

Report of the  
**AUDITOR GENERAL**  
to the Legislative Assembly



Prince Edward Island  
2016

Office of the Auditor General  
105 Rochford Street  
Charlottetown, Prince Edward Island C1A 7N8  
*[www.assembly.pe.ca/auditorgeneral](http://www.assembly.pe.ca/auditorgeneral)*



## Prince Edward Island Île-du-Prince-Édouard

Office of the  
Auditor General

PO Box 2000, Charlottetown PE  
Canada C1A 7N8

Bureau du  
vérificateur général

C.P. 2000, Charlottetown PE  
Canada C1A 7N8

---

The Honourable Speaker and  
Members of the Legislative Assembly  
Province of Prince Edward Island

In accordance with the requirements of the *Audit Act*, I have the honour of  
presenting my 2016 Annual Report to the Legislative Assembly.

Respectfully submitted,

B. Jane MacAdam, CPA, CA  
Auditor General

Charlottetown  
Prince Edward Island  
March 9, 2016



# Table of Contents

CHAPTER	PAGE
<b>Introduction</b>	
<b>Special Audits and Examinations</b>	
1. Introduction to Special Audits and Examinations .....	1
2. Maintenance Enforcement Program .....	3
3. Developmental Lending.....	20
4. Payments to Private Nursing Homes .....	39
<b>Update on Previous Recommendations</b>	
5. Update on Previous Recommendations .....	57
Appendix A - Status of Recommendations 2012 and 2013 .....	64
Appendix B - Status of Recommendations 2014.....	73
Appendix C - Status of Recommendations 2015 .....	78
<b>Financial Audits</b>	
6. Introduction to Financial Audits .....	93
7. Indicators of Financial Condition .....	95
8. Audit of the Consolidated Financial Statements.....	111
9. Matters Noted in Other Financial Audits.....	122
10. Appropriations and Special Warrants .....	129
<b>Public Accounts Committee</b>	
11. Public Accounts Committee .....	135
<b>Office of the Auditor General</b>	
12. Office of the Auditor General.....	139
<b>Schedules</b>	
Schedule A - Appropriations	
Schedule B - List of Special Warrants	



# INTRODUCTION

---

## REPORT OVERVIEW

The *Audit Act* requires the Auditor General to report annually to the Legislative Assembly. This 2016 Annual Report provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year. Following is a brief overview of the report.

### *Chapter 1: Introduction to Special Audits and Examinations*

This chapter provides summary information on the mandate, selection, and processes related to special audits and examinations.

### *Chapter 2: Maintenance Enforcement Program*

The Maintenance Enforcement Office administers over \$7 million in support payments each year. We examined the processes for managing enforcement action on maintenance orders in arrears. We also assessed internal controls over the receipt and disbursement of funds.

### *Chapter 3: Developmental Lending*

Our audit focused on lending activities at Island Investment Development Inc. and Finance PEI for developmental loans. We examined whether due diligence was exercised when approving and monitoring these loans. We also examined the processes for managing and reporting on impaired loans.

### *Chapter 4: Payments to Private Nursing Homes*

Payments to private nursing homes were over \$20 million in 2014-15. We examined Health PEI's processes for reviewing and approving claims from these homes. We also examined the assessment and approval of long-term care accommodation subsidies.

---

## Introduction

---

### *Chapter 5: Update on Previous Recommendations*

Our special audits and examinations result in recommendations to departments, Crown corporations, and agencies. Each year, we contact these departments and agencies to obtain an update on action taken to address outstanding recommendations. This year, we conducted additional follow up work on recommendations from our 2012 and 2013 annual reports. This chapter summarizes our work and includes information on the status of implementation of previous recommendations.

### *Chapter 6: Introduction to Financial Audits*

Introductory comments summarize the standards and responsibilities related to financial audits.

### *Chapter 7: Indicators of Financial Condition*

We provide summary financial information on the province's operations and financial position from 2011 to 2015. We also provide information on a number of financial indicators based on the province's audited consolidated financial statements.

### *Chapter 8: Audit of the Consolidated Financial Statements*

Each year, we audit the province's consolidated financial statements. This chapter provides our independent audit opinion as well as comments, observations, and recommendations arising from our audit work.

### *Chapter 9: Matters Noted In Other Financial Audits*

This chapter provides a summary of issues communicated to management as a result of the other financial audits completed by our Office.

### *Chapter 10: Appropriations and Special Warrants*

This chapter provides information on appropriations and special warrants for the year ended March 31, 2015.

### *Chapter 11: Public Accounts Committee*

The Public Accounts Committee reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the Committee and its activities is provided in this chapter.

## Introduction

---

### *Chapter 12: Office of the Auditor General*

This chapter provides information on the mandate and responsibilities of the Auditor General. Information is also provided on the strategic objectives as well as resources, personnel, and professional affiliations.

### **ACKNOWLEDGEMENTS**

The Office makes a significant contribution to improved management and control of public resources. To maximize this contribution, the cooperation of ministers, deputy ministers, and senior management and staff of departments, agencies, boards, and Crown corporations is essential. I wish to acknowledge the cooperation the Office received in conducting the work included in this Annual Report.

The audits completed, the recommendations for improved public sector management, and the preparation of this report reflect the hard work and professionalism of my staff. I would like to take this opportunity to express my appreciation to the staff in my Office for their continued support and dedication. Their contributions and commitment are essential to the continued success of the Office.



# INTRODUCTION

---

## APERÇU DU RAPPORT

En vertu de la *Audit Act* (loi sur la vérification des comptes publics), le vérificateur général doit déposer un rapport devant l'Assemblée législative tous les ans. Le présent rapport de 2016 fournit les observations, les recommandations et des renseignements sur les vérifications et les examens des activités du gouvernement menés par le Bureau au cours de l'année. Voici un aperçu du contenu du rapport.

### *Chapitre 1 : Introduction aux vérifications et aux examens spéciaux*

Ce chapitre fournit de l'information sommaire sur le mandat, la sélection et les processus concernant les vérifications et les examens spéciaux.

### *Chapitre 2 : Programme d'exécution des ordonnances alimentaires*

Le Bureau d'exécution des ordonnances alimentaires administre plus de 7 millions de dollars en paiements alimentaires chaque année. Nous avons examiné les processus de gestion de l'exécution des ordonnances alimentaires dont les paiements sont en retard. Nous avons aussi évalué les mesures de contrôle internes concernant l'encaissement et le décaissement des fonds.

### *Chapitre 3 : Prêts au développement*

Notre vérification a visé les activités de prêts pour le développement d'Island Investment Development Inc. et de Finances Î.-P.-É. Nous avons vérifié si une diligence raisonnable a été exercée en ce qui concerne l'approbation et le contrôle de ces prêts. Nous avons aussi examiné les processus de gestion et de production de rapports en ce qui concerne les prêts douteux.

### *Chapitre 4 : Paiements versés aux foyers de soins privés*

Les paiements versés aux foyers de soins privés ont dépassé 20 millions de dollars en 2014-2015. Nous avons examiné les processus de Santé Î.-P.-É. pour l'examen et l'approbation des demandes provenant de ces foyers. Nous avons aussi examiné les processus d'évaluation et d'approbation des subventions pour l'hébergement en établissement de soins de longue durée.

## Introduction

---

### *Chapitre 5 : Suivi des recommandations antérieures*

À la suite de nos vérifications et examens spéciaux, des recommandations sont faites aux ministères, aux sociétés de la Couronne et aux organismes. Chaque année, nous communiquons avec ces ministères et organismes afin de faire un suivi des mesures prises par rapport aux recommandations. Cette année, nous avons effectué un travail de suivi additionnel par rapport aux recommandations des rapports annuels de 2012 et 2013. Ce chapitre résume notre travail et fournit de l'information sur l'avancement de la mise en œuvre des recommandations précédentes.

### *Chapitre 6 : Introduction aux vérifications financières*

Les commentaires d'introduction résument les normes et les responsabilités liées aux vérifications financières.

### *Chapitre 7 : Commentaires sur les indicateurs financiers*

Nous fournissons de l'information financière sommaire sur les activités et la situation financière de la province entre 2011 et 2015. Nous fournissons également de l'information sur un certain nombre d'indicateurs financiers à partir des états financiers consolidés de la province.

### *Chapitre 8 : Vérification des états financiers consolidés*

Chaque année, nous vérifions les états financiers consolidés de la province. Ce chapitre présente une opinion de vérification indépendante ainsi que des commentaires, des observations et des recommandations découlant de notre travail de vérification.

### *Chapitre 9 : Questions soulevées dans le cadre d'autres vérifications financières*

Ce chapitre présente un résumé des questions portées à l'attention des hauts dirigeants à la suite des autres vérifications financières effectuées par notre bureau.

### *Chapitre 10 : Compte de crédits et mandats spéciaux*

Ce chapitre fournit de l'information sur le compte de crédits et les mandats spéciaux pour l'exercice qui s'est terminé le 31 mars 2015.

### *Chapitre 11 : Comité des comptes publics*

Le Comité des comptes publics révisé le rapport annuel du vérificateur général et joue un rôle important en rendant le gouvernement responsable

## Introduction

---

de la gestion des ressources publiques. Des renseignements sur le comité et ses activités sont fournis dans ce chapitre.

### *Chapitre 12 : Bureau du vérificateur général*

Ce chapitre offre des renseignements sur le mandat et les responsabilités du vérificateur général. Des renseignements sont également fournis sur les objectifs stratégiques du Bureau ainsi que sur les ressources, le personnel et les affiliations professionnelles.

## REMERCIEMENTS

Le Bureau contribue de façon considérable à l'amélioration de la gestion et du contrôle des ressources publiques. Pour maximiser cette contribution, la collaboration des ministres, des sous-ministres ainsi que des hauts dirigeants et du personnel des ministères, des organismes, des conseils et des sociétés de la Couronne est essentielle. Je souhaite souligner la collaboration reçue par le Bureau dans le cadre du travail dont il est fait état dans le présent rapport annuel.

Les vérifications effectuées, les recommandations énoncées pour l'amélioration de la gestion du secteur public et la préparation du présent rapport sont le fruit du professionnalisme et du travail acharné des membres de mon personnel. J'aimerais profiter de l'occasion pour exprimer ma gratitude envers les membres du personnel de mon Bureau, pour leur soutien constant et leur dévouement. Leur contribution et leur engagement sont essentiels au succès continu du Bureau.

## **SPECIAL AUDITS AND EXAMINATIONS**



# 1. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

---

## AUDIT PROCESS

**1.1** The *Audit Act* establishes the mandate of the Office of the Auditor General, setting out its authority regarding the nature and scope of its work. The Office may conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with applicable statutory provisions.

**1.2** Due to the complexity and magnitude of government operations and the limited resources of our Office, we cannot audit all government programs on an annual basis. We must focus our audit efforts to make best use of our resources. Our annual audit work plan is determined after consideration of a number of factors including:

- the financial magnitude of the entity or program;
- the significance of potential issues;
- the impact of the subject matter;
- complexity of the operations;
- results of previous audits;
- availability of audit resources; and
- timing of previous audit work.

**1.3** The Auditor General has a broad mandate for conducting special audits and examinations. These include value-for-money audits which are objective assessments that assist in determining how well government is discharging its responsibilities. They address broader management issues impacting an organization or program and may examine issues such as accountability relationships, economy, efficiency, compliance with authorities, and the measurement of effectiveness.

**1.4** Value-for-money audits or performance audits, are planned, performed, and reported in accordance with standards established by the Chartered Professional Accountants of Canada. There are three distinct phases in value-for-money audits:

## 1. Introduction to Special Audits and Examinations

---

- planning;
- implementation; and
- reporting.

**1.5** During the planning phase, audit staff acquire a detailed knowledge of the function, organization, or program selected for audit as well as its operational environment. This knowledge is obtained from a variety of sources and is used to develop an audit plan which sets out the audit objectives, criteria, scope, and timing.

**1.6** Audit criteria are the standards against which performance is assessed. The audit criteria are determined by the auditor and are often based on regulations, policies, or other generally accepted sources. These are communicated to and discussed with management.

**1.7** In the implementation stage, the auditor gathers sufficient appropriate audit evidence through interviewing key personnel, reviewing documentation and testing samples of files as well as other procedures. The audit evidence is then evaluated and analyzed. In this phase, performance is assessed against established criteria and findings are identified. All findings or observations are discussed with management.

**1.8** The reporting phase involves the development of a draft audit report which highlights significant findings and conclusions and includes relevant recommendations. Senior management responsible for the audit subject matter is provided with a copy of the draft audit report for review and discussion. At the conclusion of the audit, a final report is issued to the department, Crown corporation, or agency. A management letter may also be issued to address less significant findings. A written response is requested for any reports and management letters issued.

**1.9** The recommendations provided in our reports are intended to address the issues and findings identified. However, it is management's prerogative to select the most appropriate course of action to deal with the issues identified. Our concern is that action is taken to address the issues raised.

## 2. MAINTENANCE ENFORCEMENT PROGRAM

---

### CHAPTER SUMMARY

#### *What we examined*

This audit examined processes for managing enforcement actions on maintenance orders in arrears. We also examined controls in the Maintenance Enforcement Office over the receipt and disbursement of funds.

Audit work for this report was substantially complete as of January 2016.

#### *Why it's important*

As of March 31, 2015, there were approximately 1,960 cases through court orders and agreements filed with the Maintenance Enforcement Office. Over \$7 million in court ordered payments are processed by the Office each year; approximately 96 percent of these cases include amounts for child support. These payments directly impact the well-being of Island children and a large percentage of these cases are in arrears. Without this child support, some families may end up struggling financially and may need to turn to government financial assistance programs to provide for their children.

According to the Maintenance Enforcement Office, as of March 31, 2015, there was approximately \$10.9 million in arrears, representing close to 70 percent of the number of case files.

#### *What we found*

- There was no written guidance for staff on how to specifically carry out enforcement activities.
- Standard enforcement procedures were not consistently applied.
- Case files did not have adequate documentation to support key decisions.



## 2. Maintenance Enforcement Program

---

- There was no quality control review process for case files.
- Management did not receive sufficient and appropriate reporting to aid in the administration and oversight of the Program.
- Significant internal control weaknesses were identified.

Overall, processes were inadequate to administer, record, and enforce maintenance orders in accordance with the *Maintenance Enforcement Act* and regulations. There were inadequate internal controls over receipts and disbursements of maintenance payments made through the Maintenance Enforcement Program.

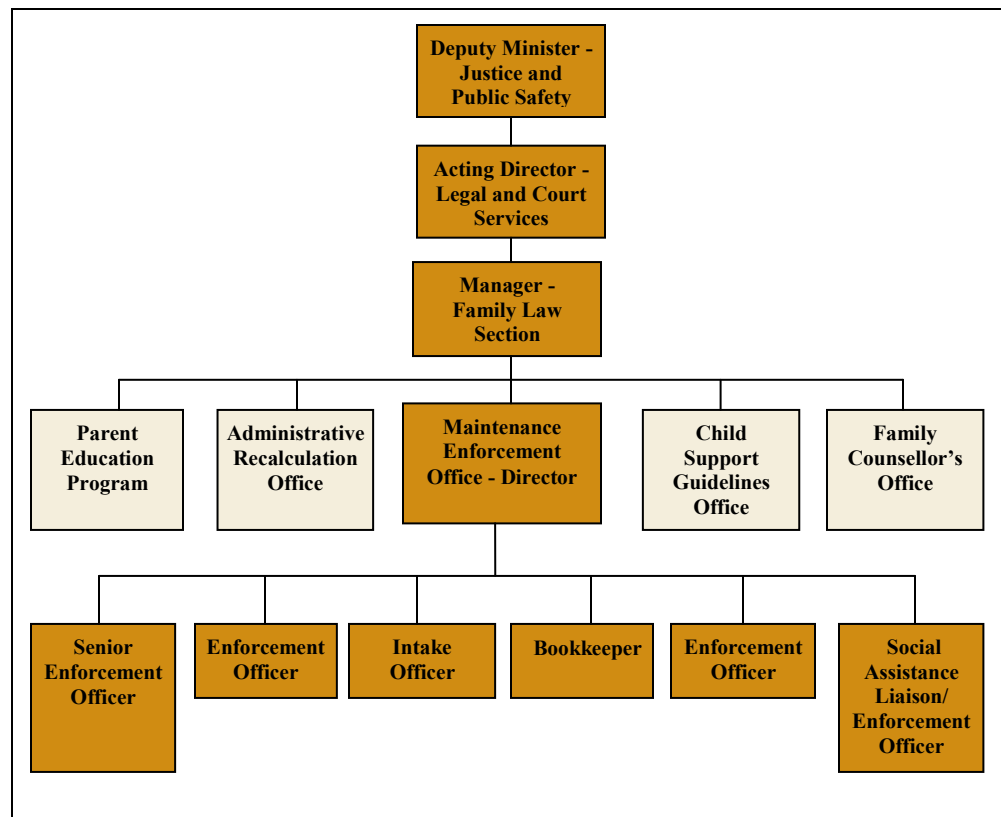
## 2. Maintenance Enforcement Program

### BACKGROUND

**2.1** The Maintenance Enforcement Program (the Program) is one of the five programs administered by the Family Law Section of the Legal and Court Services Division within the Department of Justice and Public Safety. For the year ended March 31, 2015, operating expenditures for the program were approximately \$470,000 of which over 80 percent was salaries. There are four enforcement officers within the Maintenance Enforcement Office not including the Director, who also works on maintenance support files. The Director is responsible to the Manager of the Family Law Section for the administration of the Program.

**Exhibit 2.1** provides an organizational chart which highlights the Maintenance Enforcement Program.

### EXHIBIT 2.1 MAINTENANCE ENFORCEMENT PROGRAM ORGANIZATION CHART AS AT MARCH 31, 2015



Source: Adapted from the organization chart of the Department of Justice and Public Safety

## 2. Maintenance Enforcement Program

---

**2.2** The Program operates under the *Maintenance Enforcement Act* and regulations. Under the Act, enforcement of maintenance orders and agreements is assigned to the Director of Maintenance Enforcement. Maintenance orders are orders by a court for the payment of money as support for spouses and/or children. Agreements can also be drawn up with the assistance of lawyers and mediators for spousal and child support. Maintenance orders and agreements are registered with the Director, who is an employee with the Department of Justice and Public Safety.

**2.3** The Program provides an avenue to seek formal ways of pursuing the collection of funds owed based on a court order or registered agreement. Court orders and agreements are not automatically enrolled with the Maintenance Enforcement Office in PEI, as is the case in some other provinces. Anyone can register an order or agreement with the Program and there is no cost to do so. For the remainder of this report, we refer to orders and agreements collectively as orders.

**2.4** The Program's mandate is to receive, register and enforce maintenance orders in such manner as appears practicable. The Program does not represent either the beneficiary or payor nor will staff provide any advice or solicit any direction regarding legal or other actions. The duties under the Program are limited to managing payments and enforcing payment of arrears.

**2.5** When support payments are received in full and on a timely basis, no action other than monitoring is required by the enforcement officers. When an order falls into arrears because payments are not made in full or not on a timely basis, it is the duty of the enforcement officers to start enforcement actions. The most common method of enforcement at the Program's disposal under the Act is to issue a payment order. A payment order requires an income source of the payor to make payments to the Director of the Maintenance Enforcement Program. For example, this would include garnishing the wages of the payor.

**2.6** Other enforcement actions at the Program's disposal outlined in the *Maintenance Enforcement Act* include, but are not limited to:

- seizing and selling the payor's assets (bank account, land, etc.);
- suspending driver privileges of the payor;

## 2. Maintenance Enforcement Program

---

- taking the payor back to court for a default hearing; and
- reporting to credit agencies.

**2.7** The federal government also offers assistance to enforce orders under the *Family Orders and Agreements Enforcement Assistance Act*. It provides other methods for locating and enforcing payors to meet their obligations under a maintenance order or agreement. This includes

- accessing federal government databases to locate the payor;
- intercepting federal funds due to the payor such as income tax refunds, employment insurance, and GST/HST rebates; and
- suspending federal licenses issued to the payor such as passports.

**2.8** The Office collects payments from payors and releases payments to the beneficiaries through a trust account maintained by the Program. For the year ended March 31, 2015, approximately \$7.3 million in support payments was collected and disbursed. A ledger is maintained for each case and these ledgers accumulate the amounts owing to a beneficiary based on the order. The balance in the ledger is to reflect what is due to a beneficiary.

**2.9** Registered users of the Program receive a Personal Identification Number to enable them to access financial and some enforcement information about their account. This information is available 24 hours a day/seven days a week through two methods:

- The Interactive Voice Response Telephone System; and
- The PEI Maintenance Enforcement Program Website.

**2.10** The jurisdiction of the Maintenance Enforcement Program is limited to the Province of PEI. The jurisdiction is based on the primary residence of the payor. Therefore, any payors that reside in another province would be dealt with through that province's program under a reciprocal agreement. If the file is registered with the PEI Maintenance Enforcement Program by the beneficiary, the PEI office acts as a liaison; however, it does not enforce a court order or agreement if the payor is located outside of PEI. The Program can assist in searching for a payor on behalf of the beneficiary by sending a 'request to locate' to another

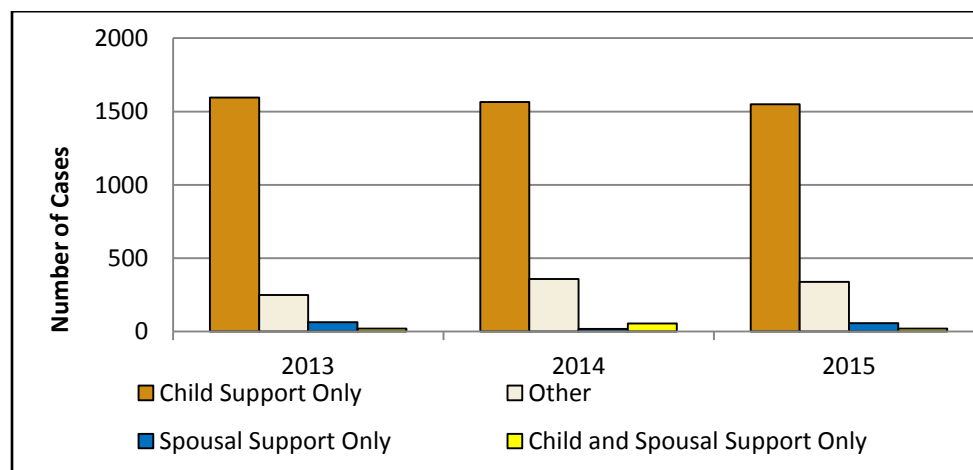
## 2. Maintenance Enforcement Program

jurisdiction; this would involve, for example, performing searches in driver license and health card databases for the missing payor.

**2.11** The difference between what is owing to a beneficiary and what has been paid to a beneficiary is considered an arrears balance. Based on information provided by the Maintenance Enforcement Office, there were 1,357 files in arrears totaling \$10.9 million as of March 31, 2015. This arrears total includes balances being enforced by another jurisdiction because the payor resides outside the province.

**2.12** There were 1962 cases enrolled in the Program as at March 31, 2015. These cases are broken down into four main categories: child and spousal support, spousal support only, child support only and other. The ‘other’ category refers to amounts where the maintenance order for child and/or spousal support has expired, but an outstanding balance remains to be collected from the payor. The number of each type of case file is depicted in **Exhibit 2.2**.

**EXHIBIT 2.2**  
**MAINTENANCE ENFORCEMENT PROGRAM**  
**SUPPORT CASES BY TYPE**  
**YEARS ENDED MARCH 31**



	2012-13	2013-14	2014-15
Child Support Only	1,595	1,564	1,549
Other	249	358	338
Spousal Support Only	63	18	56
Child and Spousal Support	19	54	19
<b>Total</b>	<b><u>1,926</u></b>	<b><u>1,994</u></b>	<b><u>1,962</u></b>

Source: Maintenance Enforcement Program

## 2. Maintenance Enforcement Program

---

### OBJECTIVES AND SCOPE

**2.13** The objectives of our audit were to determine whether

- there are adequate systems and processes to administer, record, and enforce maintenance orders in accordance with the *Maintenance Enforcement Act* and regulations; and
- adequate internal controls are operating over receipts and disbursements made through the Maintenance Enforcement Program.

**2.14** The standards against which we measured the Maintenance Enforcement Program's performance came from various sources including relevant government legislation and regulations, the Canadian Professional Engagement Manual, and general best practice. These standards, or criteria, were reviewed with senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit.

**2.15** The scope of our audit covered the fiscal year from April 1, 2014 to March 31, 2015. Our audit approach included

- interviews with the Program's management and staff;
- testing of case files with arrears balances;
- testing of receipts and disbursements; and
- examination of internal controls related to the trust account and case files.

**2.16** We did not audit the controls embedded in the IT system used by the Maintenance Enforcement Program. Further, we did not audit the completeness of the outstanding balance of arrears as at March 31, 2015.

**2.17** We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money established by the Chartered Professional Accountants of Canada and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## 2. Maintenance Enforcement Program

---

### OBSERVATIONS AND RECOMMENDATIONS

#### ENFORCEMENT OF ARREARS

**2.18** The *Maintenance Enforcement Act* and regulations assigns responsibility to the Director of Maintenance Enforcement to take the necessary steps for the enforcement of a maintenance order for the benefit of the person entitled to the support payment or of that person's child. It is important that the processes used in the day to day operations support full use of the powers assigned to the Director of the Program to maximize the collection of payments, especially in cases where arrears have accumulated.

#### **Policies and guidelines need to be developed and documented**

**2.19** Documented policies and guidelines are an important part of a system of internal control for any program. These policies provide a resource for staff to follow and a framework for achieving objectives. We expected documented policies to exist for enforcing the payment of arrears.

**2.20** There were some administrative guidelines, but these had not been updated since 2007. We noted during our audit that the practice was to use enforcements allowed for under the *Maintenance Enforcement Act* (the Act) and regulations as well as some undocumented policies. There was no written guidance for staff on how to specifically carry out the duties and powers assigned by the Act.

**2.21** The Director of the Maintenance Enforcement Program advised us that it is important for the enforcement officers to have flexibility in the enforcement actions that they apply to their case files given that each file has a unique set of circumstances. However, it was noted during our audit that this lack of written guidance has resulted in inconsistencies in enforcing arrears.

## 2. Maintenance Enforcement Program

---

### **Inconsistencies in enforcement procedures**

**2.22** We randomly selected 19 case files with an arrears balance at March 31, 2015. Through a review of these files, it was noted that enforcement procedures available to the Program under the Act such as cancelling driver's licenses, cancelling federal licenses, bank garnishments, judgements on properties, and default hearings are inconsistently applied among the officers. Through our interviews, we noted that some of the officers either do not use certain enforcements at all or use them in rare/specific circumstances, while other officers use the same enforcement regularly. For example, based on our interviews, we noted that two enforcement officers do not use bank garnishments as a regular enforcement activity. As a result, certain enforcement officers may have a better chance of collecting arrears balances for the beneficiaries than others.

**2.23** We further noted through the review of these case files, that certain enforcement and search procedures are underutilized by the case officers. For example, the Act specifies that officers can report payors to credit agencies as a form of enforcement. We were informed by the Director that this enforcement was not used at all by the Office because the system was not set up to interact with the appropriate agencies directly. However, this should not prevent the enforcement officers from reporting delinquent payors directly to a credit agency.

**2.24** Only one of the enforcement officers has access to the provincial driver's license and vehicle registration database as well as the provincial health card database. This enforcement officer uses this access to locate a payor when an address is unknown. It was noted during our audit that access to these databases can be obtained for the other enforcement officers but as of the completion of our audit, access had not been obtained. Again, this creates an unbalanced approach for enforcing arrears within the office.

**2.25** Current practice of the Program is for arrears files to have a federal intercept when there are no other payment arrangements in place. A federal intercept can be applied to garnish federal amounts owing to the payor for a period of five years. In 5 of 19 arrears files tested, we noted that a federal intercept was not in place, no other payment arrangements



## 2. Maintenance Enforcement Program

---

had been made, and no other enforcement activity had occurred during part, or all of the scope period tested.

**2.26** In cases where the payor cannot be located, enforcement officers can use a federal trace. A federal trace provides for the release of information from designated federal databanks to help locate persons who have breached maintenance orders. We noted nine arrears files where the payor could not be located during at least part of, if not the full, scope period of our audit yet no federal trace was initiated.

