Form/Request for Advance was to be used for the approval. The policy did not detail what information was required to be included in the form in order for it to be approved prior to travel (i.e. where to, type of accommodation, detailed breakdown of costs etc.)
- ▶ The policy allows for an employee to claim meal expenses on a per diem basis based on rates included in the policy. The policy further allows for: *“Reasonable expenses beyond the per diem may be reimbursed upon submission of actual expenses, provided that a claimant must submit either actual expenses in whole or be paid the per diems for the whole of the period of absence”* The policy does not define what amounts to *“Reasonable expenses”*. As a result we have not attempted to determine whether the amounts claimed for meals by Mr. Merali are *“Reasonable expenses”*.
- ▶ The policy is silent on the acceptability of purchases of alcoholic beverages with meals.
- ▶ Up to February 2007 the policy stated that the *“Travel Agents will verify with Finance and will book the most appropriate and economical flight and accommodations available”*. *“Most appropriate”* is not defined by the policy. There was no guidance on the class of airfare that was allowed to be used. Further, CH did not have an approved list of hotels which employees were allowed to stay at and therefore it appears that employees could stay at whichever hotel they preferred.
- ▶ In February 2007, the following was added to the policy: *“Staff is expected to travel for the lowest economy class or at excursion rates. Exceptions may be allowed in the case of a disability, medical, business reason for senior executive and other reasons subject to written pre-approval of the appropriate Executive Vice President or President.”* The policy did not require that evidence that the lowest economy class/most economical flight and accommodation was purchased be kept on file. As a result we are unable to examine compliance with this policy.

- ▶ In relation to categorizing any of the above expenses, unless there is evidence of a higher fare being purchased (i.e. business class), we have categorized these expenses as compliant as long as there is a travel approval form which was signed prior to the date of travel, and the expense payment was appropriately approved.

5.2 Hospitality Expenses

- ▶ Hosting expenses are dealt with by both the Travel Expenses policy and the Employee Expense Claims and Hosting Guidelines Directive (“Expense Directive”). Neither of these two documents set any limits on the types of expenses that can be incurred.
- ▶ The Travel Expenses policy allows for “reasonable hosting expenses” which are subject to approval, submission of receipts, and identification of individuals hosted. “Reasonable Hosting expenses” are not defined by the policy.
- ▶ The circumstances under which an employee could extend hospitality to a non CH employee was very broad and included:
 - ▶ *“when discussions of organization importance are held with persons who are not Capital Health employees, including interviews with persons who are being considered for recruitment into the organization, members of government, industry, public interest groups, unions, seminars, or other meetings as may be determined by the COO/VP or equivalent (Level 4)”* Mr. Merali had level 3 signing authority which is higher than level 4.
 - ▶ *“when Capital Health sponsors formal conferences (as defined in the Staff Development Policy) and other government, health, and business groups are represented;”*
 - ▶ *“when a person who is not a Capital Health employee renders services without remuneration;”*
 - ▶ *“when an event (e.g. opening of a major Capital Health project) takes place attended by distinguished members of government, private sector, or both”, and*
 - ▶ with pre approval from COO/VP or equivalent (Level 4), hospitality may take on other forms”.
- ▶ Although these documents required detailed original receipts (i.e. detailed meal receipts and not only the credit card slip) as well as information on either the names of the individuals attending or the organization hosted when submitting an expenses claim, they did not require that the reason for holding a hospitality function be documented.
- ▶ Mr. Merali had a signing authority higher than the level of the authority required for these purchases by both of these documents, however the policies in place did not allow for an individual to approve payment of expenses for which the approver would receive a benefit. Therefore, in all of the above cases Mr. Merali expenses were required to be approved by the CEO or the CEO’s delegate.

- ▶ The Employee Expense Claims and Hosting Guidelines Directive allowed for the approval of expenses for which the required supporting documentation was not provided or available. In these cases the approver was required to initial the individual items for which no support was provided to show their approval. However, the directive allowed that any expense claim approved by the CEO *“will be considered approved in full and will not require approval at the individual line item level”* We note that the majority of Mr. Merali’s expense claims were approved by the CEO.

