Province of Prince Edward Island
1999 Auditor General's Report

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INTRODUCTION

MANDATE AND OBJECTIVES

Under the Audit Act, the Auditor General is required to report annually to the Legislative Assembly. This, my Annual Report provides observations, recommendations and information pertaining to the audits and examinations of government operations undertaken by the Office during the year. I also provide information on the action taken by management as a result of recommendations reported in previous years.

Through the work of the Office, assurance is provided that the financial statements of the Province, and those Crown corporations and agencies subject to audit are presented fairly. Through the value-for-money audit mandate, the Office promotes economy and efficiency in government operations and increased accountability by departments and agencies to the Legislative Assembly.

OVERVIEW

Auditing all of government each year is not possible, however I strive to obtain reasonable audit coverage on a cyclical basis. This year the audit work conducted included financial statement audits of the Public Accounts of the Province, most Crown agencies, the pension funds, some trust funds and other audits. Special audits and examinations were performed which included a value-for-money audit on the University of Prince Edward Island as well as examinations of several government programs. My 1999 Annual Report to the Legislative Assembly deals mainly with matters pertaining to the 1997-98 fiscal year. However, many of the issues identified remain current and are still being addressed by government.

As in previous years, my report includes observations on the financial condition of the Province. My report also provides an update on government's plans and actions to deal with the Year 2000 information technology problem.

The section on **Special Audits and Examinations** summarizes the results of various program and government-wide audits. The **Financial Statement Audits** section lists the financial statement audits conducted by the Office during the year and includes specific observations and recommendations resulting from our audits of the Public Accounts, Pension Funds and Appropriations.

As a result of our work we provide recommendations to departments and agencies to improve management and administration of government operations and programs. Each year we contact departments and agencies to determine the status of any outstanding recommendations from previous years. This information is included in a separate section of the Annual Report, **Update On Previous Recommendations**.

The **Standing Committee on Public Accounts** performs an important role in holding government accountable for its management of public resources. The role of this Committee is summarized in a separate section of the report.

The final section of the report on the **Office of the Auditor General** provides information on the mandate and responsibilities of the Auditor General; the operating philosophy of the Office; Office personnel, administration, and affiliations; and our objectives and accomplishments over the past year.

ACKNOWLEDGEMENTS

I continue to receive good cooperation from Ministers, Deputy Ministers, Heads of Crown Agencies, and their staff. This cooperation is important to the Office's work in improving the management of public resources. In addition, I would like to acknowledge the assistance provided by the Legislative Audit Committee in the administration of my Office.

Finally, I am pleased to publicly acknowledge the professionalism of my staff. Without their dedicated effort and support, the scope of the work presented in this report could not have been achieved.

1. THE PROVINCE'S FINANCES

INTRODUCTION

1.1 The Public Accounts are prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and are among the best in the Country in terms of compliance with good accounting policies and disclosure.

1.2 The Public Accounts of the Province are not an easy read. In fact, most people do not attempt to wade through the maze of numbers and schedules to obtain an understanding of the Province's finances. Those who do make the effort, often end up frustrated with more questions than answers. It is helpful to have some of the information interpreted and summarized to assist readers and Members of the Legislative Assembly in obtaining a more complete understanding of the Province's financial condition. The government, as a whole, is close to a billion dollar operation and it is essential that Members of the Legislature are able to understand and discuss the financial affairs of the Province. Each year I highlight significant financial information from the Public Accounts to assist Members of the Legislature in obtaining a more complete understanding of the Province's finances.

1.3 Any discussion of the Province's finances should be based on the **Consolidated (Summary) Financial Statements** which include Crown corporations, regional health authorities, school boards, and other organizations which are part of the overall government reporting entity.

FINANCIAL MEASURES

1.4 Definitions of the most frequently used terms in discussing financial statement information are required to understand the significance of the numbers presented.

1.5 The **annual surplus or deficit** is the difference between a government's revenues and expenditures. This measure shows the extent to which revenues raised in the year were sufficient to meet expenditures in that year. For the year ended March 31, 1998, the Province incurred a deficit of $7.5 million.

1.6 The **total debt** is the amount owed by the government. The government's debt includes outstanding debentures, pension obligations, and a variety of other accounts payable. The total debt of the Province as of March 31, 1998 was $1.5 billion. The Province has a sinking fund for debentures and Canada Pension Plan loans. The balance of the Sinking Fund at March 31, 1998 was $266 million, with $63 million of this committed for pension fund obligations.

1.7 The **net debt** is equal to the difference between a government's total debt and its total financial assets. Annual government deficits increase the net debt and surpluses reduce it. The net debt of the Province as of March 31, 1998 was $1.02 billion.

1.8 The **interest charged on the debt** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on government programs. The interest charges on the debt for the year ended March 31, 1998 were $101.9 million, a reduction of $13.6 million from the previous year. A substantial part of this reduction, $9.2 million, was due to cancellation of $87 million of provincial debentures in the Sinking Fund. There was also a decrease in sinking fund earnings.

1.9 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year which makes up the government's tax base.

1.10 **Exhibit 1.1** shows these financial measures for the Province for the past five years.

EXHIBIT 1.1
PROVINCE OF PRINCE EDWARD ISLAND
SUMMARY FINANCIAL INFORMATION
($ Millions)

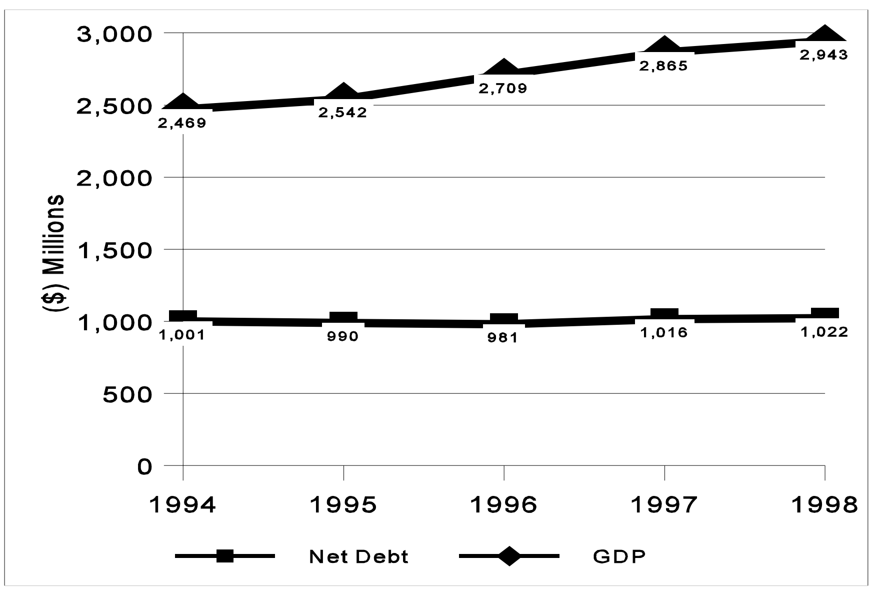
	1998	1997	1996	1995	1994
	$	$	$	$	$
Surplus (Deficit)	**(7.5)**	(11.0)	8.5	15.5	(82.4)
Net debt	**1,021.7**	1,015.6	981.1	989.6	1,000.9
Debt Charges	**101.9**	115.5	121.1	118.2	118.0
GDP	**2,943**	2,865	2,709	2,542	2,469

1.11 Key indicators of government's finances have been defined in the Canadian Institute of Chartered Accountants' *Indicators of Government Financial Condition.* The indicators are categorized as sustainability, flexibility and vulnerability. The trends in these indicators, which combine the Province's finances with relevant external factors, provide additional information to assess our financial condition.

SUSTAINABILITY

1.12 Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. A government's annual surplus or deficit, its net debt and the Province's GDP provide insight into the sustainability of government's practices of spending and raising revenues. **Exhibit 1.2** shows the trend in the net debt and the Province's GDP since 1994.

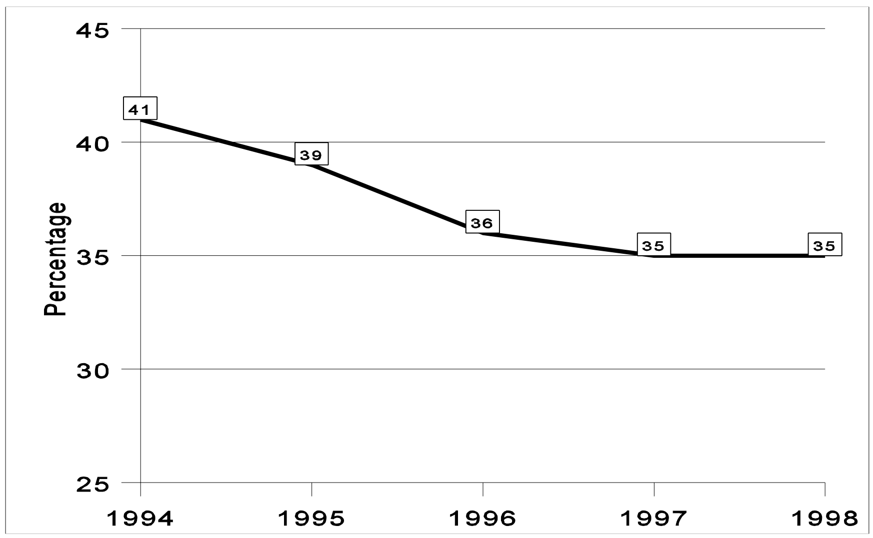
EXHIBIT 1.2
THE GOVERNMENT'S NET DEBT AND
THE PROVINCE'S GDP



1.13 The GDP of the Province reflects the size of our economy. The Province's economy supports government operations through taxes and fees. Prince Edward Island has experienced steady growth in the economy in recent years.

1.14 **Exhibit 1.3** compares the net debt to GDP ratios since 1994. It is difficult to determine if the level of debt is appropriate for an economy our size, but it is positive that the net debt to GDP ratio is declining. It declined from a high of 41 percent in 1994 and has levelled off at 35 percent for the past two years indicating an increased ability, since 1994, to sustain existing programs and services.

EXHIBIT 1.3
NET DEBT AS A PERCENT OF GDP

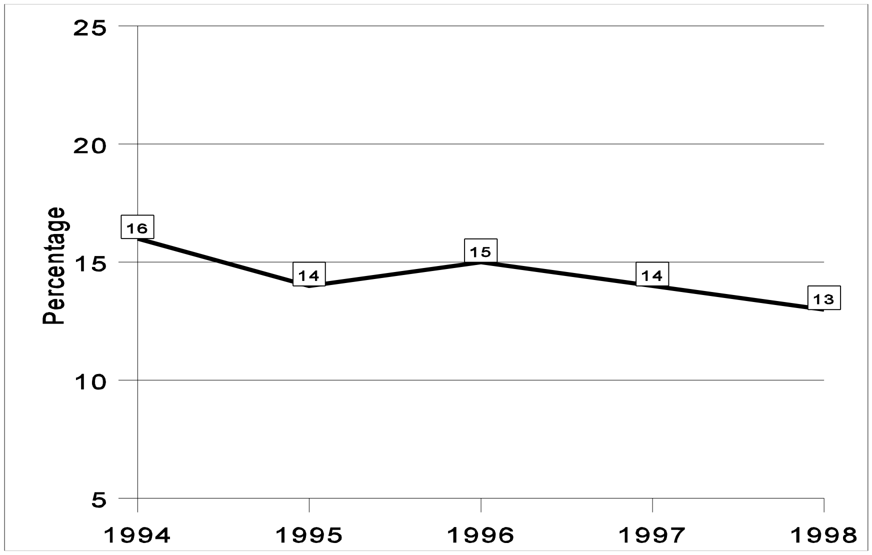


FLEXIBILITY

1.15 Government's flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government's net debt and debt costs provide insight into a government's flexibility to respond to rising commitments. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services.

1.16 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is referred to as the "interest bite". In 1997-98, debt charges were $101.9 million. The trend in the interest bite is shown in **Exhibit 1.4**.

EXHIBIT 1.4
DEBT COSTS AS A PERCENT OF REVENUE

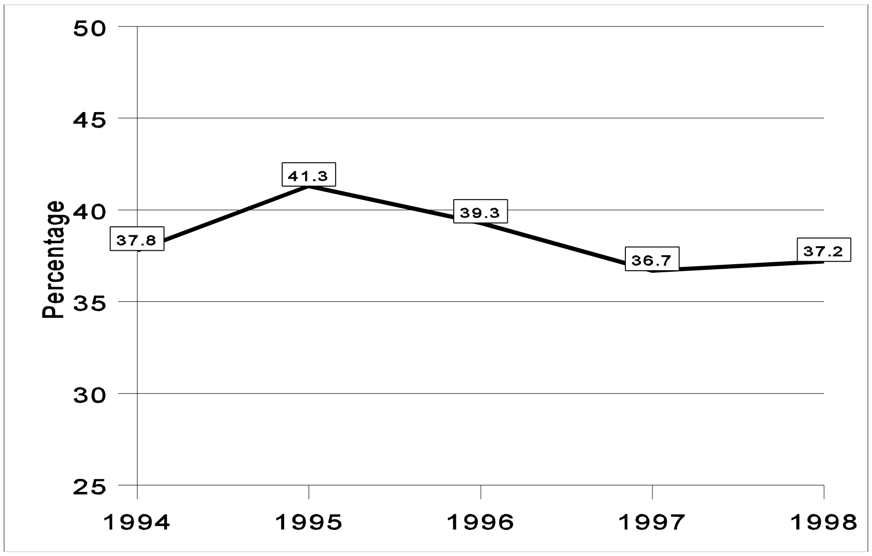


1.17 As indicated in **Exhibit 1.4**, the interest bite has declined from 16 percent in 1994 to 13 percent of total revenues in 1997-98. Therefore, an increasing proportion of revenues generated by the Province is available to pay for programs. While this is a positive trend, our net debt is still a billion dollars and approximately the first $100 million raised each year must go to the holders of our debt. To put this in perspective, we pay more in debt charges than we pay for Agriculture, Forestry, Fisheries, Environment, Economic Development, Tourism, Community Affairs and Attorney General **combined**.

VULNERABILITY

1.18 Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to sources of funding outside its control or influence. The provincial government obtains revenue from taxation and user fees and through transfers from the federal government. In 1997-98, the federal government provided approximately $300 million to the Province. The trend in this percentage for the last five years is shown in **Exhibit 1.5**. This exhibit shows that approximately 37 cents of each dollar of revenue received by the Province comes from the federal government. Though some variations have occurred in this ratio since 1994, there has not been a significant change in the Province's vulnerability to revenue transfers from the federal government.

EXHIBIT 1.5
FEDERAL TRANSFERS AS A PERCENT OF REVENUE



SUMMARY

1.19 Steady growth in the economy in recent years and the marginal increase in the net debt has curtailed the declining financial position government was experiencing. However, with a billion dollar net debt, we are very vulnerable should there be a downturn in the economy. Annual surpluses would reduce the debt and provide the government with greater flexibility in the event of a decline in the economy.

2. INFORMATION TECHNOLOGY AND THE YEAR 2000

INTRODUCTION

2.1 Last year I reported in my Annual Report to the Legislative Assembly that governments, businesses, and other organizations around the world are faced with a looming crisis known as the Year 2000 problem, or the millennium bug. In 1999 hardly a day goes by without some mention of this Y2K problem in the news media. In this report I will summarize the current situation as it affects the Government of PEI.

THE PROBLEM

2.2 As we approach the Year 2000, Information Technology (IT) experts estimate that many of the current IT applications within government and industry throughout the world will no longer operate as designed. The problem is caused by the manner in which computerized systems will interpret a two digit date field representing the century. Generally, non compliant or problem systems will interpret the "00" as being 1900 instead of 2000.

2.3 The risks to the provincial government are extensive and have only been identified in recent years. In addition to government IT systems some of the services provided by government involve using biomedical and laboratory equipment for health or public safety purposes. In many instances this equipment is highly technical and it is difficult to document and test these systems for Year 2000 readiness. Not only government but government suppliers of essential goods and services must be able to continue their operations after January 1, 2000.

PROVINCIAL GOVERNMENT STRATEGY

2.4 In 1996, the Province implemented a strategy to address this problem. The Year 2000 Challenge consisted of six phases which were described in my last year's Annual Report. These phases, to be completed over a three year period, consist of the following: Awareness; Assessment; Detailed Analysis/Planning; Conversion and Testing; Implementation; and Post Implementation.

2.5 In May of 1997, a Provincial Year 2000 Coordinator was assigned to monitor and report on the Year 2000 Challenge for government. Each Department also assigned a Year 2000 coordinator to lead the efforts in their respective areas of government and participate in an action committee to provide input and direction in dealing with government-wide Year 2000 issues. Each Department developed a three-year plan which outlined strategies and time frames to help ensure their information systems and infrastructure would be Year 2000 compliant. Progress was monitored and quarterly reports were prepared by the Provincial Year 2000 Coordinator and submitted to Treasury Board and the deputy ministers. In addition, the Provincial Coordinator prepared a monthly Watch List, to report those applications which merited increased vigilance because of their importance, complexity, or key constraints in time or resources. For example, the January 1999 Watch List contained the following systems: Emergency Drug and Pharmaceutical Information; Health Information; Health Payroll; Revenue and Environment Tax; Inspection; Pharmacy; Justice; and Human Resources.