**2.27** There is a practice within the Maintenance Enforcement Program to garnish an additional 25 percent above the monthly obligation for accounts in arrears. We noted in the majority of arrears files tested, a federal intercept was initiated on the file. During the scope period, the employment insurance garnishment varied from an amount equal to the monthly obligation to 70 percent in excess of the monthly obligation. According to the Director of the Program, it is acceptable for varying amounts to be collected for the arrears since each payor's situation and level of income is different. However, this allows a high degree of discretion for each enforcement officer and leads to inconsistencies in enforcement actions.

**2.28** Although there is merit in allowing enforcement officers some flexibility in managing their assigned case files, it is equally important to establish and document policies on standard approaches for enforcement. Where circumstances warrant variations from standard approaches, guidelines could establish the level of approval and documentation required. This would help to reduce the risk of inconsistencies in the application of enforcement across case files and case officers.

### **Recommendation**

**2.29 The Maintenance Enforcement Office should develop and document policies and procedures to guide enforcement officers in administering and enforcing court orders and agreements.**

## 2. Maintenance Enforcement Program

---

### **Inadequate documentation to support key decisions**

**2.30** We expected the Maintenance Enforcement Program case files to contain sufficient support for key decisions. Key decisions would include such things as: whether to proceed with certain enforcement activity, changes to payment amounts, and changes to arrears amounts. There should be documentation in the file to support the work performed when there is no payment arrangement in place. Where certain enforcement actions were applicable and not taken, the file should contain documentation to support the decision.

**2.31** Through our review of 19 arrears files, there was inadequate documentation noted in the files. For nine sample items, there was no documented enforcement activity for a period of six months or more encompassing our audit scope period. In five of these nine cases, there was inactivity for the full 12-month scope period of our audit. It is important to note that for eight out of nine of these cases, there were no payments being made and in the other case there were insufficient payments made. There was no documentation to support the reason for the lack of enforcement on these case files. When we interviewed the enforcement officers on these cases, they indicated that given the large number of case files each officer is responsible for, they often rely on the beneficiaries to notify them regarding issues with payments.

**2.32** When a balance owed to a beneficiary is reduced, we expected that there would be written consent in the file from the beneficiary. We examined 21 additional arrears files, where through our analysis of system data, it was noted there were large reductions made to the arrears balance. In three of these cases there was no documentation in the file to support the reduction in the amounts owing. In two of the three cases, there were notes in the file that indicated that the beneficiary verbally agreed to the reduction in the arrears balance; but, there was no documentation received from the beneficiary to substantiate approval. The amounts reduced were \$186,000 and \$31,000 respectively. In the other instance, the balance was reduced by \$58,000 and there was nothing in the file to explain why the arrears balance was reduced.

**2.33** We were advised that the enforcement officers often interact with payors and beneficiaries via telephone. This does not relieve the enforcement officer of the responsibility to obtain appropriate

## 2. Maintenance Enforcement Program

---

documentation to support changes to the payment orders or reduce balances owing to the beneficiary. Documentation is important to protect the interests of the beneficiary, the payor, and the enforcement officer.

### Recommendations

**2.34 The Maintenance Enforcement Office should support key decisions in the case files with appropriate documentation.**

**2.35 The Maintenance Enforcement Office should obtain documented consent from beneficiaries before arrears balances are reduced and no longer enforced.**

### Errors noted in adjustments

**2.36** Enforcement officers, in some cases, are required to make adjustments to the beneficiary's ledger as a result of a variation order, divorce judgement, or recalculation order. Changes are often retroactive and involve a calculation of adjustments. We expected that there would be an independent review and sign off on these calculations.

**2.37** There were four cases noted in our sample where retroactive adjustments were required. Three of these four adjustments were incorrectly calculated. One of the three errors was corrected by another jurisdictional office when the file was transferred out of the province. The other two errors noted were corrected by the enforcement officers when we brought them to their attention. In all cases, there was no independent review of these calculations prior to the adjustments being made to the ledger.

### Recommendation

**2.38 The Maintenance Enforcement Office should perform and document an independent review of ledger adjustments.**

### No review process for case files

**2.39** We expected there to be a quality control process and procedures within the Maintenance Enforcement Office. In particular, there should be a review function at key decision points in managing the case files. As described previously, we considered key decisions to include: decisions on

## 2. Maintenance Enforcement Program

---

whether to proceed with certain enforcement activity, changes to payment amounts and changes to arrears amounts. Further, we expected that management would randomly select case files to review for compliance with legislation and office policies.

**2.40** The Maintenance Enforcement Office has not established review procedures and the enforcement officers' work on case files was not reviewed by peers or management. Enforcement officers typically decide independently when and what enforcement actions to take. They also calculate adjustments to payment orders and arrears balances. Without a review process, errors, inconsistencies, and inadequate enforcement action can go undetected. This is evidenced by the many examples previously described.

**2.41** When we discussed this issue with management and staff, we were told that given the large number of case files that each enforcement officer is responsible for, they rely heavily on the clients of the program to alert them to issues with the collection of maintenance orders. We were advised that only when complaints were received was the issue referred to management for a file review.

### **Recommendation**

**2.42 The Maintenance Enforcement Office should implement a risk-based quality control review process on case files.**

### **Insufficient management reporting**

**2.43** Reports serve as an invaluable management tool. They allow managers to make well informed and timely decisions that help to achieve organizational goals and perform effective oversight. We expected management of the Maintenance Enforcement Program to receive relevant reporting to aid in the decision making and oversight of the Program.

**2.44** The system used by the Maintenance Enforcement Program is capable of producing many reports. However, the system was adopted from another jurisdiction and we were advised that the reports that are readily accessible reflect the priorities of the other jurisdiction and not necessarily PEI's program. Management has not fully assessed and determined their information needs.

## 2. Maintenance Enforcement Program

---

**2.45** We were informed that some reporting from the system is relevant and used by management and staff. For example, reports are available on:

- clients with a changed financial assistance status;
- clients with a changed mailing address; and
- batch reporting on payments issued to reciprocating jurisdictions on a daily basis.

**2.46** We found that the reports used by maintenance enforcement officers and the Director are not sufficient to monitor risks in the program or to aid in decision making. For example, management does not obtain reports on key risk areas, such as adjustments to case files and cases with arrears but no enforcement actions taken in the last 90 days. Management agreed that the system is not providing them with the reports they require to oversee and manage key risks effectively. We were advised at the end of our audit that management began working with Information Technology Shared Services to obtain more relevant reports.

### **Recommendation**

**2.47 The Maintenance Enforcement Office should define and obtain the necessary reports for effective management and oversight of the Maintenance Enforcement Program.**

### **INTERNAL CONTROLS: RECEIPTS AND DISBURSEMENTS**

**2.48** Internal controls are a set of processes and procedures that are intended to protect assets, ensure the reliability of accounting information, and improve operational efficiency. We examined selected internal controls over the receipt and disbursement of maintenance payments.

#### **Bank reconciliations not performed**

**2.49** The Maintenance Enforcement Office administers a trust account for support payments. Over \$7 million in receipts and disbursements flow through this account each year. We expected there to be adequate controls to ensure that receipts and disbursements of these third party payments are completely and accurately recorded in the trust account as well as in the client ledgers maintained on the Maintenance Enforcement system.

**2.50** Bank reconciliations are an important control over receipts and disbursements. Bank reconciliations provide oversight to safeguard cash

## 2. Maintenance Enforcement Program

---

by detecting and resolving errors in a timely manner. We found that bank reconciliations have never been performed to reconcile the Maintenance Enforcement records with the trust account. The current system has been in place since 2010. It is important that independent bank reconciliations are performed.

**2.51** We noted that the Comptroller's Office within the Department of Finance has signing authority over this trust account. The Comptroller's Office was aware that this trust account was not reconciled and had made previous attempts to perform this reconciliation but never completed the process. At the conclusion of our audit, a resource with the Comptroller's Office had been assigned to bring the required reconciliations up to date. We were informed that ongoing reconciliation of this account has been assigned to the Finance and Corporate Services Division of the Department of Justice and Public Safety.

### **Unallocated funds in the trust account**

**2.52** The trust account had a balance of \$248,000 as of March 31, 2015. We expected management of the Program to maintain adequate records on the ownership of this balance. We noted that unreconciled transactions had accumulated in the trust account over time. At the time of our fieldwork, approximately 70 percent of the balance in the trust fund was assigned to current active cases within the Program. The remaining balance of approximately \$74,000 is unassigned; however, management advised that the balances are due to overpayments on case files, payments owing to unknown beneficiaries and payments for unallocated Director's fees of the program.

**2.53** Given the nature of the program, the trust account fluctuates on a daily basis. Management, at any given time, should be able to determine that the money in the account relates to an active case file and is not an overpayment due back to a payor or general revenue of the province that should be allocated to the province's accounts.

### **Inadequate segregation of duties**

**2.54** Segregation of duties is the concept of having more than one person required to complete a task. As an internal control, it is intended to

## 2. Maintenance Enforcement Program

---

prevent or detect unauthorized transactions and/or errors. Ideally, an appropriate segregation of duties would separate

- custody of assets, i.e. cash;
- recordkeeping;
- authorization; and
- reconciliation procedures.

In the absence of appropriate segregation, we would expect compensating controls to exist to mitigate the risks.

**2.55** We found that there was an inadequate segregation of duties. For example, there are some enforcement officers who handle cash received at the Program's office, record the receipts in the Maintenance Enforcement system, and also make deposits in the trust account. These staff members also have system access to allow them to make adjustments to the client ledgers. This is exacerbated by the fact that the bank reconciliations on the trust account have not been completed since 2010 and one enforcement officer is responsible to add beneficiaries as vendors in the province's payment processing system.

### **No errors found in audit sampling of receipts and disbursements**

**2.56** We examined 32 transactions to test for accuracy, completeness and timeliness of the process from collection of the support payments from the payor to the disbursement of the support payments to the beneficiary. No errors were noted within this sample.

**2.57** The lack of basic internal controls, including no quality control review of files, and inadequate documentation to support adjustments, has resulted in a weak internal control environment for the Program. The risk of unauthorized transactions or errors occurring and not being detected in this environment is high.

## 2. Maintenance Enforcement Program

---

### Recommendations

**2.58** The Maintenance Enforcement Office should determine the appropriate distribution of the unassigned balance in the trust account at March 31, 2015, and complete the required adjustments.

**2.59** The Maintenance Enforcement Office should develop and implement internal controls to safeguard assets and maintain complete and accurate financial records. This at a minimum should include

- regular bank reconciliations;
- periodic review of unallocated amounts in the trust account;
- appropriate segregation of duties; and
- review and approval of significant adjustments to client ledgers.

### MANAGEMENT RESPONSE

**2.60** Our report was provided to the Department of Justice and Public Safety and a written response was requested.



### 3. DEVELOPMENTAL LENDING

---

#### CHAPTER SUMMARY

##### *What we examined*

We examined the lending activities of Finance PEI's Developmental Lending Division and Island Investment Development Inc. to ascertain whether sufficient and appropriate due diligence was exercised when approving and monitoring developmental loans. Further, we assessed whether impaired loans were identified, actively managed, and reported.

Audit work for this report was substantially complete as of June 2015.

##### *Why it's important*

The loans receivable balance for Finance PEI (FPEI) and Island Investment Development Inc. (IID) has more than doubled in the last ten years. In 2005, the developmental loans receivable balance of these two Crown corporations was \$70 million. At March 31, 2015, the developmental loans balance had grown to \$191 million. Given the size of the loan portfolio, it is important that FPEI and IID have processes to both effectively manage the risk of loss to government and measure and report on the benefits realized.

##### *What we found*

- Neither FPEI nor IID measures and reports on the economic benefits of its developmental lending programs. The size of the portfolios warrants a robust performance measurement framework.
- Overall, the approval and monitoring of the developmental loans in our sample was adequate. However, loans to one borrower exceeding \$30 million present significant risk to the province. In this case, we noted weaknesses in the due diligence process including security assessments and insufficient information on cost estimates.
- Treasury Board and the boards of directors of Finance PEI and IID are not receiving adequate information to provide oversight on developmental loans.

### 3. Developmental Lending

---

#### BACKGROUND

**3.1** Prior to the creation of Finance PEI (FPEI) on April 1, 2012, the province's loans to businesses were primarily held by Island Investment Development Inc. (IIDI), through its subsidiary, Prince Edward Island Century 2000 Fund Inc. (Century Fund), the PEI Lending Agency, and Innovation PEI. The creation of FPEI merged the PEI Lending Agency loan portfolio and the loans held at Innovation PEI, resulting in two key lending organizations, FPEI and IIDI.

**3.2** FPEI and IIDI report to the Minister of Economic Development and Tourism (formerly the Minister of Innovation and Advanced Learning). FPEI and IIDI are led by the same senior official although each has its own board of directors. IIDI's board is made up solely of senior officials within government, while the FPEI board has government and industry representation. FPEI developmental loans and IIDI loans are administered by the same staff.

#### **Finance PEI**

**3.3** FPEI is a Crown corporation responsible for administering provincial financing programs to new and existing businesses that support PEI's economy. FPEI has three divisions: Commercial and Resource Lending, Strategic Initiatives and Properties, and Developmental Lending. Our audit focused on the Developmental Lending Division.

**3.4** The Developmental Lending Division provides financing, strategic investment, and loan guarantees in support of businesses that create, maintain, or expand priority sectors. The emphasis is on businesses involved in exporting to domestic and international markets, import replacement, and value-added processing.

**3.5** At March 31, 2015, the Developmental Lending Division administered \$14 million (net \$6 million) in developmental loans.

### 3. Developmental Lending

#### Island Investment Development Inc.

**3.6** IIDI is responsible for developing, implementing, and managing programs and services to increase PEI's population through immigration, repatriation, settlement, integration, and broad population retention. In addition, IIDI administers PEI Century 2000 Fund Inc., designed to support private sector business growth.

**3.7** At March 31, 2015, the gross loan balances for IIDI and its subsidiary totaled \$177 million (net \$144 million). The subsidiary, Prince Edward Island Century 2000 Fund Inc., held most of these loans with \$140 million while the remaining \$37 million were held in IIDI.

#### Developmental Loan Portfolio

**3.8** FPEI Developmental Lending Division and IIDI administer loans to a variety of business sectors within the province. **Exhibit 3.1** summarizes the total loans receivable for FPEI Developmental Lending Division and IIDI at March 31, 2015.

**EXHIBIT 3.1**  
**DEVELOPMENTAL LOANS**  
**FPEI DEVELOPMENTAL LENDING DIVISION AND IIDI**  
**LOANS RECEIVABLE**  
**AS AT MARCH 31, 2015**  
**(\$Millions)**

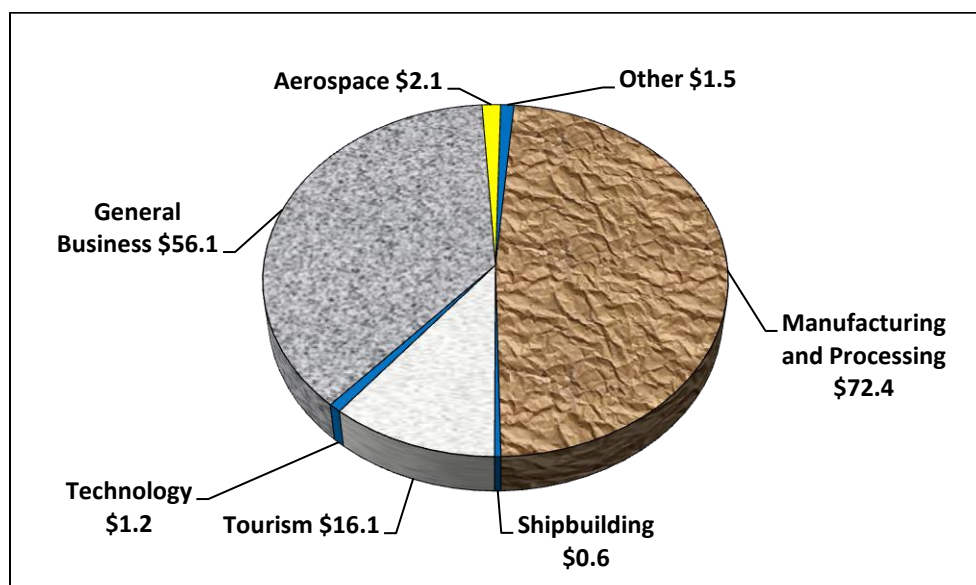
	Gross Loans Receivable	Net Loans Receivable
<b>Finance PEI</b>		
Developmental Lending Division	\$ 14	\$ 6
<b>Island Investment Development Inc.</b>	<u>177</u>	<u>144</u>
<b>Total</b>	<b><u>\$191</u></b>	<b><u>\$150</u></b>

Source: Island Investment Development Inc. and Finance PEI

**3.9** **Exhibit 3.2** shows the net loans outstanding at March 31, 2015, broken down by sector.

### 3. Developmental Lending

**EXHIBIT 3.2**  
**DEVELOPMENTAL LOANS**  
**FPEI DEVELOPMENTAL LENDING DIVISION AND IIDI**  
**NET LOANS RECEIVABLE**  
**MARCH 31, 2015**  
**(\$ Millions)**



Source: Island Investment Development Inc. and Finance PEI

#### OBJECTIVES AND SCOPE

**3.10** The objectives of our audit were to determine whether, for the Finance PEI Developmental Lending Division loans and Island Investment Development Inc.

- sufficient and appropriate due diligence was applied in approving and monitoring of loans; and
- impaired loans were identified, actively managed, and reported to appropriate levels of senior management and governing bodies.

**3.11** Our audit scope included all FPEI developmental lending loans and all IIDI loans that existed at March 31, 2014. Together the gross loans receivable outstanding totaled \$189 million at that time. Our audit scope also included loans that were approved between April 1 and July 31, 2014.

### 3. Developmental Lending

---

Our audit excluded

- FPEI Commercial and Resource Lending Division; and
- loan guarantees.

For the remainder of this chapter, when we refer to Finance PEI, we are referring solely to the Developmental Lending Division of Finance PEI.

**3.12** We selected a sample of 21 loan files from files that existed at March 31, 2014 and the loans approved between April 1, 2014 and July 31, 2014. Eight of the sample items were selected from high value loans. These 8 sample items totaled \$75 million. An additional 13 loans totaling \$7.6 million were selected from the remaining loans. We examined whether sufficient and appropriate due diligence was applied when approving and monitoring the loans. We also assessed whether impaired loans were actively managed.

**3.13** Our audit approach included

- review of policies and legislation;
- interviews with senior staff and loans officers; and
- review of loan files and supporting documentation.

**3.14** The standards against which we measured FPEI and IIDI's performance came from applicable legislation and policies as well as best practice. These standards, or criteria, were reviewed with senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit.

**3.15** It is important to note that our observations and conclusions relate only to the management practices and actions of Finance PEI and IIDI. Consequently, our comments and conclusions do not pertain to any practices or performance of the borrowers of either organization.

**3.16** We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money established by the Chartered Professional Accountants of Canada and accordingly included such tests and other procedures as we considered necessary in the circumstances.

### 3. Developmental Lending

---

#### OBSERVATIONS AND RECOMMENDATIONS

#### STRATEGY, ECONOMIC BENEFIT AND POLICY

**3.17** Loan officers for FPEI and IIDI are tasked with evaluating loan requests from potential borrowers. They gather the required information and make a recommendation as to whether money should be loaned to the business, the terms of the proposed loan, and the security to be obtained. Depending on the size and nature of proposed loans, senior management and the board of directors of each organization as well as Treasury Board and Executive Council would be involved in the decision making process.

**3.18** Funds loaned by FPEI and IIDI are intended to stimulate and grow the economy of the province. It is important that staff and other decision makers remain focused on the common goals of both organizations and are consistent in their actions towards achieving these goals. We expected an overall lending strategy with indicators for measuring success. We also expected that the organizations would have documented lending policies.

#### **Developmental lending activities not monitored and reported based on strategic priorities**

**3.19** The province's Island Prosperity Strategy was announced in 2008 and implementation began in 2009. It was a five year, \$200 million provincial strategy to change the course of the Island's economy. The Strategy methodically laid out goals, objectives, action plans, and a performance measurement framework. It also indicated specific sectors which were a priority for the economic development of the province.

**3.20** We found that loans were made by FPEI and IIDI to businesses operating in the key sectors. However, there was limited monitoring and reporting on the loan portfolios of these government lending organizations based on these business sectors. This lack of reporting makes it difficult to determine the contribution of the lending portfolio to the economic development of the province and the achievement of the Strategy.

**3.21** In 2011, the former Ministry of Innovation and Advanced Learning published a progress report on the overall Strategy. The Ministry reported that two years into the five year, \$200 million Strategy, it had invested \$7.7 million in over 100 projects. Information was also provided on each of the priority sectors. No further progress reports on the Strategy have

### 3. Developmental Lending

---

been released. At the outset of our audit, senior management advised that a new economic development strategy would be developed by government. However, at the completion of our audit, a new strategy had not been developed.

#### **Economic development indicators have not been developed**

**3.22** FPEI and IIDI's websites and annual reporting all emphasize the importance of economic development as the cornerstone of the lending programs. Given the importance placed on economic development and as the rationale provided for loan application approvals, we expected FPEI and IIDI to have a system to track the economic benefits and report on performance.

**3.23** We found in our sample testing that economic benefits in general, and jobs specifically, were often part of the rationale to approve a loan. However, these factors were not regularly tracked or monitored.

**3.24** We also found that FPEI and IIDI did not have a performance measurement framework to assess achievement of intended economic benefits, nor have they identified performance indicators of success. FPEI and IIDI can report anecdotally on specific success stories, but they have not implemented the necessary mechanisms to routinely measure and report on economic benefits achieved as a result of lending programs.

#### **Recommendation**

**3.25 Finance PEI and Island Investment Development Inc. should identify key economic development indicators for the developmental loan programs and report on performance in relation to these indicators.**

#### **Lending policies lack detailed guidance for risk assessments, security requirements, and problem accounts**

**3.26** We expected FPEI and IIDI to have documented policies governing their lending practices. We expected policy to provide guidance for administering loan applications, assessing risk, obtaining security, and monitoring loan performance.

### 3. Developmental Lending

---

**3.27** Although lending policies existed, we found that some were broadly stated and provided limited guidance for staff. We found documented policies were clear regarding requirements for minimum equity contributions, annual risk reviews, and typical repayment terms for loans. However, the policies regarding risk assessments at the application stage, security requirements, and managing problem accounts lacked detailed guidance.

**3.28** We expected the policy to provide a framework for assessing the risk of each loan application. We found the policy had a specific section on risk assessment; however, the guidance was very broad. IIDI implemented a risk rating spreadsheet for conducting annual reviews; however, there is no systematic risk assessment to formally quantify the level of risk for loans at the application stage. Such a documented assessment would provide clear and consistent information to decision makers regarding the risk associated with each loan application.

**3.29** We expected that the policy would outline minimum security requirements and provide guidance on acceptable types as well as key considerations when valuing security. We found that policy guidance on security requires IIDI to, at a minimum, obtain the personal or corporate obligation of the borrower by way of a personal guarantee and/or a promissory note. The policy also stated that “other specific security requirements will be determined by the project financed, however hard security must be obtained at all times where available and applicable.” This additional guidance is vague and does not provide clear direction to staff. It does not indicate what is considered hard security nor does it provide examples of when it would be applicable to obtain this type of security. Also, the policy does not provide guidance on determining the value of security.

**3.30** We expected the policy to outline details for dealing with problem accounts, including definition, appropriate communications, and mitigating procedures. We noted that the policy was silent in this regard.

**3.31** The importance of a policy is enhanced when dealing with developmental loans which by their nature are risky and often non-traditional. Vague guidance leaves a lot of room for discretion.



### 3. Developmental Lending

---

Additional guidance would assist in decision making and help ensure consistency when assessing loan applications.

#### **Recommendation**

**3.32 Finance PEI Developmental Lending Division and Island Investment Development Inc. should prepare and provide additional policy guidance to staff on lending processes regarding risk assessments at the application stage, security requirements, and problem accounts.**

#### **APPROVALS AND MONITORING**

**3.33** Providing financing with public funds warrants a high level of due diligence. We expected FPEI and IIDI to apply due diligence on loan applications including a documented assessment against lending criteria to support the decision to finance. Loan assessments should include

- detailed cost estimates;
- projected cash flows;
- management's experience;
- the borrower's financial commitment;
- projected economic benefits;
- the availability of security; and
- the total provincial loans outstanding to the borrower including related party businesses.

**3.34** We found that, in general, loan officers obtained and documented appropriate information to support their assessment of loan applications. However, we noted issues with three of the sample files, two of which involved the same borrower. We have profiled these instances in the paragraphs that follow.

#### **Insufficient information obtained to assess value of security**

**3.35** We expected that security obtained would be sufficient considering the risk of each loan and based on policy would include, at a minimum, a personal or corporate guarantee of the borrower and/or a promissory note. Given the developmental nature of many of the borrowers of both FPEI and IIDI, security deficits during the loan application stage are common. We expected that when a security deficit was noted, decision makers were

### 3. Developmental Lending

---

made aware of this prior to approval. With all loans, we expected that staff would consider the value of the security pledged.

**3.36** For all of our sample items, there was a promissory note and/or a guarantee from the borrower and loan files generally demonstrated that staff considered the value of security. In cases where there were security shortfalls, decision makers were made aware of this. However, we noted one instance where a borrower was approved for a \$2.14 million loan and the loan officer noted a significant shortfall in the security package. Because of this deficiency, IIDI relied heavily on the personal guarantee of one of the shareholders. We noted IIDI did not gather sufficient financial information on the shareholder's net worth to determine if such reliance was warranted. We also noted one instance where there was no additional documentation to demonstrate the value of a guarantee had been reassessed when additional financing was approved. This is discussed later in this chapter.

#### **Recommendation**

**3.37** When placing reliance on guarantees as part of the loan security, Island Investment Development Inc. should obtain sufficient financial information to support the guarantee.

#### **Loans approved in accordance with regulations**

**3.38** We expected that loans would be approved in accordance with FPEI and IIDI's regulations. In each case, the regulations clearly state that approval thresholds are to be calculated based on the total indebtedness of the borrower to the corporation, including related parties. For loans in our sample, authorization levels were respected and approvals were in accordance with regulations.

#### **Letters of offer signed prior to disbursement of funds**

**3.39** We expected that formal letters of offer would be signed by all parties for each loan. We expected these to include terms and conditions which were in accordance with policy and legislation.

**3.40** FPEI and IIDI staff have standardized letters of offer that they modify for each loan. These letters create a binding agreement between

### 3. Developmental Lending

---

the borrower and the lender. They outline the detailed terms and conditions of the loan based on policy and legislation. We found that all loan files we examined had an authorized letter of offer and, in each case, the loan funds were not disbursed until the letters were signed.

#### **Documented monitoring occurred at least annually**

**3.41** Monitoring of loans is important to identify issues and to allow decision makers to take action which can mitigate losses. We expected regular timely monitoring on all outstanding loans. We expected this monitoring to be designed to identify issues that require attention and to be completed at least annually, but more frequently if the loan file was showing signs of problems.

**3.42** All letters of offer for our sample items included requirements for the borrower to provide FPEI or IIDI with annual financial statements. We noted that annual reviews were conducted when financial information was obtained. For two loans in our sample where financial information was not obtained, staff had made and documented numerous attempts to obtain the information. We noted issues with monitoring activities for one significant loan file which is profiled in the following section of this report.

#### **Significant issues with one large file**

**3.43** In October 2008, a business plan was submitted to IIDI requesting \$30 million in financing. The plan was based on an average 75 percent financing for two large construction projects and one retrofitting project. We have concerns regarding the due diligence applied to these loan requests.

**3.44** We expected requests for financing to be supported with a documented assessment of lending criteria which supported the decision to offer financing. Included in these criteria were consideration of projected cash flows, the valuation of security obtained, and assessment of detailed cost estimates. After funds were disbursed, we expected loans to be monitored to identify issues in a timely manner.