Based on our review, these documents allowed for a very broad range of activities to be covered, did not put any limits on the type of expenses to be incurred and did not require hosting activities to be pre-approved. Further, if the CEO signed off on the expense the supporting receipts for hosting activity were not required to be provided as support.

5.3 Development and Training

Expenses related to the development of CH staff are dealt with by the Staff Development and Training Policy. This policy was effective September 6, 1999 and was revised on August 2, 2007. AHS staff is only able to locate the August 2 version of this policy. We note that this policy did not impose any financial limits on event attendance and stated that *“Approval for conferences, seminars and individual courses is at the discretion of the operating area and is subject to the approvals outline in Corporate Administrative Directive 4.4.1 [Delegation Directive]”*. The policy does not indicate if approval is to be documented, what is to be included with the approval, and when the approval is to take place.

Alberta Health Services
CH Policies Provided to Ernst & Young

| Policy # | Policy Name | Date Approved or Revised | Received |
|----------|--|-----------------------------|----------|
| 4.4.1 | Delegation of Signing Authorities | 29-Nov-96 | No |
| | Revision | 19-Sep-05 | No |
| | Revision | 21-Dec-05 | Yes |
| | Revision | 01-Feb-08 | Yes |
| 4.4.3 | Employee Expense Claims & Hosting Guidelines | 19-Sep-05 | Yes |
| 4.5.1 | Capital Health Sponsored Credit Cards | 22-Nov-04 | Yes |
| 5.2.1 | Mileage Reimbursement/Car Allowance | 15-Sep-03 | Yes |
| | Revision | Aug-08 | Yes |
| 7.1 | Staff Development and Training | 06-Sep-99 | No |
| | Revision | 02-Aug-07 | Yes |
| 9.2 | Human Resources Policy - Travel Expenses | 06-Sep-99 | Yes |
| | Revision | 29-Jul-05 | No |
| | Revision | 24-Feb-06 | No |
| | Revision | 01-May-06 | Yes |
| | Revision | 20-Feb-07 | Yes |
| NA | Executive Vehicle Leasing Information | 01-Nov-05 | Yes |

Note

We note that Mr. Merali's employment agreements stated that he would be reimbursed "for reasonable travel and other expenses incurred in the course of performing the Employee's duties pursuant to this agreement in accordance with the Region's policies in effect from time to time."

Alberta Health Services
Reconciliation of Mr. Merali's Expenses

| | Payments to: | | | Total |
|---|-----------------------------|------------|-----------------------|---------|
| | Mr. Merali's Diners Card | Mr. Merali | 3rd Party Payments | |
| Amounts originally Identified by AHS | 242,446 | 44,065 | 24,609 | 311,120 |
| Additional Amounts Identified by Ernst & Young | | | | |
| Automobile Allowance | - | 46,800 | - | |
| Flights Paid for Directly by CH | - | - | 13,733 | |
| Amounts Paid on the fleet card assigned to Mr. Merali | - | - | 8,765 | |
| Other Amounts paid on Mr. Merali's behalf | - | - | 303 | |
| Expenses included in original FOIP release which were corporate memberships | - | - | (910) | |
| Reimbursement of flights by 3rd Party | (4,048) | - | - | |
| Reimbursement of Advance by Mr. Merali | (7,013) | - | - | |
| Total Payments Identified | 231,385 | 90,865 | 46,500 | 368,750 |
| Support provided by AHS | 235,358 | 86,856 | 39,386 | 361,600 |
| Missing (additional) documentation provided | (3,973) | 4,009 | 7,114 | 7,150 |

Notes

The amount of documented support provided to Ernst & Young in relation to payments made to Mr. Merali's Diners Card exceeds the amount paid by CH during the period of investigation by \$3,973. This excess appears to relate to an advance provided to Mr. Merali prior to the period of investigation, however, the actual expenses were incurred during the period of investigation. The documentation supporting these expenses were included with the documentation we examined.

We note that these additional expenses do not relate to the payments made by CH directly to Mr. Merali or to 3rd parties. However for the purposes of this report we have combined all of these amounts to arrive at a difference of \$7,152 which is noted as the Net Difference throughout this report.