2.6 In October 1998 an external consultant completed an assessment on the Year 2000 readiness of the provincial government. This assessment was initiated by the Provincial Risk Manager with the approval of Treasury Board and its objectives were to:

- provide an objective assessment of the Y2K status of IT systems for each department in comparison to the Year 2000 Three Year Plan;
- provide an assessment of the Y2K status of all relevant systems, identify those unlikely to achieve Year 2000 readiness and quantify the risk exposure; and
- recommend measures which would allow for the completion of provincial government Year 2000 readiness and limit risk exposure.

2.7 The assessment cost $20,000 and was paid out of the Self-Insurance Fund. The consultant's report had several recommendations regarding consolidating and increasing the role of centralized management of the Year 2000 strategy. Two additional areas included contingency planning and documentation of quality assurance.

YEAR 2000 ACCELERATION STRATEGY

2.8 In January 1999, as a result of the external consultant's report, Treasury Board approved a Year 2000 Acceleration Strategy. This strategy directed that the Department of Technology and Environment take corporate responsibility for the Year 2000 initiatives. This was a significant change in policy because up to this point the responsibility was within each department. At the time of drafting this report the Department of Technology and Environment was implementing the Year 2000 Acceleration Strategy under Treasury Board's direction. This new strategy noted that efforts must be stepped up and concentrated in several key areas summarized as follows:

- Information Systems - identify systems required to provide critical government services, evaluate readiness, and complete remedial work;
- Facilities - the key departments of Health, Education and Public Works to complete inventory, assessment, identify costs, and effort required for continued operation in January 2000;
- Scientific Equipment - assess readiness of biomedical equipment in hospitals and laboratories which represents the greatest risk to public health and safety;
- Desktop/Network - test all networks to verify compliancy and ensure government-wide support tools such as E-mail, word processing, spreadsheet, and Internet are ready;
- Suppliers - contact important suppliers to confirm Year 2000 readiness;
- Business Resumption Planning - develop contingency plans to ensure critical services to public health and safety continue;
- Due Diligence - develop documentation standards to support Year 2000 readiness efforts;
- Public Awareness - communicate Year 2000 initiatives to management, staff, media, other jurisdictions, private sector, and the public.

2.9 We have been advised by the Provincial Year 2000 Coordinator that the Acceleration Strategy has addressed the areas of concern which were reported by the external consultant. Three key issues were noted including the need for knowledgeable Year 2000 government-wide coordination. This coordination is expected now that the Department of Technology and Environment is responsible for Year 2000 initiatives. The two other key issues described below have also been incorporated into the Acceleration Strategy.

2.10 The consultant's report emphasized the need for due diligence. The consultant reported that potential litigation by those adversely affected due to the failure of government systems is a real concern. This means that documentation is required to provide evidence that Year 2000 readiness initiatives were appropriate and systems were tested before being signed off as compliant. The consultant reported documentation was insufficient even for systems already deemed compliant, and more central guidance and control over documentation standards was required.

2.11 The third issue identified by the consultant was the need for contingency planning in case systems fail in the year 2000. This includes the development and testing of plans to ensure services critical to public health and safety and other mission critical services can continue without interruption. Examples of services mentioned by the consultant were biomedical services such as cardiac life support systems or defibulators and laboratory services such as water testing labs.

2.12 The consultant's report indicated that as at October 1998, with a few exceptions, departments are on schedule. However, the consultant also noted that it will be difficult for departments to complete all of the testing required before the year 2000. The original plan was that by October 1998, or the half way point of the three-year plan, approximately thirty percent of the IT systems were expected to be deemed compliant, with another 35 percent to be completed by April 1999. The consultant indicated slippage behind schedule could occur because too much of the testing has been compacted into the last half of the three-year plan. In addition, as explained in the following paragraphs the scope of work has been expanded beyond the 500 IT systems indicated in the original plan.

2.13 During 1998 the scope of the Y2K project was expanded to include embedded and supplier systems. Embedded systems are sub assemblies inside devices that could fail when the year changes to 2000. For example, there are approximately 1,650 biomedical devices in the health care sector which require investigation. In addition, automated control systems managing heating, ventilation, lighting, and security need to be checked. Supplier systems are also of concern because if venders are not prepared on January 1, 2000 they may be unable to deliver essential goods and services to government.

2.14 The assessment, detailed analysis, and planning for this expanded scope of work only began during 1998. The potential risks were still under investigation in the fall of 1998. It was apparent that in many instances it would be impossible to obtain vender documentation and/or testing to ensure systems will continue to perform in 2000. Therefore, contingency plans in the event of a system failure become more important. Any additional work required for Year 2000 readiness has been incorporated into the Acceleration Strategy.

COSTS

2.15 When the Year 2000 Challenge was initiated each department was directed to fund all costs through existing budgets. It was estimated then that costs would total $2.3 million with $.8 million in 1997-98, $1.3 million in 1998-99 and $.2 million in 1999-00. Actual costs for 1997-98 were reported as slightly under the projection at $.67 million.

2.16 The total costs are expected to be higher than projected. This is because the scope of work has increased, requiring more financial and human resources to ensure problems are solved within the limited time frame available. The incremental costs identified for implementation of the Acceleration Strategy including additional resources within the Department of Technology and Environment are estimated at $3.5 million. This will bring the total estimated cost to correct the Y2K problem to $5.8 million.

REPORTING AND MONITORING

2.17 Treasury Board has directed the Deputy Minister of Technology and Environment to act as Executive Sponsor for the Year 2000 Strategy and to report monthly to the Senior Management Forum (deputy ministers). In addition, a Project Advisory Committee will be struck to deal with exceptional challenges impeding progress across government. The Department will also report to Treasury Board with updates on issues identified, priorities, timetable and further incidental costs.

SUMMARY COMMENTS

2.18 The Year 2000 problem presents a significant challenge for government. The full extent of the risks have only recently been identified and therefore an accelerated effort is required to meet the challenge. Non IT systems such as facility, biomedical and supplier systems present real risks of disruptions. The provincial government has professional staff implementing its Year 2000 readiness program, however; uncomfortably tight time frames have increased the risk of non-compliance. Treasury Board's accelerated efforts to get ready for Year 2000 are necessary. In the final analysis our preparedness will be put to the ultimate test on January 1, 2000.

SPECIAL AUDITS AND EXAMINATIONS

3. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

3.1 Subsection 13(2) of the Audit Act states that the Auditor General may conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. This section of the Act establishes the mandate for the Office to conduct special audits and examinations.

3.2 It is not possible to audit all of the Province's programs each year due to the size and complexity of its operations. Audits are conducted instead, on a cyclical basis. In determining the annual audit program many factors are considered such as the results of previous audits, financial impact, and significance to the Legislature.

3.3 Special audits and examinations are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants and are conducted in a number of stages. During the planning phase we gather information to gain an understanding of the program or entity and prepare an audit plan. Evidence is collected and analysed, and findings and recommendations are developed in the implementation phase. In the reporting phase we issue a draft report to the auditee for discussion. At the conclusion of the audit a final report is issued to the department or agency and a written response is requested.

3.4 For most of our audits, recommendations are developed to address the problems identified. However, we do not infringe on management's right to select the most appropriate course of action to deal with the problems identified. We are primarily concerned that the issues be satisfactorily addressed.

3.5 Section 16 of the Audit Act requires me to call attention to any matters which I consider necessary to be brought to the attention of the Legislative Assembly. Our 1999 Report includes the following special audits and examinations; Immigrant Investor Program, Queens

Region Health-Senior Services, Rail Lands Development, Drug Cost Assistance Plan, and the University of Prince Edward Island.

4. IMMIGRANT INVESTOR PROGRAM

INTRODUCTION

4.1 The Federal government has responsibility for the Immigrant Investor Program which has attracted investment capital to Canada since 1986 including over $200 million to Prince Edward Island. The investment vehicle is a venture capital fund administered either through private sector interests or by provincial governments. The minimum investment unit for PEI funds which can be sold to potential immigrant investors is $250,000. Seventy percent of the funds raised must be invested for a minimum five year period in active business operations of a Canadian controlled business having assets less than $35 million.

4.2 Approval for private funds as well as government administered funds must be received at both the provincial and federal levels before they can be marketed in foreign jurisdictions. When an approved fund is prepared to raise money for a particular investment project, the Province must provide a secondary approval indicating whether the project will be of economic benefit to Prince Edward Island.

4.3 The Immigrant Investor Program has been under review for some time at the federal level and as of June 1996, marketing of investments through private funds was suspended pending program revisions. The marketing of government-sponsored funds such as the Island Fund has continued throughout this period. The federal government has recently announced a redesigned program to become effective April 1999. This revised program will see a stronger central administration through the federal government with investment funds allocated to the provinces on a formula basis.

4.4 The Province of Prince Edward Island manages four government-sponsored funds known as Island Funds I to IV.

OBJECTIVES AND SCOPE

4.5 In accordance with section 13 of the Audit Act, we conducted an examination to assess the adequacy of management practices in place for provincial involvement in the Immigrant Investor Program.

Our objective was to determine the total amount of capital raised through the Program and the actual and potential exposure to the Province as a result.

OVERALL AUDIT OBSERVATIONS

4.6 The Immigrant Investor Program has been used to provide low cost financing to several projects but at a risk to government. The program provides access to start-up capital, however, replacement financing must be obtained at the end of the five year hold period when the immigrant investors are to be repaid. We found the immigrant investor financing at March 31, 1998 in which the Province was involved amounted to $65 million through government sponsored funds with a further $41 million accessed through private sector funds.

DETAILED AUDIT OBSERVATIONS

Provincial Exposure

4.7 The Province is involved in immigrant investor financing primarily through administration of government-sponsored funds. In addition, government has had both direct and indirect involvement with projects which accessed immigrant investor financing through private funds.

4.8 Island Investment Development Inc. (IIDI), a provincial Crown corporation, is the manager of four government-sponsored funds. As fund manager, IIDI is required to monitor its investments in projects, submit reports to federal officials for compliance purposes and provide information to the immigrant investors. Island Investment Development Inc. owns four government-sponsored funds known as Prince Edward Island Government Economic Development Funds (Island Funds) I, II, III, and IV.

4.9 Island Fund I was used to raise immigrant investor capital to finance the Links at Crowbush Cove golf course and the expansion at Brudenell River Resort. We reported on this Island Fund in our 1995 Annual Report. At March 31, 1998 all immigrant investors of Island Fund I had been repaid. The Province contributed $5.65 million toward the payout of the immigrant investors when the funds were due.

4.10 As of March 31, 1998 over $65 million of principal and interest is owed to immigrant investors by Island Funds II, III, and IV. In accordance with the requirements of the Program, 70 percent of the funds received from immigrant investors were in turn loaned to a number of investee companies who are required to repay IIDI at the end of the five year term. Of the 30 percent of total funds remaining, approximately 10 percent is paid out in administration and placement fees leaving approximately 20 percent which can be invested in marketable securities. **Exhibit 4.1** shows the total interest and principal due by each Island Fund plus the expected sources of capital for repayment.

EXHIBIT 4.1
PROVINCIAL EXPOSURE THROUGH IIDI
($ Millions)

	Fund II	Fund III	Fund IV	Total
Funds Payable				
Principal and interest due to immigrant investors at end of five year hold period	**$31.08**	**$30.80**	**$3.15**	**$65.03**
Funds Receivable from Investee Companies or Awaiting Investment				
Amounts on loan	23.30	20.49	.72	44.51
Awaiting investment			1.38	1.38
- Total principal	23.30	20.49	2.10	45.89
- Interest over five years	3.06	3.47	.41	6.94
Total	26.36	23.96	2.51	52.83
Investment Account				
Investments	4.25	4.60	.60	9.45
Earnings, at March 31/98	1.17	.65	.03	1.85
	5.42	5.25	.63	11.30
Total Receivables and Investments	**$31.78**	**$29.21**	**$3.14**	**$64.13**

4.11 **Exhibit 4.1** indicates that a total of $52.8 million in loan principal plus interest is expected to be paid by investee companies to IIDI at the end of their five year term. Repayment dates on each of these loans are from August 1999 to January 2003. The notes due to immigrant investors total $65 million which includes interest. The amount in the investment account is $11.3 million at March 31, 1998. Together the amount to be received from investee companies plus the balance in the investment account including future earnings is expected to be sufficient to repay the immigrant investors.

4.12 The greatest risk of loss for each of the Funds is that the loans made to various companies will not be repaid or re-financed at the end of the five year term. This would mean the Funds would have insufficient monies to repay the immigrant investors. Several of these projects are addressed in more detail later in this report. An assessment of risk associated with each of these projects can only be determined with an understanding of the project and the industry in which it operates. Island Investment Development Inc. is a Crown corporation and through its subsidiaries it owes the immigrant investors. To the extent a shortfall occurs and any of the loans to projects prove to be uncollectible, IIDI will likely look to the Province to make up the difference. The financial statements of IIDI for the year ended March 31, 1998 reflect an allowance for possible losses of $1.6 million.

4.13 Our 1994 audit report on Provincial Government Involvement in the Immigrant Investor Program was the subject of a May 1995 Public Accounts Committee meeting. As a follow-up to that meeting the Deputy Minister of the Department of Economic Development and Tourism advised the Public Accounts Committee that the Department would develop a summary report to provide periodic information on government exposure under the program. To date, this summary report has not been provided.

Recommendation

4.14 Periodic information should be available to government and the Legislative Assembly which summarizes the Province's involvement in the Immigrant Investor Program.

Hog Farrowing Operation

4.15 We expected that loans made by IIDI would be based on standard lending practices which would normally include a significant investment by the proponents of a project. This reduces the risk to government by ensuring that the borrower is committed to the project and also has financial stability. We found that in May 1997 a $1.225

million loan was approved to establish a new hog farrowing operation. The loan covered almost 100 percent of the estimated capital costs of the project. An evaluation report by Enterprise PEI Lending Services recommended a 20 percent contribution by the borrowers consistent with standard practice within Lending Services. The proponents for this project requested 100 percent debt financing and this request was included in the submission to Executive Council as an option. Executive Council accepted the higher risk by approving the full amount of the loan requested.

Potato Dehydration Plant

4.16 Financing from IIDI was provided to a PEI company to build a potato dehydration facility in the Souris Food Park. This operation turns small and substandard potatoes into granules used primarily as an ingredient in value-added food products. The total budget for the project was $31 million financed as illustrated in **Exhibit 4.2**.

EXHIBIT 4.2
POTATO DEHYDRATION PLANT
SOURCE OF FUNDS
($ Millions)

IIDI loan at 3.6 percent, secured by plant assets	$16
Souris Food Park/Federal funding for infrastructure	7
Enterprise PEI preferred shares	3
Shareholder investment	5
	$31

4.17 In June 1997 Executive Council approved the project based on the above financial assistance being provided. The shareholders include both Canadian and Dutch interests. The submission noted that the Dutch interests were to provide project management including transfer of equipment and technology for a guaranteed turn key price of $31 million. In addition, no government funding was to be advanced until the shareholders' $5 million was in place and spent.

4.18 We expected that government's risk would be minimized by adhering to the above conditions in particular ensuring all conditions were satisfied prior to release of funds. We noted Enterprise PEI's $3 million contribution was made available to the company on July 15, 1997, based on a lawyer's letter stating that the irrevocable letter of credit for the shareholders was to follow. The $5 million shareholder investment was advanced as follows: $.6 million in cash August 5, 1997 and the balance drawn under a letter of credit with equal monthly payments from August to November 1997.

4.19 We expected, similar to other projects we had reviewed, the use of funds provided to the project would be monitored. Normally, staff of Enterprise PEI or IIDI are involved in review and approval of invoice/progress payments. We found that for this project there was insufficient attention to monitoring procedures.

4.20 The Executive Council approval included the establishment of a three member Project Review Committee with a provincial representative to approve all project costs. This would include awarding of contracts, approval of change orders and monitoring of project costs. The extent of monitoring of the project costs by government staff was limited. Staff indicated that the risk of cost overruns was mitigated by the approval of fixed price contracts.

4.21 The Project Review Committee met six times between July 1997 and October 1997. No committee minutes were available after October 30, 1997 and we were advised that no further meetings were held. A project cost report was presented at that meeting for project costs incurred to September 30, 1997 in the amount of $7.4 million. A project cost report was obtained at our request dated May 31, 1998 which showed total project costs of $21.7 million under approved contracts as well as an increase of $.45 million in one of the contracts. This change order was not approved by the Project Review Committee and is therefore in contravention of the Project Review Committee Agreement. We were advised the Committee will meet again to ratify this change.