**3.45** IIDI initially assessed the request for financing in October 2008. Several significant issues were raised by IIDI, including

### 3. Developmental Lending

---

- The proposed arrangement would increase the province's overall exposure to more than \$37 million as the borrower already had a \$7.9 million loan outstanding with another government business entity.
- There were concerns raised over whether there would be enough cash flow generated to cover the debt repayments.
- Cost overruns could materially affect the overall project costing and this would further impact the ability to service the debt.
- The analysis concluded that the entire ability to repay the financing was dependent on a guarantee from the parent company of the borrower, and not the business case as presented.

**3.46** Except for the submission to Executive Council, there was no documentation in the file to show that IIDI supported the loan request for \$30 million. Information was provided to Executive Council outlining the financial implications and other relevant factors. On October 28, 2008, Executive Council approved the \$30 million financing plan. The loan application was not presented to the IIDI Board of Directors for approval until after Executive Council had provided approval.

**3.47** In May 2009, Treasury Board and Executive Council authorized a \$2.84 million increase to the loan package to help finance increased costs associated with changes to the original construction plan. The details of the final financing deal for the projects are highlighted in **Exhibit 3.3**. The total financing provided fell within Executive Council's authorization to finance up to 75 percent of the total costs. Individual letters of offer were completed for each of the three projects.

### 3. Developmental Lending

#### EXHIBIT 3.3 APPROVED FINANCING (\$ Millions)

	Estimated Cost	Approved Financing	Percentage
Project A	\$24.49	\$16.29	67%
Project B	7.69	5.00	65%
Project C	<u>12.15</u>	<u>11.55</u>	<u>95%</u>
<b>Total</b>	<b><u>\$44.33</u></b>	<b><u>\$32.84</u></b>	<b><u>74%</u></b>

Source: Island Investment Development Inc.

#### *Guarantee not re-assessed*

**3.48** The guarantee of the parent company was heavily relied on due to the significant risk identified with these loans. Therefore, we expected there would be adequate due diligence applied in analyzing the validity and value of the guarantee. The audited financial statements of the parent were analyzed by IIDI when assessing the original financing request. Two months prior to the approval of the \$2.84 million, current audited financial statements of the parent company were released. Despite the availability of these financial statements as well as the poor global economic conditions at the time, there was no additional documentation in the file to demonstrate the value of the guarantee had been re-assessed at the time the additional \$2.84 million financing was approved.

#### *Detailed cost estimates not obtained*

**3.49** For large construction projects, we expected that detailed cost estimates would be provided as support for the loan approvals. We expected these estimates to outline the work to be completed and the cost of major components of the projects. As the projects progress, these detailed estimates can be compared to actual costs to identify significant variances for follow up.

**3.50** We found these loans were approved without IIDI obtaining a detailed budget to support the estimated cost of the projects. For each project, the cost estimates in the loan file were simply broken down between “labour” and “materials”.

### 3. Developmental Lending

---

**3.51** The letters of offer required that a detailed cost budget be provided prior to disbursement of funds. Detailed budgets were received in 2009 with the first claim for each project after costs had already been incurred.

**3.52** The letters of offer approved different levels of financing and set upper limits on total dollars and percentage financed for each project. There were many reallocations between projects. We were advised that although each claim was reviewed prior to payment to ensure the work was completed, IIDI did not question or obtain detailed information to determine the impact of these reallocations.

**3.53** Obtaining explanations for reallocations provides assurance that the funds advanced are used for the purpose intended. There was a total of \$3.3 million in costs reallocated from Project A to Project C. The total costs for Project C did not exceed the original budget. Therefore, it was unclear whether the retrofitting in the original plan had been completed for Project C.

#### **Recommendations**

**3.54** For significant projects, Island Investment Development Inc. should obtain detailed cost estimates prior to approving financing.

**3.55** Island Investment Development Inc. should monitor actual project costs against original cost estimates and obtain explanations for significant variances.

#### *Restructure approved without obtaining additional security*

**3.56** In accordance with the terms of the loan agreements, no restructuring of the borrower was to occur without prior documented approval from IIDI. In December 2009, IIDI became aware of a pending restructure of the borrower. Although inquiries were made by IIDI, no information was obtained at that time on the potential transaction and its implication on IIDI's loan security. Five months later, the parent company was restructured without documented approval from IIDI.

**3.57** In December 2010, the borrower formally requested approval for the restructure from the IIDI Board of Directors. We expected that IIDI would have analyzed the financial implications of the restructure to identify the impact on the value of loan security. IIDI's security was

### 3. Developmental Lending

---

heavily dependent on the guarantee of the original parent company. An analysis was provided to IIDI's Board of Directors when seeking approval of the restructuring. In this document, IIDI staff stated the parent company was facing challenges which they expected to continue in the future. Regardless of these concerns, restructuring was approved by IIDI in January 2011 without obtaining any additional security. The original parent company, with which IIDI had a guarantee, subsequently filed for creditor protection under the *Companies' Creditors Arrangement Act* (CCAA) in September 2011.

**3.58** In October 2011, immediately after the beginning of the CCAA process, the borrower defaulted on the loan for Project A. The creditor protection process was complex and covered a long period of time. Numerous transactions occurred during this time including the transfer of the borrower's assets to a third party company in early 2012. This new owner then began examining options for the sale of the assets. IIDI, as the holder of the security, considered the implications of the options for the province.

#### *Loans were refinanced*

**3.59** Over the following months, while the CCAA process was ongoing, a refinancing package was developed which would result in the assets being transferred back to the original ownership group. In several submissions to Executive Council, IIDI highlighted concerns with the refinancing package including:

- Neither the borrower nor the parent could provide any current financial information to support its stability.
- The restructured loans included an additional \$500,000 advance.
- The restructured loans included \$1.2 million in new financing available for the borrower to start two new businesses which would be 100 percent financed by the province.
- Significant concessions were made on loan terms including delayed payments and a preferential reduced interest rate below that recommended in IIDI policy.

### 3. Developmental Lending

---

**3.60** In addition to these issues, the proposal to Executive Council at the time identified a deficiency in the security position of \$2.9 million.

**3.61** Instead of restructuring the loans, another option considered by IIDI was to realize on its security. However, concerns were also identified with this option including, but not limited to, potential business closures.

**3.62** Executive Council approved \$38.6 million in restructured loans in July 2014. Included in this amount was \$4.4 million paid to consolidate a loan from another government business entity to obtain additional security. In addition, there was \$2.7 million in financing approved for future capital maintenance.

**3.63** At March 31, 2015, the loan balance reflected in the province's consolidated financial statements was \$35.5 million. At that time, the provision for loss for these loans was \$10.6 million.

**3.64** As noted earlier, due diligence is important when lending public funds and there are many factors to consider. In summary, we found several areas of concern with these substantial loans. From the beginning of the loan process IIDI had concerns regarding future cash flows of the borrower and therefore the ability to service the debt. The guarantee of the parent company was an important consideration in the loan approval. Concerns were subsequently raised regarding the financial situation of the parent company, which guaranteed the loan but the security package was not altered after a restructuring of the borrower. In addition, cost estimates received prior to construction were not sufficient to give details on the work to be completed.

#### PROBLEM LOANS AND REPORTING

**3.65** Mitigating losses is an important objective of any lending program. Monitoring both individual loan files as well as the loan portfolio as a whole for signs of trouble and staying on top of potentially problematic files are standard practices to mitigate the risk of loss.

**3.66** We expected that FPEI and IIDI would have a mechanism to define and identify problem accounts, and that those problem accounts would be regularly reported to senior management. We also expected FPEI and IIDI to provide the boards of directors and Treasury Board with regular reporting on the performance of the loan portfolios of the two Crown corporations.



### 3. Developmental Lending

---

#### **No definition of problem loans**

**3.67** We noted that policy guidance does not provide a definition of problem loans. Loan officers stated that there is no specific definition of problem loans and there are many factors to consider when determining if a loan is problematic. Without clear guidance however, there is a risk of inconsistencies in identifying and reporting problem loans.

#### **Reporting to boards of directors was not complete**

**3.68** We interviewed staff, examined reports and reviewed board meeting minutes. We found that senior management and the Board of Directors of FPEI receive regular reporting on the overall loan portfolios. We noted that the regular reporting to the FPEI board of directors does not highlight non-performing loans. Non-performing loans, although not defined in policy, were described by staff as loans over 90 days behind in payments with one or more additional negative characteristics. We were advised that, on a case by case basis, staff prepare submissions for the board on specific non-performing accounts.

**3.69** We noted that the Executive Director of IIDI receives regular reporting on problem loans for IIDI. However, the IIDI Board of Directors does not receive regular reports on the loan portfolio. Without sufficient information, the board of directors cannot provide oversight on non-performing accounts.

#### **Recommendations**

**3.70** Finance PEI and Island Investment Development Inc. should update their loan policies to define problem loans. This definition should differentiate between performing and non-performing loans.

**3.71** Finance PEI should enhance reporting to its board of directors to include reporting on non-performing loans.

**3.72** Island Investment Development Inc. should provide its board of directors with regular reporting on its loan portfolio including non-performing loans.

### 3. Developmental Lending

---

#### **Reporting to Treasury Board was not in compliance with requirements**

**3.73** In January 1999, Executive Council required the former PEI Lending Agency to report quarterly on borrowers with aggregate loans in excess of \$1 million. In 2003, Executive Council directed that the quarterly reporting be submitted to Treasury Board instead of Executive Council and include IIDI loans as well. This requirement for quarterly reporting has continued since then, and additional requirements were established by Treasury Board.

**3.74** We interviewed staff and reviewed the quarterly reporting. We looked for quarterly reporting from March 31, 2013 to September 30, 2014, and found that there was no reporting to Treasury Board in three of those seven quarters. Management advised that they were working with Treasury Board to develop a standardized reporting package and the process took longer than planned.

**3.75** For our loan sample items, we looked to see whether they were appropriately reported to Treasury Board. Treasury Board requires quarterly reporting on loans where significant changes have been made to terms and conditions. We noted that for some of our sample items, a more complete description of the loan account should have been provided to Treasury Board. In one instance, there were material changes to the loan terms that were not reported back to Treasury Board. In three other instances, loan payment terms had been relaxed and provisions for loss had been set up. However, reports provided to Treasury Board did not provide information on the changes and simply indicated the loans were current. In each of these instances the loan balance exceeded \$1 million. Treasury Board also requires that quarterly reporting include all loans which have a provision for loss specifically assigned. In an additional instance, IIDI omitted a loan for \$490,000 which had a specific provision for loss. This loan should have been included on the quarterly report. We were advised that this was an oversight.

**3.76** Further, we noted reporting to Treasury Board did not highlight problem loans which were refinanced. Instead, if loan terms were amended, the loan file would be reported as current as long as the amended terms were being complied with. Highlighting problem loans

### 3. Developmental Lending

---

which have been refinanced provides a more complete picture of the loan portfolio and acknowledges the increased risk with these loans.

#### **Recommendations**

**3.77 Finance PEI and Island Investment Development Inc. should strengthen their loan reporting process to comply with Treasury Board requirements.**

**3.78 Finance PEI and Island Investment Development Inc. should highlight in their loan reporting to Treasury Board any problem loans which have been refinanced.**

#### **MANAGEMENT RESPONSE**

**3.79** Our findings and recommendations were discussed with management. Our report was issued and a written response has been requested.

## 4. PAYMENTS TO PRIVATE NURSING HOMES

---

### CHAPTER SUMMARY

#### *What we examined*

This audit examined Health PEI's processes for reviewing and approving claims from private nursing homes, assessing eligibility for accommodation subsidies, and monitoring and reporting on long-term care subsidies.

Audit work for this report was substantially complete as of January 2016.

#### *Why it's important*

It is important for Health PEI to protect the interests of the frail elderly. Payments to private nursing homes were over \$20 million in 2014-15. Almost 50 percent of long-term care beds in the province are in private nursing homes. Payments to these homes have a significant impact on services to long-term care residents in the province.

#### *What we found*

- Errors were noted in some monthly claims paid by Health PEI to private nursing homes.
- Health PEI does not conduct annual subsidy reviews on all eligible residents as required by the *Long-Term Care Subsidization Act Regulations*.
- Health PEI was not publicly reporting information as required by the *Long-Term Care Subsidization Act*.

Overall, we found that Health PEI has appropriate procedures over the assessment and approval of applications for long-term care subsidies. However, annual reviews and case audits are not regularly conducted as required by the *Long-Term Care Subsidization Act Regulations*. The review by Health PEI of claims submitted by private nursing homes needs to be strengthened.

## 4. Payments to Private Nursing Homes

---

### BACKGROUND

**4.1** Long-term care facilities, or nursing homes, provide accommodation, personal care, and medical services to residents on a 24 hour basis. Residents are admitted to a long-term care facility if they require nursing care at a level that can no longer be safely offered in their homes or a community care facility.

**4.2** On January 1, 2007, significant changes were made to the *Long-Term Care Subsidization Act* and regulations which affected the delivery of the long-term care program in the province. As a result of these changes:

- Nursing home residents are responsible for paying the accommodation portion of their cost of care. The health care portion of each resident's cost of care is paid by government; and
- Eligibility for accommodation subsidization is now based on income rather than total financial resources including assets and income.

**4.3** Admission to long-term care nursing facilities is based on a coordinated assessment by a committee comprised of representatives from hospitals, home care, and long-term care programs. This committee uses a standard assessment process to determine if an individual requires long-term care.

**4.4** Staff from the Long-Term Care Subsidy Program will work with the residents to determine if they require a subsidy to assist with their cost of accommodations. During 2014-15, Health PEI received 290 applications for accommodation subsidy.

**4.5** As at March 31, 2015, there were 19 long-term care facilities across the province. Nine of these were operated by government and the remaining ten were privately owned. The privately owned homes operated 48 percent of the 1141 long-term care beds in the province; making them key players in providing nursing home care.

**4.6** Private nursing homes are required to be licensed by the Department of Health and Wellness. The homes are required to be regularly inspected and must meet the standards of care set out in the *Community Care Facilities and Nursing Home Act* and the *Nursing Home*

## 4. Payments to Private Nursing Homes

---

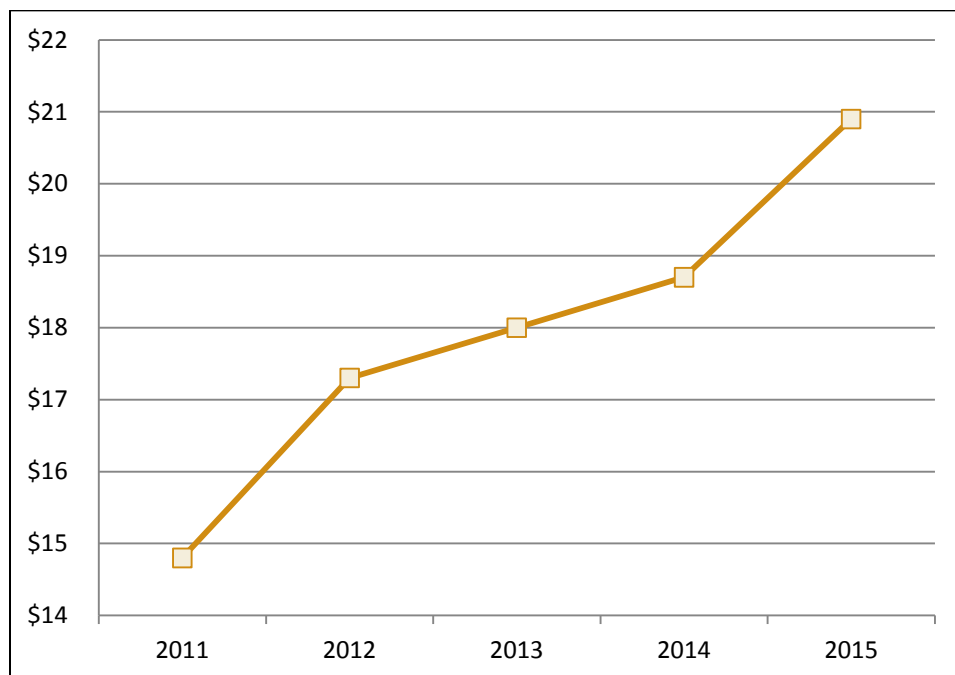
*Regulations.* The standards of care identify the minimum requirements for a licensed private nursing home.

**4.7** Health PEI pays private nursing homes a predetermined daily rate for the health care costs of all residents. Financial assistance, or subsidization, is provided for eligible residents to assist with their accommodation costs, as well as a monthly comfort allowance for residents to purchase items for personal use, comfort, and recreation. These payments are made to the private nursing homes on a monthly basis. Residents who have sufficient income, and who do not receive subsidy, are required to pay the private nursing homes directly for their accommodation costs.

**4.8** As shown in **Exhibit 4.1**, payments to private nursing homes have been increasing each year since 2010-11. Payments have increased \$6.1 million from \$14.8 million in 2010-11 to \$20.9 million in 2014-15, a 41 percent increase. The overall increase in payments is a combination of higher per diem rates per bed as well as the addition of 55 beds at private nursing homes between April 1, 2012 and March 31, 2015.

## 4. Payments to Private Nursing Homes

### EXHIBIT 4.1 LONG-TERM CARE PAYMENTS TO PRIVATE NURSING HOMES FOR THE YEARS ENDED MARCH 31 (\$ Millions)



Source: Health PEI Financial Statements

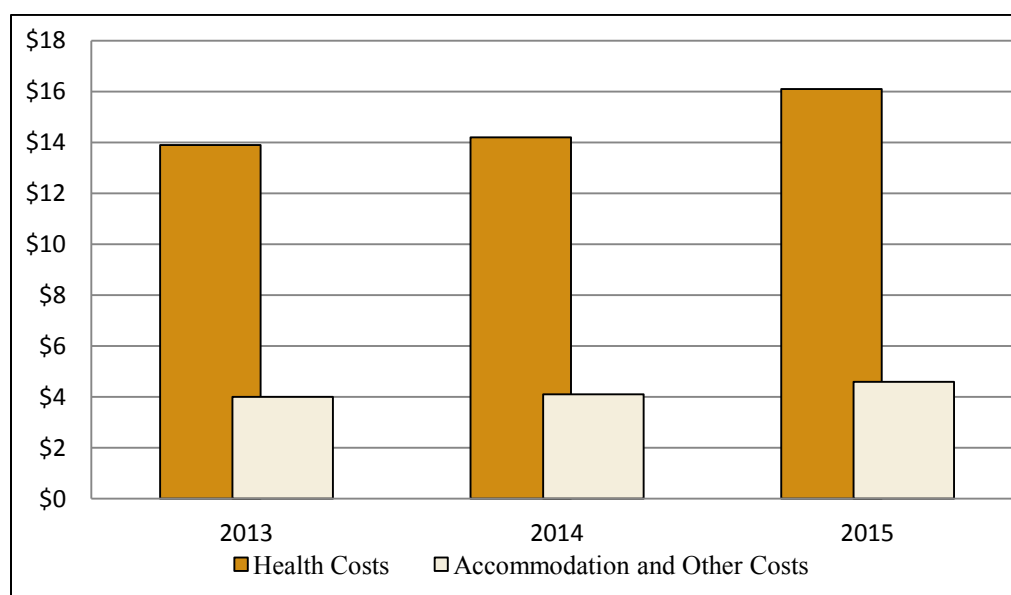
**4.9** Each private nursing home has a contract with Health PEI and the Department of Health and Wellness which defines the basic health care services which are to be provided free of charge to residents. These basic services include 24 hour nursing services and personal care, equipment and supplies for standard testing, as well as foot care and health equipment for the general use of residents. For some health care costs such as auditory equipment and dental and optical services, the resident is required to pay.

**4.10** The accommodation services that are to be provided to each resident are also set out in the contract. These services include meals, social, recreational and physical activities, laundry services, and a furnished bedroom that meets the standards set out in the *Community Care Facility and Nursing Home Act* and the *Nursing Home Regulations*.

## 4. Payments to Private Nursing Homes

**4.11** Exhibit 4.2 shows the breakdown of health care and subsidized accommodation costs and other costs paid to private nursing homes by Health PEI over the last three years. Approximately 77 percent of total payments to private nursing homes are for health care costs.

**EXHIBIT 4.2**  
**LONG-TERM CARE**  
**PAYMENTS TO PRIVATE NURSING HOMES**  
**FOR YEARS ENDED MARCH 31**  
**(\$Millions)**



	2013	2014	2015
Total Health Care Costs	\$13.9	\$14.2	\$16.1
Total Accommodation and Other Costs	4.1	4.5	4.8
Total Payments to Private Nursing Homes	<u>\$18.0</u>	<u>\$18.7</u>	<u>\$20.9</u>
Percentage Increase	4%	4%	12%

Source: Health PEI

### OBJECTIVES AND SCOPE

**4.12** The objectives of our audit were to determine whether Health PEI

- has appropriate procedures for the calculation, review and approval of long-term care subsidies;
- has controls to ensure payments to private nursing homes are made in accordance with legislation and signed agreements;



#### 4. Payments to Private Nursing Homes

---

- monitors funding to private nursing homes; and
- reports information on long-term care subsidies.

**4.13** Our audit scope included subsidy applications received from individuals regardless of whether they were subsequently admitted to a public or a private nursing home. We examined payments to private nursing homes processed between April 1, 2014 and March 31, 2015.

**4.14** We randomly selected 35 resident applications for subsidy which were received by Health PEI during the scope period. We also selected a random sample of monthly claims from private nursing homes submitted to Health PEI between April 1, 2014 and March 31, 2015. In addition, we examined all contracts with private nursing homes in effect during our scope period.

**4.15** Our audit approach also included

- review of policies, legislation, and relevant documentation;
- interviews with senior staff and management of Health PEI and the Department of Health and Wellness; and
- interviews with operators of five private nursing homes in the province.

**4.16** The standards against which we measured Health PEI's performance came from applicable legislation and policies as well as best practice. These standards, or criteria, were reviewed with senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit.

**4.17** Our audit observations and conclusions relate only to the management practices and actions of Health PEI. Consequently, our comments and conclusions do not pertain to the practices or performance of the private nursing homes.

**4.18** We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money established by the Chartered Professional Accountants of Canada and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## 4. Payments to Private Nursing Homes

---

### OBSERVATIONS AND RECOMMENDATIONS

#### CONTRACTS WITH PRIVATE NURSING HOMES

**4.19** When the *Long-Term Care Subsidization Act* was changed in 2007, a new rate structure for payment of nursing home services was implemented. The per diem rate was broken out into two separate rates:

- a rate to cover health care costs which would be paid to each nursing home by Health PEI for all residents, and
- a rate to cover accommodation costs paid by each resident.

If the accommodation rate exceeds the resident's income, Health PEI provides a subsidy for the shortfall.

**4.20** Each private nursing home is a member of the PEI Nursing Home Association (NHA). The NHA in conjunction with Health PEI and representatives from Treasury Board periodically negotiate changes to the standard rates for accommodation and health care. Under the Act, the rates, once negotiated, must be approved by the Lieutenant Governor in Council. The contracts include references to the standard of care to be provided. They also provide definitions of what is covered through the health care rate and the accommodation subsidy rate.

**4.21** During our scope period, the accommodation per diem rate was \$80.73. The health care per diem rate was \$91.99 from April 1, 2014 to September 30, 2014, and \$93.37 from October 1, 2014 to March 31, 2015. The current contracts with each of the nursing homes expire on March 31, 2016.

**4.22** We expected contracts to be signed with each private nursing home stating the terms and conditions of the agreement between the nursing home and the province. We expected these contracts to comply with key requirements in Treasury Board Policy including the contract term, a clear and accurate description of services, and the amount and manner in which payments will be made. We also expected the contracts to be properly authorized in accordance with Treasury Board Policy.

## 4. Payments to Private Nursing Homes

---

### **Contracts contained key terms and conditions and were appropriately authorized**

**4.23** Although each private nursing home signs an individual contract, the terms and conditions, as well as per diem amounts, are standard for all contracts. We reviewed the current contract with each of the ten private nursing homes operating in the province and each contract included the key terms and conditions as required by Treasury Board Policy. All contracts were authorized in accordance with Treasury Board Policy.

### **CLAIMS FROM PRIVATE NURSING HOMES**

**4.24** Private nursing homes submit monthly claims to Health PEI. These claims provide information on the health and accommodation per diems for each eligible resident. In addition, any exceptional health expenses approved by Health PEI for residents are included on the claims.

**4.25** The claims are submitted electronically to Health PEI from the private nursing homes. Many amounts, including each resident's current monthly income, are manually input by staff of the private nursing homes. We expected Health PEI to have clearly defined procedures for review and verification of claims. For example, these would include verification that

- per diem rates and comfort allowances are in accordance with current agreements;
- calculated amounts are accurate; and
- income and expense amounts for each resident are correct.

### **Claim review procedures need to be strengthened**

**4.26** We reviewed one monthly claim for each of the private nursing homes during our scope period. We selected five residents on each claim, therefore fifty residents in total, for detailed testing of the claim made on their behalf.

**4.27** The rates for health care and comfort allowance were entered correctly for all of our sample items. We found three instances where the amount of the accommodation subsidy for a resident was overstated on the claim submitted to Health PEI.

- In one instance, the resident's monthly income was correctly prorated for her first month in the nursing home based on the date of admission.

#### 4. Payments to Private Nursing Homes

---

This reduced income amount remained on the claims in subsequent months resulting in a higher subsidy being paid on behalf of the resident to the nursing home. In total, this error resulted in an overpayment of \$3,323 to the private nursing home over a 7 month period.

- In another instance, no income was entered on one claim for a resident although she actually had income. This resulted in an overpayment of \$2,017 to the nursing home.
- In the third instance, there was a calculation error that resulted in a small overpayment to the nursing home.

In each of these instances the error was not noted by Health PEI until identified during our audit. We were advised that the subsequent claims were adjusted to recoup the overpayments.

**4.28** Private nursing homes sometimes care for a resident for only part of a month. This can happen for various reasons including the first month a resident enters long-term care or if the resident moves between homes during the month. We expected that when a partial month was claimed by a private nursing home for the care of a resident, Health PEI would have documentation to indicate the correct days which should have been claimed. We also expected Health PEI would review this documentation prior to payment to ensure the accuracy of the claim.

**4.29** For the ten monthly claims in our sample, we reviewed all instances where the number of days claimed for a resident was not a full month. In total we noted thirty four residents who were in the nursing home for only partial months. We reviewed documentation to determine if the correct number of days was claimed for the care of the resident.

**4.30** For most items in our sample, the correct number of days were claimed, however, we noted two instances where there was insufficient documentation to determine if the days claimed by the private nursing home was correct.

## 4. Payments to Private Nursing Homes

---

### Recommendation

#### 4.31 Health PEI should

- establish clearly defined review procedures for monthly claims submitted by private nursing homes;
- take appropriate action to ensure the review procedures are consistently applied; and
- obtain sufficient documentation to support the amounts claimed.

### Transportation costs not consistently approved

**4.32** In addition to Health Care and Accommodation subsidies, there are other costs paid to Private Nursing Homes including exceptional health care costs and transportation costs. For the monthly claims in our sample, we reviewed all payments for exceptional costs paid for the health care of residents. In all but two instances, costs were appropriately approved.

**4.33** Health PEI policy states that the cost for transport by ambulance or specialized transport vehicle which is required for health treatment and/or diagnostic purposes, will be covered for subsidized residents. We noted inconsistencies in the application of the policy regarding non-emergency medical transportation services for subsidized residents. Some employees at Health PEI approved payment of the round trip transportation expense while others approved either only one-way or none at all. In situations where transportation expenses were not paid by Health PEI, the resident would be responsible for the cost. As these residents use all of their income towards their accommodation expenses, they may have to pay for this transportation out of their comfort allowance or by other means.

### Recommendation

**4.34** Health PEI should pay transportation expenses for subsidized residents in accordance with policy.

## 4. Payments to Private Nursing Homes

---

### Trust accounts not regularly reviewed

**4.35** In our review of claims, we noted that comfort allowances are claimed for each subsidized resident in accordance with the *Long-Term Care Subsidization Act Regulations*. For our scope period this amount was \$103 per month. It is to be used for the personal use, comfort, and recreation of the resident. A subsidized resident may request that his/her comfort allowance be held in a trust account by the nursing home administrator.

**4.36** Health PEI policy requires that all disbursements from a resident's comfort allowance trust account be documented in a manner which would satisfy the requirements of an audit. The *Long-Term Care Subsidization Act Regulations* authorizes Health PEI to review the trust accounts but does not require reviews to be done.

