



Economic
Development
and Tourism

Développement
économique
et Tourisme



Office of the Deputy Minister
PO Box 2000, Charlottetown
Prince Edward Island
Canada C1A 7N8

Bureau du sous-ministre
C.P. 2000, Charlottetown
Île-du-Prince-Édouard
Canada C1A 7N8

April 1, 2016

Ms. B. Jane MacAdam, CPA, CA
Auditor General
P.O. Box 2000, Charlottetown, PE
C1A 7N8

Dear Ms. MacAdam:

Re: Developmental Lending – 2016 Audit Report

This letter is in response to the audit recommendations made in the 2016 Report of the Auditor General to the Legislative Assembly concerning the Developmental Lending report. It is the purpose of this letter to provide the attached schedule which outlines the Department's comments to each of the recommendations, as well as provide the current status of the implementation of the same.

The Department has already implemented nine of the ten audit recommendations made within the report. The one recommendation the Department is working to complete (development of indicators for the developmental loan programs and report on performance) is anticipated to be completed by both IIDI and FPEI in their respective annual reports (to be completed by September 2016).

If you require any further information, please do not hesitate to contact myself.

Sincerely,

Neil Stewart, CPA, CA

Attachment

**Developmental Lending
2016 Report of the Auditor General
Recommendations and Actions**

Recommendation	Comments	Proposed Action/Pending	Deadline
<p>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.</p>	<p>FPEI & IIDI has since commenced collecting information from its loan programs to develop key economic measures.</p> <p>Finance PEI and Island Investment Development Inc., had upwards of \$370 million in loan capital at work in more than 850 businesses in the Island economy at the end of 2014. This is an increase of \$15.7 million (4.43%) from 2013.</p> <p>During 2014, Island businesses supported by Finance PEI and Island Investment Development Inc. generated in excess of \$1.3 billion in revenues and had direct wage impacts on the Island of approximately \$221 million. These results reflect a 4.02% and 5.12% increase over the previous year, respectively.</p> <p>Additionally, Island businesses have invested over \$102 million in new capital infrastructure in their enterprises during the 2014 year.</p>	<p>The Department agrees with the Auditor Generals recommendation, and FPEI and IIDI will gather and report in its annual report the economic development indicators related to their respective lending portfolios.</p>	<p>September 2016.</p>

Recommendation	Comment	Proposed Action/Pending	Deadline
<p>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 assessment at the application stage, security requirements, and problem accounts.</p>	<p>The Department agrees with this recommendation...</p> <p>As noted by the Auditor General, while the lending policies existed, we agree that a review of policies would be beneficial to ensure criteria are clear.</p>	<p>IIDI and FPEI have reviewed its lending policies and have introduced additional policy guidance. This is an on-going initiative of both FPEI and IIDI.</p> <p>IIDI and FPEI has reviewed its lending policies and has introduced additional policy guidance relating:</p> <ul style="list-style-type: none"> - implementing a more detailed risk assessment form to be completed on loan applications; and - guidance has been added for dealing with problem accounts, including additional mitigating procedures to be undertaken. 	<p>Completed</p>
<p>3.37 When placing reliance on guarantees as part of the loan security, Island Investment Inc. should obtain sufficient financial information to support the guarantee.</p>	<p>The Department agrees with this recommendation.</p>	<p>IIDI and FPEI have reviewed its lending policies and introduced additional policy for staff regarding the reliance placed on personal and corporate guarantees.</p>	<p>Completed</p>

Recommendation	Comment	Proposed Action/Pending	Deadline
<p>3.54 For significant projects, Island Investment Development Inc. should obtain detailed cost estimates prior to approving financing.</p>	<p>Ideally detailed cost estimates for significant construction jobs would be available at the time of the credit application. However, this is not practical if the tendering process has not yet been completed; which is frequently the case as both developers and contractors prefer not to request, or respond, to tenders unless the financing for the project has been approved.</p> <p>The Department accepts this recommendation, and will ensure IIDl has detailed costs estimated on file before first disbursements are made (if not available at the time of application).</p>	<p>IIDl has reviewed its lending policies and amended its policy to ensure detailed costs estimated are on file before first disbursements are made.</p>	<p>Completed</p>
<p>3.55 Island Investment Development Inc. should monitor actual project costs against original cost estimates and obtain explanations for significant variances.</p>	<p>IIDl staff monitor project costs through discussions with both the loan applicant and professional consulting engineering firms that may be overseeing the project. The professional consulting firms are often responsible for managing the project, including, but not limited to, budget, scheduling and quality.</p> <p>The Department agrees with the recommendation.</p>	<p>IIDl has reviewed its lending policies to ensure it notes that actual project costs are to be monitored against original cost estimates (with staff obtaining explanations for significant variances).</p>	<p>Completed</p>

Recommendation	Comment	Proposed Action/Pending	Deadline
<p>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.</p>	<p>Department agrees with this recommendation.</p> <p>Historically, staff worked closely with our loan clients monitoring loan repayment history to identify problem loan files. However, a standard definition of a problem loan, differentiating between performing and non-performing, has been added to the policy manual.</p>	<p>FPEI & IIDi has reviewed its lending policies to update the definition of a problem loan (differentiate between performing and non-performing loans).</p>	<p>Completed</p>
<p>3.71 Finance PEI should enhance reporting to its board of directors to include reporting on non-performing loans.</p>	<p>Department agrees with this recommendation.</p> <p>Reports provided are manual, and unfortunately (in a few occurrences) a few errors were made in disclosure. These errors were by human nature; and staff is working on developing an electronic reporting system from the lending program to reduce these occurrences.</p>	<p>FPEI has reviewed its reporting to its board of directors to ensure the reporting of non-performing loans.</p>	<p>Completed</p>
<p>3.72 Island Investment Development Inc. should provide its board of directors with regular reporting on its loan portfolio including non-performing loans.</p>	<p>Department agrees with this recommendation.</p>	<p>IIDI is now providing quarterly reporting of its loan portfolio to its board of directors.</p>	<p>Completed</p>
<p>3.77 Finance PEI and Island Investment Development Inc. should strengthen their loan reporting process to comply with Treasury Board requirements.</p>	<p>Department agrees with this recommendation.</p>	<p>FPEI and IIDi will work to improve its reporting process to comply with Treasury Board requirements.</p>	<p>Completed</p>

<p>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.</p>	<p>Department agrees with this recommendation.</p>	<p>Reports provided to Treasury Board are manual, and unfortunately (in a few occurrences) a few errors were made in disclosure. These errors were by human nature; and staff is working on developing an electronic reporting system from the lending program to reduce these occurrences.</p>	<p>Completed</p>
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