4.22 As of January 31,1998 all of IIDI's loan of $16 million plus $3 million preferred share investment by Enterprise PEI had been advanced to the project. The company's bank provided interim financing for $19 million of the project costs through a letter of credit. This credit was arranged in order to provide for payment to the Dutch supplier who was to provide the required equipment and technology to the project. The supplier agreement required progress payments for the equipment and technology with all funds drawn no later than February 28, 1998. The final two payments to the supplier totalling $5.7 million were to be made upon presentation of the Certificate of Completion and the Certificate of Taking Over executed by the supplier and the company. If either of these two certificates could not be presented by February 28, 1998 then payment was to be made to an escrow account with a bank in the Netherlands. The Dutch supplier would then receive the final two payments upon presentation of the required certificates.

4.23 Although all equipment was originally to be in place and operational as of February 1998, delays occurred in the receipt and commissioning of the equipment. Payment to the supplier was delayed as required under the contract.

4.24 The audited financial statements of the company at August 31, 1998 show plant assets under construction at $30.9 million. The financial statements indicated that subsequent to the year-end, the company issued preferred shares in the amount of $1.5 million to the equipment supplier in settlement for additional work. The letter of offer which sets out the terms and conditions for the $16 million loan, states that the borrower shall not, except with the approval in writing of IIDI, change the capital structure of the borrowing company. Approval to issue preferred shares was not obtained as required.

4.25 The sinking fund agreement for this project is important to IIDI because in five years the immigrant investor loans totalling $16 million must be repaid and IIDI needs assurances that the company will be in a position to repay and/or refinance the loan. The sinking fund agreement is normally structured so that the company sets aside sufficient funds to reduce the debt to the level where a conventional lender will refinance the balance. The sinking fund agreement signed with the company in September 1998 requires the company to contribute 50 percent of adjusted net income each year for 5 years. The April 1997 Executive Council Memorandum which approved this project in principle refers to a statement in the Business Plan that 5,000 tons of the plant’s production will be sold and marketed by a company in Europe with good possibilities of additional sales. To date the contracts with this company have not materialized and we have been advised contracts are being sought elsewhere.

4.26 The Executive Council Memorandum approving the Provincial investment in the company states that the company will be responsible for all modifications required to the existing waste treatment facility owned by Souris Food Park Development Corporation and all operating costs of the treatment system. The lease agreement for the waste treatment system, finalized with the company in July 1998, provides the option to purchase the waste treatment facility for $5 at the end of 5 years, conditional upon the repayment of obligations to Enterprise PEI and IIDI. This option, if exercised, will transfer ownership of a Provincial asset costing $2.8 million to the company. This potential additional investment in the project was not submitted to Executive Council for approval.

4.27 Where substantial public funds are invested in development projects, it is reasonable to expect public tendering to allow local companies to compete for business opportunities. The Construction and Lease Agreement between Souris Food Park Development Corporation and the company includes a clause which states "All components of the construction process shall utilize a competitive bidding process to the extent that such process would be of value to reduce construction costs." We noted the following contracts were awarded without a competitive process:

	(Millions)
Process equipment	$19.4
Building design and construction	5.5
Project management	1.5
	$26.4

We were informed that the equipment and technology were highly specialized, however, sub contract work was competitively bid where possible.

4.28 In summary, this project received public funding of $16 million through IIDI, $3 million through Enterprise PEI, and $7 million from Souris Food Park Development Corporation. In addition, there is option to take ownership of a $2.8 million waste treatment facility. If conditions of the agreements are met, $10.3 million of this $28.8 million in public funding will be non-repayable.

Recommendations

4.29 Immigrant investor financing through IIDI as well as other provincial government funding should not be advanced to investee companies until all requirements of the letter of offer have been met.

4.30 Island Investment Development Inc. should more closely monitor funds advanced to projects to ensure that the monies are spent in accordance with the conditions under which they were advanced.

4.31 Conditions established in the letter of offer should be followed.

4.32 Where the nature or extent of Provincial investment in development projects is significantly changed, it should be submitted to Executive Council for additional approval.

4.33 A competitive bidding process should be followed where practical for construction of major development projects with public funding.

Charlottetown Area Development Corporation

4.34 Our review included the status of all the outstanding loans obtained through the Immigrant Investor Program by the Charlottetown Area Development Corporation or its subsidiaries. Although the legal obligations for transactions may reside with subsidiary companies the ultimate responsibility rests with the parent company, CADC. **Exhibit 4.3** summarizes the outstanding loans of CADC under the Immigrant Investor Program at March 31, 1998.

EXHIBIT 4.3
OUTSTANDING IMMIGRANT INVESTOR LOANS OF CADC
MARCH 31, 1998
($ Millions)

IIDI		
CN land	$5.75	
CN station	2.00	
Visitor Information Center	.50	$8.25
Opportunities Fund		
BDC Place, formerly Royal Trust Tower	6.65	
Confederation Court Mall	9.80	
Waterfront Development	4.03	20.48

Total	$28.73

4.35 In 1994 the Province completed negotiations for purchase of the Canadian National (CN) lands. A portion of lands in the Charlottetown Waterfront area were sold in January 1995 to CADC for $3.6 million. The purchase was financed by way of an interest free loan approved by Executive Council and provided by the Department of Transportation and Public Works. At the time of approval, Executive Council agreed to provide financial support in the event of a shortfall resulting from the resale or development of the CN property.

4.36 The Charlottetown Area Development Corporation owes $8.25 million to IIDI, as of March 31, 1998, as a result of investing in three Charlottetown waterfront projects during 1994 and 1995. The three projects included: purchase of CN lands; renovation of the CN station; and conversion of the stone house into a Visitor Information Center. The funds raised for purchase of the CN land were invested in marketable securities and used to make annual payments against the loan to the Department of Transportation and Public Works. The CN station was renovated for a new tenant who cancelled their plans to lease the building and it was eventually sold to the Workers Compensation Board. The stone house was renovated and leased to the Province.

4.37 The Charlottetown Area Development Corporation also owes money to a private sector immigrant investor fund known as Capital City (PEI) Opportunities Inc. In total nine separate notes are due however the loan funds were for three projects; refinancing of both the former Royal Trust Tower and Confederation Court Mall as well as a waterfront development project.

4.38 In May 1998 funding was arranged for repayment of the $16.45 million which was used to finance the Confederation Court Mall and BDC Place, formerly the Royal Trust Tower. Replacement financing plus existing sinking funds obtained by CADC have been invested and will be used when each of the individual notes comes due. No shortfall is expected by CADC. The Province has guaranteed repayment of an $11.8 million debenture issued by CADC in 1998 which will be used to re-finance existing loans as they come due.

4.39 **Exhibit 4.4** summarizes the net shortfall in funds expected by CADC when the loan principal plus interest comes due for the remaining projects. The purchase of the CN land has resulted in a projected $2.77 million shortfall. The CN Station project has surplus funds of $1.57 million as a result of receiving the lease cancellation fee and sale proceeds, the Visitor Information Center has a $.26 million shortfall, and the Waterfront Development Project has a projected shortfall of $1.77 million.

EXHIBIT 4.4
ESTIMATED NET SHORTFALL ON CADC PROJECTS
($ Millions)

CN land	$2.77
CN Station	(1.57)
Visitor Information Center	.26
Waterfront Development	1.77
	$3.23

4.40 In November 1998, CADC advised the Province of an expected shortfall of $2.77 million for 1999-2000. We were advised by CADC that provincial officials were considering the request to fund the shortfall. Management of CADC plans to fund the balance with conventional financing and/or sale of assets.

4.41 In 1998-99, CADC has written off $3 million pertaining to the refinancing of BDC place and the Confederation Court Mall. The Province has guaranteed additional debt of $11.8 million for these projects. The Province is considering the request from CADC to fund the shortfall of $2.77 million pertaining to the CN land project. This does not include the interest forgone on the non-interest bearing loan of $3.6 million between CADC and the Department of Transportation and Public Works pertaining to this property.

4.42 In November 1997 Citizenship and Immigration Canada performed a compliance review of the Island Funds. They found that the Island Fund II $8.5 million investment in CADC was not in compliance with the regulations because CADC is 85 percent owned by the Province. In short, the Fund was lending money to a government-owned entity which is not in accordance with the rules of the Program. Island Investment Development Inc. indicated they considered investments in CADC to be eligible because previous investments had been made and they were unaware of any resistance to the funding in those instances. The federal officials have not directed that any action be taken on this issue such as repayment of the loans and re-investment in other eligible projects, however, they have precluded further investment by IIDI in CADC projects.

Hillsborough Bridge Public/Private Partnering

4.43 Public/Private Partnering (P3) projects in their broadest definition are any arrangement where private sector expertise and resources are used to meet a public policy need. A variety of arrangements in terms of their complexity may exist in the form of contracts with the private sector. At the more complex end of the spectrum are projects which have been traditionally owned, financed, and operated by governments that are designed, built, financed, and operated by the private sector under a leasing arrangement. When the leases associated with P3 projects are structured as operating leases, the liability or debt associated with the related capital project is not recorded. There is currently significant debate over the most appropriate accounting and reporting treatment for P3 projects. The Policy and Evaluation Division of the Department of Provincial Treasury has recently issued a report intended to assist government in formulating a set of principles and a process for selecting and implementing P3 projects. We have been advised that this report will be used as a guide for any P3 projects the Province decides to explore. We reviewed the Hillsborough Bridge expansion project which was a P3 project that accessed Immigrant Investor Program financing. The project financing was initiated in 1996 although some design work had previously been completed.

4.44 In January 1996 Executive Council approved the request by Strait Crossing Development Inc. (SCI) to use the Immigrant Investor Program to finance construction costs associated with adding two traffic lanes to the Hillsborough Bridge. The project required sale of the Bridge to the developer with the Province then leasing it for the five year term of the immigrant investor financing with an option to purchase at the end of five years. It was stated in the Executive Council memorandum that the proposed sale/lease back arrangement would produce savings to the Province in the range of $1.5 million to $3 million. Management could not provide us with an analysis to support this projected savings. In addition, it was expected that the Province could defer recording the $21 million expenditure for five years and therefore delay the impact on the Province’s debt.

4.45 Initially, government intended to account for the financing arrangement as an operating lease which means that only the lease payments totalling $6.8 million over five years would be expensed during the five year term. However, after consultation with our office and reference to the pronouncements of the Canadian Institute of Chartered Accountants, government officials agreed the more appropriate accounting treatment was to record the cost to expand the bridge as a capital expenditure. The nature of the transaction was such that all the benefits and risks of ownership stayed with the Province and therefore the costs were appropriately recognized when construction occurred.

4.46 The date of closing for the financing arrangements was August 1996, when the legal documents were signed. We compared the cost to the Province under the current financing arrangement versus the cost of financing the construction through conventional means and determined that the estimated project savings at the date of closing were considerably less than originally anticipated.

4.47 The lower savings than the amounts referred to in the Executive Council Memorandum resulted primarily from a general decline in interest rates which lowered the Provincial borrowing rate by over 1 percent during 1996. This would have made the self-financing option less costly. Another factor was that only 81 of an expected 138 immigrant investor units were sold. These units netted $12.8 million which could be invested in the project rather than $21.7 million as required. As a result more costly conventional financing had to be obtained for a portion of the project at rates as high as 8.3 percent instead of 3.9 percent.

4.48 The risks to the Province for this project were significant. When Executive Council approval was initially provided to this Project, it was on the understanding that the Province would only be required to assist in obtaining take-out financing when the immigrant investor funds came due in five years. Initially, a twenty-year lease was proposed with take-out financing being required for years six to twenty. It was subsequently decided to limit the term to five years. However, as events unfolded, it became apparent in June 1996 that the Fund would not be fully subscribed. Additional financing was needed and a privately incorporated financing company came forward. This corporation structured a financing arrangement which would use immigrant investor capital to the extent possible and access conventional financing from a large private sector financing corporation.

4.49 This new financing source set terms which added costs and required substantially more security than the Province had originally anticipated it would be required to provide. The Province was required to provide: indemnification for possible losses resulting from fixing the interest rate; a $140,000 administration fee; payment of legal costs totalling approximately $175,000; and indemnifications for any claims, costs, expenses or damages attributed to any act or omission by Hillsborough Bridge Development Inc. (HBDI). The Province's lawyer indicated these indemnifications could be considered guarantees within the spirit and intent of the Financial Administration Act. Executive Council provided the approvals for these additional requirements in August 1996.

4.50 The financing arrangements between the Fund and the other financing corporations were extremely complex. However, our focus is on the expected impact of these financing arrangements on the Province's finances. Hillsborough Bridge Development Inc., a subsidiary of SCI, entered into a development agreement with the Province to expand the Hillsborough Bridge. HBDI required $21.735 million in total for construction costs and the purchase of the Bridge from the Province. The financing for the project was obtained from a private sector fund (Opportunities Fund) in the amount of $14.18 million less 10 percent placement fees for a net of $12.77 million. HBDI borrowed $8.97 million from the private sector financing corporation in order to net $21.7 million as required for the project costs. **Exhibit 4.5** summarizes the financial obligations of the Province for the Bridge project.

EXHIBIT 4.5
HILLSBOROUGH BRIDGE
SUMMARY OF OBLIGATIONS
AS AT OCTOBER 21, 1996
($ Millions)

Province of PEI

Monthly lease payments to HBDI	$3.68	
Annual lease payments to HBDI	2.75	
Estimate of supplemental rent - Administration and Taxes	.35	$ 6.78
Exercise option to purchase from HBDI		21.74

Legal and administration costs	.43
Total obligation	$28.95

4.51 Under the terms of the legal agreements, the Province is required to pay monthly lease payments of approximately $66,000 per month plus annual lease payments of approximately $550,000 for the 5 year term. Legal and administration fees paid by the Province amounted to $432,000. The total to be paid by the Province is $28.95 million as illustrated in **Exhibit 4.5**. This does not take into consideration revenue of $500,000 received for sale of the Bridge and approximately $1 million in interest earned for amounts on deposit during construction for a net cost to the Province of $27.45 million. At the end of 5 years the Province plans to exercise the option to purchase the Bridge for $21.7 million.

4.52 Complex financing arrangements were put in place to ensure the $21.7 million was available to HBDI for purchase of the old bridge and construction of the bridge expansion. There was a small estimated net savings at the date of closing, however, total actual costs of these financing arrangements will not be known until year five of the lease agreement when the Province must finance the purchase of the bridge, if the option to purchase is exercised. The project also included a number of indemnifications or guarantees by the Province which mitigated the risk to the private developer but increased the risk to the Province. Thus many of the anticipated benefits expected when entering into P3 projects of this nature were not forthcoming.

Recommendation

4.53 For future P3 projects, management should analyze and document the risks and benefits of alternative methods of financing before seeking Executive Council approval.

Loan Approvals

4.54 We reviewed the process for approving loans made by IIDI on behalf of the Island Funds. We expected that projects applying to use this program would be screened based on a number of clearly outlined factors such as: job creation potential; risk; the projects overall fit with the Province's economic development strategy; and the availability of replacement financing when the immigrant investors have to be repaid in five years. We did not find any documented criteria specific to the use of immigrant investor financing in development assistance projects.

4.55 At the outset of Island Fund I the intention was that this immigrant investor financing would be used for projects to which the Province was already committed and therefore it would not create any new exposure. That is, the decision to support a project would be made based on an analysis of the project and would not depend on the availability of immigrant investor financing. Since that time a broad range of projects have received immigrant investor financing. Island Investment Development Inc. staff indicated that an increasing number of enquiries have been received to use the funds under IIDI's control for investment projects.

4.56 We expected IIDI to have a policy on the interest rate it charges for loans to projects which would be based on IIDI's cost of borrowing. Although the highest loan rate used was 4 percent, we found that loans were made at rates as low as 2.2 percent. The interest rates used for various loans made by IIDI as of March 31, 1998 are summarized in **Exhibit 4.6**.

EXHIBIT 4.6
INTEREST RATES ON IIDI LOANS RECEIVABLE
($ Millions)

Rate	Fund II	Fund III	Fund IV	Total
2-3%	17.25	4.025		21.275
3.6%	2.05	13.225	.725	16.000
4.0%	4.00	3.225		7.225
	23.30	**20.475**	**.725**	**44.500**

4.57 Although the interest rates paid to immigrant investors are only 2 percent for Fund II and III while Fund IV is 1 percent, the interest rates charged on loans to projects is higher. This is necessary because not all the funds raised from immigrant investors are invested in projects. For example, of every $100 obtained from an immigrant investor approximately $10 is paid out in fees and marketing expenses, $70 is invested in a business venture, and $20 can be invested in marketable securities to earn interest to be applied toward repayment of the debt.