**4.37** Considering the comfort allowance is the only disposable income for each subsidized resident and the potential vulnerability of many residents, we expected Health PEI to conduct periodic reviews of the trust accounts of subsidized residents in private nursing homes. We expected this would include

- review of documentation to verify the purchases made from the trust accounts were for the use and benefit of the resident;
- examination of comfort allowance amounts added to the resident's account; and
- verification of the balances.

**4.38** Trust accounts of residents in private nursing homes are not reviewed. We were advised trust accounts are only reviewed when complaints are received; but, there was no documentation available to indicate that such reviews had been completed. Without periodic review of trust accounts, Health PEI does not have assurance that the trust accounts of residents are accurate and being used for the intended purpose.

### Recommendation

**4.39** Health PEI should periodically review the trust accounts of subsidized residents at private nursing homes and maintain documentation supporting the review.

## 4. Payments to Private Nursing Homes

---

### ACCOMMODATION SUBSIDIES

**4.40** Applications are received by Health PEI for individuals who are requesting an accommodation subsidy. The application is normally processed prior to the applicant being admitted to a nursing home. The application process is the same regardless of where the resident is admitted.

**4.41** When applying for financial assistance, the *Long-Term Care Subsidization Act Regulations* require an applicant to provide a copy of his or her Income Tax and Benefit Return as well as a copy of the Notice of Assessment for the previous taxation year. Health PEI staff use this information to determine if the applicant qualifies for financial assistance. If the applicant's income is less than the cost of care, he/she will apply all income towards the accommodation fee and receive a subsidy for any shortfall. Subsidy amounts for each eligible resident are paid directly to the nursing home.

**4.42** We expected Health PEI to have adequate procedures for the calculation and approval of long-term care subsidies. We selected a sample of 35 applications for accommodation subsidy and checked the application approvals. We reviewed each application to determine whether

- only those applicants who required long-term care level of nursing were approved;
- there was a signed contract for each resident prior to payments being made on his/her behalf;
- proper income documentation was maintained to support approval or denial for subsidy; and
- subsidy amounts were calculated in accordance with legislation and policy.

#### **Long-term care residents met eligibility requirements**

**4.43** We found that all applicants were approved by Health PEI for nursing home care. We noted that agreements were signed prior to payments being made on behalf of the resident.

## 4. Payments to Private Nursing Homes

---

### **Not all required income documentation on file**

**4.44** Applicants are required to provide both their Income Tax and Benefit Return as well as a copy of the Notice of Assessment for the previous taxation year to Health PEI. The applicant files in our sample contained at least one of the two pieces of documentation, but only 19 of the 30 files contained both. We were informed that since April 2014 the Long-Term Care Subsidization Program has been part of an agreement with Canada Revenue Agency (CRA) whereby CRA, with written consent of the taxpayer, will electronically provide income information to Health PEI for purposes of determining eligibility for the program. Staff can access the CRA information as needed for the assessments. We were advised that due to this access, as well as data storage limitations within their system, staff were not maintaining copies of both the Income Tax and Benefit Return and the Notice of Assessment in the files. Where these were not on file, there was no other documentation to support that staff had reviewed these required documents.

**4.45** Health PEI uses the Integrated System Management (ISM) electronic system to calculate if the resident is in need of financial assistance. Although the system is programmed to calculate the amount of financial need, Health PEI must manually input the applicant's income. We found that for all of our sample items, the financial need was correctly calculated based on the residents expenses and the income documentation on file. However, as stated above, we were not able to review adequate documentation indicating staff had obtained the required CRA documents for the majority of our sample items.

### **Recommendation**

**4.46** Health PEI should maintain adequate documentation to support that each applicant's income was verified in accordance with the *Long-Term Care Subsidization Act Regulations*.

### **Annual reviews not regularly completed**

**4.47** Based on the *Long-Term Care Subsidization Act Regulations*, a resident's financial information is to be reviewed at least annually. Nine of the 30 applications in our sample had been receiving the subsidy for over a year at the time of our fieldwork. For each of these residents, we



## 4. Payments to Private Nursing Homes

---

expected an annual review would have been conducted as it had been over a year since a detailed review of the resident's financial information had occurred.

**4.48** We found that of the nine residents who were due for an annual review, only two had been completed. Health PEI staff acknowledged that reviews are not completed for all residents on an annual basis and advised that they strive to annually review the files with the most complicated income calculations.

### **Recommendation**

**4.49** Health PEI should conduct annual file reviews on all subsidized residents to comply with the *Long-Term Care Subsidization Act Regulations*.

### **Case audits not regularly conducted or documented**

**4.50** The *Long-Term Care Subsidization Act Regulations* require that case audits are to be conducted on a random or continuing basis and that a report be provided to the Minister on the conduct and results of the case audits. We expected Health PEI to document expectations regarding the frequency and procedures required for case audits. We also expected Health PEI to conduct these audits, document the findings, and report the results to the Minister.

**4.51** There is no formal policy on the scope and conduct of these audits. There was no indication in the files in our sample that a case audit had been conducted. We were advised that these case audits were occasionally conducted by Health PEI, but no records were maintained to document either the work completed or the results. Due to this limitation, we could not conclude if the reviews were conducted.

**4.52** It is important that annual reviews and case audits are conducted and documents maintained to identify issues. As profiled in the previous section, we noted instances where incorrect subsidy amounts were paid on behalf of residents. In each instance the error was not noted until identified during our audit. A thorough and regular review process could play an important role in reducing errors and ensuring subsidies are provided in amounts as intended.

## 4. Payments to Private Nursing Homes

### MONITORING AND REPORTING PROCESS

#### Recommendation

**4.53** Health PEI should conduct, document, and report on case audits in accordance with the *Long-Term Care Subsidization Act Regulations*.

**4.54** During 2014-15, \$20.9 million was paid by Health PEI to private nursing homes throughout the province. We expected Health PEI to regularly monitor long-term care payments to private nursing homes and to identify trends and anomalies.

#### Long-term care costs monitored

**4.55** We found that Health PEI monitors and analyzes costs related to long-term care. Detailed analyses are completed monthly and are designed to highlight unusual trends. As part of the overall Health PEI budgeting and forecasting activities, staff with the Long-Term Care Subsidization Program work with staff from the Financial Services and Pharmacare Division. This relationship enables a detailed analysis and internal monitoring and reporting of the amounts paid to private nursing homes for the health care costs as well as payments made under the *Long-Term Care Subsidization Act*.

#### External reporting not in accordance with legislation

**4.56** The *Long-Term Care Subsidization Act* requires an annual report on the administration of the program to be submitted to the Legislative Assembly. We expected an annual report to be provided on a timely basis and for it to provide information to the public and other stakeholders on the administration of the program.

**4.57** Health PEI presents an Annual Report on its activities during the year. Although this Annual Report provides information on long-term care in the province, such as expenditures and changes in the number of beds available, it does not provide information specific to the Long-Term Care Subsidization Program.

**4.58** We noted that the last annual report tabled in the Legislative Assembly specifically for the Long-Term Care Subsidization Program was in April 2012. This report was for the 2011-12 fiscal year. The report

#### 4. Payments to Private Nursing Homes

---

contained information on the administration of the program including an overview of the program, its mandate and statistics including the number of applicants to the program, the number of residents in the program, and the subsidies paid during the year.

##### **Recommendation**

**4.59** Health PEI should report annually on the administration of the Long-Term Care Subsidization Program in accordance with the *Long-Term Care Subsidization Act*.

##### **MANAGEMENT RESPONSE**

**4.60** Our report was provided to Health PEI. A written response was requested.

## **UPDATE ON PREVIOUS RECOMMENDATIONS**



## 5. UPDATE ON PREVIOUS RECOMMENDATIONS

---

### CHAPTER SUMMARY

#### *What we examined*

This chapter provides summary information on the status of implementation of previous recommendations. These recommendations relate to special audits and examinations which were reported in our 2012 to 2015 annual reports.

#### *Why it's important*

Assessing the progress government is making in implementing our recommendations provides useful information for holding government accountable.

#### *What we found*

- We determined that 93 percent of the recommendations in our 2012 Annual Report have been implemented.
- We determined that 82 percent of the recommendations in our 2013 Annual Report have been implemented.
- Based on responses received from management, 51 percent of the recommendations in our 2014 Annual Report and 23 percent of the recommendations in our 2015 Annual Report have been implemented.

## 5. Update on Previous Recommendations

---

### BACKGROUND

**5.1** This chapter provides an annual update to the Legislative Assembly on the status of implementation of the recommendations arising from our special audits and examinations.

**5.2** Reports issued on special audits and examinations include recommendations. The recommendations are intended to address the findings and issues identified. We do not infringe on management's right to select the best course of action to deal with the issues identified.

**5.3** Each year, we contact departments and agencies to obtain information on the status of implementation of our recommendations. Prior to this annual report, our practice had been to report on the implementation of recommendations based solely on self reporting by management.

**5.4** The Public Accounts Committee expressed interest in obtaining assurance that our recommendations were being implemented by government on a timely basis.

**5.5** In this chapter, we are providing information on the status of implementation of recommendations from our 2012 to 2015 annual reports:

- For recommendations made in 2012 and 2013, we conducted sufficient procedures to assess the plausibility of the responses received from management.
- For recommendations made in 2014 and 2015, we are reporting the status of implementation based on management's response, with no assurance provided.

On a go-forward basis, we intend to do additional work to assess implementation after the department, Crown corporation, or agency has had at least two years to take action on the recommendations.

## 5. Update on Previous Recommendations

---

### OBJECTIVE AND SCOPE

**5.6** We requested updated information from management on the status of implementation of the recommendations arising from special audits and examinations reported for the four years 2012 to 2015. We received all updates requested.

**5.7** This year, we conducted additional work on the status of implementation of recommendations reported in 2012 and 2013. The objective of our follow-up work was to provide review level assurance on the implementation of recommendations. Our follow-up work was conducted on those recommendations that were reported by management as implemented. Our audit procedures included:

- interviews of key personnel;
- examination of documents; and
- walkthrough of specific processes.

**5.8** **Appendix A** includes all recommendations from our 2012 and 2013 annual reports and the status of implementation.

**5.9** For special audits and examinations reported in 2014, we are providing the recommendation and the status of implementation based on management's response. This status of implementation is reported in **Appendix B** and no assurance is provided on these responses.

**5.10** For special audits and examinations reported in 2015, we are providing detailed information for each recommendation on action taken and action planned, as well as management's assessment of the status of implementation. This information is provided in **Appendix C** and no assurance is provided on these responses.



## 5. Update on Previous Recommendations

### OBSERVATIONS

**5.11** Based on our work, **Exhibit 5.1** illustrates the rate of implementation of recommendations arising from our 2012 and 2013 audits. The overall implementation rate for the two years is 88 percent.

#### **EXHIBIT 5.1 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS BASED ON REVIEW LEVEL ASSURANCE 2012 AND 2013**

Year	Audit	Recommendations				
		Total	No Longer Applicable	Still o/s	Implemented Based on Auditor's Review	
					#	Percent
2012	Long Term Planning and Access - Community Mental Health	12	-	2	10	83%
	Contract Management of Professional Services - Tourism PEI	10	-	1	9	90%
	Highway Construction	21	-	-	21	100%
	Grants and Loans - Office of Energy Efficiency*	6	4	-	2	100%
	<b>Total*</b>	<b>49</b>	<b>4</b>	<b>3</b>	<b>42</b>	<b>93%</b>
2013	Management of Ground Ambulance Services	24	-	7	17	71%
	SkillsPEI*	21	3	1	17	94%
	Provincial Nominee Program: Follow-Up on the Use of Proceeds Agreement	3	-	-	3	100%
	<b>Total*</b>	<b>48</b>	<b>3</b>	<b>8</b>	<b>37</b>	<b>82%</b>
<b>Overall Total*</b>	<b>97</b>	<b>7</b>	<b>11</b>	<b>79</b>	<b>88%</b>	

\*percent implemented excludes recommendations that are no longer applicable

#### **Long Term Planning and Access - Community Mental Health**

**5.12** The objective of this audit was to determine whether a long-term plan had been developed for Community Mental Health, and whether PEI residents had timely access to community mental health programs and services. We made 12 recommendations.

**5.13** Management indicated that 10 of the recommendations have been implemented. The two recommendations reported by management as outstanding include:

## 5. Update on Previous Recommendations

---

- The Department of Health and Wellness should develop a comprehensive long-term plan for community mental health; and
- Health PEI should take action to improve wait times for community mental health services.

**5.14** Management advised work on these recommendations is continuing. Based on our review, all of the other 10 recommendations have been implemented.

### **Contract Management of Professional Services - Tourism PEI**

**5.15** Tourism PEI is a Crown corporation under the Ministry of Economic Development and Tourism (formerly the Department of Tourism and Culture). In 2012, we conducted an audit on Contract Management of Professional Services - Tourism PEI. Expenditures for professional services at the time of our audit were \$4.4 million.

**5.16** We made 10 recommendations to strengthen management practices in the awarding, establishment of terms and conditions, and payment of contracts. As part of our review procedures, we selected two contracts and assessed these against the recommendations. Based on our review, all recommendations except one have been implemented.

**5.17** We recommended that in accordance with the *Financial Administration Act*, Tourism PEI should not make advance payments on its contractual arrangements. Section 40 of the *Financial Administration Act* requires certification that work has been performed prior to authorizing payments. Based on our work, we determined that this recommendation has not been fully implemented.

### **Highway Construction**

**5.18** Our 2012 Annual Report included an audit on Highway Construction. At that time, expenditures on highway construction were over \$44 million. We made 21 recommendations and management reported that all recommendations were implemented. Based on our review, we agree.

## 5. Update on Previous Recommendations

---

### Grants and Loans - Office of Energy Efficiency

**5.19** In 2012, we conducted an audit on Grants and Loans - Office of Energy Efficiency. Subsequent to our audit, the loans aspect of the program was discontinued. We made six recommendations, four of which are no longer applicable. Management reported that the two remaining recommendations have been implemented and based on our review, we agree.

### Management of Ground Ambulance Services

**5.20** Our 2013 Annual Report included an audit on Management of Ground Ambulance Services. The objective of the audit was to determine whether Health PEI had processes to

- manage the contract for ground ambulance services; and
- ensure ground ambulance services met the legislative requirements as they pertain to Emergency Medical Technician licensure and ambulance inspections.

**5.21** We made 24 recommendations. We were advised Health PEI intends to address 6 of the outstanding recommendations when a new contract is approved in 2018. There is another outstanding recommendation. We recommended that Health PEI should follow Treasury Board policy on delegation of signing authority and, where exceptions were considered necessary, approval of Treasury Board should be obtained. Based on our review, this recommendation was not implemented. Payments over \$100,000 are being authorized by staff that are not at the Deputy Head level which is contrary to Treasury Board policy. We were advised that Health PEI will be seeking approval for an exception from Treasury Board policy.

### SkillsPEI

**5.22** SkillsPEI is a division of the Department of Workforce and Advanced Learning. At the time of our audit, it had administrative responsibility for over \$36 million in expenditures for employment related programs and services. This audit was included in our 2013 Annual Report.

## 5. Update on Previous Recommendations

---

**5.23** We made 21 recommendations, three of which are no longer applicable due to program changes. Of the 18 remaining recommendations, we concluded based on our review, that 17 of these have been implemented.

**5.24** During our audit, we noted that SkillsPEI did not have a performance measurement framework to measure and report the results achieved from the various employment and training services offered to the public. We recommended that SkillsPEI obtain information to assess its performance and provide the results in the Department's annual report. Some performance information has been collected and analyzed by the Division but related targets have not been established to assess performance. The Department of Innovation and Advanced Learning (now the Department of Workforce and Advanced Learning) has not tabled an annual report since 2010-11. Therefore, this recommendation has not been fully implemented.

### **Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement**

**5.25** In 2013, we conducted an audit on the Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement. We made three recommendations, all of which were implemented.

### **SUMMARY COMMENTS**

**5.26** The recommendations provided in our reports are intended to address issues and findings identified. We recognize that some recommendations take a longer time to implement, and for most recommendations some action has been taken. We will continue to follow up on our recommendations as a means to assist in holding government accountable.

## 5. Update on Previous Recommendations

**STATUS OF IMPLEMENTATION OF  
RECOMMENDATIONS  
REPORTED IN 2012 AND 2013**

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
Long Term Planning and Access - Community Mental Health	Health and Wellness / Health PEI	2012	3.26	The Department of Health and Wellness should develop a comprehensive long-term plan for community mental health.	Outstanding
			3.27	The Ministry of Health and Wellness should have a documented agreement with the NGO which at a minimum sets out <ul style="list-style-type: none"> <li>• the funding provided;</li> <li>• the services to be delivered; and</li> <li>• the information required to demonstrate how the funding was used.</li> </ul>	Implemented
			3.35	Health PEI should establish a guideline setting the minimum number of attempts for community mental health to contact clients for screening.	Implemented
			3.36	Health PEI should ensure referrals to community mental health are screened in the timeframe established in policy.	Implemented
			3.37	Health PEI should ensure a triage level is assigned to all referrals screened by community mental health.	Implemented
			3.42	Health PEI should ensure referrals from hospitals to community mental health are reviewed in the timeframe established in policy.	Implemented
			3.43	Health PEI should implement a process to improve communication between hospitals and community mental health.	Implemented
			3.59	Health PEI should take action to improve wait times for community mental health services.	Outstanding
			3.60	The Director of Mental Health should obtain regular reliable information to monitor and manage wait times for community mental health services.	Implemented
			3.61	Health PEI should establish target response times for community mental health referrals that are triaged as general or priority.	Implemented
3.65	Health PEI should conduct and document periodic supervisory reviews of community mental health cases.	Implemented			

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
			3.69	Health PEI should take steps to improve the consistency and reliability of information entered in the case management system for community mental health.	Implemented
Contract Management of Professional Services - Tourism PEI	Economic Development and Tourism/ Tourism PEI	2012	4.23	Except where sole sourcing is warranted, Tourism PEI should use a competitive process in awarding professional services contracts.	Implemented
			4.24	Tourism PEI should seek Treasury Board approval to enter into contractual arrangements where required by Treasury Board policy.	Implemented
			4.25	Tourism PEI should follow its internal delegation of signing authority policy which requires two signatures from senior management on all contractual arrangements in excess of \$25,000.	Implemented
			4.26	As required by Treasury Board Policy, Tourism PEI should maintain the required summary information on all contracts in excess of \$25,000.	Implemented
			4.34	Tourism PEI should document all contractual arrangements and ensure minimum Treasury Board required clauses are used.	Implemented
			4.35	Tourism PEI should ensure that terms and conditions of the contractual arrangements are relevant and clear.	Implemented
			4.46	In accordance with the <i>Financial Administration Act</i> , Tourism PEI should not make advance payments on its contractual arrangements.	Outstanding
			4.47	Tourism PEI should document any amendments to contract terms.	Implemented
			4.54	Tourism PEI should make payments only to the party named in the contractual arrangement.	Implemented
			4.55	Tourism PEI should have contracted parties provide sufficient details to support invoices.	Implemented
Highway Construction	Transportation, Infrastructure and Energy (formerly Transportation and Infrastructure Renewal)	2012	5.14	The Department of Transportation and Infrastructure Renewal should document contractual arrangements and ensure minimum Treasury Board required clauses are used.	Implemented
			5.15	In accordance with Treasury Board policy, the Department of Transportation and Infrastructure Renewal should ensure engineering services contracts exceeding \$100,000 are approved by Treasury Board.	Implemented

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
			5.19	In accordance with the General Provisions and Contract Specifications for Highway Construction, the Department of Transportation and Infrastructure Renewal should obtain performance security for construction contracts.	Implemented
			5.24	The Department of Transportation and Infrastructure Renewal should ensure key decisions and discussions are documented for highway construction projects including <ul style="list-style-type: none"> <li>• minutes of job meetings; and</li> <li>• approval of the chief engineer for significant project revisions.</li> </ul>	Implemented
			5.29	The regional engineer should document approval of the construction schedule provided by the contractor.	Implemented
			5.30	Where contractors receive price adjustments allowed under the specifications, the regional engineer should ensure calculation of these adjustments is supported with documentation in the construction project file.	Implemented
			5.31	Where penalties established under the specifications are waived, the reasons and approval of the chief engineer should be documented.	Implemented
			5.33	The Department of Transportation and Infrastructure Renewal should ensure payments related to highway construction projects are authorized by personnel with appropriate signing authority.	Implemented
			5.39	The Department of Transportation and Infrastructure Renewal should ensure a certificate of substantial completion is issued for each highway construction project in accordance with the <i>Mechanics' Lien Act</i> .	Implemented
			5.40	The Department of Transportation and Infrastructure Renewal should ensure holdbacks are calculated and retained in accordance with the requirements of the <i>Mechanics' Lien Act</i> .	Implemented
			5.41	When a highway construction project extends from one year to another, the engineer's certificate of substantial completion issued after year one should indicate it relates to completion of the work scheduled for year one of the contract.	Implemented
			5.50	Where test results vary from specifications but are deemed acceptable, management of	Implemented

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
				the Materials Testing Lab should document approval on the test sheets.	
			5.51	Management of the Materials Testing Lab should sign the test reports for the asphalt mix design to indicate verification and approval.	Implemented
			5.52	Management of the Materials Testing Lab should ensure asphalt mix design formulas include all the information required by the specifications including <ul style="list-style-type: none"> <li>• the type and source of asphalt cement;</li> <li>• the name and contact information of the lab performing the tests on the asphalt cement; and</li> <li>• the quantity and type of anti-stripping agent used in the mix.</li> </ul>	Implemented
			5.55	Field test results on asphalt production that are outside the limits established in the specifications should be signed by lab management and provided to the regional engineer.	Implemented
			5.59	The Department of Transportation and Infrastructure Renewal should evaluate the impact of increasing the specification for target minimum asphalt compaction.	Implemented
			5.60	Compaction and profilograph test results provided to the project manager and regional engineer should be signed to indicate they were verified by a lab supervisor.	Implemented
			5.63	Management of the Materials Testing Lab should conduct and document periodic internal reviews of the work completed by lab personnel.	Implemented
			5.71	The Department of Transportation and Infrastructure Renewal should ensure job meetings on highway construction projects include acknowledgement of environmental risks related to the project.	Implemented
			5.72	The Department of Transportation and Infrastructure Renewal should adhere to environmental conditions imposed under special environmental permits.	Implemented
			5.73	The Department of Transportation and Infrastructure Renewal should develop a policy on the frequency and documentation required for inspections carried out by environmental field officers.	Implemented



## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
Grants and Loans - Office of Energy Efficiency	Finance (formerly Finance, Energy and Municipal Affairs)	2012	6.22	The Office of Energy Efficiency should retain the income documentation of applicants where this information is applicable to program eligibility.	Implemented
			6.23	The Office of Energy Efficiency should perform credit assessments on regular income applicants of the PEI Energy Efficiency Loan Program.	No Longer Applicable
			6.24	The Manager of the Office of Energy Efficiency should provide documented approval on all loan applications prior to the loans being issued by the PEI Lending Agency.	No Longer Applicable
			6.25	The Office of Energy Efficiency should obtain invoices for eligible upgrades completed by applicants of the PEI Energy Efficiency Loan Programs.	No Longer Applicable
			6.29	The Office of Energy Efficiency should formalize its arrangement with the PEI Lending Agency for disbursing, monitoring, and collecting PEI energy efficiency loans.	No Longer Applicable
			6.34	The Office of Energy Efficiency should regularly report to Treasury Board on the effectiveness of the energy efficiency loan and grant programs.	Implemented
Management of Ground Ambulance Services	Health and Wellness / Health PEI	2013	3.23	Emergency Health Services should initiate legislative amendments to update the board composition of the Emergency Medical Services Board to reflect the current service delivery model.	Implemented
			3.36	Health PEI should strengthen its medical oversight function by <ul style="list-style-type: none"> <li>• being more proactive to request the required medical audit reports;</li> <li>• having a sign-off on the review of medical audit reports;</li> <li>• reporting results of reviews to the Emergency Medical Services Board; and</li> <li>• conducting its own medical audits of the service provider's reported compliance with the patient care protocols using a risk-based approach.</li> </ul>	Implemented
			3.41	Emergency Health Services should review the satisfaction survey approach to ensure it meets the contract requirements.	Implemented
			3.42	Emergency Health Services should strengthen its management of complaints to ensure the process complies with Health PEI's <i>Compliments and Complaints Policy</i> .	Implemented

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
			3.47	Emergency Health Services should strengthen its oversight of vehicle maintenance to include <ul style="list-style-type: none"> <li>comparing the service provider's actual vehicle maintenance to some authoritative source such as the service provider's preventative maintenance program or manufacturers' recommendations; and</li> <li>documenting the results of the review.</li> </ul>	Implemented
			3.51	Emergency Health Services should implement internal control procedures to assess the completeness and accuracy of Patient Call Report data.	Outstanding
			3.56	Emergency Health Services should strengthen its incident reporting framework to <ul style="list-style-type: none"> <li>include a definition of incidents;</li> <li>streamline the process through the implementation of standardized forms and contacts; and</li> <li>log and track incidents for analysis and reporting.</li> </ul>	Outstanding
			3.59	Overall, Emergency Health Services should modernize its performance standards for ground ambulance services to reflect a performance management framework that is more in line with industry best practices.	Outstanding
			3.69	Emergency Health Services should ensure the service provider names Health PEI as an additional insured under the general liability insurance and malpractice insurance as required by the contract terms.	Implemented
			3.70	Emergency Health Services should amend the contract terms to reflect the actual amount of automobile insurance it requires of the service provider.	Outstanding
			3.71	Emergency Health Services should review the annual audited financial statements of the service provider.	Implemented
			3.72	For future contractual arrangements, Emergency Health Services should avoid clauses that grant significant extensions early in the initial term of the contract.	Implemented
			3.73	Pursuant to Treasury Board policy 13.07 - <i>Elements of a Professional Services Contract</i> , Emergency Health Services should amend the contract items to clearly lay out the payment mechanism for inter-facility transfers.	Outstanding

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
			3.85	Health PEI should follow Treasury Board policy on delegation of signing authorities. Where exceptions are considered necessary, Health PEI should seek approval of Treasury Board.	Outstanding
			3.86	Emergency Health Services should amend the contract terms to reflect policy changes that impact payments for services.	Outstanding
			3.87	Pursuant to the <i>Financial Administration Act</i> , Emergency Health Services should implement internal control procedures to verify invoices for payment.	Implemented
			3.95	Emergency Health Services should implement internal control procedures to monitor the clause in the contract with the service provider requiring all Emergency Medical Technicians employed have a valid license to practice.	Implemented
			3.96	The Emergency Medical Services Board should update its policies to accurately reflect the continuing education requirements that are deemed eligible for licensure.	Implemented
			3.97	The Emergency Medical Services Board should update its policies to clearly outline the emergency callout requirements that are deemed eligible for licensure.	Implemented
			3.98	The Emergency Medical Services Board should validate the listed emergency callouts that applicants claim on their Emergency Medical Technician license applications.	Implemented
			3.99	The Emergency Medical Services Board should conduct random audits of Emergency Medical Technician licensees to ascertain whether the continuing education reported is valid and appropriate.	Implemented
			3.106	The Emergency Medical Services Board should ensure that ambulances are inspected twice annually as required by the <i>Emergency Medical Services Regulations</i> .	Implemented
			3.107	The Emergency Medical Services Board should implement internal control procedures to ensure ambulances are inspected prior to entry into service.	Implemented
			3.108	The Emergency Medical Services Board should implement internal control procedures to ensure deficiencies noted during ambulance inspections are followed up in a timely manner.	Implemented

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
SkillsPEI	Workforce and Advanced Learning (formerly Innovation and Advanced Learning)	2013	4.19	SkillsPEI should establish objectives congruent with its goals. Outcome based performance indicators should be developed that link to these objectives.	Implemented
			4.20	SkillsPEI should obtain information to assess its performance and provide the results in the annual report of the Department of Innovation and Advanced Learning.	Outstanding
			4.23	SkillsPEI should strengthen its processes for tracking, documenting, and approving policy changes and ensure all significant program policy changes are formally authorized by the Deputy Minister.	Implemented
			4.30	SkillsPEI should use a competitive process to contract for employment assistance services that are provided to the general population.	Implemented
			4.31	SkillsPEI should develop criteria for selecting organizations to deliver employment assistance services to specific client groups.	Implemented
			4.34	Where required by Treasury Board policy, SkillsPEI should seek Treasury Board approval to enter into contractual arrangements.	Implemented
			4.38	For funding agreements with external service providers, SkillsPEI should monitor results against targets and where necessary follow up and document any resulting action required.	Implemented
			4.39	SkillsPEI should obtain and review annual financial statements of contracted service providers.	Implemented
			4.44	SkillsPEI should revise the contract terms to reflect the requirement for the service provider to submit periodic claims to support actual expenditures for the period.	Implemented
			4.45	SkillsPEI should develop and document procedures to guide the work of program officers in validation of claims.	Implemented
			4.51	SkillsPEI should ensure that payments under the TrainingPEI program are made in accordance with terms and conditions established in policy.	Implemented
4.54	SkillsPEI should verify that clients have made the required contribution to their training costs as required by policy.	Implemented			
4.59	SkillsPEI should obtain sufficient information to support payments to	Implemented			

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Review Level Assurance
				provincial educational institutions for differential funding.	
			4.63	SkillsPEI should obtain documentation to support that initial and interim monitoring of TrainingPEI agreements has been completed by case managers as required by policy.	Implemented
			4.64	In accordance with policy, SkillsPEI should complete the final monitoring on TrainingPEI agreements.	Implemented
			4.72	SkillsPEI should document the expectations and accountability requirements for the self employment coordinator services provided to SkillsPEI by Innovation PEI.	No Longer Applicable
			4.73	SkillsPEI should ensure all self employment coordinators report activities and results as required in their signed agreements. Significant variations should be followed up by SkillsPEI on a timely basis.	No Longer Applicable
			4.76	SkillsPEI should obtain information to ensure that monitoring required by policy is completed by the self employment coordinators.	No Longer Applicable
			4.81	SkillsPEI should ensure initial and interim monitoring required by EmployPEI program policy is carried out and documented in the files.	Implemented
			4.82	As required by policy, SkillsPEI should complete final monitoring of EmployPEI agreements prior to release of final payments.	Implemented
			4.87	In accordance with Treasury Board policy, payments made by SkillsPEI should be appropriately authorized.	Implemented
Provincial Nominee Program: Follow-Up on the Use of Proceeds Agreement	Economic Development and Tourism/Island Investment Development Inc.	2013	5.31	Island Investment Development Inc. should complete the review of its sample of businesses that had a signed <i>Use of Proceeds Agreement</i> and report the conclusions in its Annual Report.	Implemented
			5.32	Island Investment Development Inc. should determine and report publically on what its sample results mean to the population of businesses that had a signed <i>Use of Proceeds Agreement</i> .	Implemented
			5.34	Island Investment Development Inc. should publish its Annual Reports on a timely basis.	Implemented

## 5. Update on Previous Recommendations

### STATUS OF IMPLEMENTATION OF RECOMMENDATIONS AS REPORTED BY DEPARTMENTS/AGENCIES 2014

Year	Audit	Recommendations			
		Total	Fully Implemented	Outstanding	% Implemented
2014	Information Technology - Governance and IT Contracting	14	9	5	64%
	Diabetes - Strategy and Organization of Care	7	4	3	57%
	Child Protection - Internal Controls	16	5	11	31%
	Island Community Fund Grant Program	2	2	-	100%
<b>Total</b>		<b>39</b>	<b>20</b>	<b>19</b>	<b>51%</b>

**5.27** The table above provides summary information on the status of implementation of those recommendations arising from audits reported in 2014. It is based on self reporting by management with no assurance provided. The overall implementation rate of 51 percent means there is a significant amount of work still required to implement these recommendations.