4.58 We are concerned that some of the loans made at between 2 and 3 percent may result in losses to IIDI. Island Investment Development Inc. used a 3.6 percent rate in August 1997 on a loan which was stated as being approved at “IIDI’s cost of borrowed funds”. Therefore, if we assume this to be their cost of raising capital at that time, loans made at interest rates below that level will result in a loss. We noted that a loan was approved at 2.2 percent in June of 1997. The Executive Council approval for this loan did not include any indication of loan rates or the fact it was probably below IIDI’s cost of borrowing at the time. A lower interest rate for a particular project may be approved as an additional incentive but this information should be fully disclosed when Executive Council approval is obtained.

Recommendations

4.59 The Board of Directors of Island Investment Development Inc. should approve a loan policy which outlines the criteria for assessing suitable projects to be financed with immigrant investor loans.

4.60 The loan rates approved for loans to investee companies should be based on an analysis of the expected borrowing costs plus administration fees for each fund.

Monitoring and Compliance

4.61 In November 1997 a compliance review of Island Funds II, III, and IV was performed by Citizenship & Immigration Canada which resulted in the identification of issues common to all three funds. The first issue involved the interpretation by IIDI of when the five year hold period should begin. IIDI was using the date when the funds were available for investment instead of the date when the funds had been invested in a project. To correct this compliance problem IIDI has informed the respective immigrant investors they will be repaid later than previously committed depending on the dates applicable to their specific investment. Another issue was that the minute books and directors’ registers for the funds had not been updated since the date of incorporation. Directors’ resolutions approving investment transactions had not been formally recorded. This matter has since been brought to the attention of the Funds’ solicitor and it is the intention of IIDI to have the records updated.

4.62 The federal regulations of the Immigrant Investor Program require the monies to be placed at risk , therefore, no legal obligation or guarantee of repayment by government is permitted. A compliance review by federal officials indicated the organizational structure which was set up between each of the Funds and IIDI could result in this government-owned corporation being considered a guarantor to the Funds. Loans have been made to investee companies by IIDI with capital advanced by the Funds. In January of 1998 the Executive Director of IIDI indicated that future investments will be made to investee companies directly from the Funds and not through IIDI.

4.63 Island Investment Development Inc. submits quarterly reports to the federal government which assist in monitoring compliance with federal regulations. An investment information schedule is included which indicates information about the recipient business including a declaration of correctness regarding the facts provided. We found that IIDI does not require the recipient business to sign the declaration. The significance of the declaration, in addition to attesting to the facts provided, is a statement that the funds will not be used for purposes prohibited by the program. In our opinion, the recipient business should be signing the declaration. In addition we noted three forms were not signed by IIDI.

4.64 Island Investment Development Inc. does not have a clear policy regarding the requirement for audited financial statements from the companies receiving Immigrant Investor Program funds. In their standard letter of offer IIDI includes a requirement for the company to provide annual financial statements. The wording, in some cases, is ambiguous, as to whether the statements need to be audited. We found that of five companies which had provided financial statements, two were unaudited. At the time of our audit work, another two companies had not been in operation a sufficient period to have produced annual financial statements. One of the companies for which unaudited statements were accepted had a letter of offer with a clear requirement to provide audited statements. In our opinion the requirements should be more clearly defined in the letter of offer and the terms should be strictly enforced.

Recommendations

4.65 Island Investment Development Inc. should comply with all federal regulations under the Immigrant Investor Program.

4.66 The letters of offer issued by the Executive Director of IIDI to investee companies should clearly state whether audited financial statements are required.

4.67 Requirements to provide audited financial statements should be enforced.

5. QUEENS REGION HEALTH-SENIOR SERVICES

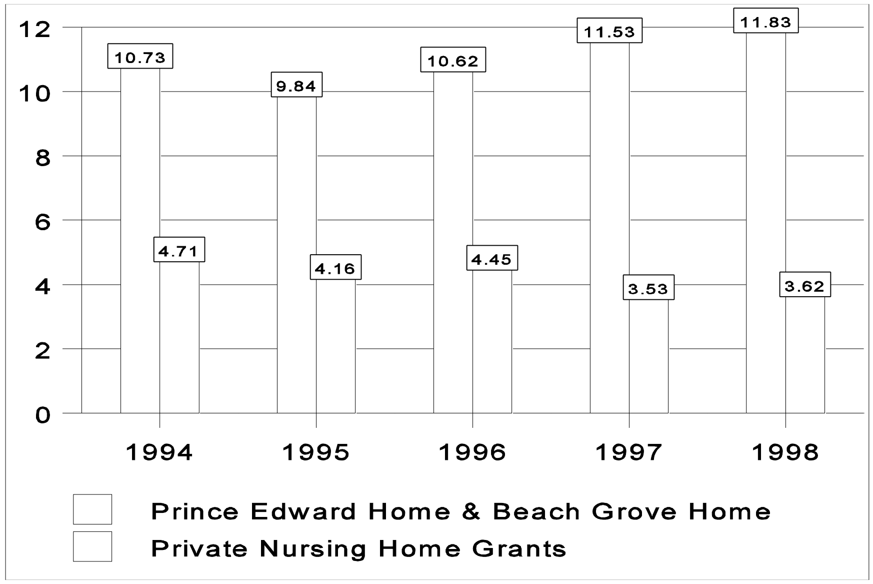
INTRODUCTION

5.1 The Senior Services Division of Queens Region Health operates the Beach Grove and Prince Edward Homes to provide care to elderly residents requiring continuous professional nursing supervision. The Prince Edward Home also provides palliative, convalescent, and long-term nursing care services for those under 60 years of age. In addition to these services, Senior Services Division is responsible for payments to private nursing homes to subsidize residents who are unable to pay the full cost of their care.

5.2 For the 1997-98 fiscal year, $14.6 million was budgeted for Senior Services. Actual expenditures were $15.4 million. This includes combined expenditures of $11.8 million for the operation of Beach Grove and Prince Edward Homes and $3.6 million in payments to private nursing homes.

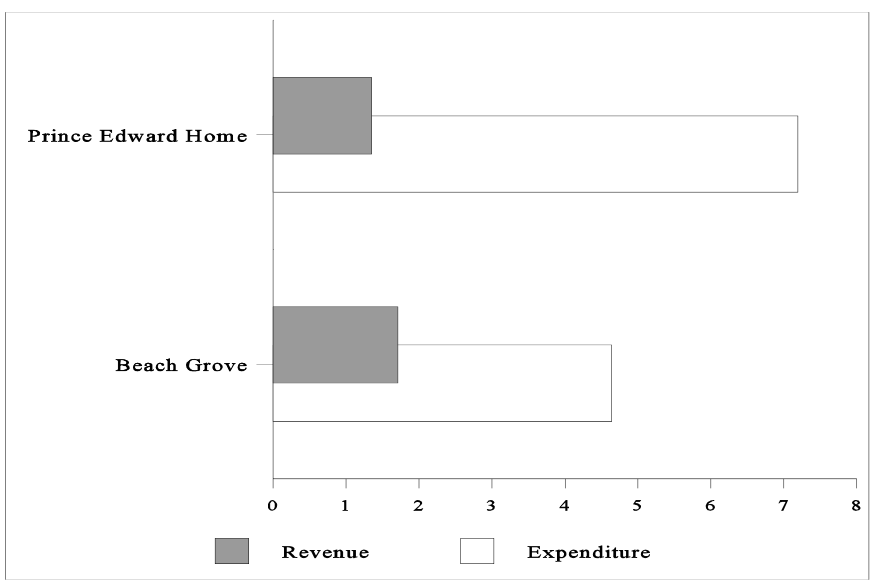
5.3 **Exhibit 5.1** shows the actual expenditures for Beach Grove and Prince Edward Homes and the private nursing homes for the past five years.

EXHIBIT 5.1
COMPARATIVE EXPENDITURES
SENIOR SERVICES
($ Millions)



5.4 The Beach Grove and Prince Edward Home expenditures are partially offset by revenues from patient fees collected for the Province in the amount of $3.2 million. **Exhibit 5.2** provides a breakdown of expenditures with offsetting revenue for 1997-98.

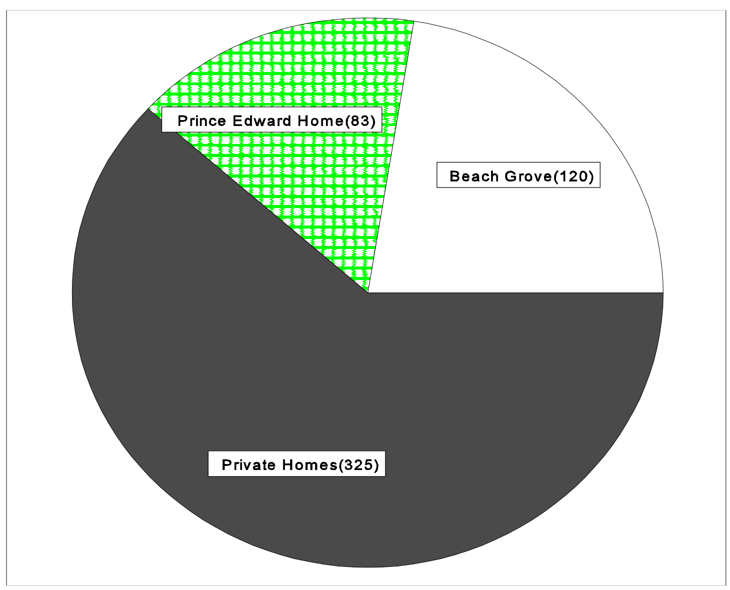
EXHIBIT 5.2
REVENUE AND EXPENDITURES
1997-98
($ Millions)



5.5 The Beach Grove and Prince Edward Homes have a combined total of 268 nursing care beds. The allocation of these beds is as follows: palliative (8); convalescent (14); respite (3); emergency (1); long-term over 60 years (203); and long-term under 60 years (39).

5.6 There are six privately operated licensed nursing homes providing nursing care to the elderly within the Queens Region. These homes provide a total of 325 beds. **Exhibit 5.3** shows beds allocated to long-term nursing care for residents over 60 years of age in the Queens Region.

EXHIBIT 5.3
LONG-TERM NURSING CARE
BEDS FOR RESIDENTS OVER 60 YEARS



OBJECTIVE AND SCOPE

5.7 In accordance with Section 13 of the Audit Act we conducted an audit of the Senior Services Division of Queens Region Health.

Our audit focused on the fiscal year ended March 31, 1998. The objective of this examination was to determine whether adequate management practices were in place over the long-term care program for seniors.

5.8 Our examination was performed in accordance with the auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL AUDIT OBSERVATIONS

5.9 We noted improvements, since our previous audit of Homes and Manors in 1992, in the process used to place individuals in long-term care facilities. However, there continues to be weaknesses in documentation to support some placement decisions.

5.10 We found that legislation and policies have not been updated to reflect new administrative structures as a result of the establishment of the regional health authorities. Also, new procedures implemented in the placement process are not reflected in formal policies.

5.11 Financial and administrative controls need to be improved for revenue collection, accounts receivable, bank reconciliations, revenue transfers, and recording of meal revenue.

DETAILED AUDIT OBSERVATIONS

Placement Process

5.12 In 1994 the responsibility for nursing home placement was transferred to each regional health authority. A new seniors assessment program was established which included a more comprehensive functional assessment tool, as well as a coordinated entry system. The Admissions Committee was replaced with a Placement Committee in the Queens Region which includes representation from the Long-Term Care, Home Care and Support, and Acute Care Discharge programs. In addition, the Placement Committee includes representation from private nursing homes.

5.13 The coordinated entry system uses the Placement Committee as a central point of entry for all placements in Queens Region to both provincial and private nursing homes. The process ensures that all applicants identified as priority are considered for placement. The use of a uniform seniors assessment tool by the private and public nursing homes and the participation of the private nursing homes on the Placement Committee contributes toward standardization in nursing home placements and fits well within the philosophy of a more integrated service.

5.14 Most individuals make initial contact with Senior Services through hospitals, the Department of Veteran's Affairs, or private nursing homes. Once initial contact has been made, an assessment is completed by a Placement Officer to determine the level of nursing care required, risk factors and safety issues. The current assessment tool considers the individual's physical health, as well as, functional, behavioural, financial and environmental factors. The assessment tool is designed to determine the types of support required including; home care services, respite services for care givers, long-term care placements or other required services. As a result of the screening process, referrals are made to the appropriate service providers.

5.15 The Placement Committee interprets the requirement for manor care as having a level of care of three or higher on the seniors assessment tool which uses a scale from one to five. Information is presented at the Committee meetings to establish the client's eligibility. When there are a number of individuals on the priority list and not enough beds, other factors must also be considered in order to make the placement decision. Placement decisions have a major impact on the lives of individual applicants and their families. It is important to document deciding factors to support placement decisions should they ever be called into question. We found that minutes of the Committee meetings were not maintained and factors considered as decisive by the Committee in placement decisions were not always documented. Of twenty-three placement files examined, all had the assessment completed and ten had additional information indicating reasons for selection of the individual for placement.

Recommendation

5.16 The major factors considered in the placement of individual applicants should be documented in the applicants' files or in the Placement Committee minutes of meetings.

5.17 It is important that regulations and policies be kept current to ensure authorization and accountability is clearly established and the information individuals are receiving is accurate. We found that legislation has not been updated to reflect new administrative structures, and policies have not been updated to include new procedures implemented in the placement process.

5.18 Under Part II of the Welfare Assistance Act Regulations "Director" means the Director of the Division of Aging and Extended Care. The Regulations provide various decision making powers to the Director of Aging and Extended Care. These have been exercised by the Directors of Senior Services in each region but the Act and Regulations have not been formally updated.

5.19 Policies documented in the Division's policy manual have not been updated to include references to level of care criteria currently applied or to reflect the membership of the Placement Committee as it is currently structured. In addition, the functional profile described in the policy manual is different from the seniors assessment tool currently in use.

Recommendation

5.20 Regulations and policies should be updated to reflect current administrative structures and changes in the process for admissions to private and provincial homes.

Revenue

5.21 The Welfare Assistance Act /Regulations require residents to pay for services received to the extent that their financial resources allow. A financial assessment is completed in accordance with guidelines provided in regulations to determine the level of financial assistance required by the applicant. The assessment process serves to identify financial assets available and determine fees to be charged. The financial assessments are completed by placement officers working within the Home Care and Support program. Staff at the Beach Grove and Prince Edward Homes are responsible for ensuring revenues are collected in accordance with the financial assessments.

5.22 Individuals receiving long-term nursing care at Beach Grove and Prince Edward Homes were charged a per diem rate of $90 per day or $2,700-$2,790 per month during the 1997-98 fiscal year. Patients receiving palliative and convalescent care service at the Prince Edward Home are not charged a per diem as they are covered by the Medicare program. The daily rate charged for long-term nursing care at Beach Grove and Prince Edward Homes includes room and board and other requirements such as drugs, eyeglasses, and dental care. Approximately ten percent of long-term nursing care residents are financially capable of meeting these costs. For the remaining residents, their financial resources are contributed toward their cost of care and the remaining costs are subsidized in accordance with provisions of the Welfare Assistance Act. Data analyzed for the Beach Grove Home indicates that residents contribute an average of approximately $1,250 per month which includes Old Age Security and Guaranteed Income Supplement of $900 per month.

5.23 Revenue received at the Beach Grove and Prince Edward Homes is considered revenue of the Province rather than revenue of the Queens Region. Revenues are collected by the staff at each home and transferred to the Region's bank account. The Region records the revenues as an account payable to the Province.

5.24 Financial controls are necessary to ensure all revenue due to the Province is collected on a timely basis. We examined a sample of resident files to determine if revenues due to the Province in 1997-98 were collected. We also reviewed revenue schedules and bank documents.

5.25 When an individual becomes a resident of a home there is often some delay experienced in receiving the first month's income as payment arrangements must be made. While our examination indicated that the majority of this revenue is eventually received in the following months, we found that procedures were inadequate to ensure collection. Missing fee amounts were not documented in an account receivable listing or other follow-up lists to ensure regular review of outstanding items.

Recommendation

5.26 Accounts receivable should be recorded and reviewed regularly to ensure all amounts due are collected.

5.27 Bank reconciliations are an important control which can be used to detect either errors in bank or Nursing Home accounting records. We reviewed the bank reconciliations performed at the Beach Grove Home and noted an unexplained difference of $70,651.

This difference resulted from duplicate remittances to the Province dating back to March 1997. We notified the financial manager for the Region and transactions giving rise to this error were subsequently identified and corrected by Region staff.

5.28 In reviewing the records at Prince Edward Home we found bank reconciliations were not being performed. The Region's financial officers do not review bank reconciliations and monthly summary reports on a regular basis. Review procedures would strengthen control. Bank reconciliations are basic procedures that help ensure all revenues are collected, deposited and recorded.

Recommendations

5.29 Bank accounts should be reconciled on a monthly basis. The reasons for differences should be determined and corrections made on a timely basis.

5.30 Copies of bank reconciliations and summary reports should be reviewed by the Region's financial officers on a regular basis.

5.31 The combined revenues of Beach Grove and Prince Edward Homes exceed $250,000 per month. Transferring this revenue to the Region's bank account as soon as possible will improve cash flows. Our findings indicate improvements could be made in the timeliness of cash transfers.

5.32 Our review of records at the Prince Edward Home indicates that there is generally a period of at least two weeks between the deposit of fees in the Prince Edward Home bank account and the deposit of the cheque by the Region. In addition, we noted that the March 1997 fees were not transferred until May 1997 and the July 1997 and August 1997 fees were not transferred until September 1997. The Prince Edward Home does not have an interest earning bank account so delays in cash transfers result in lost income.

5.33 Monthly fees at Beach Grove Home were not transferred until the second month after collection. This resulted in excess balances and interest revenue which was not transferred to the Province. Regional staff indicated that the intention was to transfer the interest to the Residents' Trust Account.

Recommendations

5.34 Revenues should be transferred to the Region's bank account on a timely basis.

5.35 Interest accrued on fee revenues collected on behalf of the Province should be transferred to the Province.

5.36 Beach Grove Home and Prince Edward Home sell meals to staff, visitors, and the Meals on Wheels program. Meal revenue in 1997-98 was $80,000. At Beach Grove Home meal tickets are sold but the tickets are not numbered and there are no reconciliations between tickets turned in at the cafeteria and the meal revenues deposited. At the Prince Edward Home staff and visitors pay cash for meals. An employee accepts cash and transfers it to the business office.

Recommendation

5.37 Controls over revenue from meal sales at the Beach Grove and Prince Edward Homes should be improved through the use of prenumbered meal tickets and balancing procedures.

Estate Claims

5.38 Billings sent to estates provide an opportunity to recover subsidized costs when assets were not known or declared during financial assessments performed at the time of admission. Claims against estates are filed for every deceased resident at Beach Grove and Prince Edward Home who has not made full payment of per diem costs. We noted that claims are only filed in relation to subsidized residents of privately operated homes when a notice is published in the Royal Gazette inviting creditors to submit billings to the executor. Submission of billings to executors and claims to the Estates Division of the Supreme Court for all deceased residents who have been subsidized would ensure executors are made aware of claims against the estate. In addition, filing claims in all cases guards against the possibility that notices in the Royal Gazette may be overlooked. In 1997-98, recoveries of $50,000 were made on two estates.

Recommendation

5.39 Standard procedures currently employed at the Beach Grove and Prince Edward Homes relating to estate billings should also be applied to subsidized residents of private homes.

Private Nursing Homes

5.40 Financial assessments are completed for individuals residing in private nursing homes who are not able to pay for the full cost of care. Senior Services Division make payments to private nursing homes based on a per diem charge less the resident's monthly contributions. In 1995, approval was given by Executive Council to pay private nursing homes 95 percent of their self pay rates to a maximum of $93 per day with the amounts to be frozen until April 1997. A new Provincial agreement was not yet in place at completion of our audit. The Senior Services Division makes additional payments on behalf of subsidized residents in private nursing homes for medical supplies which are not covered by the private nursing home's per diem rates. Each private nursing home provides billing detail by client for both per diem and medical supplies. In the fiscal year 1997-1998 billings for medical supplies exceeded $200,000. We noted significant variation in the average medical billings per patient for different nursing homes. Average annual costs ranged from a low of $800 per patient in one home to a high of $3,000 per patient in another home. Such large differences in average costs could result from various factors including usage, billing, or purchasing practices. The Senior Services Division does not analyse these differences for follow-up with private homes.

Recommendation

5.41 Senior Services Division should review the medical supplies billings for subsidized patients in private nursing homes with a view to developing guidelines against which the reasonability of billings can be assessed.

Per Diem Rates

5.42 In 1994, a uniform per diem rate for government operated homes and manors of $90 was approved by Executive Council. This rate applied to all government owned nursing homes and manors regardless of individual cost differences. The per diem rate remained unchanged until June 30, 1998 when the rate was increased to $107 for all government operated homes and manors. Analysis of expenditures and bed numbers for the Beach Grove Home indicates that the rate of $107 approximates cost recovery.

Human Resource Management

5.43 Budgeted salary costs for Beach Grove and Prince Edward Home total $9.1 million and comprise 83 percent of budgeted expenditures.

5.44 In 1996 Senior Services implemented a new evaluation model called the Seniors Assessment Screening Tool to assess the level of care required by each resident. The screening tool was developed by a study group comprised of health care workers, seniors and members of the community, with input from external geriatric consultants. A workload measurement tool to determine the nursing care hours required for each level of care has not been developed. This information could be used to help determine the staffing requirements. We were informed that the Region intends to develop a workload measurement tool. At the time of our audit, nursing units were staffed based on a combination of past practice, experience, and budgetary considerations.

5.45 Accreditation reports support the need for a workload measurement tool that is reflective of the time and functions required for different levels of care. The accreditation report for the Prince Edward Home, dated March 1995, recommended that staffing be determined according to functions performed and that there be tracking of workload patterns to determine staffing requirements. The accreditation report for Beach Grove, dated June 1994, recommended that there be sufficient resources to meet the needs of residents.

Recommendation

5.46 Senior Services Division should develop a workload measurement tool to be used in assessing staffing needs in the provincial homes.

Accreditation

5.47 The Canadian Council on Health Facilities Accreditation performed accreditation reviews and granted three-year accreditations for the Beach Grove Home in June 1994 and for the Prince Edward Home in March 1995. Subsequently a regional accreditation process was implemented and the accreditation renewals due for Beach Grove Home in June 1997 and for Prince Edward Home in March 1998 were postponed. The Queens Region received a three-year accreditation which included Beach Grove Home and the Prince Edward Home in June 1998.

5.48 The accreditation review measures a health authority's performance against standards set by the Canadian Council on Health Services Accreditation (CCHSA). Under the accreditation awards structure a three-year accreditation award is indicative of good compliance with CCHSA standards.

5.49 Private nursing homes are required to be licensed annually by the Community Care Facilities and Nursing Homes Board and must adhere to the Community Care Facilities and Nursing Home Act and Regulations. Under the regulations, private homes must comply with prescribed standards for building construction, electrical, elevator, fire safety, boiler and pressure vessels, and hygiene. The private nursing homes are subject to inspections by nursing home inspectors at least annually. Nursing home inspectors may also carry out an inspection at any reasonable time.

5.50 Annual licensing and nursing home inspections serve to ensure various inspections are performed on a regular basis and that standards are maintained.

5.51 Provincial homes are not subject to the provisions of the Community Care Facilities and Private Nursing Homes Act. While various safety related inspections are performed at provincial homes, inspections by the nursing homes inspectors are not applied to the government homes and other inspections may not be carried out with the same frequency as required for private nursing homes. For example, it has been two years since some of the boilers at Beach Grove and Prince Edward Homes have been inspected and the latest Community Hygiene inspection at Prince Edward Home was dated January 1997. These inspections are performed on an annual basis at private homes. Checks are performed when private home licenses are renewed to ensure inspections have been performed.

5.52 The accreditation process serves as a valuable tool to assess operations of provincial homes against reasonable standards but due to the time period between accreditations, additional review procedures may be required to detect problems on a timely basis.

Recommendations

5.53 The frequency of various safety inspections should be monitored to ensure that standards applied to private nursing homes are met by the Beach Grove and Prince Edward Homes.

5.54 Consideration should be given to having nursing home inspectors conduct periodic reviews of government homes to ensure operations satisfy standards applied to private nursing homes.

MANAGEMENT RESPONSE

5.55 We discussed our report with senior management of Queens Region who indicated that a number of recommendations have already been implemented or are in the process of being implemented.

6. RAIL LANDS DEVELOPMENT

INTRODUCTION

6.1 The conversion of rail lands to recreational use is a joint initiative of the Province and a number of other groups interested in developing the former rail lands which were abandoned by Canadian National Railways (CNR). The Province's role is shared by the Department of Transportation and Public Works (TPW) and the Department of Fisheries and Tourism (Tourism).

6.2 The Province became involved following the termination of rail service in 1989. At that time, the Department of Tourism, Parks and Recreation, and TPW were jointly responsible for establishing Rail Land Development Inc. This corporation commissioned a Rail Lands Development Study to explore the options and opportunities available to the Province. The 1993 report recommended the Province's acquisition of the rail lands and their development for tourism and recreation purposes. This recommendation was made after an extensive community consultation process which concluded that the rail lands represented a viable economic development opportunity and that a fully developed trail across PEI would provide an estimated annual benefit of $2.6 million.

6.3 The Trails Act proclaimed in 1995 provides for sections of the rail corridor to be designated and operated as the Confederation Trail.

OBJECTIVE AND SCOPE

6.4 Our objective was to determine:

- responsibility for the rail lands, including their development and maintenance;
- the total cost to date of purchasing and developing the rail lands;
- the extent of trail development to date;
- the estimated cost to complete the planned trail development; and
- plans for ongoing trail maintenance.

6.5 Our work consisted primarily of interviewing TPW and Tourism employees, examining documents pertaining to the acquisition and sale of the rail lands, and obtaining and examining cost data for the period April 1, 1994 to March 31, 1998.

6. Rail Lands Development

OVERALL AUDIT OBSERVATIONS

6.6 The rail lands were purchased at a cost of $5.4 million. A portion of the land on the Charlottetown waterfront was sold to the Charlottetown Area Development Corporation (CADC) for $3.6 million.

6.7 As of March 31, 1998, approximately two-thirds of the Confederation Trail was developed at an estimated cost of $3.8 million. The estimated cost to complete the remaining one-third is $900,000.

6.8 It is estimated that once the Confederation Trail is fully developed, it will cost more than $500,000 annually to maintain all of the Province's rail lands.

6.9 Lease and license revenues from the rail lands total $32,000 annually.

6.10 In addition to the development of the rail lands, the Province leases use of the Confederation Trail to the PEI Snowmobile Association during the winter season.

DETAILED AUDIT OBSERVATIONS

Rail Lands Purchase

6.11 The rail lands, containing 450 kilometers of rail corridor and adjacent station areas, were purchased in April 1994 at a cost of $5.4 million. In January 1995, 16 acres on the Charlottetown Waterfront were sold to CADC for $3.6 million. An interest free loan was provided to CADC by the Province for the purchase of this property. The Province intends to hold the remaining lands for the public trust in perpetuity, and ownership has been conveyed to the Minister of Transportation and Public Works.

6.12 The $5.4 million purchase price was made up of two components, an initial payment of $1.5 million and a $3.9 million actuarial liability arising from the Province's assumption of the remaining pension obligation to former CNR employees on PEI. As of March 31, 1998, the Province has paid pensions of $2.3 million.

6.13 The actual mortality rate has been higher than expected. There has not been a recent actuarial valuation, and the actuarial liability has not been updated. We have recommended in a separate section of this report that this liability be reviewed and updated.

Responsibilities

6.14 TPW was responsible for negotiating the purchase of the rail lands from CNR, and the subsequent sale of the Charlottetown waterfront property to CADC.

6.15 The Minister of Transportation and Public Works, as official owner of the rail lands, is responsible under the Public Works Act for the care and management of these lands. TPW staff advised that these responsibilities include the following:

- developing management policies and procedures, including arranging management agreements with any other government departments on whose behalf TPW is holding real property;
- monitoring encroachment and other unauthorized use;
- handling inquiries;
- processing applications for leases and licenses;
- identifying and evaluating risks, hazards and liabilities; and
- establishing, classifying and maintaining the rail land inventory.

6.16 The Trails Act has assigned the Minister of Fisheries and Tourism responsibility for managing those sections of the rail corridor designated as the Confederation Trail. The Rail Lands Trail Advisory Committee, comprised of five members representing various interest groups and three ex-officio government representatives, was established to make recommendations with respect to rail land development. It appears that this Committee has taken over from Rail Land Development Inc. which is now a corporation in name only.

6.17 There is no management agreement between TPW and Tourism setting out the responsibilities of both departments with respect to the rail lands.

Recommendation

6.18 The Department of Transportation and Public Works should enter into a management agreement with the Department of Fisheries and Tourism, clearly setting out the responsibilities of both departments with respect to the rail lands.

6.19 Tourism has arranged with several non-profit community organizations to develop sections of the Confederation Trail in accordance with Tourism's trail development standards. The process provides the opportunity for discussions within communities to address residents' questions and concerns about the proposed trail development. Arrangements with the community organizations are formalized through short-term development leases with TPW.

Confederation Trail Goals

6.20 The Confederation Trail is part of the Trans Canada Trail presently being developed. The following goals of the Confederation Trail are consistent with the vision of a nation-wide shared-use trail intended for recreation and tourism:

- to be a world-class tourism resource;
- to increase recreational opportunities across the province by providing a multi-purpose trail;
- to provide a renewed link between communities, both rural and urban;
- to serve as an east-west spine connecting regional and local trails and organizations;
- to enable trail users to experience Island heritage and rural and urban landscapes;
- to enable people to meet, communicate with and appreciate others from inside and outside the province;
- to stimulate conservation of important scenic, natural, historic and cultural areas; and
- to stimulate national, provincial and local business and non-profit activities and partnerships.

Status of Confederation Trail Development

6.21 Of the original 450 kilometers of rail corridor purchased from CNR, 350 kilometers have been identified for development of the Confederation Trail reaching from Tignish to Elmira, with branches connecting to Borden-Carleton, Charlottetown, Georgetown, Montague and Souris. Of the 350 kilometers identified for trail development, as of March 31, 1998 a total of 230 kilometers were surfaced with stone dust and most were fully developed, complete with shelters and signage.

6.22 We found it difficult to determine trail development costs to date because funding has been provided by a variety of sources including the federal and provincial governments and the private sector. Some of the costs were paid directly by either TPW or the former Ministry of Economic Development and Tourism. In some cases provincial grants were paid to community organizations to cover their expenditures, and in other cases the community organizations obtained their funds directly from non-provincial government sources. We estimate that trail development expenditures to March 31, 1998 totalled approximately $3.8 million, as summarized in **Exhibit 6.1**. Tourism staff estimated it will cost over $900,000 to develop the remaining 120 kilometers.

EXHIBIT 6.1
CONFEDERATION TRAIL
ESTIMATED DEVELOPMENT COSTS
APRIL 1, 1994 TO MARCH 31, 1998

	1994-95	1995-96	1996-97	1997-98	Total
Provincial Government:					
Transportation & Public Works	$160,000	$ 144,000	$ 106,000	$ 70,000	$ 480,000
Economic Devel. & Tourism	204,000	278,000	798,000	258,000	1,538,000
Health & Social Services	3,000	25,000	-	1,000	29,000
	367,000	447,000	904,000	329,000	2,047,000
Federal Government:					
Economic Development:					
Federal-Provincial Cost-Sharing					
Agreements (federal share)	158,000	125,000	-	-	283,000
Federal Agencies *	58,000	635,000	-	30,000	723,000
	216,000	760,000	-	30,000	1,006,000
Human Resources Development *	13,000	142,000	519,000	-	674,000
	229,000	902,000	519,000	30,000	1,680,000
Private Sector *	-	91,000	-	17,000	108,000
	$596,000	$1,440,000	$1,423,000	$376,000	$3,835,000

* Unaudited figures Tourism staff obtained from community organizations involved with trail development

Trail Maintenance

6.23 Trail costs do not end with development because ongoing maintenance is required to preserve this investment. Maintenance activities are categorized as follows:

- Right-of-Way Maintenance - According to staff of both departments, Tourism is responsible for sections developed as the Confederation Trail, and TPW is responsible for undeveloped sections of the rail lands. These responsibilities include repairs to bridges and culverts, maintaining barricades and signage at all public access locations, and any other infrastructure repairs and maintenance necessary to effectively manage the risks associated with ownership of the rail lands.

- Trail Operation - This is Tourism's responsibility, and includes such items as surface grading and re-compaction, weed control, the repair and replacement of signage, shelters and benches, and other maintenance not related to safety issues, but necessary for continued public enjoyment of the trail.

6.24 Based on projections contained in the June 1993 Rail Lands Development Study, it is estimated that once the Confederation Trail is fully developed, the annual cost to maintain all of the former rail lands presently owned by the Province will be as follows:

Tourism Responsibility (Confederation Trail):		
• Right-of-Way Maintenance	$345,000	
• Trail Operations	109,000	$454,000
TPW Responsibility (undeveloped rail lands):		
• Right-of-Way Maintenance		99,000
		$553,000

6.25 According to TPW staff, its total annual budget for managing all provincial lands including the rail lands is $50,000. Tourism staff advised that although funding has been requested for implementation of its Confederation Trail maintenance schedule, no funding was provided for trail operations up to March 31, 1998.