**5.28** Following are the recommendations for each of the audits reported in 2014 including the status of implementation as reported by management.

## 5. Update on Previous Recommendations

**STATUS OF IMPLEMENTATION OF  
RECOMMENDATIONS  
REPORTED IN 2014  
BASED ON MANAGEMENT'S RESPONSE**

<b>Audit</b>	<b>Department/ Agency</b>	<b>Year</b>	<b>Para.</b>	<b>Recommendation</b>	<b>Status Based on Management's Response</b>
Information Technology - Governance and IT Contracting	Treasury Board Secretariat	2014	2.14	Government should establish an IT oversight committee to guide decision making in relation to IT strategic priorities for government.	Implemented
			2.15	The role and responsibilities for government-wide IT management and direction should be clearly assigned.	Outstanding
			2.20	ITSS management should obtain clarification on its scope of responsibility for the various government departments, Crown corporations, and agencies.	Outstanding
			2.21	ITSS management should ensure service level objectives are documented to clearly outline IT roles and responsibilities of both ITSS and client departments and agencies.	Outstanding
			2.25	Government should take action to ensure an IT strategic plan is developed which outlines government-wide strategic direction and priorities.	Outstanding
			2.31	ITSS management should establish an IT process and control framework to guide staff in providing IT contract management services.	Implemented
			2.36	ITSS management should ensure an appropriate IT contract management plan is developed and documented for each significant contract.	Implemented
			2.39	ITSS management should monitor expiration of ongoing contracted arrangements and ensure signed contracts are in place for all services obtained.	Implemented
			2.45	Except where sole sourcing is warranted, IT contracts should be awarded through a competitive process.	Implemented
			2.46	ITSS management should conduct a cost-benefit analysis on continuing to contract for IT services versus hiring employees to meet ongoing IT service requirements.	Implemented
2.56	ITSS management should ensure that service level agreements with vendors address key risk factors as outlined in industry best practices.	Implemented			

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Management's Response
			2.62	ITSS management should ensure invoices are approved by the contract manager who has been delegated direct oversight for the contracted IT services.	Implemented
			2.67	Treasury Board policy for professional services contracts should be revised to address conflict of interest situations including disclosure requirements.	Outstanding
			2.68	ITSS management should develop and implement a process to identify, document, and manage conflict of interest situations when contracting IT services.	Implemented
Diabetes - Strategy and Organization of Care	Health PEI	2014	3.35	Health PEI should complete the strategy for diabetes care based on its adopted chronic disease management framework.	Implemented
			3.49	Health PEI should improve access to collaborative care for diabetes patients, especially in the province's urban centres.	Implemented
			3.53	Health PEI should ensure the Diabetes Program has sufficient access to specialist support services.	Outstanding
			3.62	Health PEI should implement processes to ensure key clinical data is available for monitoring and reporting of health outcomes related to diabetes management.	Implemented
			3.67	Health PEI should evaluate its current mix of resources and services in the Diabetes Program to ensure optimal resource allocation.	Implemented
			3.72	When considering physician requests for funding of private diabetes educators, Health PEI should conduct a cost-benefit analysis to assess the optimal use of resources for delivering diabetes care.	Outstanding
			3.73	If arrangements are established providing collaborative diabetes care outside of the Diabetes Program, Health PEI should obtain information to monitor and report on results achieved.	Outstanding
Child Protection - Internal Controls	Family and Human Services (formerly Community Services and Seniors)	2014	4.19	Management of Child Protection should take action to improve segregation of key control functions related to cash and accounting records.	Outstanding
			4.28	Management of Child Protection should take action to improve controls over payments to staff and cash receipt records.	Implemented
			4.29	Management of Child Protection should ensure that all payments are appropriately approved and approval documentation is maintained.	Outstanding



## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Management's Response
			4.30	Management of Child Protection should ensure payments are supported with sufficient documentation.	Outstanding
			4.31	Management of Child Protection should ensure that appropriately authorized advances and claims for reimbursement are paid directly to the staff member or foster parent involved.	Implemented
			4.39	Management of Child Protection should ensure allowances for children in care are monitored and documentation is maintained to support payments made on behalf of children.	Implemented
			4.40	Management of Child Protection should ensure the balance due to each child is reconciled monthly to the funds on hand.	Implemented
			4.47	Management of Child Protection should generate and review the accounts receivable reports on a regular basis.	Outstanding
			4.48	Management of Child Protection should establish procedures to ensure <ul style="list-style-type: none"> <li>• all amounts owing are recorded;</li> <li>• collection procedures are documented;</li> <li>• amounts outstanding are followed up; and</li> <li>• accounts receivable adjustments are reviewed and approved by management.</li> </ul>	Outstanding
			4.52	Management of Child Protection should strengthen controls to ensure that payments for children in care are independently reviewed.	Outstanding
			4.55	Management of Child Protection should ensure all master file changes are reviewed and approved.	Outstanding
			4.60	Management of Child Protection should ensure that only personnel with properly delegated signing authority are authorized to process payments in ISM.	Outstanding
			4.61	Management of Child Protection should ensure that signing authority levels are consistent between ISM and the province's financial system.	Outstanding
			4.64	Management of Child Protection should ensure that access levels in ISM are current and access rights are limited to what each staff member needs to perform his or her required duties.	Implemented
			4.68	Management of Child Protection should ensure that payment end dates entered in the system reflect a reasonable time frame for review of the child's file.	Outstanding

## 5. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation	Status Based on Management's Response
			4.73	Management of Child Protection should develop a procedures manual for financial transactions as a resource for staff.	Outstanding
Island Community Fund Grant Program	Economic Development and Tourism (formerly Fisheries, Aquaculture and Rural Development)	2014	5.26	The Department of Fisheries, Aquaculture and Rural Development should strengthen its accountability framework for its conditional grant programs in the following areas <ul style="list-style-type: none"> <li>• establishing definitive performance indicators;</li> <li>• establishing a timeline for formal program evaluation; and</li> <li>• reporting on performance achieved.</li> </ul>	Implemented
			5.33	The Department of Fisheries, Aquaculture and Rural Development should ensure that exceptions made when applying Island Community Fund Grant Program guidelines are documented as such and approved by Executive Council.	Implemented

## 5. Update on Previous Recommendations

### STATUS OF IMPLEMENTATION OF RECOMMENDATIONS AS REPORTED BY DEPARTMENTS/AGENCIES 2015

Year	Special Audits and Examinations	Recommendations			
		Total	Fully Implemented	Outstanding	% Implemented
2015	Access PEI	13	4	9	31%
	Out-of-Province Health Services	7	2	5	29%
	Management of Contaminated Sites	9	1	8	11%
	Write-Offs and Cancellations	1	-	1	0%
<b>Total</b>		<b>30</b>	<b>7</b>	<b>23</b>	<b>23%</b>

**5.29** The table above provides summary information on the status of implementation of the recommendations arising from the special audits and examinations reported in our 2015 Annual Report. This is presented based on information provided by management and no assurance is provided. The overall implementation rate is 23 percent.

**5.30** For each of the audits reported in our 2015 Annual Report, we provide details on the action taken and action planned as well as the status of implementation as reported by management.

## 5. Update on Previous Recommendations

### STATUS OF IMPLEMENTATION OF RECOMMENDATIONS REPORTED IN 2015

#### ACCESS PEI

**5.31** Following are the recommendations resulting from our audit of Access PEI reported in the 2015 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Transportation, Infrastructure and Energy. Responsibility for Access PEI was transferred from the former Department of Fisheries, Aquaculture and Rural Development.

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
2.19	Access PEI should ensure service level agreements are signed with each department for which services are provided.		Access PEI is in the process of finalizing a draft service level agreement to present to client departments.	Outstanding
2.34	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure outstanding registration validation stickers are reconciled on a regular basis.	<p>Highway Safety Division (HSD) is proposing a change that Access PEI waits to reconcile expired stickers until after the Expired Validation Sticker reports are distributed from HSD. This will ensure the information is accurate.</p> <p>The schedule for Expired Validation Sticker reports needs to be updated to the first day of the month.</p> <p>A change to remove damaged stickers from the expired validation sticker report was implemented with the May 20<sup>th</sup> Driver Vehicle System (DVS) deployment.</p>	It was identified that the Expired Validation Sticker reports do not match the Expired Sticker Validation screen within DVS. This requires further investigation. A draft has been created for review.	Outstanding

## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
2.40	Access PEI, Highway Safety Division, and ITSS should develop an agreement which defines the accountability and responsibility of each party in relation to the Single Window Access Technology System and the Driver Vehicle System.		<p>The Single Window Access Technology (SWAT) Operational Level Agreement (OLA) needs to be completed and signed.</p> <p>Work is ongoing on the DVS OLA. All roles need to be clearly identified.</p> <p>Modifications to the OLA had to be made following the move of Access PEI from the former Department of Fisheries, Aquaculture and Rural Development into Transportation, Infrastructure and Energy.</p> <p>The new draft needs to be reviewed by stakeholders.</p>	Outstanding
2.43	Access PEI should ensure transactions recorded in the Single Window Access Technology System and the Driver Vehicle System are reconciled on a regular basis. Action should be taken to investigate and correct any errors.	This is now done by the system. The clerk cannot process transactions the next day if he/she has not closed out of the system. This close out procedure generates the reconciliation. If there is a variance, an email is automatically sent to all Managers/Director and each one is investigated by the SWAT Administrator.		Implemented
2.45	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure numbers assigned to transactions are issued in sequence. The data in the Single Window Access Technology System and the Driver Vehicle System should be periodically reviewed for completeness.	The Oracle database number cannot be used for sequential number controls since incomplete transactions take up numbers.	Including an identifier that could be used for sequential numbering control would require a medium to large development effort. The audit issue can be addressed using another method. However, the option will be investigated. It was discussed with ITSS to	Outstanding

## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
			consider incorporating sequential numbering into future system developments.	
2.51	Highway Safety Division, in conjunction with ITSS, should modify the Driver Vehicle System to allow for efficient investigation and review of management overrides.	An initial investigation has been completed. Changes were incorporated into the Approval History report to include additional information. The report was created and has been tested. The new report was created to incorporate new search criteria as highlighted by the audit report.	This report is to be put into production.	Outstanding
2.52	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure management overrides cannot be requested and approved by the same user.	ITSS advised that the required programmed controls cannot be made to the system. Instead, clear policy was given to the managers for Access PEI on the process for approving management level overrides and documentation required where exceptions are needed.		Implemented
2.59	Access PEI, Highway Safety Division, and ITSS should ensure a standard password expiry of 90 days is implemented for the Single Window Access Technology System and the Driver Vehicle System. Adherence to password protocols should be monitored periodically.	DVS passwords do expire after 90 days.	This item is under investigation to determine the best means of implementing a password protocol within SWAT. A change request has been created.  This fundamental change to the application may need to be addressed in a rewrite or replacement of the system.	Outstanding
2.60	Access PEI, Highway Safety Division, and ITSS should ensure that all users within the Single Window Access Technology System and the Driver Vehicle	Separate user accounts have been created for programmers and support staff.	Testing needs to be completed for external users.  A new role will be created for password	Outstanding

## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
	System have individual usernames and passwords.		administration. Process documentation will be completed.	
2.63	Access PEI and Highway Safety Division should establish policies and procedures for granting and removing user access to the Single Window Access Technology System and the Driver Vehicle System.	Managers notify the SWAT Administrator when employment has ceased. The employee is deactivated in the SWAT system. An email is sent to the DVS Administrator (copied to the Directors and Registrar) to deactivate the employee in the DVS system.  When new users are required to be provided access to the system, an email is sent from the Director to the Manager and SWAT Administrator. All accounts are set up as required.		Implemented
2.64	Access PEI and Highway Safety Division should monitor user activity in the Single Window Access Technology System and the Driver Vehicle System and remove or disable dormant user accounts in a timely manner.	To identify dormant accounts a User Last Login report has been created that will identify all users and the date of their last DVS login.  Responsibility for monitoring has been assigned to the Access PEI Business System Administrator by the SWAT Operational Level Agreement.		Implemented
2.71	Access PEI should establish service level standards for the services it provides to Islanders.	Access PEI is compiling statistics to establish what appropriate service level standards should be.	When the data is compiled and analyzed, a formal service level standard will be established.	Outstanding
2.72	Access PEI should monitor and report performance against established service level standards.		This will be implemented as part of the Departmental Service Level Agreements.	Outstanding

## 5. Update on Previous Recommendations

### OUT-OF-PROVINCE HEALTH SERVICES

**5.32** Following are the recommendations resulting from our audit of Out-of-Province Health Services reported in the 2015 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI.

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
3.23	Health PEI should actively seek opportunities for cost savings in relation to out-of-province health services.	<p>To monitor trends, senior management now receives regular reporting on Out-of-Province Health Services (OOP) spending (dollars and patient counts).</p> <p>Analysis of OOP referral fee codes has been initiated. Physicians with no/low referral requests have been identified for correspondence. Correspondence will remind the physician of the policy on OOP referral requests. This analysis will be conducted annually on an on-going basis.</p> <p>Medical Affairs is using additional resources added since the Auditor General's report to conduct more in-depth analysis into quarterly variances with OOP spending.</p>	<p>To gain a greater understanding of the issues and challenges related to the balance of in-province care vs out-of-province care, Medical Affairs is undertaking a review of one particular specialty (where there is a full complement on PEI but OOP referrals are high). Part of that review will involve an in-depth look at the referral fee codes used and whether there are more appropriate options. Lessons learned will be applied to other specialties, where warranted.</p> <p>Financial Services and Pharmacare Division of Health PEI will continue its work on creating new Oracle accounting codes to allow for greater reporting on OOP spending, resulting in better information for decision making.</p>	Outstanding



## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
			<p>Medical Affairs will re-communicate with physicians, in particular internal medicine physicians, about the importance of looking to New Brunswick first (where clinically appropriate and where capacity exists) as a cost saving mechanism.</p> <p>Medical Affairs recently hired a Senior Claims Auditor. Short term focus is on in-province physician services; long term focus will look to out-of-province auditing opportunities.</p>	
3.28	Health PEI should amend the renewal forms for PEI health cards to state the basic criteria a person must meet to be eligible for medicare coverage in PEI, and applicants should be required to confirm that they meet these criteria at the time of renewal.	<p>Renewal forms were revised in 2014 to provide a reference to where information on Medicare eligibility requirements can be found.</p> <p>Health PEI has reviewed the process followed by other provinces for health card renewals, and has identified process and legal implications of requiring written confirmation of eligibility.</p>	Health PEI will formalize acceptable methods of confirmation by January 2016 and implement any new processes required by the end of June 2016.	Outstanding

## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
3.36	<p>Health PEI should</p> <ul style="list-style-type: none"> <li>• monitor whether physicians are submitting referrals for out-of-province health services; and</li> <li>• take appropriate action to ensure policies are followed.</li> </ul>	<p>Analysis of OOP referral fee codes has been initiated. Physicians with no/low referral requests have been identified for correspondence. Correspondence will remind the physician of the policy on OOP referral requests.</p> <p>In June 2015, Medical Affairs conducted an education session with physicians, which included information on out-of-province referral policy.</p>	<p>The analysis of and communication with low volume referers will be conducted annually.</p> <p>Physician education sessions will continue in the future. Where warranted, OOP information will be part of these sessions.</p> <p>Health PEI reinstated its bulletins to physicians. One has been done and a future one will include a piece on OOP.</p>	Implemented
3.43	Health PEI should clarify policies for out-of-province health services.	<p>All Health PEI OOP policies have been updated through the Strategy and Performance Division.</p> <p>Under the OOP liaison program, a new policy is in development regarding managing the repatriation of patients back to PEI for care.</p>	<p>Health PEI will continue to monitor policies in accordance with the standard review period noted in the policy document.</p> <p>Health PEI will continue to identify new policy development opportunities.</p>	Implemented

## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
3.52	Health PEI should identify arrangements for out-of-province health services that warrant formal documentation of terms and conditions. Where warranted, arrangements should be formalized.	<p>Two contractual arrangements have been recently identified:</p> <ul style="list-style-type: none"> <li>• A Memorandum of Understanding has been signed between the governments of PEI and NB regarding abortion services; and</li> <li>• HPEI is drafting an agreement regarding neurosurgery services in New Brunswick.</li> </ul>	<p>Medical Affairs will conduct a review of arrangements that exist outside the reciprocal billing arrangement to ascertain whether formal contracts should be created.</p> <p>The CEO of Health PEI and the CEO of the Nova Scotia Health Authority met in June 2015 to begin discussions on a broader OOP medical services MOU.</p>	Outstanding
3.53	Health PEI should establish internal control procedures to ensure claims for out-of-province hospital services meet the key requirements of the interprovincial billing agreements.	Health PEI is testing new internal audit reports which will enhance internal controls for out-of-province claims.	New internal audit reports will be implemented by April 2016.	Outstanding
3.55	Health PEI should work to obtain out-of-province billing information electronically, especially from the two provinces that provide the majority of the out-of-province health services accessed by Island residents.	Health PEI and ITSS have reviewed options for automated hospital reciprocal billing claim entries.	Health PEI and ITSS have commenced work with the software vendor to implement electronic submissions for out-of-province claims for the two provinces with the largest number of claims by the fall of 2016.	Outstanding

## 5. Update on Previous Recommendations

### MANAGEMENT OF CONTAMINATED SITES

**5.33** Following are the recommendations resulting from our audit of Management of Contaminated Sites reported in the 2015 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the departments of Communities, Land and Environment (formerly Environment, Labour and Justice) and Transportation, Infrastructure and Energy (formerly Transportation and Infrastructure Renewal).

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
4.19	The Department of Environment, Labour and Justice should ensure that all contaminated sites are added to the Contaminated Sites Registry in accordance with the <i>Environmental Protection Act</i> and regulations.	A working group was established which identified missing sites.  Staff have added all known government owned contaminated sites to the Contaminated Sites Registry.	Further work is required to ensure all nongovernment owned inactive landfills have been added to the Contaminated Sites Registry.	Outstanding
4.29	Management of the Environment Division should develop an internal policy to guide staff in addressing complaints and notifications. This policy should include at a minimum: <ul style="list-style-type: none"> <li>• a process for prioritization of complaints; and</li> <li>• key data to be recorded in the Complaint Management System.</li> </ul>	A staff person has been dedicated to policy development.	Development of standard operating procedures for the Complaint Management System (CMS) will begin as soon as possible.	Outstanding
4.33	Management of the Environment Division should implement procedures to ensure required reports from site professionals are obtained and reviewed on a timely basis.		When the standard operating procedures for the CMS are fully implemented, staff will be able to identify outstanding information required on open complaint files.	Outstanding

## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
4.39	Management of the Environment Division should review the backlog of open complaints and notification files and ensure appropriate action is taken on each file.	The review of complaints was completed in April 2015. The system has been updated to reflect the correct status of the files.		Implemented
4.40	Management of Environment Division should regularly monitor open complaint and notification files and ensure they are addressed in a timely manner.		The standard operating procedures for the CMS will include regular monitoring.	Outstanding
4.43	Management of Environment Division should implement a process to review action taken by staff in addressing complaints and notifications.	Management has started to conduct periodic reviews of actions taken by staff.	The review process will be formalized as quarterly reviews are to be part of the new standard operating procedures for the CMS.	Outstanding
4.56	The Department of Environment, Labour and Justice should ensure that contaminated and suspected contaminated sites owned by government are identified. This should also include sites for which government has accepted responsibility.	A master list has been compiled for government owned sites.	An inter-governmental working group has been working towards identifying all sites which are not government owned but for which government has accepted responsibility.	Outstanding
4.57	The Department of Environment, Labour and Justice should ensure that all government owned contaminated or suspected contaminated sites <ul style="list-style-type: none"> <li>• have required risk assessments completed;</li> <li>• are prioritized based on risk; and</li> <li>• have any required remediation work identified.</li> </ul>	Meetings have occurred with an inter-governmental working group. Initial risk assessments have been conducted to prioritize sites.	The Department will participate with the Department of Transportation, Infrastructure and Energy on further risk assessments and identification of remediation work required.	Outstanding

## 5. Update on Previous Recommendations

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
4.58	The Department of Transportation and Infrastructure Renewal should determine, where required, the cost to close, monitor, and complete remediation work on sites owned by government and sites for which government has accepted responsibility.	A master list of government owned sites has been compiled.	An intergovernmental working group has been working to ensure a complete listing of sites is maintained. On an annual basis, site evaluations will be carried out to assess the potential for contamination and identify the costs associated with remediating any contamination.	Outstanding

## 5. Update on Previous Recommendations

---

### WRITE-OFFS AND CANCELLATIONS

**5.34** Following is the recommendation resulting from our examination of Write-Offs and Cancellations reported in the 2015 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from management of the Department of Finance (formerly Finance and Energy).

2015 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
5.29	The Minister of Finance and Energy should clarify the authorization requirements for write-offs and cancellations of amounts owing to the province.	Legislation was submitted in the fall 2015 sitting of the Legislative Assembly to amend the <i>Financial Administration Act</i> .	Legislative changes will be presented again in the spring 2016 session.	Outstanding

# **FINANCIAL AUDITS**





## 6. INTRODUCTION TO FINANCIAL AUDITS

---

### AUDIT PROCESS

**6.1** To hold government accountable for its use of public funds and management of the resources entrusted to it, members of the Legislative Assembly and the public need sufficient, reliable, and timely information on the province's financial position and operating results.

**6.2** One of the means by which governments provide such information is by preparing annual consolidated financial statements which are intended to provide a full accounting of the financial and other resources that government controls. Financial statements provide information to describe the changes in a government's financial position and its revenues and expenditures for the fiscal period. Financial statements and other financial information help governments demonstrate accountability.

**6.3** Management is responsible for preparing the financial statements and all related decisions with oversight from those charged with governance. Financial statements provide information that is used to assess an organization's performance and management's stewardship over the economic resources entrusted to it. Therefore, it is imperative that the reader has credible information on a timely basis.

**6.4** To add credibility to the financial statements, users often rely on the work of an independent auditor. The auditor examines the entity's accounts and the presentation and disclosures of its financial information in accordance with Canadian auditing standards. The auditor objectively assesses the accounting principles used, the estimates made, and other management assertions reflected in the financial statements.

**6.5** Canadian auditing standards require the auditor to obtain a high level of assurance as to whether the financial statements are fairly presented. Upon completion of the examination, the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects. The auditor's opinion is expressed in the independent auditor's report.

**6.6** The *Audit Act* requires the Auditor General to perform financial audits of the province's consolidated financial statements, Crown

## 6. Introduction to Financial Audits

---

controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to a financial audit by an external auditor.

**6.7** The *Audit Act* also requires the Auditor General to bring to the attention of the Legislative Assembly any matter identified during an audit which in her opinion should be brought to its attention.

**6.8** In the chapters that follow, we provide summary financial highlights and comments on indicators of financial condition for the province. We also report on observations and recommendations resulting from our audits of the province's consolidated financial statements, agencies, boards, trusts, and Crown corporations as well as appropriations and special warrants.

## 7. INDICATORS OF FINANCIAL CONDITION

---

### CHAPTER SUMMARY

#### *What we examined*

In this chapter, we provide comparative financial information for the past five years on the operating results and financial position of the province. We include some financial highlights including summary information on the change in the deficit from the prior year.

Financial indicators related to sustainability, flexibility, and vulnerability for the past five years are also presented.

#### *Why it's important*

Ultimately, decisions on raising revenue and incurring expenses and debt are one of government policy. Information in this chapter is presented to assist legislators, the public, and other users to better understand the state of the province's finances.

#### *What we found*

- There was a further deterioration in the financial position of the province highlighted by continued deficits and growth in net debt.
- Net debt is \$2.1 billion at March 31, 2015, and has increased by 21.2 percent over the last four years.
- Net debt to gross domestic product (GDP) is stable compared to the prior year but is higher than it was in 2011.
- Net debt per capita increased over the past four years and was \$14,573 at March 31, 2015.

## 7. Indicators of Financial Condition

---

### BACKGROUND

7.1 To assist members of the Legislative Assembly, the public, and other users in understanding the financial condition of the province, we continue to provide information on a number of indicators of financial condition.

7.2 Several resources are used in assessing the financial condition of a government. Consolidated financial statements provide an overview of the fiscal status of the government at its year-end and for the preceding year. Financial statements, however, do not provide a complete perspective on how the province is performing in relation to the overall economic and fiscal environments.

7.3 The Public Sector Accounting Board's (PSAB) Statement of Recommended Practice suggests a number of indicators to assist in assessing a government's financial condition. These indicators help provide insight into government's ability to maintain its programs and services, the flexibility it has to respond to economic changes, and its vulnerability to external sources of funding. We highlight a number of these indicators in this chapter.

7.4 Our comments are based on the province's audited consolidated financial statements. Our current update provides financial information and indicators for the last five fiscal periods. We have restated certain prior periods due to accounting changes. The most recent estimates of population and nominal gross domestic product (GDP) have also been used in the determination of various indicators. Consistent with other jurisdictions, nominal GDP is presented on a calendar year basis.