6.26 Although our audit work did not include activities beyond the end of the 1997-98 fiscal year, we are aware that during the summer of 1998, TPW took on the role of coordinating maintenance activities related to trail operations. This involved hiring seasonal work crews which were assigned specific jobs, and coordinating other work being done by non-profit community organizations. These maintenance activities occurred with Tourism's support, although no formal arrangement existed between TPW and Tourism. TPW staff advised that its expenditures related to these maintenance activities totalled $200,000 and Tourism staff advised that its related expenditures totalled $18,000.

6.27 All costs pertaining to the Confederation Trail should be identified, and charged to proper accounts, so that costs can be reported each year.

Lease/License Revenues

6.28 Some of the Province's expenditures are offset by rail lands revenues from leases and licenses for warehouses located in rail yards, overhead and underground wire and pipe crossings, and farm and private crossings. Most of these were leases and licenses assigned by CNR to the Minister of Transportation and Public Works when the lands were purchased. Revenues from these licenses and leases total $32,000 annually.

Support to Snowmobiling Industry

6.29 The Province has a lease agreement with the PEI Snowmobile Association Inc. (PEISA). This agreement grants the PEISA exclusive use of the Confederation Trail from December 1 to March 31 of each year. Financial assistance totalling $316,000 was provided to the PEISA from April 1, 1993 to March 31, 1998 for equipment and other expenses associated with their involvement in the Confederation Trail. This assistance is somewhat offset by snowmobile registration revenue fees of approximately $44,000 per year.

Legal Action

6.30 Hearings were held in October 1998 following an application by the Government of PEI to the Supreme Court of Prince Edward Island, seeking an injunction against certain adjoining landowners who were interfering with the public enjoyment of the rail lands. The Supreme Court granted the requested injunction in March 1999.

MANAGEMENT RESPONSE

6.31 We discussed our report with TPW and Tourism management who agreed with our observations and recommendations.

7. DRUG COST ASSISTANCE PLAN

INTRODUCTION

7.1 The Prince Edward Island Drug Cost Assistance Plan (DCAP) is governed by the Drug Cost Assistance Act and Regulations and is the responsibility of the Acute and Continuing Care Division of the Department of Health and Social Services. It is delivered by the Pharmacy Services Division of Queens Region.

7.2 This Plan assists approximately 12,000 residents aged 65 or older to pay for eligible drugs. Beneficiaries pay the pharmacies the first $7 of ingredient costs plus the dispensing fees charged by the pharmacies. The pharmacies in turn submit claims to the Pharmacy Services Division for the remaining portion of the drug ingredient costs.

7.3 The objectives of the Drug Cost Assistance Plan as indicated in departmental submissions to Treasury Board are:

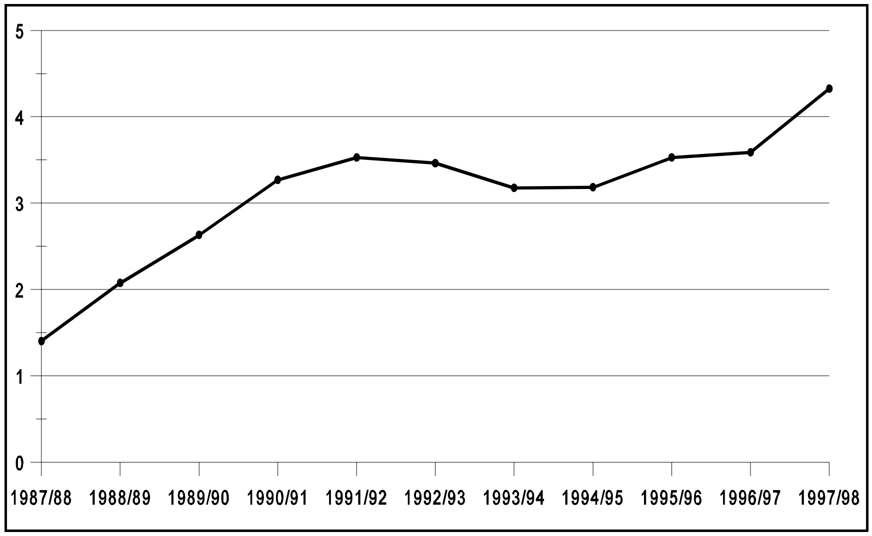
- to provide financial assistance to Island seniors who require medications;
- to reduce the costs of drug supplies; and
- to encourage the rational use of prescription drugs.

7.4 The processing of pharmacy claims was changed from a contractual arrangement with a private firm to in-house processing by the Queens Region. This change was made in conjunction with implementation of the Pharmaceutical Information Program (PhIP), a program designed to provide more complete information on medication usage and drug interactions.

7.5 Since DCAP was introduced in 1987 increases have occurred in the number of clients, the number of eligible drugs, copayment by beneficiaries, pharmacists' dispensing fees, and the cost of the program to the Province.

7.6 Program costs for 1997-98 year were $4.3 million, an increase of $737,000 over the previous year. **Exhibit 7.1** illustrates the program costs from 1987-88 to 1997-98.

EXHIBIT 7.1
DRUG COST ASSISTANCE PROGRAM COSTS
($ Millions)



OBJECTIVES AND SCOPE

7.7 In accordance with Section 13 of the Audit Act, we conducted an audit of the Drug Cost Assistance Plan. The objective of the audit was to assess the management practices and systems used in administering the DCAP.

7.8 Our audit included a review of the claims adjudication systems and procedures for the year ended March 31, 1998. We did not audit the systems and procedures at individual pharmacies where claims originate.

OVERALL AUDIT OBSERVATIONS

7.9 The Department of Health and Social Services projected annual operating costs for the Pharmaceutical Information Program of approximately $370,000. The estimated annual cost savings are projected to be approximately $440,000 by the year ended March 31, 2000 as a result of implementing the new program.

7.10 Changes in the DCAP which include implementation of 90 day supply amounts for an increased number of drugs will result in annual program cost increases of approximately $500,000 to the Department with corresponding savings to seniors.

7.11 We made recommendations to management relating to weaknesses noted in system security, claims processing and payment review processes. We also made recommendations to improve management information and internal audit procedures.

DETAILED AUDIT OBSERVATIONS

Pharmaceutical Information Program

7.12 In 1994, ACOA provided funding of $2.4 million to develop the Pharmaceutical Information Program (PhIP). Development of the PhIP would electronically link pharmacies in the Province to a central database, allowing profiles of prescription medications obtained by all residents of the Province to be reviewed by pharmacists and physicians and would provide information on usage of specific drugs. The major objective of the development was improved health care through a reduction of medication related problems. Pharmacists indicated a high priority on inclusion of the capability to electronically submit claim transactions for drugs dispensed under government drug programs. A Claims Adjudication System to process all DCAP claims was added to the PhIP system at a cost of $100,000. The Department also plans to add other drug related programs such as Emergency Drug Card claims to the system. System features providing for maintenance and review of resident prescription profile information have to date been restricted to seniors using the DCAP program. The system also currently allows pharmacies to obtain information on specific drugs such as drug interactions. Claims are electronically transmitted directly by the pharmacy to the Claims Adjudication System which evaluates each claim and eventually produces the cheques to pay the pharmacies.

7.13 In submissions for Treasury Board approval to implement the PhIP and Claims Adjudication Systems, the Department of Health and Social Services identified annual operating costs totalling $370,000 and projected offsetting savings of $42,500 in 1997-98, $357,000 in 1998-99, and $438,000 in 1999-2000, through reduction of inappropriate use of medications and cancellation of the previous contract. The Department based projected expenditure reductions on savings reported by British Columbia following introduction of a similar program. The projections were based on the idea that medication related health problems would be reduced because of better information being made available to pharmacists and physicians.

Ninety Day Supplies

7.14 On January 1, 1998 government increased the number of drugs available in 90 day supply quantities instead of the usual 30 day supply limit. Departmental estimates indicated that this change will shift approximately $225,000 in copayment fees from program beneficiaries to the Province and reduce dispensing fees paid to pharmacists by seniors in the amount of $250,000 annually. A temporary agreement was made with pharmacists to compensate for their reduced dispensing fee revenues. The agreement provided for a maximum of $40,000 in total for all pharmacies for the three month period January 1, 1998 to March 31, 1998. As claims were transmitted to the system, a 10 percent markup was paid on ingredient costs for prescriptions costing $30 and over until the maximum of $40,000 was reached.

7.15 This agreement was later extended to October 1, 1998 which resulted in additional costs of $224,000. At October 1, an interim agreement covering the period October 1, 1998 to March 31, 1999 was negotiated. It continues to compensate pharmacies for reduced dispensing fee revenue. However, the additional compensation is based on ingredient costs and therefore may not match the dispensing fees lost by pharmacies. Based on utilization data and a markup of 7.5 percent on ingredient costs of prescriptions costing $45 or more, management estimates that the current interim agreement will result in an extra $280,000 per year to be paid to the pharmacists.

Recommendation

7.16 Before a new agreement is signed, the Department should determine the extent to which their objective of compensating pharmacies for lost dispensing fees is being met.

System Security

7.17 Computer systems require controls to ensure programs and data are adequately protected and the system continues to operate as intended. The linkage of the Claims Adjudication System to a variety of users, the direct input of claims by pharmacies, automated evaluation of input, generation of payments by the system, and confidentiality considerations require a well controlled system. Without such controls there are higher risks of payment errors, lack of confidentiality of data, and interruption of normal business operations to pharmacies and government. Our audit identified weaknesses in system security related to access controls and backup procedures.

7.18 System monitoring and client support functions such as reviewing system logs, running backup, and assisting pharmacies who are experiencing difficulty or system problems, are contracted to an outside vendor. This outside vendor also has access to claims transactions. This provides a system access which is not controlled by the Department and could result in unauthorized changes.

7.19 Segregation of certain key functions is a basic element of internal control. Segregation of duties is designed to limit the possibility of errors or irregularities going undetected. Staff have widespread access which results in inadequate segregation of duties. This weakness increases the risk of unauthorized payments.

7.20 Duplication and storage of important files and programs at a separate site provides protection against the possibility of a total loss of programs and data due to a disaster occurring at the computer installation. Although duplicate programs could be obtained, there is no offsite storage of backup data files.

Recommendations

7.21 Vendors contracted to provide support or perform other system functions should be restricted from adding or changing data.

7.22 Staff access to the Claims Adjudication System should be limited based on responsibilities. There should be a segregation of duties for the beneficiary updates and claims transactions. In order to provide accountability, the updated records in master files should be identified with individuals making the changes.

7.23 The Department should ensure that backup copies of beneficiary changes and claims transactions are stored offsite and are updated on an ongoing basis.

Monitoring and Control

7.24 Data input to the Claims Adjudication System must be in conformity with defined claims standards to be accepted into the system. These standards help to ensure that all required transaction information is entered and reduce but do not eliminate the possibility of erroneous information being entered. Because data may meet established standards but include errors, monitoring strategies are important to identify and evaluate errors accepted by the system and determine appropriate action.

7.25 On-line input of claims by pharmacists and provisions to allow pharmacists to reverse and resubmit claims results in increased efficiency in processing claims but also increases the risk of overpayments due to errors. Management needs to ensure appropriate internal audit and control procedures are implemented to monitor the input of claims.

7.26 We reviewed management report formats and draft internal audit plans for the new claims adjudication system. We found that the reports and internal audit programs did not take full advantage of the availability of computerized data and information which may be obtained through identification of key data, use of comparative summary data, and use of database search techniques.

7.27 We found that improvements could be made in the review of claims information. Computer displays and printed reports of claim payments did not include drug names. The absence of drug name information makes it difficult to spot unreasonable prices or quantities.

7.28 Indicators of unusual transaction data are useful to identify higher risk items and to explain why data may not conform to normal patterns. Indicators were not used to readily identify unusual transactions, such as, exceptional drug usage, compound formulations, and transactions input or modified by administrative staff.

Recommendations

7.29 Monitoring and internal audit procedures should be used to compensate for risks associated with on-line claim input and adjustment capabilities of pharmacies.

7.30 The Department should improve the effectiveness of monitoring procedures through the use of database search techniques, review of exception and higher risk situations, and use of summary comparison data to identify areas which may warrant additional monitoring effort.

7.31 Drug names should be included on payment reports and computer displays of claims.

7.32 Methods should be used to readily identify unusual transaction data in payment reports and computer displays of claims.

MANAGEMENT RESPONSE

7.33 Management agreed with our recommendations and have indicated that many of them have been implemented.

8. UNIVERSITY OF PRINCE EDWARD ISLAND

OVERALL COMMENTS

8.1 In December 1997 the Legislative Assembly unanimously adopted a resolution of the Public Accounts Committee requesting that the Auditor General perform a value-for-money audit at the University of Prince Edward Island (UPEI). To my knowledge this is the first time an audit of this nature has been conducted at a Canadian university. We completed our audit in December 1998 and the detailed audit report was tabled in the Legislative Assembly on December 16, 1998. The detailed report is available to the general public. In my annual report I am providing some background information on the audit and a summary of the recommendations made in our detailed report.

8.2 Although the University did not react favourably to this audit, the Legislative Assembly was prudent in requesting that the audit be done. The University was concerned that the audit would affect its autonomy and academic freedom. The recommendations in this report do not diminish the autonomy and academic freedom of the University. However, we do emphasize the need for the University to publicly answer for the autonomy and academic freedom conferred by the University Act. We conclude that significant changes are required if the University is to be held accountable for fulfilling its mission and mandate.

8.3 The University is publicly funded through government grants, student tuition, and other sources to the tune of approximately $50 million. To date formal accountability for the expenditures of these funds has been limited to the provision of annual financial statements. This is not enough and the report deals extensively with the steps which need to be taken by the University to make it more accountable and transparent to taxpayers and students.

8.4 We make observations and recommendations on a wide range of subjects including governance, management of academic programs, research, the registrar's office, enrolment management, fundraising, the bookstore and a number of other administrative and academic support functions. The report contains a number of recommendations on the topics audited which will, if implemented, improve operations and enhance accountability to the students and the public.

BACKGROUND INFORMATION

8.5 The resolution adopted by the Public Accounts Committee requested that the Auditor General perform a value-for-money audit. Value for money is a generic term for an audit that encompasses economy, efficiency and effectiveness issues in an organization. Under Section 13 of the Audit Act these engagements are referred to as special audits and examinations. It is important the reader understand the approach used in these audits and the expectations that are reasonable. The most prevalent form of reporting currently used in this type of audit is direct reporting. This was the approach we used in our audit at the University. Under this form of reporting, observations and recommendations are made on the adequacy of management systems and practices relative to the economical, efficient, and effective administration of financial and human resources. We also consider whether the public and the Members of the Legislative Assembly are being provided with accountability information.

8.6 The environment we faced in undertaking this audit should be put in context. Dr. Epperly, the former President, strongly opposed this audit and deemed it an intrusion on the independence of the University by government. As well, senior management by and large opposed the idea of an audit being done. Some members of the Board of Governors were against the idea and the Student Union also had concerns. This was not a situation conducive to carrying out an audit.

8.7 Before the audit began, I met with the former President and explained that this audit was not requested or controlled by government but was based on a motion by the Legislative Assembly. The Auditor General is a servant of the Legislative Assembly independent from government and the scope of my audit work was not determined by government. This is a significant point which assured the University that the audit would be independent and objective. I met with members of the Student Union and explained our intended approach and sent a letter to each member of the Board of Governors explaining the process. In addition, senior staff met with senior management at the University. These meetings proved worthwhile. Our mandate was recognized and accepted. Also during these discussions I emphasized that the audit, because of its scope and limitations, would not pose any threat to academic freedom. After these initial discussions, cautious but complete cooperation was extended to us by University management. In fairness, the University has never been exposed to an audit of this nature and we made every effort to alleviate the apprehensions that were evident.

8.8 It is also useful to provide some background on the state of affairs at the University when we began the audit. The University has been in the throes of change and reorganization for the past three years. In 1995 an outside evaluation of the University was in process and shortly thereafter a consultant's report was released that recommended substantive changes to the structure and operations of the University. At the same time the University initiated a strategic planning process. The resultant report *Charting Our Future* contained an ambitious program to deal with a number of strategic issues. When the former President, Dr. Epperly, was appointed in 1995 she was immediately faced with addressing these reports. One of the most difficult areas targeted by the former President was the reorganization of the University. The University had not experienced a major reorganization of this nature since its inception over 25 years ago and this posed a major challenge for the former president to implement. When we arrived a revised management structure was in place, however, many other initiatives outlined in *Charting Our Future* were still in process. They were also conducting separate studies and reviews of a number of administrative and academic functions. For example, studies of the Registrar's office and campus security, were underway and research had been independently reviewed.

8.9 These developments were positive steps by the University but made it difficult in some instances from an audit perspective because a number of changes were pending. In addition, President Epperly resigned for health reasons in June. This was unfortunate because even though she opposed the audit, Dr. Epperly was cooperative and provided input helpful to us as the audit progressed. The University is still working on a number of the projects initiated by former President Epperly. Suffice to say we did not enter a static environment and this did not make it any easier for the audit staff or staff at the University.

8.10 The University is a large and complex institution with expenditures of approximately $50 million and faculties and schools for the Arts, Science, Nursing, Education, Business and Veterinary Medicine programs. It would not be practical to attempt to audit every program and activity in each of these areas. The audit covered the key programs and activities keeping in mind their significance in dollar terms and the impact on the students and general public. In addition, strong emphasis was placed on the governance structure and the accountability framework in place to answer for the responsibilities conferred under the University Act.

8.11 The starting point for the actual audit work was the University Act. The University derives its existence and authority as an institution of higher learning from legislation passed by the Legislative Assembly. In this sense the request for the audit came appropriately from the Legislative Assembly, the body the University is ultimately answerable to for carrying out the responsibilities under the University Act. The University Act spells out the objects and powers of the University, its governing structure, and powers of the Board of Governors, the Senate, the President and other officers and appointed individuals.

8.12 Given the skepticism of some University management and faculty on the appropriateness of the Auditor General examining its affairs, I knew performing this audit would be challenging. I understood that my office may be perceived by some as naive to the realities of the current university environment. That is why extra time and effort were taken to obtain a good knowledge of UPEI's operations before the actual audit work commenced. In addition, we reviewed other initiatives on university governance and accountability that were done or were underway in other jurisdictions. There are a proliferation of studies, commissions of inquiry, independent reports, and other initiatives on this subject across Canada, the United States, and Europe. These endeavours provided numerous conclusions and recommendations, some of them conflicting. The subject of university governance and accountability has been studied extensively and these efforts are generating interest and discussion by all concerned. It was useful to review the documentation on many of these initiatives. There are many common problems that surface in many of these studies but each university is unique and must focus on the mandate it is answerable for under its enabling legislation.

8.13 In addition, I met with representatives from the Maritime Provinces Higher Education Commission and reviewed the impact of their work on UPEI's programs and activities. Annual reports from other Atlantic universities were obtained where feasible. I met with an executive committee member from Queen's University who served on various task forces and committees dealing with university governance and accountability. Also, outside expertise was used to assist us in auditing some aspects of the academic programs and the information technology at the University. I met with experts on governance and accountability issues at the CCAF (Canadian Comprehensive Auditing Foundation) who have dealt with the university community and are advocating improvements in accountability and governance in universities and colleges. However, the bulk of the audit effort was undertaken by the dedicated efforts of highly qualified professional audit staff from my office. This was a major challenge for them and I am very appreciative of their professionalism and dedicated efforts. Also, the management and staff at the University were very helpful and I express my appreciation to them for their patience and cooperation.

REPORT RECOMMENDATIONS

8.14 Following are the recommendations which were included in the detailed audit report.

Governance

8.15 The shared governance structure provided for under the University Act should be maintained.

8.16 A more rigorous process should be in place for determining appointments to the Board of Governors by the Lieutenant Governor-in-Council. Guidelines on the desirable qualifications and attributes of prospective appointed Board members should be developed and input from the Chair of the Board of Governors should be obtained in filling any vacancies.

8.17 Board policies on important governance and management issues should be determined and filed in a Board policy manual for reference and easy access. The Board should approve this policy manual as the current policies in effect. This policy manual should be updated with any new or amended policies approved by the Board.

8.18 The Policy and Planning Committee should have terms of reference approved by the Board and undertake an active role in assisting the Board on strategic policy and planning issues.

8.19 The Government and Community Relations Committee should have a clearly defined mandate and become active in supporting the Board in establishing linkages with the Government and the public.

8.20 The Board should take a leadership role in promoting improved communication and accountability by the University.

8.21 The Senate should identify the academic priorities for the University. This identification should be clear enough to serve as a basis for discussion on program changes.

8.22 In accordance with the University Act the President should prepare a formal report annually to the Board of Governors and the Senate. This report should report on the progress and requirements of the University and include any recommendations considered necessary.

8.23 A comprehensive conflict of interest policy should be prepared and approved for Board members, management, faculty and staff that includes:

- definition of a conflict of interest;
- assignment of responsibility for administration of the policy; and
- description of disclosures and reporting required.

8.24 The Government should establish a formal framework for dialogue with the University on strategic planning and long-term budgeting.

8.25 The Provincial Government in consultation with the University and the public should determine a long-term plan for higher education for the Province.

8.26 The Provincial Government should negotiate a long-term funding agreement with the University to implement the University's responsibilities under the long-term plan for higher education.

Accountability

8.27 The University should establish an accountability framework for public accountability reporting. It should include: a mission statement with clear objectives; clearly stated performance expectations; performance information compared to results expected; and a public accountability report.

8.28 The University Act should be amended to require the University to include performance information in its annual report.

8.29 Performance information in the University's annual report should be subject to periodic audit.

8.30 The University's annual report on performance should be referred, after tabling in the Legislative Assembly, to a Committee of the Legislature to provide an opportunity for the University to explain the report, and Members to deliberate and ask questions of the University regarding the report.

Financial Control and Budgeting

8.31 Budget information presented to the Board of Governors should include all expected revenues and expenditures.

8.32 A reconciliation which explains the variances between actual expenditures and the budgeted amounts approved by the Board of Governors should be prepared and presented to the Board when the financial statements are presented for approval.

8.33 Departments should provide a summary of budgeted and actual expenditures, with an explanation of the differences, to the Comptrollers Office. These should be summarized and reported to the Board of Governors.

8.34 Policies should be developed and approved for the administration of the various Funds.

8.35 Purchasing policies should be formally approved by the Board of Governors.

Planning

8.36 We recommend that strategic plans be formally approved by the Board of Governors and documented in the Board minutes.

8.37 Each year a report should be prepared and presented to the Board of Governors on any changes to the strategic plan and the progress achieved in relation to the strategic issues and goals established in the strategic plan.

8.38 The University should prepare an operational plan that links strategic objectives to the annual budget.

Human Resources

8.39 Human resource policies should be collected, reviewed, approved, and communicated in conjunction with the development of the University policy project that is currently in process.

8.40 The Human Resources Department should develop guidelines to be used by Deans to guide the hiring of faculty.

Academic Programs

8.41 The goals and objectives of the faculties of Arts and Sciences should be documented and approved at an appropriate level. In addition, goals and objectives should be reviewed annually to determine if they are being achieved.

8.42 Self-studies should be completed on a timely basis in accordance with Senate policy.

8.43 In accordance with the Faculty Handbook, a Market Differential Committee should be established to make recommendations on appropriate compensation levels where market differentials are involved. If the Faculty Handbook provisions are deemed to be out of date, revisions should be developed and approved at an appropriate level.

8.44 All faculty reviews should be completed and documented as required in the Faculty Handbook.

8.45 The Dean for each Faculty as well as the Chairs should sign off each faculty review as complete and in accordance with the Faculty Handbook policy.

8.46 Section 7.8 of the Faculty Handbook should be clarified with faculty so that information requested by the Dean or the President is provided.

8.47 Consideration should be given to annual reviews of all faculty members.

8.48 The method for reviewing course evaluations should be improved. The process in the faculties of Arts and Science should ensure all evaluations are reviewed by the Deans.

8.49 The Board of Governors should examine alternatives to the process for selecting Department Chairs.

8.50 The University should document its overall objective on the relative emphasis to be given teaching, research and service. Methodology to do this has been developed within the Faculty of Veterinary Medicine and appropriate methodologies should be developed in the faculties of Arts and Science. In addition, faculty should be held accountable for their actual activities by comparing them to their expected performance and the results documented.

8.51 Graduate surveys should be implemented to assist in assessing the appropriateness of programs and courses in the faculties of Arts and Science.

8.52 The faculties of Arts and Science should have a more structured approach to monitoring and evaluating programs and courses.

8.53 We recommend that the University use the methodology provided by the Maritime Provinces Higher Education Commission in the University Costing Study to prepare further analysis on costs. This information should be summarized and used by senior management, the Senate and the Board of Governors as part of the internal decision-making process in determining financial and academic plans.

8.54 Overall, there is a need for a more formalized management reporting system that requires performance information to be provided by each faculty to the President. The President should incorporate aggregated information from these reports in the President's report to the Board of Governors. These reports should form the basis for the annual report of the University to the Legislative Assembly.

Research

8.55 The University should take steps to address the recommendations in the research study completed in 1997 and the issues pertaining to research in the MPHEC Report.

8.56 The University should consider establishing further areas of research focus for Main Campus based on current or potential expertise or capacity.

8.57 The search for a Director of Research Development should be completed as soon as possible.

8.58 An operational plan should be developed for the Research Development Office to encourage, promote, and support research within the University.

8.59 The draft Grants and Contracts Handbook should be completed and formally approved.

8.60 The University should take steps to resolve the issue on research overhead and ensure that overhead is charged in accordance with policy on all research contracts.

8.61 Targets should be set for assessing the procedures in place designed to increase the quantity and quality of research carried out by the University Main Campus. These targets should include:

- number of applications to funding agencies;
- number of grants awarded; and
- number of grantsmanship seminars conducted.

8.62 Performance achieved in relation to the targets established should be reported to senior management periodically.

8.63 The University should establish policies on authority and limits for research expenditures funded through discretionary accounts.

8.64 Information on unfunded research activity should be reported annually to the Research Development Office and summarized with existing information on funded research activity. This information should be reported in the Presidents' annual report to the Board of Governors and included in the University's public accountability report.

8.65 In all academic units, expectations related to research should be clearly articulated at the time of the faculty member's review.

Enrolment Management

8.66 The Enrolment Management Plan should be a priority and be developed as soon as possible. This Plan should set the desired size and composition of the student body; include a recruitment management plan, require performance information on the achievement of recruitment plan objectives, and include retention strategies.

Office of the Registrar

8.67 The Office of the Registrar should document the goals of the Office addressing both the administration of academic regulations as well as service delivery expectations.

8.68 Endowed and special purpose accounts which are inactive should be reviewed with a view to consolidation in order to maximize the number of scholarships awarded as long as the original terms of the endowments are followed.

8.69 A database of all endowed and special purpose accounts should be created and the accounts monitored to ensure available amounts are paid out as required.

Fund Raising

8.70 The integrated relationship marketing strategy should be presented to the Senior Management Group and to the Board of Governors for approval.

Physical Plant

8.71 A complete space inventory should be prepared which indicates current usage and space assigned to particular departments.

8.72 Regular reporting of space usage should be implemented in accordance with the Space Committee's terms of reference.

8.73 A space plan should be completed by the Space Committee and approved by the President.

8.74 The administration of room bookings should be reviewed with the intent of reducing the number of duplicate systems and formulating clearly defined policies regarding access to campus facilities. A single database system to manage all room assignments should be considered.

8.75 The decision to use Physical Plant staff on alteration and renovation projects should be based on a more complete evaluation of its affect on normal maintenance activities.

8.76 A work order system should be implemented which accumulates time and costs spent on jobs, and enables monitoring and reporting of results.

8.77 The amount of overtime paid to employees should be more closely monitored to ensure staffing levels are adequate and costs are minimized.

8.78 The Physical Plant costs transferred to Residence and Conference Services should be based on actual labor costs incurred.

8.79 There should be improved communication between Physical Plant staff and users making requests for services.

8.80 The Atlantic Veterinary College should be charged with its actual heating costs.

Computer Services

8.81 Management should improve the process for establishing and changing the scope of projects so that changes are approved by both users and IT support personnel.

8.82 Systems documentation should be updated to preserve knowledge of the systems, thereby allowing effective and continued systems support.

8.83 There should be a comparison of the actual benefits achieved for IT projects, six months to a year after implementation, to the benefits projected in the original business case. Consideration should be given to performing formal post implementation reviews for projects.

Residence, Food and Conference Services

8.84 The business plan for the Residence and Conference Services Section should be completed and approved on a timely basis.

8.85 The process for setting rates for the residences and conference services should be clearly defined based on specific objectives.

Athletics

8.86 The Department should review the membership rate structure to reaffirm what degree of subsidization is appropriate for each type of user and how the rates compare to other entities offering similar programs and services. User fees should be set in accordance with realistic financial objectives.

Bookstore

8.87 The various informal operating policies and procedures of the Bookstore should be formalized, documented and approved by management.

8.88 The University should explore options to help minimize the cost of textbooks to students.

SUMMARY COMMENTS

8.89 We intend to follow up on these recommendations and provide an update to the Legislative Assembly.

FINANCIAL STATEMENT AUDITS

9. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

9.1 Section 13 of the Audit Act establishes the Auditor General's mandate to perform financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

9.2 Financial statements are management's responsibility and reflect management's assertions. They provide information that is used to make important economic decisions. It is imperative that the reader has confidence in the quality of that information.

9.3 The auditor is independent of management and can objectively assess the accounting principles used and the estimates and other decisions made by management as reflected in the financial statements. An examination of the entity's accounts is carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The result of the examination is the auditor's opinion as issued in the Auditor's Report.

9.4 In addition to issuing an Auditor's Report on the financial statements, the auditor may also identify problems in the financial controls and accounting records. In these cases, findings and recommendations are reported in a management letter addressed to the department or agency.

9.5 Following is a list of financial statement audits performed by our office during the year.

Public Accounts
Consolidated (Summary) Financial Statements
Operating Fund

Crown Agencies
Liquor Control Commission
Lotteries Commission
Housing Corporation
Grain Elevators Corporation - July 31/98
Agricultural Insurance Corporation
100099 PEI Inc. (former Charlottetown Veterinary Clinic - 24 month period)
Museum and Heritage Foundation
Crown Building Corporation
Aquaculture and Fisheries Research Initiative Inc.
Agricultural Research Investment Fund Inc.

Pension Funds
Civil Service Superannuation Fund
Teachers' Superannuation Fund
MLA Pension Fund (Old)
MLA Pension Fund (New)

Trust Funds and Other Audits
Public Trustee
Self-Insurance and Risk Management Fund
Supreme Court Trust Accounts
Advisory Council on the Status of Women
Human Rights Commission
Carnegie Endowment Fund

9.6 For the majority of the above financial statement audits we issued management letters. We brought to management's attention any problems noted during the audits and made recommendations for improvements. These recommendations are at various stages of implementation.

9.7 In the following sections we provide summary information on our audits of the Public Accounts, Appropriations, and Pension Funds.

10. PUBLIC ACCOUNTS

BACKGROUND

10.1 The Financial Administration Act requires the Comptroller to prepare the Public Accounts of the Province and the Provincial Treasurer to table them in the Legislature. The 1997-98 Public Accounts were tabled in the Fall 1998 Sitting of the Legislature.

10.2 Included in the Public Accounts are two sets of financial statements; the Operating Fund statements disclose the financial position and results of operations for government departments, and the Consolidated (Summary) Financial Statements disclose the financial position of government as a whole by including the Operating Fund plus Crown corporations and agencies.

10.3 The Consolidated (Summary) Financial Statements are in compliance with most of the recommendations of the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

OBJECTIVES AND SCOPE

10.4 In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 1998. Our audit was performed in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Public Sector Accounting and Auditing Board (PSAAB)

10.5 As noted in prior years, several important changes have been made to the Province's financial reporting practices. We continue to work with the Comptroller's Office on outstanding PSAAB issues, and will hold further discussions on new PSAAB developments.

10.6 In prior years we have commented on the need for Consolidated (Summary) Budget Estimates. The current Budget Estimates relate to the Operating Fund Financial Statements making it difficult to compare to the Consolidated (Summary) Financial Statements. Given the importance of the Consolidated (Summary) Financial Statements in providing a comprehensive picture of all government activities, users should be able to assess how the Consolidated results compare to the original budget. Consolidated (Summary) Budget Estimates would not necessarily mean the creation of a separate document but the information should be presented in such a manner that would allow for easy comparison and reconciliation to both sets of Public Accounts Financial Statements. The Comptroller indicated the additional Budget Estimates are now possible under the new financial information system but the approach for their introduction to the Legislature has not been decided.

Recommendation

10.7 The Department of the Provincial Treasury should prepare Consolidated Budget Estimates for approval by the Legislative Assembly.

Sinking Fund/ Funded Debt

10.8 The largest single liability of the Province is its outstanding debentures which account for $929 million of the Province's $1.55 billion total liabilities. Most of this debt is funded by contributions to a Sinking Fund. These contributions, along with the investment income earned, will be used to repay long-term debt as it matures.

10.9 At March 31, 1998 Sinking Fund assets amounted to $266 million. Within the $266 million Sinking Fund is an amount that represents excess funds that have accumulated over and above the legal requirement needed for the principal redemption of individual debentures. This $63 million amount is known as the Market Contingency Fund. These funds have been committed to reduce pension obligations.

10.10 The Sinking Fund investments previously included large amounts of Province of PEI debentures. This meant the Province bought its own debt issues and continued to record both an asset and liability on the same amount. In 1997-98, $87 million of these holdings were "defeased" or cancelled resulting in offsetting reductions to both assets and liabilities. This also reduced sinking fund earnings and interest charges on debt by approximately $9.2 million.