### SUMMARY FINANCIAL INFORMATION

7.5 **Exhibit 7.1** summarizes the province's financial position and operating results for the last five years. The exhibit shows a continued growth in the province's net debt and the accumulated deficit as well as continued annual deficits.

## FINANCIAL HIGHLIGHTS

## 7. Indicators of Financial Condition

### EXHIBIT 7.1 SUMMARY FINANCIAL INFORMATION YEAR ENDED MARCH 31 (\$ Millions)

	2011 Restated	2012 Restated	2013 Restated	2014	2015
Financial Assets	\$ 722.5	\$ 831.4	\$ 829.7	\$1,229.2	\$1,130.7
Liabilities	<u>2,483.9</u>	<u>2,739.5</u>	<u>2,869.3</u>	<u>3,328.2</u>	<u>3,264.9</u>
Net Debt	1,761.4	1,908.1	2,039.6	2,099.0	2,134.2
Non-Financial Assets	<u>862.5</u>	<u>923.6</u>	<u>975.2</u>	<u>988.7</u>	<u>1,003.6</u>
Accumulated Deficit	<u>\$ 898.9</u>	<u>\$ 984.5</u>	<u>\$1,064.4</u>	<u>\$1,110.3</u>	<u>\$1,130.6</u>
Revenues	\$1,554.6	\$1,587.1	\$1,597.0	1,691.8	1,726.9
Expenses	<u>1,605.9</u>	<u>1,672.7</u>	<u>1,676.9</u>	<u>1,737.7</u>	<u>1,747.2</u>
Annual Deficit	<u>\$ 51.3</u>	<u>\$ 85.6</u>	<u>\$ 79.9</u>	<u>\$ 45.9</u>	<u>\$ 20.3</u>
Nominal Gross Domestic Product*	<u>\$ 5,222</u>	<u>\$ 5,424</u>	<u>\$ 5,573</u>	<u>\$ 5,783</u>	<u>\$ 6,003</u>

Source: \*Statistics Canada published November 10, 2015.

**7.6** An important and widely used measure of the financial condition of a province is net debt. Net debt is the difference between the government's liabilities and financial assets, and provides a measure of the amount of future revenue that will be required to pay for past operations.

**7.7** As at March 31, 2015, net debt increased by 1.7 percent or \$35.2 million from the prior year and was slightly above \$2.1 billion at year-end. Over the past four years, net debt has increased by \$372.8 million or 21.2 percent.

**7.8** Increases in the province's loans payable and debentures were the main contributors to the \$781.0 million increase in total liabilities since March 31, 2011.

**7.9** At March 31, 2015, the province had outstanding short-term loans, loans payable, and debentures totaling \$2.94 billion making up a significant portion of the total liabilities. These borrowings are partially offset by sinking fund assets. Included in loans payable are promissory notes totaling \$586.3 million.

## 7. Indicators of Financial Condition

**7.10** Investments in non-financial assets, the majority of which are tangible capital assets, combined with annual deficits contribute to the increase in net debt. Of the \$372.8 million increase in net debt over the past four years, \$141.1 million or 37.8 percent relates to net investments in non-financial assets and \$231.7 million or 62.2 percent to accumulated deficits.

**7.11** The annual surplus/deficit indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether a government is living within its means. For the year ended March 31, 2015, the province incurred an operating deficit of \$20.3 million.

**7.12** **Exhibit 7.2** provides a summary breakdown of the change in the province's annual deficit from the prior period.

**EXHIBIT 7.2**  
**CHANGE IN ANNUAL DEFICIT**  
**YEAR ENDED MARCH 31**  
**(\$ Millions)**

	Revenues	Expenses	Deficit
<b>2013-14 Deficit</b>	<b>\$1,691.8</b>	<b>\$1,737.7</b>	<b>\$(45.9)</b>
<b>Change in:</b>			
Tax revenue	26.8	-	
Government of Canada	17.0	-	
Government business enterprises	(7.9)	-	
Other revenue	(0.8)	-	
Community Services and Seniors	-	5.2	
Finance, Energy and Municipal Affairs	-	(18.4)	
Health and Wellness	-	11.4	
Innovation and Advanced Learning	-	(9.8)	
Tourism and Culture	-	5.7	
Other program expenses	-	(0.7)	
Interest on debt	-	14.2	
Amortization	-	1.9	
<b>2014-15 Deficit</b>	<b><u>\$1,726.9</u></b>	<b><u>\$1,747.2</u></b>	<b><u>\$(20.3)</u></b>

## 7. Indicators of Financial Condition

---

### *Increased Revenues*

**7.13** Overall, revenues increased by \$35.1 million. Increased taxes and Government of Canada revenues were the main drivers of the increase.

**7.14** The majority of the \$26.8 million net increase in tax revenue was due to

- increase of \$11.5 million in personal income tax revenue;
- increase of \$5.0 million in sales tax revenue;
- increase in real property tax revenue of \$4.5 million; and
- increase in corporate tax revenue of \$5.7 million.

**7.15** The increase in Government of Canada revenue was primarily attributable to

- a \$20.3 million increase in Equalization funding;
- a one-time capital markets securities regulation transitional funding of \$35.0 million; and
- an offsetting \$39.0 million decrease for a one-time Harmonized Sales Tax transitional funding in the previous year.

### *Increased Expenses*

**7.16** The \$9.5 million net increase in expenses consisted primarily of

- increase of \$5.2 million in Community Services and Seniors expenses;
- decrease of \$18.4 million in the Department of Finance, Energy and Municipal Affairs of which employee benefit costs accounted for a \$22.3 million decrease. This was offset by increased departmental operating expenditures of \$5.5 million;
- Health and Wellness increases due primarily to increases in health services costs within Health PEI of \$11.6 million;
- decrease of \$9.8 million in Innovation and Advanced Learning;
- increase of \$5.7 million in Tourism and Culture, the majority of which related to a \$6.2 million increase in expenses of Prince Edward Island 2014 Inc.; and
- increase of \$14.2 million in interest charges on debt, due mainly to interest on new promissory notes and debentures.



## 7. Indicators of Financial Condition

### FINANCIAL INDICATORS

**7.17** Consistent with prior years, we continue to provide information on a number of selected financial indicators. **Exhibit 7.3** provides a summary of the financial indicators presented in this chapter over a one year and five year period. For each indicator, we have assessed the change as favorable, unfavorable or stable. This represents the direction of the indicator and is not a comment on performance or policy. As can be seen in the exhibit, many of the indicators are stable compared to the prior year. However, the five year trend for most of the sustainability indicators was unfavorable.

#### EXHIBIT 7.3 SUMMARY OF INDICATORS OF FINANCIAL CONDITION

Financial Indicator	1 Year	5 Year
Sustainability Indicators:		
Net Debt to GDP	Stable	Unfavorable
Net Debt per Capita	Unfavorable	Unfavorable
Net Debt to Total Revenues	Stable	Unfavorable
Expenses to GDP	Stable	Favorable
Flexibility Indicators:		
Interest Costs to Total Revenues	Stable	Stable
Own Source Revenues to GDP	Stable	Stable
Vulnerability Indicators:		
Federal Revenues to Total Revenues	Stable	Favorable

\*A change of 1% or less is classified as stable.

### SUSTAINABILITY

**7.18** Sustainability is an important element to include in an assessment of financial condition because it indicates the extent to which the province can maintain programs and services and meet existing creditor, employee, and other obligations without increasing the debt or tax burden. Sustainability is a significant consideration because of its potential impact on current and future generations.

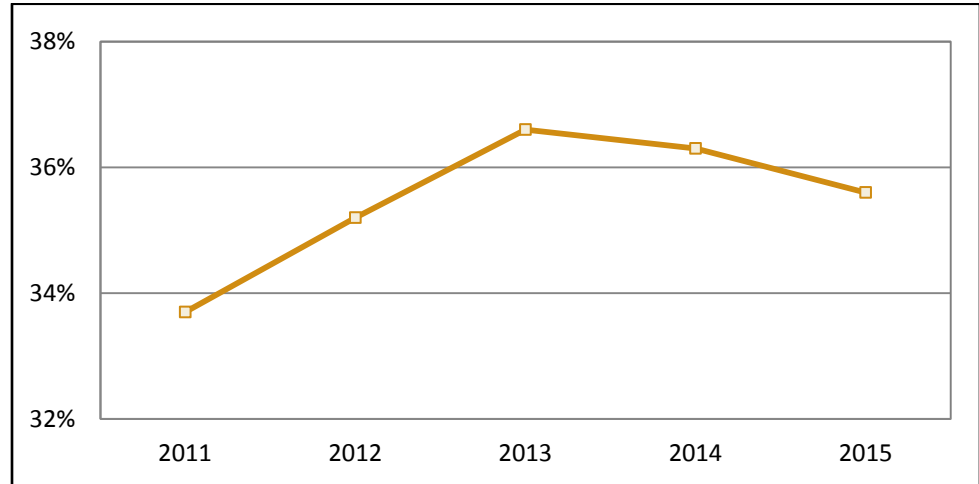
#### *Net Debt to GDP*

**7.19** Net debt to GDP provides a measure of the financial demands placed on the economy by the province's spending and taxation policies. An increasing ratio indicates net debt is growing at a rate faster than the growth in the economy which places higher demands on future revenues.

## 7. Indicators of Financial Condition

**Exhibit 7.4** indicates that during the past five years, the province's net debt to GDP ratio reached its highest level in 2013. It decreased during the past two years to 35.6 percent at March 31, 2015, but is still higher than it was in 2011.

**EXHIBIT 7.4  
NET DEBT AS A PERCENTAGE OF GDP  
YEAR ENDED MARCH 31**

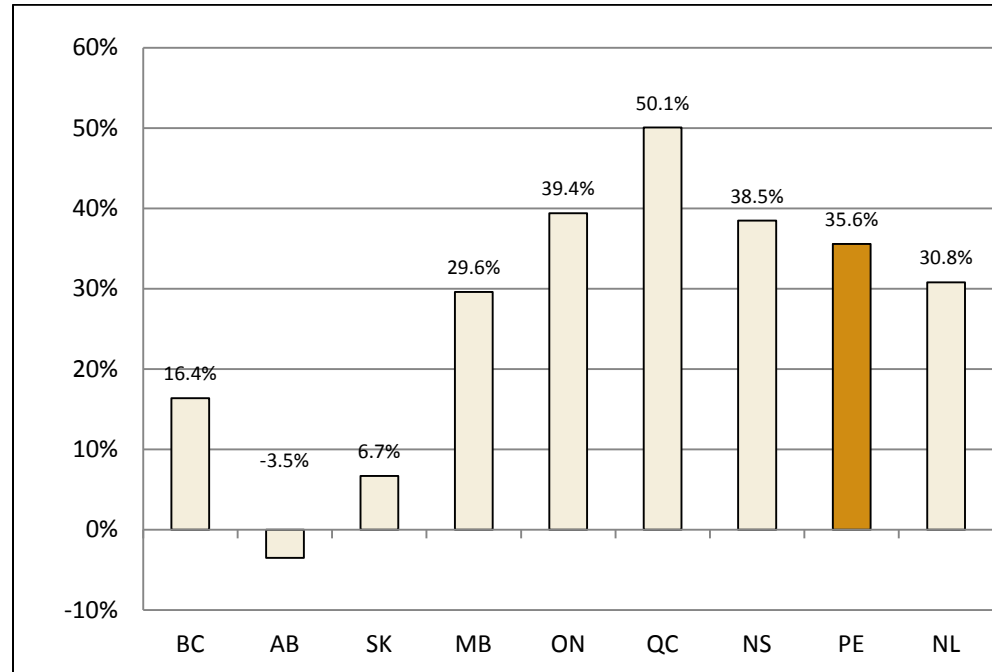


	2011 Restated	2012 Restated	2013 Restated	2014	2015
Net Debt to GDP	33.7%	35.2%	36.6%	36.3%	35.6%

## 7. Indicators of Financial Condition

**7.20** Exhibit 7.5 compares the province's net debt to GDP with other Canadian provinces. At March 31, 2015, PEI's net debt to GDP ratio is higher than the other provinces, except for Nova Scotia, Quebec, and Ontario.

**EXHIBIT 7.5**  
**NET DEBT TO GDP CANADIAN PROVINCES\***  
**MARCH 31, 2015**



Source: net debt derived from province's consolidated financial statements at March 31, 2015.  
GDP data from Statistics Canada published November 10, 2015.  
\*NB excluded because qualified audit opinion expressed March 31, 2015.

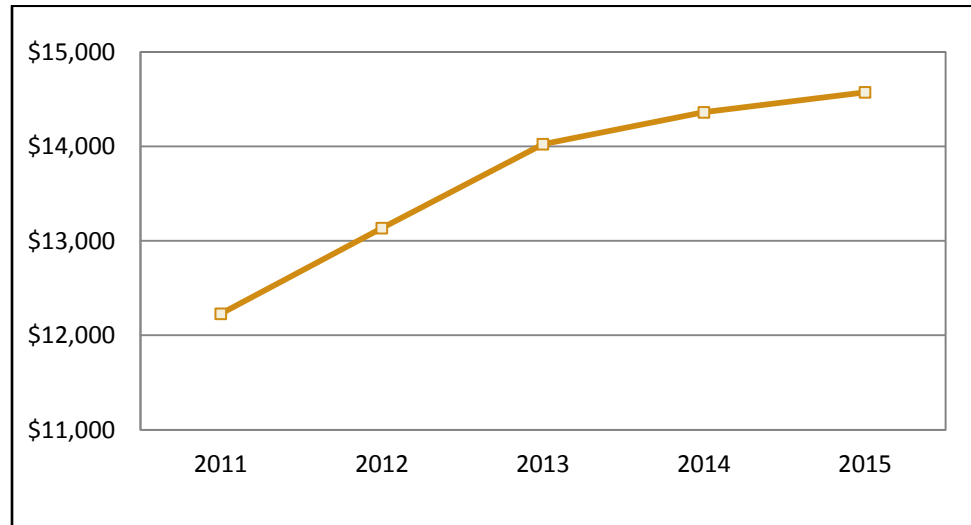
### *Net Debt per Capita*

**7.21** Net debt per capita is the amount of net debt attributable to each person resident in the province. The province's net debt per capita continued to increase which indicates net debt is growing at a faster rate than the population.

## 7. Indicators of Financial Condition

7.22 **Exhibit 7.6** shows the province's net debt per capita has been steadily increasing since 2011. The net debt attributable to each Island resident was \$14,573 at March 31, 2015, up slightly from \$14,361 at March 31, 2014.

**EXHIBIT 7.6**  
**NET DEBT PER CAPITA**  
**YEAR ENDED MARCH 31**

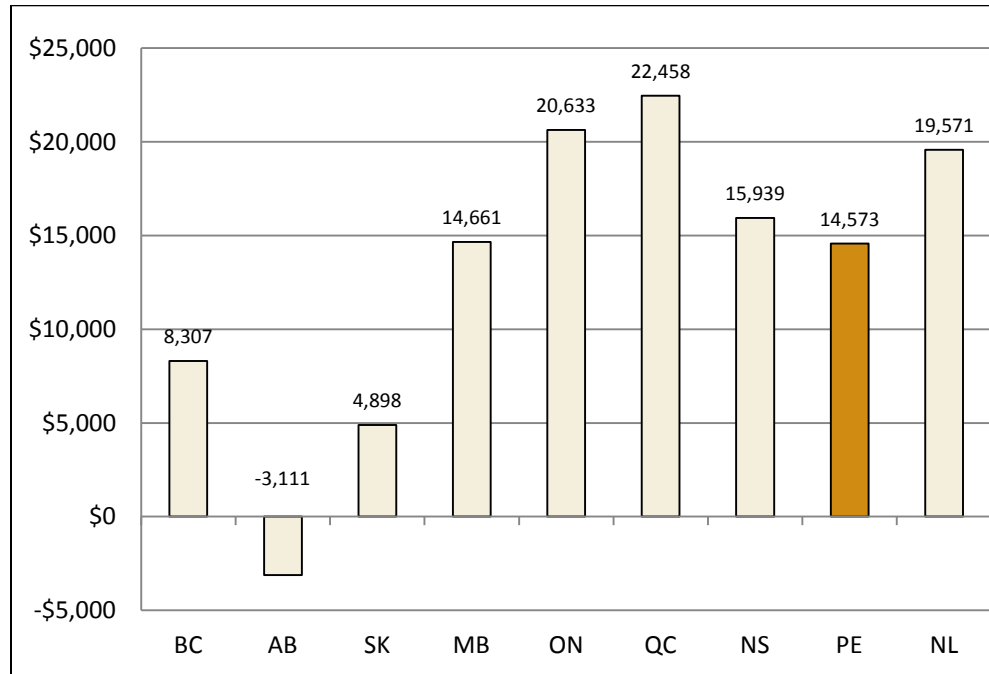


	2011 Restated	2012 Restated	2013 Restated	2014	2015
<b>Net Debt per Capita</b>	\$12,229	\$13,136	\$14,024	\$14,361	\$14,573

## 7. Indicators of Financial Condition

**7.23** A comparison of PEI's net debt per capita to other Canadian provinces is provided in **Exhibit 7.7**. Excluding New Brunswick, at March 31, 2015, PEI's net debt per capita ratio is more favorable than the other provinces, except for British Columbia, Alberta, and Saskatchewan.

**EXHIBIT 7.7**  
**NET DEBT PER CAPITA CANADIAN PROVINCES\***  
**MARCH 31, 2015**



Source: net debt derived from province's consolidated financial statements at March 31, 2015.

Population data from Statistics Canada published September 29, 2015.

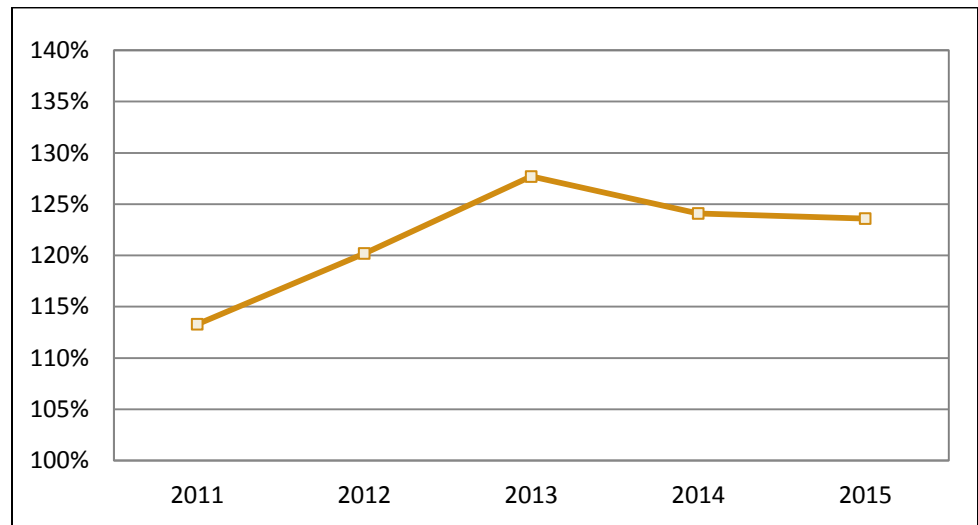
\*NB excluded because qualified audit opinion expressed March 31, 2015.

## 7. Indicators of Financial Condition

### *Net Debt to Total Revenues*

**7.24 Exhibit 7.8** depicts the ratio of net debt to total revenues. This ratio is a measure of the future revenue which will be required to pay for past transactions. An increasing ratio indicates more time will be needed to repay the debt. The province's ratio has increased overall from 2011 to 2015. At March 31, 2015, the province's net debt to total revenues ratio decreased and was 123.6 percent.

**EXHIBIT 7.8  
NET DEBT TO TOTAL REVENUES  
YEAR ENDED MARCH 31**



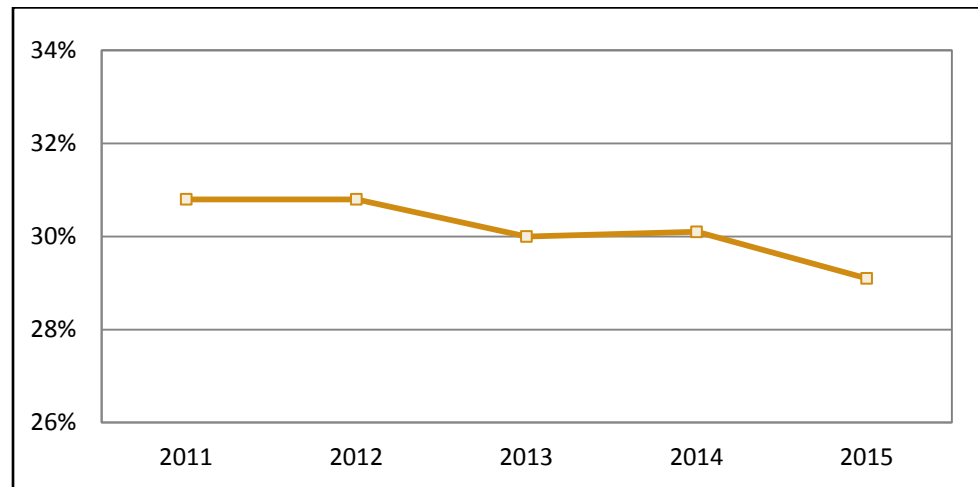
	2011 Restated	2012 Restated	2013 Restated	2014	2015
<b>Net Debt to Total Revenues</b>	113.3%	120.2%	127.7%	124.1%	123.6%

## 7. Indicators of Financial Condition

### Expenses to GDP

**7.25** During 2014-15, government expenditures increased by \$9.5 million from the prior period. Comparing expenses to GDP provides the trend of government spending over time in relation to the growth in the economy. An increasing ratio indicates government spending is growing at a rate faster than the growth in the economy. Expenses as a percentage of GDP have declined over the past five years. As indicated in **Exhibit 7.9**, government spending at March 31, 2015, represented approximately 29.1 percent of GDP compared to 30.8 percent in 2011 and 30.0 percent in 2014.

**EXHIBIT 7.9**  
**EXPENSES AS A PERCENTAGE OF GDP**  
**YEAR ENDED MARCH 31**



	2011 Restated	2012 Restated	2013 Restated	2014	2015
<b>Expenses to GDP</b>	30.8%	30.8%	30.1%	30.0%	29.1%

### FLEXIBILITY

**7.26** Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher interest rates, without making substantial changes to the way it operates.

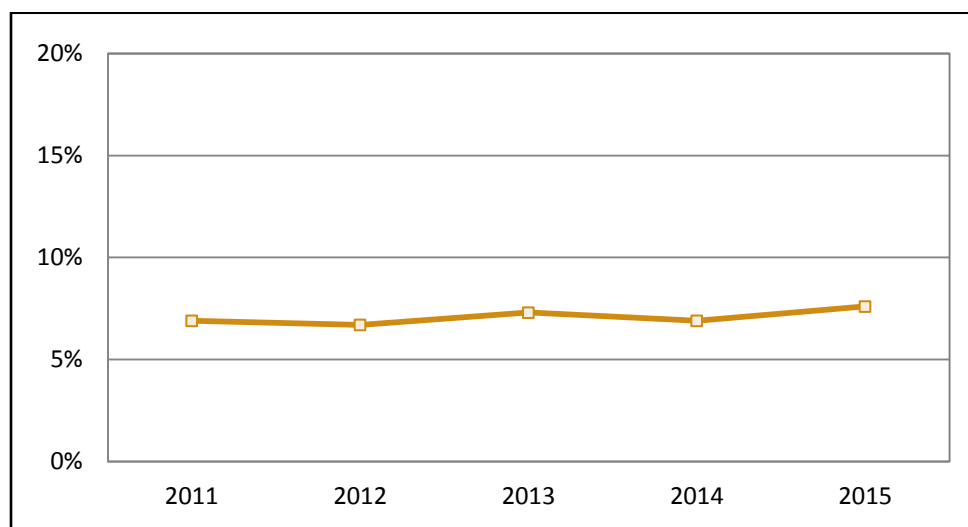
## 7. Indicators of Financial Condition

**7.27** Flexibility provides insight into how a government manages its finances. A government that increases its current borrowings reduces its future flexibility to respond when adverse economic circumstances develop. Similarly, increasing taxation or fees reduces its ability to do so in the future as a government approaches the limit that citizens and businesses can or are willing to bear.

### *Interest Costs to Total Revenues*

**7.28** One measure of a government’s flexibility is the interest cost as a percentage of total revenues as shown in **Exhibit 7.10**. This is sometimes referred to as the “interest bite.” This indicator illustrates the extent to which past borrowing decisions constrain a government’s ability to provide programs and services in the future.

**EXHIBIT 7.10**  
**INTEREST COSTS AS A PERCENTAGE**  
**OF TOTAL REVENUES**  
**YEAR ENDED MARCH 31**



	2011 Restated	2012 Restated	2013 Restated	2014	2015
<b>Interest Costs to Total Revenues</b>	6.9%	6.7%	7.3%	6.9%	7.6%

**7.29** Interest costs totaled \$130.5 million during 2014-15. This means that the first \$130.5 million of revenue must be used to pay interest costs and is unavailable for government programs and services. Interest charges were approximately 7.6 percent of total revenues for the



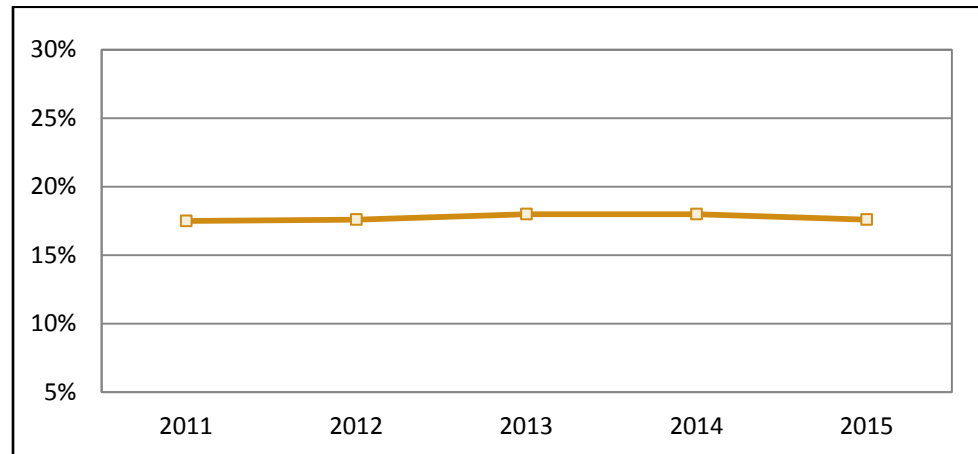
## 7. Indicators of Financial Condition

March 31, 2015 fiscal year, the highest percentage since 2011. The amount of government borrowings has continued to increase, resulting in higher interest costs and a higher ratio of interest costs to total revenues.

### *Own Source Revenues to GDP*

**7.30** Exhibit 7.11 indicates the change in own source revenues as a percentage of GDP. This indicator is important as it indicates the extent to which government is taking money out of the local economy through taxation, fees, and/or other charges. An increasing ratio indicates a growing tax burden. The percentage has decreased from 2013-14 and was 17.6 percent at March 31, 2015. The five year trend is relatively stable.

**EXHIBIT 7.11  
OWN SOURCE REVENUES AS A PERCENTAGE OF GDP  
YEAR ENDED MARCH 31**



	2011 Restated	2012 Restated	2013 Restated	2014	2015
<b>Own Source Revenues to GDP</b>	17.5%	17.6%	18.0%	18.0%	17.6%

### **VULNERABILITY**

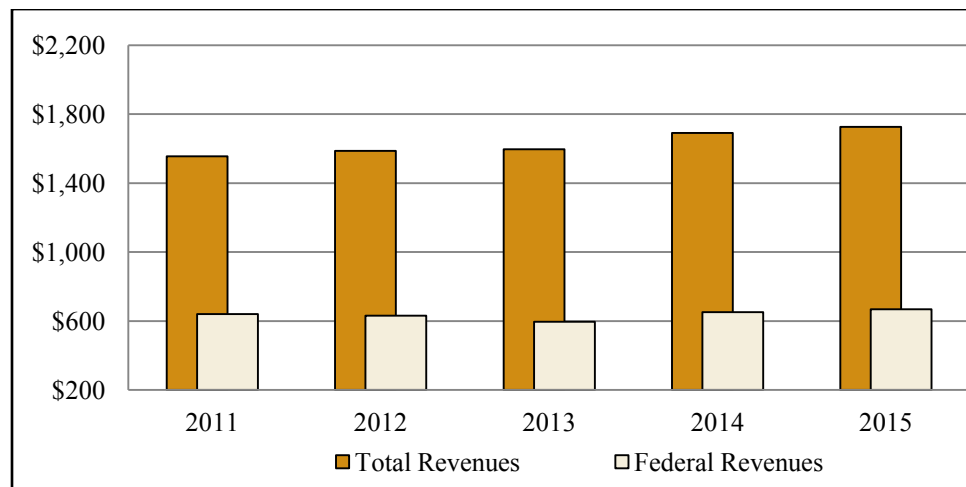
**7.31** Vulnerability is the degree to which a government depends on sources of funding outside its control or influence. It provides insight into the risk the province is exposed to that could affect its ability to meet existing service commitments to the public and financial commitments to creditors, employees, and others.

## 7. Indicators of Financial Condition

### *Federal Revenues to Total Revenues*

**7.32** Federal revenues as a percentage of total revenues have increased slightly over the previous year. An increasing ratio indicates more vulnerability. In 2014-15, the federal government provided 38.7 percent of the province's total revenues or \$668.8 million. The increase in federal revenues in the past two years is attributable mainly to a one-time transitional funding payment in each year, \$35 million in 2014-15 for capital markets securities regulations and \$39 million in 2013-14 for implementation of the Harmonized Sales Tax. **Exhibit 7.12** shows the trend in federal revenues as a percentage of total revenues for the last five years.

**EXHIBIT 7.12  
FEDERAL REVENUES TO TOTAL REVENUES  
YEAR ENDED MARCH 31  
(\$ Millions)**



	2011 Restated	2012 Restated	2013 Restated	2014	2015
<b>Provincial Revenues</b>	\$ 913.2	\$ 956.4	\$1,001.6	\$1,040.0	\$1,058.1
<b>Federal Revenues</b>	641.4	630.7	595.4	651.8	668.8
<b>Total Revenues</b>	<u>\$1,554.6</u>	<u>\$1,587.1</u>	<u>\$1,597.0</u>	<u>\$1,691.8</u>	<u>\$1,726.9</u>
<b>Provincial Revenues as Percent of Total</b>	58.7%	60.3%	62.7%	61.5%	61.3%
<b>Federal Revenues as Percent of Total</b>	41.3%	39.7%	37.3%	38.5%	38.7%

### GLOSSARY

**Annual surplus or deficit** is the difference between a government's revenues and expenses. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year.

**Total liabilities** is the amount owed by government. Government's liabilities include outstanding debentures and other payables.

**Financial assets** are cash and other assets which could provide resources to pay liabilities or finance future operations.

**Net debt** is equal to the difference between the government's total liabilities and its financial assets.

**Government borrowings** is the total of short-term loans, long-term loans payable, and debentures.

**Non-financial assets** are tangible capital assets such as buildings, roads, and equipment as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired and is reduced over a period of time through amortization. These assets do not normally provide resources to discharge liabilities.

**Accumulated deficit** represents the province's liabilities net of the assets the province has acquired; both financial and non-financial. It is the sum of all surpluses and deficits incurred over the years.

**Interest charged on borrowings** is the amount required to service the debt and must be taken from revenues before any expenditure can be made on government programs and services.

**Gross domestic product (GDP)** is a measure of the value of all goods and services produced in a jurisdiction in a given period. The province's GDP is measured and reported by Statistics Canada.

**Nominal gross domestic product** is gross domestic product that has not been adjusted for inflation.

## 8. AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

---

### CHAPTER SUMMARY

#### *What we examined*

This chapter provides summary information on issues identified during our audit of the province's consolidated financial statements. We also provide summary comments on our audit opinion.

#### *Why it's important*

The consolidated financial statements provide the most complete information about the financial position of the province as they consolidate the accounts of the Operating Fund with those of the agencies, boards, and Crown corporations owned or controlled by the government.

#### *What we found*

- An unqualified audit opinion was issued on September 30, 2015.
- The 2014-15 consolidated financial statements fairly present the province's financial results.
- Overall, improved timelines were achieved in the completion of the consolidated financial statements.
- Consolidated budgets are not prepared on the same basis as the consolidated financial statements.
- Revenue recognition policies need to be reassessed.

## 8. Audit of the Consolidated Financial Statements

---

### BACKGROUND

**8.1** The *Financial Administration Act* requires the Minister of Finance to annually table the Public Accounts in the Legislative Assembly. The 2015 Public Accounts consist of three volumes: Volume I contains the province's audited consolidated financial statements; Volume II contains the unaudited Operating Fund financial statements and details of revenues and expenditures of the Operating Fund; and Volume III includes the audited financial statements of agencies, boards, Crown corporations, and funds.

**8.2** The consolidated financial statements are prepared by government, and all information within and decisions related to these statements are the responsibility of government. Each year, we audit the province's consolidated financial statements and issue an independent auditor's report. In this chapter, we provide comments on Volume I of the Public Accounts based on our audit work.

### OBJECTIVES AND SCOPE

**8.3** The *Audit Act* requires the Auditor General to annually audit the province's consolidated financial statements and provide an independent auditor's report stating whether the statements are fairly presented.

**8.4** Under Section 17 of the Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General reviews the audit work performed by the external auditor of significant entities when performing the audit of the province's consolidated financial statements.

**8.5** In the following sections, we provide information on our independent audit opinion on the province's consolidated financial statements for the fiscal year ended March 31, 2015. We also include observations and recommendations arising from our work. Information to address other reporting requirements under the *Audit Act* is also provided.

## 8. Audit of the Consolidated Financial Statements

---

### AUDIT OPINION

**8.6** The *Financial Administration Act* requires the Comptroller to annually prepare the province's consolidated financial statements. The Auditor General is required to conduct an audit of the consolidated financial statements and express an independent audit opinion. Our audit was conducted in accordance with Canadian auditing standards. On September 30, 2015, the Auditor General issued an unqualified audit opinion on the province's consolidated financial statements. The independent audit opinion stated the province's consolidated financial statements for the year ended March 31, 2015, are fairly presented in accordance with the basis of accounting disclosed in Note 2 to the consolidated financial statements, which are Canadian public sector accounting standards.

### OBSERVATIONS AND RECOMMENDATIONS

#### ACCOUNTABILITY

**8.7** The consolidated financial statements are one of the most important accountability documents produced by government. These statements provide financial and other information to help users assess the financial condition and performance of government.

**8.8** In order to demonstrate accountability, government needs to provide information on how it has managed provincial resources. The Legislative Assembly, including its Public Accounts Committee, plays a primary role in holding government accountable. To fulfill their oversight role, members of the Legislative Assembly, as well as the public, need sufficient, timely, and reliable financial information on the financial position and operating results of the province.

#### *Improvements in timeliness of financial statements*

**8.9** For the year ended March 31, 2015, we noted significant improvements in the completion of the province's consolidated financial statements. In prior periods, we reported that delays in the issuance of the province's consolidated financial statements diminished the usefulness of these statements to members of the Legislative Assembly, the public, and other users. The consolidated financial statements for the year ended

## 8. Audit of the Consolidated Financial Statements

---

March 31, 2015, were released October 7, 2015, a substantial improvement over prior years.

**8.10** Each year in preparation for our audit, we meet with the Comptroller's Office to discuss audit readiness and timelines. This is done to clarify expectations and provide for a coordinated and cooperative effort to facilitate the timely completion of the audited consolidated financial statements. Overall improvements were made in relation to audit readiness, quality, and timeliness for the 2015 audit. However, the completion of the audit was impacted by delays in receiving supporting working papers for pensions and capital assets, the final trial balance, and the draft financial statements. We will continue to work with the Office of the Comptroller to ensure reasonable timelines are met in the future.

**8.11** Improvements in audit readiness also contributed to the earlier completion of financial statements of agencies, boards, and Crown corporations.

### *Budgets not prepared on same basis as consolidated financial statements*

**8.12** Government lays out its financial plan each year in an annual budget. Governments are held accountable when actual results are provided for comparison. Legislators, the public, and other users should be able to easily assess the province's actual results in comparison to its approved financial plan or budget. For several years, we noted the province's budget is not prepared on the same basis as its consolidated financial statements.

**8.13** Canadian public sector accounting standards require original budget information to be presented in the province's consolidated financial statements. However, the original budget does not include each consolidated entity's revenues and expenses on a line by line basis. The budgets of certain entities are grouped and reported on a net basis. This means that the original budget is not prepared on the same basis as the consolidated financial statements.

**8.14** Similar to previous years, a separate reconciliation was necessary to present the budget on the same comparative basis as the actual financial results. For the year ended March 31, 2015, original budget revenues and expenses were increased by \$99.8 million to put them on a comparative

## 8. Audit of the Consolidated Financial Statements

---

basis with the actual financial results presented in the consolidated financial statements.

**8.15** The operating budgets for government business enterprises are also prepared on a net basis and the details of each entity's revenues and expenses are not disclosed in the Legislature nor are they publically available. This is significant because government business enterprises had revenues of \$148.2 million (2014 - \$143.7 million) and expenses of \$109.9 million (2014 - \$97.3 million) for the year ended March 31, 2015. Government business enterprises also controlled \$724.0 million (2014 - \$722.3 million) in total assets at year-end.

**8.16** Detailed budget information of government business enterprises and government organizations would enhance transparency. It would also assist members of the Legislative Assembly and the public to assess and debate the budgets of these entities.

### *Budgeted amortization of tangible capital assets overstated*

**8.17** During our audit of the consolidated financial statements, we noted that the 2014-15 Budget Estimates include amortization of \$2.0 million for the Prince Edward Island Housing Corporation and \$1.0 million for Finance PEI in the line item "amortization of tangible capital assets". Amortization is also reflected in the budget presentation of the individual Crown corporation. Therefore, amortization of \$3.0 million is budgeted twice.

### **Recommendations**

**8.18** Budgets should be prepared on the same basis as the consolidated financial statements.

**8.19** Detailed budget information on significant agencies, boards, and Crown corporations should be provided to the Legislature as part of the budget approval process.

**8.20** Budget amounts for amortization for Crown corporations should be accurately reflected in the budget estimates.



## 8. Audit of the Consolidated Financial Statements

### AUDIT ISSUES

#### *Revenue recognition policies need to be reviewed*

**8.21** The province's accounting policies disclosed in the consolidated financial statements state that income and sales tax revenue, collected by the Government of Canada on behalf of the province, are recognized based on estimates and/or assessments received from the Government of Canada. Limited documentation was available to support the amount of income and sales tax revenue reported by the province. Using estimates and assessments received as support, our audit of provincial income and sales tax revenue identified significant audit adjustments at March 31, 2015.

**8.22** In addition, during our 2013-14 audit an issue arose regarding the recognition of revenue on tax reassessments. The province's revenue recognition policy does not specifically address such situations and should be reviewed.

#### **Recommendations**

**8.23 Sufficient documentation should be available to support decisions on revenue recognition.**

**8.24 The province's revenue recognition policy should be reviewed to address situations which involve unusual assessments or reassessments of taxpayers.**

#### *Work continues on environmental liabilities*

**8.25** The province adopted Public Sector Accounting Standard (PSAS) 3260 Liability for Contaminated Sites effective April 1, 2014. This standard establishes how to recognize and measure liabilities associated with the remediation of contaminated sites. Last year, we recommended that sites with potential environmental liabilities be identified, assessed, and any estimated remediation costs be recorded. Government has made some progress in identifying potential contaminated sites and assessing risk. Additional work is needed and we were advised the Office of the Comptroller will continue to work with relevant departments on this issue.

#### *Some prior period recommendations still outstanding*

**8.26** We have raised a number of issues in past management letters. Our audit of the 2014-15 consolidated financial statements noted that some of

## 8. Audit of the Consolidated Financial Statements

---

the issues have still not been addressed. These include issues related to the assessment and write-off of uncollectible accounts receivable, accounting for loans with concessionary terms, accounting for tangible capital assets, the need to improve some internal controls, documentation issues, and financial statement note disclosures. We encourage the province to take action on these issues.

### Recommendation

**8.27 The accounting, documentation, and internal control issues identified in prior periods should be addressed on a timely basis.**

#### *New standards require planning*

**8.28** The Canadian Public Sector Accounting Board has issued a number of new standards for the public sector. For years beginning on or after April 1, 2017, new standards take effect which define and establish disclosures required for related party transactions, assets, contingent assets and contractual rights as well as accounting for inter-entity transactions. For years beginning on or after April 1, 2018, standards take effect related to the accounting and reporting of restructuring transactions. We encourage the Office of the Comptroller to be proactive in preparing for these changes to ensure any accounting and disclosure issues that may arise are resolved in a timely manner.

### OTHER FINANCIAL INFORMATION

#### *Pension Plans*

**8.29** The objective of a pension plan is to provide income to individuals when they retire. The province has three funded pension plans: the Civil Service Superannuation Fund (CSSF), the Teacher's Superannuation Fund (TSF), and the Pension Plan for Members of the Legislative Assembly (MLA). The province also has four unfunded pension plans: the MLA Supplemental Plan, the Senior Compensation Plan, the Judges Pension Plan (Old), and the Judges Pension Plan (New).

**8.30** **Exhibit 8.1** summarizes the province's accrued pension obligation and the various components that make up its net pension assets/obligations for the past five years. Pension expense is also noted. The exhibit includes both funded and unfunded pension plans.

## 8. Audit of the Consolidated Financial Statements

### EXHIBIT 8.1 NET PENSION ASSETS/OBLIGATIONS YEAR ENDED MARCH 31 (\$ Millions)

	2011	2012 Restated	2013	2014	2015
Base benefits	\$(1,782.6)	\$(1,898.1)	\$(2,132.0)	\$(2,084.6)	\$(2,226.9)
Contingent indexation	—	—	—	(486.4)	(535.2)
Accrued benefit obligation	(1,782.6)	(1,898.1)	(2,132.0)	(2,571.0)	(2,762.1)
Pension fund assets	<u>1,527.8</u>	<u>1,527.2</u>	<u>1,878.1</u>	<u>2,526.0</u>	<u>2,708.9</u>
Unfunded pension obligation	(254.8)	(370.9)	(253.9)	(45.0)	(53.2)
Unamortized net losses	<u>279.3</u>	<u>355.0</u>	<u>433.8</u>	<u>565.1</u>	<u>547.7</u>
Net pension assets (obligation)	<u>\$ 24.5</u>	<u>\$ (15.9)</u>	<u>\$ 179.9</u>	<u>\$ 520.1</u>	<u>\$ 494.5</u>
Pension expense	<u>\$ 56.0</u>	<u>\$ 74.2</u>	<u>\$ 71.7</u>	<u>\$ 97.0</u>	<u>\$ 66.9</u>

**8.31** The accrued benefit obligation is made up of two components, a liability for base benefits and a liability for contingent indexation. The base benefit liability is the minimum benefit that is guaranteed as per the applicable pension legislation. At March 31, 2015, the base benefit liability has increased by \$142.3 million over the previous period. Approximately \$76.3 million or 53.6 percent of the increase relates to changes in the discount rate assumption used in valuing the base benefit at March 31, 2015. The remaining increase relates mainly to current accrued service costs and interest in excess of pension payments.

**8.32** Any excess of plan assets over the value of the base benefit obligation is available to provide future indexation of benefits. This liability is referred to as contingent indexation. At March 31, 2015, the province has estimated assets available for contingent indexation at \$535.2 million, an increase of \$48.8 million over the prior period.

**8.33** The province's methodology is to recognize the liability for contingent indexation equal to the assets in excess of the guaranteed base benefit. The province noted that there is no generally accepted methodology for estimating the liability associated with contingent indexing, but has committed to continue to monitor the developments in

## 8. Audit of the Consolidated Financial Statements

the accounting standards and practices when assessing the accounting treatment of plans with a contingent indexation liability component.

**8.34** Net actuarial gains, return on plan assets, and annual employee and employer contributions have exceeded the actual pension benefit payments in the current year, overall increasing pension fund assets by \$182.9 million from March 31, 2014.

**8.35** Pension expenses have significantly declined as prior period expenses included plan amendments of \$18.2 million. Interest expense in the current period has also declined by \$11.4 million.

### Guaranteed Debt

**8.36** Exhibit 8.2 summarizes the components of guaranteed debt for the past five years as reported in the Guaranteed Debt schedule in the province's consolidated financial statements. At year-end, guaranteed debt was \$204.0 million, down from \$237.6 million in the prior year.

**EXHIBIT 8.2  
GUARANTEED DEBT  
YEAR ENDED MARCH 31  
(\$ Thousands)**

	2011	2012	2013	2014 Restated	2015
Lines of credit/demand loans	\$ 49	\$ 54	\$ 32,607	\$ -	\$ -
Debentures/capital loans	249,805	264,623	245,886	236,112	202,823
Crown corporations and agencies	2,853	1,980	1,378	1,463	1,201
Total guaranteed debt	<u>\$252,707</u>	<u>\$266,657</u>	<u>\$279,871</u>	<u>\$237,575</u>	<u>\$204,024</u>

**8.37** The province also has a guarantee related to the Credit Union Deposit Insurance Corporation (CUDIC). The CUDIC provides deposit insurance coverage on insurable deposits in each of the ten credit unions in the province. At December 31, 2014, insurable deposits totaled \$811.0 million (2013 - \$771.2 million). The CUDIC had an equity balance of \$13.3 million at December 31, 2014 (2013 - \$12.3 million).

## 8. Audit of the Consolidated Financial Statements

**8.38** The amount of debt guaranteed by the province continues to represent a significant level of financial risk. It needs to be monitored on a regular basis to ensure the province's financial exposure is minimized.

### OTHER REPORTING REQUIREMENTS

#### DEBTS CANCELLED, DISCHARGED, WRITTEN OFF

**8.39** Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, debts, or monies due to the province that have been discharged, cancelled, and/or released under Section 26 of the *Financial Administration Act*. For the year ended March 31, 2015, the amount cancelled or discharged under Section 26 is detailed in **Exhibit 8.3**. Also included are amounts written off under Section 26.1(1).

#### EXHIBIT 8.3 AMOUNTS CANCELLED, DISCHARGED OR WRITTEN OFF YEAR ENDED MARCH 31, 2015

	Cancellations Section 26(1)	Write-offs Section 26.1(1)
<i>Revenue Tax Act</i>	\$ -	\$ 509,399
<i>Social Assistance Act</i>	43,921	431,979
<i>Real Property Tax Act</i>	234,746	-
<i>Environment Tax Act</i>	-	4,565
Department of Community Services and Seniors	-	16,165
Health PEI	<u>12,515</u>	<u>189,696</u>
<b>Total</b>	<b><u>\$291,182</u></b>	<b><u>\$1,151,804</u></b>

#### SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS

**8.40** Section 16 of the *Audit Act* also requires the Auditor General to include information in the Annual Report on deficits of agencies, boards, and Crown corporations not covered by appropriations in the year in which they have been incurred and any surpluses not paid into the Operating Fund in the year in which they were earned. In **Exhibit 8.4**, we have included the surplus or deficit for each entity at March 31, 2015.

## 8. Audit of the Consolidated Financial Statements

### EXHIBIT 8.4 SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS YEAR ENDED MARCH 31, 2015

	Annual Surplus (Deficit)
Charlottetown Area Development Corporation*	\$ (642,515)
English Language School Board	(11,948)
Finance PEI	1,774,769
French Language School Board	(370,599)
Health PEI	(5,349,096)
Island Investment Development Inc.	4,231,313
Island Waste Management Corporation	198,607
PEI Advisory Council on the Status of Women	48,617
PEI Agricultural Insurance Corporation	10,304,885
PEI Aquaculture and Fisheries Research Initiative Inc.	(37,286)
PEI Energy Corporation	6,582,021
PEI Grain Elevators Corporation (July 31, 2014)	450,962
PEI Human Rights Commission	37,298
PEI Housing Corporation	(234,800)
PEI Museum and Heritage Foundation	36,253
PEI Self Insurance and Risk Management Fund	807,577
PEI Student Financial Assistance Corporation	841
PEI 2014 Inc.	(2,959,103)
Summerside Regional Development Corporation*	(203,588)

\*Includes the provincial portion only

#### MANAGEMENT RESPONSE

**8.41** Our observations and recommendations have been provided to the Comptroller's Office.

## 9. MATTERS NOTED IN OTHER FINANCIAL AUDITS

---

### CHAPTER SUMMARY

#### *What we examined*

This chapter summarizes the issues reported in our management letters as a result of the financial statement audits completed by our Office.

#### *Why it's important*

Our management letters are provided to management and those charged with governance to assist them in discharging their responsibilities. The reported issues and recommendations identify opportunities to strengthen internal control and improve management and accounting processes.

#### *What we found*

- We completed 14 financial statement audits and 9 claims audits and in all cases, we issued unqualified audit opinions.
- Islanders can rely on the financial statements for the entities we audited. All of the financial statements are fairly presented.
- The majority of the issues that we noted in our financial statement audits are in the areas of accounting, compliance, supporting documentation, and internal controls. A significant number of the issues were also noted in the prior period.
- The Office of the Comptroller should implement a process to ensure appropriate action is taken to address the issues identified in management letters.
- The audit of the accounts of the Public Trustee and Official Guardian for the last three fiscal periods have not been completed because the records were not ready for audit.

## 9. Matters Noted in Other Financial Audits

---

### BACKGROUND

**9.1** Our Office conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. A significant portion of our work relates to financial statement audits.

**9.2** The objective of a financial statement audit is to obtain reasonable assurance that the financial statements are free of material misstatement. An independent audit opinion is provided at the conclusion of the audit.

**9.3** In addition to the audit of the province's consolidated financial statements, our Office completed a number of other annual financial statement audits. These are listed in **Exhibit 9.1**. We also audit the operating claims submitted by the province to the Canada Mortgage and Housing Corporation (CMHC).

**9.4** Excluding the audit of the province's consolidated financial statements; we completed 14 financial statement audits related to the province's March 31, 2015 year-end. These entities have approximately \$1,074.9 million in revenues and \$794.4 million in expenditures. We also completed nine CMHC operating claims audits. These claims had total revenues of \$5.5 million and \$13.6 million in expenditures.



## 9. Matters Noted in Other Financial Audits

### EXHIBIT 9.1 COMPLETED FINANCIAL STATEMENT AUDITS (\$ Thousands)

Project	Entity Year End	Management Letter Issued	Revenues	Expenditures
Health PEI	31-Mar-15	Y	\$ 611,314	\$616,663
PEI Liquor Control Commission	31-Mar-15	Y	72,875	53,168
PEI Lottery Commission	31-Mar-15	Y	15,331	7,345
PEI Teachers Superannuation Fund	30-Jun-14	Y	293,826	47,559
Pension Plan for Members of the Legislative Assembly	31-Dec-14	Y	2,103	1,515
PEI Agricultural Insurance Corporation	31-Mar-15	Y	32,450	22,146
PEI Grain Elevators Corporation	31-Jul-14	Y	28,186	27,735
PEI Housing Corporation	31-Mar-15	Y	13,168	13,402
PEI Self Insurance and Risk Management Fund	31-Mar-15	Y	4,882	4,075
Supreme Court of Prince Edward Island Trust Accounts	31-Mar-15	N	3	-
PEI Human Rights Commission	31-Mar-15	Y	463	426
PEI Advisory Council on the Status of Women	31-Mar-15	N	255	207
PEI Aquaculture and Fisheries Research Initiative Inc.	31-Mar-15	Y	78	116
PEI Crown Building Corporation*	31-Mar-15	N	-	-
<b>TOTAL</b>			<b>\$1,074,934</b>	<b>\$794,357</b>

\*inactive

**9.5** It is important to note that an audit is not designed to express an opinion on the adequacy or effectiveness of the system of internal control established by management. It cannot be relied upon to detect all internal control weaknesses, defalcations, irregularities, and/or other areas which may be of interest to management.

**9.6** Our financial statement audits are conducted in accordance with Canadian auditing standards and include such tests and other procedures we consider necessary in the circumstances. These standards require the auditor to communicate to management and those charged with governance any significant issue or matter identified during an audit.

**9.7** The auditor details any significant issues arising from the audit in a separate communication commonly referred to as a management letter. This letter identifies any significant concern noted in the entity's system of internal control, in management processes, significant accounting

## 9. Matters Noted in Other Financial Audits

---

adjustments or disclosures identified by the audit, compliance issues, or any other matter which the auditor concludes should be brought to the attention of management and those charged with governance.

Recommendations are provided to address concerns noted. Our audits can also identify matters of a less significant nature. These items are verbally communicated to management.

**9.8** For the majority of the financial statement audits we completed, management letters were issued. Prior to finalizing a management letter, we discuss each finding and recommendation with management. We also request a written response to our management letters. A copy of our management letters are provided to the Secretary to Treasury Board and to the Office of the Comptroller.

**9.9** In the subsequent year's audit, we follow up to assess the status of action taken to address the issues reported.

### SCOPE

**9.10** In this chapter, we provide summary comments on the significant issues and recommendations arising from the financial statement audits completed by our Office. This does not include findings and recommendations related to our audit of the province's consolidated financial statements. These are provided in a separate chapter. This chapter also excludes the management letters, if any, related to the financial statement audits of the other entities included in the province's consolidated financial statements and audited by other auditors.

### SUMMARY OBSERVATIONS

**9.11** For the 14 financial statement and 9 operating claims audits we completed, unqualified audit opinions were issued. The information presented in these financial statements and claims is fairly presented.

**9.12** In addition to the 14 financial statement audits completed, our office is appointed by statute to audit the accounts of the Prince Edward Island Public Trustee and Official Guardian. Our audit of these accounts for the fiscal years ended March 31, 2013, 2014, and 2015 have not been completed due to audit readiness issues. In our last management letter

## 9. Matters Noted in Other Financial Audits

---

issued for this entity for the March 31, 2011 and 2012 year-ends, we reported the need to improve the timing of audit readiness. We also noted incomplete documentation which resulted in material adjustments to the accounts.

**9.13** We are also the appointed auditors of the Prince Edward Island Civil Service Superannuation Fund. The audit of the March 31, 2015 year-end for the Fund was not complete at the time of this report. The original timelines for audit readiness were deferred.

**9.14** For 11 of the 14 completed financial statement audits, management letters were issued. A separate management letter related to our audit of the nine CMHC operating claims was not issued. Issues identified from this work were included in the management letter of the Prince Edward Island Housing Corporation which administers these claims.

**9.15** The majority of the significant issues identified during our audit of the province's pension plans are included in our current and/or previous chapter on the province's consolidated financial statements.

**9.16** Our current review of the management letters issued by our Office noted 44 issues. An issue is defined as an item separately identified in a management letter for an entity. These reportable issues could have occurred more than once in that entity. However; for purposes of this summary, it would be noted as one issue. We also made recommendations to address the items identified. The issues are categorized into six main areas as follows:

Accounting	16
Supporting Documentation	6
Accountability and Transparency	3
Compliance	12
Authorization	2
Internal Controls	<u>5</u>
<b>Total</b>	<b><u>44</u></b>

**9.17** *Accounting* - Financial statements are prepared in accordance with a set of accounting standards. An objective of these standards is to enable

## 9. Matters Noted in Other Financial Audits

---

users of the financial statements to understand the information and for the information to be fairly presented.

**9.18** In the management letters we issued, we noted 16 issues related to accounting. These issues related to how amounts were determined and recorded, policies and procedures, and the need to improve audit readiness.

**9.19** *Supporting Documentation* - In order for the accounting function to perform efficiently, it is important for an organization to have sufficient appropriate documentation to enable preparers to correctly calculate and record activities and transactions. This supporting documentation is also important to allow the auditor to reach a conclusion on the accounting.

**9.20** Our work identified and reported six issues related to incomplete schedules, documents, and agreements not on file.

**9.21** *Accountability and Transparency* - An important concept in the public sector is accountability. Accountability relationships exist in government through the delegation of responsibility. In order to fulfill the accountability relationship, users need information on how the delegated responsibilities have been fulfilled. Transparency furthers accountability.

**9.22** For one entity, we reported three issues related to accountability and transparency. The first issue related to an opportunity to further report segmented information. Currently, the reported segmented information contains material operations which are netted and not publically reported. The second issue noted the entity's detailed budget was not formally approved or publically available. The third issue related to the entity's Annual Report not being made available on a timely basis.

**9.23** *Compliance* - Governments have objectives and establish regulations, policies, and procedures designed to clearly communicate expectations. We reported 12 compliance matters in the management letters we issued. These matters related to compliance with regulations, agreements, and with Treasury Board policies on travel and other expenses, human resources, and signing authority.

## 9. Matters Noted in Other Financial Audits

---

**9.24 Authorization** - Key controls in any financial system are authorization controls. Authorization controls ensure transactions are approved at the appropriate level and approved amounts are within the individual's authority.

**9.25** Our management letters highlighted two concerns related to authorization. In one instance, we noted the Board of Directors had not approved certain transactions. In the second instance, Executive Council approval of accounts receivable write-offs was not obtained.

**9.26 Internal Controls** - Internal controls are used by an entity to ensure transactions are properly and accurately recorded. They also ensure processes occur as intended. Inadequate internal control can expose an entity to business and financial risks.

**9.27** Our management letters included five internal control issues. These issues related to an inadequate segregation of duties, IT passwords not being regularly changed, the need to improve transaction controls, and the need to ensure the signing authority master list is up to date.

**9.28** Each year, we follow up on the recommendations made in the prior year's management letter to determine the status of the action taken to address the issues identified. Our current follow up noted, the majority of the entities had not taken sufficient action to fully address the issues noted in our previous management letters. These issues were also noted in our current audits and are therefore included in this chapter.

**9.29** In prior periods, we had recommended that a process be established to monitor the action taken by management to address the matter identified. To date, no process has been implemented. We encourage action on this recommendation.

### MANAGEMENT RESPONSE

**9.30** Management responses have been received for 8 of the 11 management letters issued by our Office. In general, management agreed with the issues raised and advised that they have taken or plan to take action.

## 10. APPROPRIATIONS AND SPECIAL WARRANTS

---

### CHAPTER SUMMARY

#### *What we examined*

We examined the processes for recording appropriations for current and capital expenditures for the fiscal year ended March 31, 2015. We also examined the approvals, processing and recording of special warrants, transfers, and sequestrations approved.

#### *Why it's important*

Appropriation acts are an important control over spending. Our work provides assurance that the system for approving and recording appropriations complies with legislation and Treasury Board Policy.

#### *What we found*

- The *Appropriation Act (Current Expenditures) 2014* authorized \$1,590.5 million in operating expenditures for the fiscal year ended March 31, 2015.
- The *Appropriation Act (Capital Expenditures) 2014* authorized capital spending of \$73.7 million.
- Special warrants provided an additional \$24.8 million in authorized spending for operating expenditures and \$12.5 million for capital expenditures.
- In several instances, there were delays in issuing special warrants.

## 10. Appropriations and Special Warrants

---

### BACKGROUND

**10.1** Government's annual spending authority is approved by members of the Legislative Assembly through an appropriation act. Appropriations for 2014-15 were approved in the *Appropriation Act (Current Expenditures) 2014* and *Appropriation Act (Capital Expenditures) 2014*. Authorization to exceed the initial amount set by an appropriation act is provided by a special warrant or transfer of a previously appropriated amount.

**10.2** Special warrants are used when the Legislative Assembly is not in session and funds are needed for operations that have exceeded amounts set by the *Appropriation Act*. Unlike appropriation acts which require the approval of the Legislative Assembly, special warrants must be approved by the Lieutenant Governor in Council through an Order-in-Council.

**10.3** This chapter provides comments and recommendations resulting from the audit of the province's appropriations and special warrants for the year ended March 31, 2015. In addition to the information provided in this chapter, readers should also consider the province's consolidated financial statements and our independent auditor's report on those financial statements.

**10.4** **Schedule A** of this Annual Report also provides a comparison of operating and capital appropriations to actual expenditures in accordance with the classifications in the 2014 appropriation acts.

### OBSERVATIONS AND RECOMMENDATION

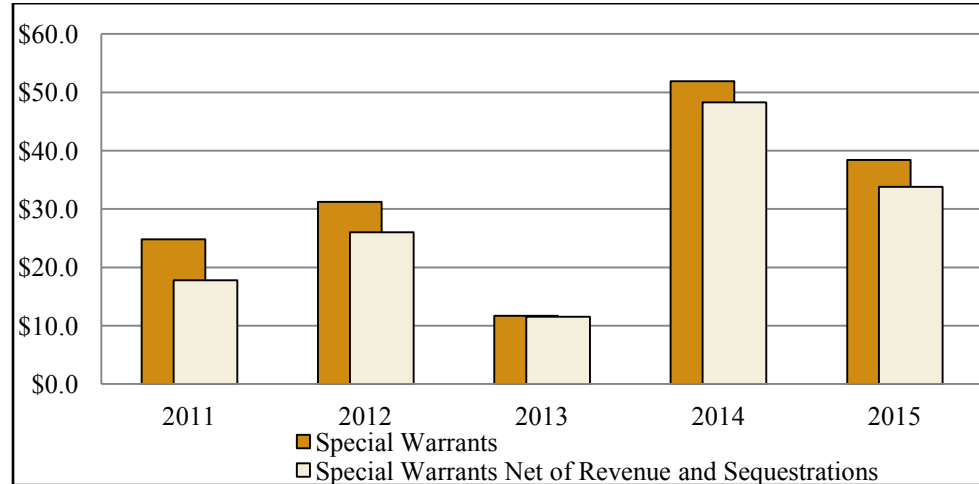
#### SPECIAL WARRANTS

**10.5** The *Audit Act* requires the Auditor General to list in detail appropriations made by special warrant and the purpose of such appropriations. This information is included in **Schedule B** of this report. For the year ended March 31, 2015, special warrants totaling \$37.3 million were issued for operating and capital expenditures. These special warrants were partially offset by a \$4.3 million net increase in revenue and \$282,000 in sequestrations from previously authorized appropriations for a net increase in spending authority of \$32.7 million. **Exhibit 10.1** depicts

## 10. Appropriations and Special Warrants

total special warrants and special warrants net of revenue and sequestrations for each of the last five years.

**EXHIBIT 10.1**  
**SPECIAL WARRANTS**  
**YEAR ENDED MARCH 31**  
**(\$ Millions)**



	2011	2012	2013	2014	2015
Total Special Warrants	\$24.8	\$31.2	\$11.7	\$51.9	\$37.3
Revenue and Sequestrations	7.0	5.2	0.2	3.6	4.6
Special Warrants Net of Revenue and Sequestrations	\$17.8	\$26.0	\$11.5	\$48.3	\$32.7

### *Delay in Issuing Special Warrants*

**10.6** The *Financial Administration Act* prohibits expenditures from being incurred unless provided for by an appropriation. When it is expected that an appropriation will be exceeded, a special warrant should be obtained prior to the expense being incurred.

**10.7** Consistent with prior years, our audit identified instances where a special warrant was not obtained prior to the expenditure being incurred. The instances identified include one department that exceeded both its operating and capital appropriations, two departments which exceeded their current operating appropriation, and two departments which exceeded their capital appropriation. The final instance was a special warrant issued after year-end for employee benefits.



## 10. Appropriations and Special Warrants

---

### Recommendation

**10.8** Special warrants should be obtained prior to expenditures being incurred.

### MANAGEMENT RESPONSE

**10.9** We have discussed our findings and recommendation with management.

**PUBLIC ACCOUNTS COMMITTEE**



## 11. PUBLIC ACCOUNTS COMMITTEE

---

### ROLE AND MANDATE

**11.1** The Legislative Assembly of Prince Edward Island is charged with holding government accountable for the resources entrusted to it and the stewardship of those resources. To help fulfill this responsibility, the Legislative Assembly established the Standing Committee on Public Accounts. This Committee is charged with matters concerning the Public Accounts of the province, the Annual Report of the Auditor General, and fiscal management. The Committee may, by majority decision of its members, meet to examine and inquire into other matters as deemed necessary by the Committee.

**11.2** The current Committee consists of eight members of the Legislative Assembly and is chaired by a member of the Official Opposition. Each year, the Committee develops an annual work plan and holds public meetings. Through its work and reporting to the Legislative Assembly, the Committee contributes to improvements in operations, transparency, and accountability in the province's public sector.

**11.3** Our Office prepares an annual report for the Legislative Assembly. The report is then referred to the Committee for consideration and review. The Committee calls upon the Auditor General and other witnesses to appear and answer questions on matters raised in the report.

### PROCEEDINGS AND RESULTS

**11.4** Since our last report, the Committee has met several times. The Auditor General was called as a witness for two of these meetings which dealt directly with the review of the 2015 Annual Report of the Auditor General. During the meeting, the Auditor General provided additional information and clarification on issues raised in her report. The Committee requested from management, a written update on how, when, and by what means they plan to comply with the recommendations made by the Auditor General.

## 11. Public Accounts Committee

---

**11.5** Through the cooperative efforts of the Committee and the Auditor General, a development session was provided to the Committee by CCAF-FCVI Inc. (CCAF). CCAF is a Canadian research and educational foundation which promotes good governance, management, and accountability. The Auditor General was in attendance and led a portion of this training session that focused on performance auditing.

**11.6** On November 25, 2015, the Committee submitted a report to the Legislative Assembly on its activities. This report noted the Committee was planning to continue its review of the 2015 Auditor General's Annual Report and include the results of its review in its final report to the Legislature in the 2016 spring sitting of the Legislative Assembly.

**OFFICE OF THE AUDITOR GENERAL**



## 12. OFFICE OF THE AUDITOR GENERAL

---

### ROLE AND RESPONSIBILITIES

**12.1** The Auditor General is an independent officer of the Legislative Assembly appointed under the authority of the *Audit Act*. The *Audit Act* establishes the legal framework for an independent audit office. This independence enables the Office to offer impartial opinions, observations, and recommendations on government operations and management practices. The key components of the Office's independence are:

- the authority of the Auditor General to select audits and examinations;
- the right of access to records, information, and individuals necessary to conduct audit work;
- the power to request and receive required information and explanations;
- the requirement to report annually to the Legislative Assembly; and
- a Legislative Audit Committee which reviews the Office's budget.

**12.2** The *Audit Act* provides the Office with the authority to conduct audits and examinations of provincial departments, Crown corporations, agencies, and funds. Approximately 66 percent of available audit hours are spent on financial audits while the remaining 34 percent is spent on special audits and examinations. Financial audits include examinations of financial statements, including the province's consolidated financial statements, and other financial reports on which we provide assurance that the financial information is fairly presented. Special audits and examinations include the value-for-money or performance audits conducted by our Office.

**12.3** The Office of the Auditor General conducts its work in accordance with assurance standards issued by the Chartered Professional Accountants of Canada (CPA Canada) and abides by the rules of professional conduct of the Chartered Professional Accountants of Prince Edward Island (CPAPEI).



## 12. Office of the Auditor General

---

**12.4** The Auditor General reports annually to the Legislative Assembly. The annual report

- provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year;
- calls attention to anything that the Auditor General considers necessary to be brought to the attention of the Legislative Assembly; and
- includes other specific reporting requirements pursuant to the *Audit Act*.

**12.5** In the fall of 2014, the Office released its *Strategic Plan 2014 - 2018*. This plan documents the vision and mission of the Office and outlines the future direction of the Office as it continues to serve the Legislative Assembly and Islanders. The strategic objectives are the result of meetings and discussions with several members of the Legislative Assembly, senior government management, and staff of the Office of the Auditor General.

### OUR VISION

**12.6** An independent audit office highly valued by Islanders for the integrity and excellence of its work in advancing accountability for government's administration of public resources.

### OUR MISSION

**12.7** The Office of the Auditor General conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. The Office promotes accountability and best practices in government operations.

## 12. Office of the Auditor General

---

### OUR VALUES

**12.8** Our values guide our day-to-day actions and serve as constant reminders of our commitments as we work to further our vision and mission. These values are a statement of the high standards we apply to ourselves and our work. Our values are

- **Independence**

We report to the Legislative Assembly and are fair, objective, and non-partisan in our approach. We adhere to our independence standards and professional code of conduct, avoiding real and perceived conflicts in our relationships and in the conduct of our work.

- **Reliability**

We work together and with others in an open, honest, and trustworthy manner. We strive to meet the highest standards of professional conduct and to produce work of consistent high quality.

- **Progressive**

We seek opportunities for positive change and innovation in our operations. We promote improvements in public sector management through our work and recommendations.

- **Relevance**

We select our audits on the basis of significance and risk with the goal of making a positive difference for Islanders. Our reports present significant findings to the Legislative Assembly and to the public.

### OUR STRATEGIC OBJECTIVES

**12.9** There are three strategic objectives which support the realization of our vision. The strategic objectives have planned actions as follows:

**Increase support and communication to our external stakeholders.**

- Deliver the best mix of audit products consistent with our mandate that maximizes the impact and value of our audit work.

## 12. Office of the Auditor General

---

- Seek opportunities to enhance understanding of our role and responsibilities with
  - Members of the Legislative Assembly;
  - Public Accounts Committee;
  - Management;
  - Governing bodies; and
  - Islanders.
- Improve communication with our external stakeholders.

### **Provide a more rewarding professional work environment.**

- Increase opportunities to challenge and reward employees.
- Increase professional development and training opportunities for staff.
- Improve internal office communication and the office work environment.

### **Improve our audit and administrative work practices.**

- Develop and implement a risk management program.
- Increase audit efficiency while continuing to meet professional standards.

**12.10** Our strategic objectives and planned actions set the framework for directing our efforts. Actions have been identified and prioritized and progress has been made on implementation. We have identified recommendations implemented as one key performance measure. We are in the process of finalizing other performance indicators. When this process is complete, we plan to use these indicators to report on our performance.

## **AUDIT PLANNING AND PROFESSIONAL STANDARDS**

### **OFFICE AUDIT PLANNING**

**12.11** Each year, we develop an audit work plan based on available resources, statutory requirements, and audit priorities established by the Office. The annual work plan includes a number of financial audits as well as special audits and examinations. Our work plans incorporate risk factors and a desire to provide broad audit coverage across numerous government organizations on a periodic basis. Work plans are also impacted by requests from the Legislative Assembly and government.

## 12. Office of the Auditor General

---

### PROFESSIONAL STANDARDS

**12.12** Various factors are considered in establishing priorities for special audits and examinations. These include the potential impact on the public, the financial magnitude of the entity or program, the possible matters of significance that may be identified, the complexity of operations or program delivery, the results of previous audits, and/or the timing of the last audit. Other factors considered include our audit mandate, expected resources required to complete the audit, and the quality of existing internal controls within the entity.

**12.13** Generally accepted accounting principles for public sector entities are established through the recommendations of the Chartered Professional Accountants of Canada (CPA Canada). In conducting our financial audits, we rely on these standards as well as other guidance provided by CPA Canada and other authoritative sources.

**12.14** Our financial audits are conducted in accordance with Canadian auditing standards of CPA Canada. These standards require the auditor to comply with ethical requirements, plan and perform the audit to obtain reasonable assurance that the financial information is free from material misstatement, and to express an independent audit opinion. Special audits and examinations are conducted in accordance with other Canadian assurance standards as outlined in the CPA Canada Handbook. These standards provide guidance in the following areas: compliance with ethical requirements, knowledge of the entity, audit planning, implementation, and reporting.

**12.15** For financial audits, the Office is subject to a periodic practice inspection conducted by the CPAPEI which is the regulatory body that provides oversight of the public accounting profession in the province. A practice inspection is designed to protect the public interest by ensuring the Office meets the standards required of the profession.

**12.16** A practice inspection was completed on our Office in November 2015. The inspection concluded that our Office was in compliance with professional standards and practices. Our next practice inspection by CPAPEI is scheduled for 2018.

**12.17** In addition to participating in the CPAPEI practice inspection process, our office also participates in the Canadian Council of Legislative Auditors (CCOLA) peer review process for financial statement and special

## 12. Office of the Auditor General

---

audits and examinations. This peer review process provides additional assurance that the Office is conducting audits in compliance with the applicable standards of CPA Canada. The peer review process also exposes our Office to practices and methodologies of other offices and assists us in keeping abreast of new developments.

### RESOURCES

**12.18** The Office staff complement consists of two audit directors, a director of professional practice and quality assurance, thirteen professional auditors, one student auditor position, and two administrative staff. Some auditor positions are part-time.

**12.19** All audit staff in our Office have professional accounting designations. We strive to provide staff with relevant and timely training and professional development opportunities. Individual staff members attend various professional courses, conferences, seminars, webinars, and meetings. Staff also participate in various CCOLA committees and study groups which provide professional development.

**12.20** The CPAPEI requires members to annually meet professional development requirements. Our professional staff have met these requirements.

**12.21** Office operations are funded by an annual appropriation approved by the Legislative Assembly. For the year ended March 31, 2016, the Office's approved budgeted expenditures amounted to \$2,056,700 and are summarized in **Exhibit 12.1**. Salaries and benefits account for approximately 89 percent of the Office budget for 2015-16.

## 12. Office of the Auditor General

### EXHIBIT 12.1 OFFICE OF THE AUDITOR GENERAL BUDGET YEAR ENDED MARCH 31, 2016

Account	Budget
Administration	\$ 34,900
Equipment	9,500
Materials, supplies, and services	25,500
Professional and contract services	120,000
Salaries	1,831,600
Travel and training	27,000
Contributions - CCAF	8,200
<b>Total</b>	<b><u>\$2,056,700</u></b>

**12.22** The Legislative Audit Committee is responsible for administrative oversight of the Office of the Auditor General. This Committee includes the Speaker of the Legislative Assembly, who is the Chairperson, the Leader of the Opposition, and the Minister of Finance. On an annual basis, the Committee reviews the budget estimates submitted by the Auditor General.

### PROFESSIONAL AFFILIATIONS

**12.23** The Office maintains an association with a number of professional organizations to share information, experience, knowledge, and methodology with a view to contributing to the ongoing development of legislative audit practices and standards. We strive to remain current in audit practices and new developments within the profession.

**12.24** Key affiliations include

- **Canadian Council of Legislative Auditors (CCOLA)** - The Auditor General is a member of this Council. The Council brings together legislative auditors of the federal government, the provinces, and the territories. The Council provides an opportunity for professional development and practice improvement through information exchange, discussion, and sharing of audit methodologies and practices. Office staff serve on various CCOLA committees and study groups.

## 12. Office of the Auditor General

---

- **Chartered Professional Accountants of Canada and Chartered Professional Accountants of Prince Edward Island** - The Office maintains an important professional relationship with these organizations and provides input into the development of accounting and assurance standards. We also receive information on developments in the profession.
- **CCAF - FCVI Inc. (CCAF)** - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is one of Canada's leading educational and research organizations focusing on public sector performance auditing and legislative oversight.

## **SCHEDULES**





OPERATING APPROPRIATIONS

	APPROPRIATION ACT 2014	SPECIAL WARRANTS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2015	UNDER/(OVER) EXPENDITURES 2015
<b>CURRENT</b>						
AGRICULTURE AND FORESTRY	\$ 36,785,700	\$ -	\$ -	\$ 36,785,700	\$ 35,066,041	\$ 1,719,659
AUDITOR GENERAL	1,849,000	-	-	1,849,000	1,781,207	67,793
COMMUNITY SERVICES AND SENIORS	96,286,700	-	-	96,286,700	97,406,212	(1,119,512)
INTERMINISTERIAL WOMEN'S SECRETARIAT	438,600	-	-	438,600	438,240	360
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	232,215,700	1,996,500	-	234,212,200	234,090,487	121,713
ISLAND REGULATORY AND APPEALS COMMISSION	1,200,300	-	-	1,200,300	1,200,300	-
ENVIRONMENT, LABOUR AND JUSTICE	62,077,300	-	(282,000)	61,795,300	60,988,707	806,593
EXECUTIVE COUNCIL	9,224,100	-	-	9,224,100	8,733,252	490,848
FINANCE, ENERGY AND MUNICIPAL AFFAIRS	68,608,800	3,900,000	-	72,508,800	72,336,877	171,923
COUNCIL OF ATLANTIC PREMIERS	188,400	-	-	188,400	188,242	158
GENERAL GOVERNMENT	11,550,000	-	-	11,550,000	5,983,920	5,566,080
EMPLOYEE BENEFITS	47,432,700	8,358,400	-	55,791,100	55,231,442	559,658
FISHERIES, AQUACULTURE AND RURAL DEVELOPMENT	9,962,100	-	-	9,962,100	9,671,505	290,595
EMPLOYMENT DEVELOPMENT AGENCY	5,506,800	-	-	5,506,800	5,377,794	129,006
HEALTH AND WELLNESS	12,535,300	-	-	12,535,300	12,043,165	492,135
HEALTH PEI	581,134,300	-	-	581,134,300	577,262,681	3,871,619
INNOVATION AND ADVANCED LEARNING	115,711,400	-	-	115,711,400	114,077,439	1,633,961
INNOVATION PEI	24,710,200	-	-	24,710,200	23,960,200	750,000
LEGISLATIVE ASSEMBLY	5,073,100	-	-	5,073,100	5,026,786	46,314
PEI PUBLIC SERVICE COMMISSION	7,545,800	-	-	7,545,800	7,227,660	318,140
TOURISM AND CULTURE	17,877,700	-	-	17,877,700	16,618,013	1,259,687
TOURISM PEI	15,417,300	-	-	15,417,300	14,914,865	502,435
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	98,621,100	10,500,000	-	109,121,100	107,309,951	1,811,149
INTEREST CHARGES ON DEBT	<u>128,563,900</u>	<u>-</u>	<u>-</u>	<u>128,563,900</u>	<u>128,513,564</u>	<u>50,336</u>
<b>TOTAL CURRENT</b>	<b><u>\$1,590,516,300</u></b>	<b><u>\$ 24,754,900</u></b>	<b><u>\$(282,000)</u></b>	<b><u>\$1,614,989,200</u></b>	<b><u>\$1,595,448,550</u></b>	<b><u>\$19,540,650</u></b>

Appropriations and expenditures are presented in accordance with the classification in the Appropriation Acts 2014. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2014	SPECIAL WARRANTS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2015	UNDER/(OVER) EXPENDITURES 2015
<b><u>CAPITAL</u></b>						
COMMUNITY SERVICES AND SENIORS	\$ 750,000	\$ -	\$ -	\$ 750,000	\$ 697,463	\$ 52,537
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	13,796,100	2,320,000	-	16,116,100	16,051,958	64,142
ENVIRONMENT, LABOUR AND JUSTICE	666,500	915,000	-	1,581,500	1,538,206	43,294
FINANCE, ENERGY AND MUNICIPAL AFFAIRS	9,418,100	-	-	9,418,100	8,389,327	1,028,773
HEALTH AND WELLNESS	-	275,700	-	275,700	275,631	69
HEALTH PEI	15,383,100	-	-	15,383,100	7,124,300	8,258,800
TOURISM PEI	1,428,000	-	-	1,428,000	1,424,718	3,282
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	<u>32,235,000</u>	<u>9,001,000</u>	<u>-</u>	<u>41,236,000</u>	<u>41,347,070</u>	<u>(111,070)</u>
<b>TOTAL CAPITAL</b>	<b><u>\$ 73,676,800</u></b>	<b><u>\$12,511,700</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 86,188,500</u></b>	<b><u>\$ 76,848,673</u></b>	<b><u>\$ 9,339,827</u></b>
<b>GRAND TOTAL</b>	<b><u>\$1,664,193,100</u></b>	<b><u>\$37,266,600</u></b>	<b><u>\$(282,000)</u></b>	<b><u>\$1,701,177,700</u></b>	<b><u>\$1,672,297,223</u></b>	<b><u>\$28,880,477</u></b>

Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Acts 2014. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as expenses and capital assets are capitalized in the Operating Fund financial statements.

**EDUCATION AND EARLY CHILDHOOD DEVELOPMENT**

**EC2015-347 CURRICULUM DEVELOPMENT PROGRAMS**

Grants - French Programs \$ 255,000

**GRANTS TO SCHOOL BOARDS**

Salaries 1,350,000  
Grants - Equipment and Repairs 175,000

**EARLY CHILDHOOD DEVELOPMENT**

Grants - Autism Services 216,500

Total \$ 1,996,500

To fund additional staffing for increases in English as an Additional Language (EAL) student enrollment, additional resources added to the French Language School Board, and increase in children accessing autism grants, partially offset by Federal revenue.

**FINANCE, ENERGY AND MUNICIPAL AFFAIRS**

**EC2015-349 ECONOMICS, STATISTICS AND FEDERAL FISCAL RELATIONS**

Grants - Low and Modest Income Household HST Credit \$ 1,500,600  
Grants - Miscellaneous 2,399,400

Total \$ 3,900,000

To fund additional expenditures for HST rebates for low and modest income households and First Nations, and a one-time grant to Island Waste Management Corporation for unbudgeted fees for the change from GST to HST. Fully offset by HST revenue to be recorded on a gross rather than net basis.

**EMPLOYEE BENEFITS**

**EC2015-348 PENSION MANAGEMENT**

Civil Service Pension Plan \$ 3,864,200  
Teachers' Pension Plan 4,494,200

Total \$ 8,358,400

To fund additional costs related to the Civil Service Superannuation and Teachers' Superannuation pension funds.

ORDER-IN-  
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2015 FISCAL YEAR

TRANSPORTATION AND INFRASTRUCTURE RENEWAL

EC2015-176 PROVINCIAL HIGHWAY MAINTENANCE OPERATIONS

Materials, Supplies, and Services \$ 8,900,000

BRIDGE MAINTENANCE

Materials, Supplies, and Services 600,000

DIRECT BUILDING MAINTENANCE

Materials, Supplies, and Services 1,000,000

Total \$10,500,000

To fund additional costs for winter maintenance, increased fuel costs, demolition of a vacant building, and infrastructure costs due to a severe rainstorm event.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES

\$24,754,900

**EDUCATION AND EARLY CHILDHOOD DEVELOPMENT**

**EC2015-346 SCHOOL CONSTRUCTION AND CAPITAL IMPROVEMENTS**

New School Construction	\$ 1,700,000
School Improvements	525,000

**CAPITAL EQUIPMENT**

Classroom Technology	<u>95,000</u>
Total	<u>\$ 2,320,000</u>

To fund additional capital costs for Souris K-12 and Ecole Francois Buote school construction, partially offset by \$66,800 in revenue from La Commission Scolaire de Langue Francais.

**ENVIRONMENT, LABOUR AND JUSTICE**

**EC2015-129 CAPITAL IMPROVEMENTS**

Major Restoration and Renovations	\$ 565,000
-----------------------------------	------------

**CAPITAL EQUIPMENT**

Consulting	50,000
Machinery and Equipment	250,000
Computer Equipment	<u>50,000</u>
Total	<u>\$ 915,000</u>

To fund additional capital costs for the relocation of the Youth Custody and Strength Programs, the Access and Privacy Services Office, the Provincial Integrated Communication System, the Courthouse Entrance Renovations, and the Corporate Registry Project approved during the year but not budgeted.

**HEALTH AND WELLNESS**

**EC2015-350 CAPITAL PROJECTS**

Electronic Medical Records	<u>\$ 275,700</u>
----------------------------	-------------------

To fund additional capital costs for Electronic Medical Records, partially offset by \$270,800 in revenue under the Canada Health Infoway Agreement.

ORDER-IN-  
COUNCIL

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2015 FISCAL YEAR

TRANSPORTATION AND INFRASTRUCTURE RENEWAL

EC2015-18 CAPITAL IMPROVEMENTS - HIGHWAYS

Bridges	\$ 7,301,000
Provincial Paving	900,000
National and Collector Highways	600,000

CAPITAL IMPROVEMENTS - BUILDINGS

Building Upgrades	<u>200,000</u>
-------------------	----------------

Total	<u>\$ 9,001,000</u>
-------	---------------------

To fund additional capital costs for bridges, highway improvements, and fit-up at a temporary location due to the closure of Province House.

<b>TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES</b>	<b><u>\$12,511,700</u></b>
--	----------------------------

<b>TOTAL SPECIAL WARRANTS ISSUED FOR THE 2015 FISCAL YEAR</b>	<b><u>\$37,266,600</u></b>
---	----------------------------