10.11 The Province is committed to provide $196.6 million, over a ten year period, in special transfers to the Civil Service and Teachers' pension funds. The intention was to have the $196.6 million come from the Market Contingency Fund which is part of the Sinking Fund. As of March 31, 1998, $70.2 million has been paid from this fund. The balance to be paid amounts to $126.4 million. The balance in the Market Contingency Fund at March 31, 1998 was $63 million.

Accrual for Employee Entitlements

10.12 The Province's Public Accounts disclose a $25.2 million liability at March 31, 1998 for accrued vacation and retirement benefits. This liability recognizes benefits currently being earned by employees that will not be paid by the Province until a future date.

10.13 Our review of records supporting the $25.2 million indicates that certain groups of employees are included twice, other groups are not included at all, and some information has not been updated since the liability was first recorded in 1995. Potentially the largest unrecorded item is the retirement pay accrual for certain health sector employees. A liability is recorded for Civil Service employees who transferred to the health sector as part of the government reform process although this number has not been updated since 1995. Currently the Regional Health Authorities only recognize the retirement pay accrual for employees 55 years of age and over and no accrual is recorded for hospital employees, nurses, and others under 55 years.

Recommendation

10.14 Updated information on Provincial obligations for accrued vacation and retirement allowance entitlements should be obtained and recorded in the Public Accounts.

Hillsborough Bridge

10.15 During 1996-97 the Province entered into a contract with Hillsborough Bridge Development Inc., (HBDI), a subsidiary of Strait Crossing Inc. (SCI) for the Hillsborough Bridge project. The project was arranged so that HBDI financed, constructed and owned the bridge. The Province entered into a lease with HBDI for the use of the bridge with an option to purchase at the end of five years. During

1997-98 it was decided that HBDI expenditures incurred on the construction of the project would be recorded by the Province as a capital expenditure and an account payable. At March 31, 1998 the Province has recorded a $19.3 million account payable for capital expenditures incurred to date.

10.16 The lease between the Province and HBDI requires monthly lease payments of approximately $66,000 as well as annual lease payments of approximately $550,000 per year for five years.

10.17 The Public Accounts includes a $1.1 million prepaid expense related to the annual lease payments. The prepaid account was initially recorded at March 31, 1997. Based on information received from Provincial Treasury officials, the prepayment plus any interest earned is to be applied against the first three of five annual lease payments due between August 1997 and August 2001. We noted the prepaid account has not been adjusted since it was recorded. As a result $270,000 was not expensed in 1996-97 and $480,000 was not expensed in 1997-98.

Recommendation

10.18 Prepaid expense accounts should be monitored to ensure expenses are recorded in the correct year.

Support For General Ledger Balances

10.19 The Province's financial information system tracks receipts after March 31, 1998 that pertain to the 1997-98 fiscal year and records them as accounts receivable. As part of this process $17 million was set up as accounts receivable at March 31, 1998. We were provided with a report listing $14.7 million of transactions, included in this total, but there was inadequate supporting documentation for the remaining $2.3 million. Other smaller examples of insufficient documentation for general ledger balances were also noted. For most of the smaller amounts the Comptroller was unable to obtain the required information from the applicable department or agency.

Recommendation

10.20 There should be adequate supporting documentation for all general ledger account balances recorded in the Public Accounts.

Departmental Expenditures

10.21 Although the Health and Community Services Agency was dissolved in 1997-98, the Department of Health and Social Services continues to use the Agency's bank account. The intention was to continue to use this account for medicare payments but it was also used to process other payments. The Department indicated the account was necessary in order to maintain the system that compiled statistics on doctors' services and to facilitate the direct deposit payment process established in previous years.

10.22 A general ledger system was maintained within the Department of Health and Social Services to record the transactions flowing through this bank account. At the end of the year there was a net accounts payable balance of $6.7 million recorded in this general ledger system. This amount was recorded in the Province's Public Accounts. Provincial Treasury did not have adequate supporting documentation for this amount. We obtained further information from the Department and determined that approximately $1 million of this amount was for vacation pay and severance allowances that were already recorded in the Province's general ledger, resulting in an overstatement of payables. In addition, $500,000 was recorded as a payable to a Health Research Foundation and we could not obtain adequate supporting documentation that the amount related to the 1997-98 fiscal year. We have requested the Department to provide further information.

10.23 Government departmental payments are normally centrally controlled by the Department of the Provincial Treasury. In this case, a Crown corporation which was a separate legal entity was dissolved and operations were transferred to the Department of Health and Social Services. Although the bulk of expenditures are for the medicare payments there are other significant transactions flowing through the account. Under this arrangement the processing of cheques was controlled by the Department rather than Provincial Treasury staff. We were informed that Department staff were instructed on what controls were expected but control systems were not documented or reviewed. The Comptroller's Office involvement with this account was limited to providing funds when requested. Funds were transferred based on journal entries outlining the provincial appropriation accounts affected.

Recommendation

10.24 Provincial Treasury should ensure controls are in place for all departmental expenditures.

CN Lands Accounts Payable

10.25 An accounts payable, representing a portion of the purchase price of CN lands, was established in 1994 to provide for pension payments to certain retired CN employees. Each month the Province reimburses CN for payments made to these CN pensioners. The number of pensioners has declined from 128 pensioners in May 1994 to 41 as of September 1998. As of March 31, 1998 the provision for pensions to the remaining pensioners was approximately $1.5 million. There have been no formal actuarial valuations done since 1994 when the CN land was purchased. Given the significant changes over the last few years, the liability should be updated.

Recommendation

10.26 The liability established to cover the remaining obligation to CN pensioners should be reviewed and updated.

Accounts Over-Expended

10.27 The Financial Administration Act and the Treasury Board Policy Manual both indicate that a payment will not be made from an Appropriation vote which would cause that vote to be in an overdraft position. However, we noted that two Appropriation votes were overspent at March 31, 1998. The Department of Economic Development and Tourism and Employee Benefits were overspent by $7,620 and $12, respectively. While these amounts are not large these overexpenditures represent a breakdown in key controls.

Recommendation

10.28 Controls to ensure expenditures do not exceed the budget should be reviewed.

Disclosure of Subsequent Events

10.29 In early 1998-99 the Province provided two guarantees that were not disclosed as subsequent events in the March 31, 1998 Public Accounts. The Province authorized Enterprise PEI to provide a $7 million guarantee (later increased to $7.5 million) to the Bank of Nova Scotia as security for a loan to a third party. The second guarantee to the Charlottetown Area Development Corporation (CADC) was to cover an $11.8 million debenture issued by the Corporation on May 15, 1998.

Recommendation

10.30 The Public Accounts should disclose all significant subsequent events.

Pensions

10.31 Actuarial studies for the pension plans are done every three years. However, updated estimates of the unfunded liabilities for the Civil Service and Teachers' funds were obtained from the actuary to provide more current figures in the Public Accounts. The most current estimates provided show a gross obligation of $12.1 million for the Civil Service Fund and $117.6 million for the Teachers' Fund. The 1997 actuarial studies for the two MLA pension funds calculated a $3.2 million surplus for the old plan and a $48,500 surplus for the new plan.

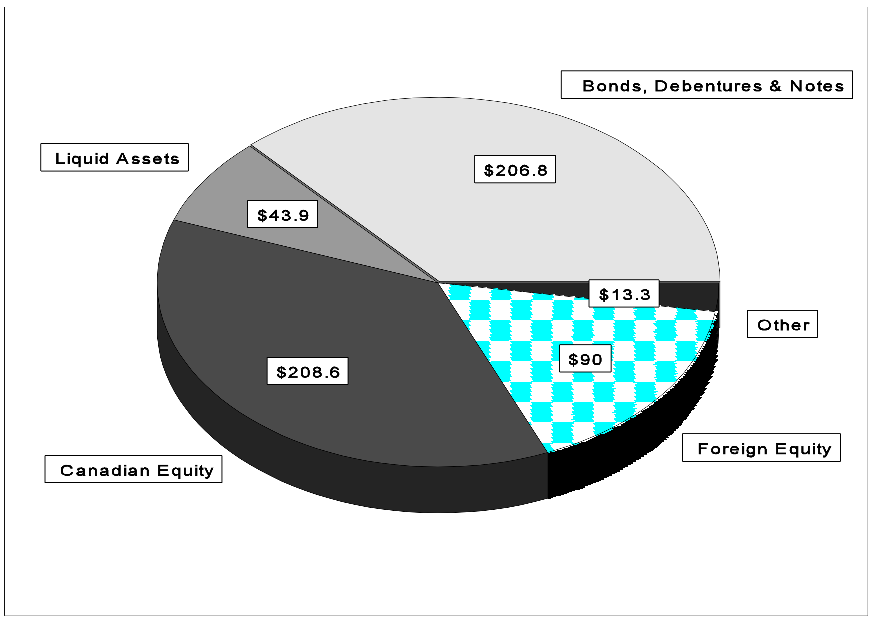
10.32 Over a ten year period beginning in 1995-96, the Province is committed to making special payments to the Teachers' and Civil Service Superannuation funds. When the present values of the remaining special payments are deducted from the gross pension obligation, the result is a net obligation for all plans at March 31, 1998 of $25.1 million.

PEI Master Trust

10.33 Investments of the Teachers' Superannuation, Civil Service Superannuation, and MLA Pension Funds are consolidated into the Province of PEI Master Trust. The individual funds receive units in the Master Trust based on net contributions and allocated shares of income and management expense. The investments are managed by investment managers external to government and an external custodian is responsible for the accounting and record keeping of the Master Trust. The Fiscal Management Division of Provincial Treasury is responsible for overseeing the Master Trust.

10.34 At March 31, 1998 Master Trust assets had a market value of $562.6 million. **Exhibit 10.1** shows a breakdown of investments.

EXHIBIT 10.1
MASTER TRUST INVESTMENTS
($ Millions)



10.35 The market value of the Master Trust has increased from $455.2 million at March 31, 1997 to $562.6 million at March 31, 1998, an increase of $107.4 million. During this period regular contributions of employees and employers totalled $23 million, the Province's additional contributions to reduce the unfunded liabilities of the pension plans totalled $17.5 million, and pension plans paid out $31.6 million in pension benefits. Fund investments contributed $98.5 million through interest and dividend earnings and increases in the market value of investments held.

Surplus (Deficit) of

Crown Agencies and Corporations

10.36 Section 16 of the Audit Act requires the Auditor General to report any deficits of Crown agencies not covered by appropriations in the year in which they have been incurred, as well as any surpluses not paid into the Operating Fund in the year in which they are earned. The following entities have been directed by the Lieutenant Governor-in-Council to retain their surplus or recoup their deficit for the year.

CROWN CORPORATION	ANNUAL SURPLUS (DEFICIT) FOR THE YEAR
Workers Compensation Board (December 31, 1997 year end)	$758,094
PEI Self Insurance Fund	$312,348
PEI Aquaculture and Fisheries Research Initiative Inc.	($16,280)
PEI Agricultural Research Investment Fund Inc.	($166,132)
PEI Agricultural Insurance Corp.	$1,680,132
Island Investment Development Inc.	($1,310,261)
PEI Grain Elevator Corporation (July 31,1997 Year End)	($185,615)
PEI Energy Corporation	($22,474)
Enterprise PEI	($57,178)
Human Resource Management Services (June 30,1997 Year End)	$59,706

10.37 At the date of this report an Order-in-Council had not been issued, as required by the Financial Administration Act, for the Charlottetown Area Development Corporation, Summerside Regional Development Corporation and the PEI Museum and Heritage Foundation to recoup their 1997-98 deficits of $127,671; $145,796; and $74,360 respectively.

Cancellation or Discharge of Debt

10.38 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 released under Section 26 of the Financial Administration Act. The amount cancelled or written off under this section in the 1997-98 fiscal year was $2,308,377. This amount related to the Revenue Tax Act $2,080,566; the Enterprise PEI Act, $134,304; and the Welfare Assistance Act, $93,507.

MANAGEMENT RESPONSE

10.39 These matters have been discussed with management and a written response will be provided.

11. PENSION FUNDS

INTRODUCTION

11.1 Teachers and public servants are entitled to receive pension benefits pursuant to provisions of the Teachers' Superannuation Act and the Civil Service Superannuation Act. The Teachers' Superannuation Fund pays pensions to 900 pensioners and receives contributions from approximately 1,600 teachers employed in full-time, part-time and contract service positions as at June 30, 1998. The Civil Service Superannuation Fund (CSSF) pays pensions to 1,230 pensioners and receives contributions from approximately 2,600 public servants as at March 31, 1998.

11.2 As at March 31, 1998 there were two separate and distinct pension plans for Members of the Legislative Assembly. The MLA Pension Fund (the "Old Fund") was wound up effective June 30, 1994 but benefits accrued to that date continue to be paid out of that plan. MLAs holding office after June 30, 1994 are participants in the Pension Plan for Members of the Legislative Assembly of Prince Edward Island (the "New Plan"). Benefits payable under the New Plan are significantly less than those under the Old Fund. The December 1998 report of the Indemnities and Allowances Commission provided for a supplementary non-contributing pension plan, retroactive to July 1, 1994. Benefits under the supplementary plan are essentially the same as those already provided by the New Plan, effectively doubling the total benefit payable to MLAs holding office after June 30, 1994.

11.3 The pension fund financial statements account for all contributions and payments made by the funds during the fiscal year. Each pension fund may have an actuarial unfunded liability or surplus at a point in time. Information on the actuarial liability or surplus of these funds is provided in the Public Accounts section of this report.

11.4 The Employee Benefits Division of the Staffing and Classification Board (Public Service Commission) administers the Civil Service Superannuation Fund and the MLA pension plans, and the Teachers' Superannuation Commission administers the Teachers' Superannuation Fund.

OBJECTIVES AND SCOPE

11.5 In accordance with Section 13 of the Audit Act, we performed audits of the Civil Service Superannuation Fund, and the MLA Pension Funds for the year ended March 31, 1998 and of the Teachers Superannuation Fund for the year ended June 30, 1998. Our objective was to express an audit opinion on the financial statements.

DETAILED AUDIT OBSERVATIONS

CIVIL SERVICE SUPERANNUATION FUND

11.6 An entity's general ledger records its financial activity, enables the monitoring of these activities and allows for the preparation of financial statements. A review of the general ledger accounts showed that the audit adjustments from the March 31, 1997 audit had not been posted to the accounts so the opening balances for the 1997-98 year had not been updated. Also, none of the transactions from the cashbook for the fiscal year ending March 31, 1998 had been posted to the general ledger accounts.

11.7 Our audit disclosed some problems with pension contributions. The Province had been billed twice for the employer portion of the contributions relating to one pay period for Queens Region Health Authority and to three pay periods for West Prince Health Authority totalling $64,300. Undercontributions of $8,800 from the Health Agency noted during 1995-96 have still not been collected. In addition, our testing of contributions noted employee overcontributions of $6,100 with an employer overcontribution of the same amount. We brought these matters to management's attention for follow-up.

11.8 Pensions are payable based on the number of years of service times two percent of the best three years' average salary. We noted that, for six pensioners who had worked for regional health authorities prior to retirement, there was inadequate supporting documentation on file for the salary amounts used in calculating the average of the three best years' salary as well as for the components needed to calculate the person's years of service.

TEACHERS'

11.9 An amendment to the Teachers' Superannuation Act assented

SUPERANNUATION FUND

to May 4, 1995 resulted in the removal of the service maximum of 35 years for purposes of calculating a teacher's pension. The pension for an individual who applied on May 13, 1995 was calculated based on the maximum of 35 years although the individual had contributed on 45.59 years of service. The Commission did not apply the amended legislation to this person's pension calculation which results in a significant underpayment to the pensioner. This matter has been brought to the attention of the Commission since 1996, and we are informed they do not intend to adjust the pension calculation. We obtained a legal opinion which states that the Commission's course of action is contrary to the legislation.

11.10 Section 16 of the Teachers' Superannuation Act provides eligibility criteria for pensions. We noted that pensions are not paid from the day the eligibility criteria are reached but are paid from the beginning of the following month. For example, a person with 30 years of teaching service who turned 55 on August 15 would be eligible for pension benefits on August 15 but the benefits would be paid effective September 1. A pensioner should receive benefits from the date of their eligibility.

11.11 We also made a number of recommendations regarding: contributions by deferred salary participants, service credits for current service, and recording and reconciling of investment transactions.

MANAGEMENT RESPONSE

11.12 Management has agreed with the points raised regarding the Civil Service Superannuation Fund.

11.13 The Teachers' Superannuation Commission agreed with all our recommendations on the issues raised regarding the Teachers' Superannuation Fund, except for the pension issue related to the amendment of the Teachers' Superannuation Act.

12. APPROPRIATIONS

INTRODUCTION

12.1 Our audit of Appropriations for the year ended March 31, 1998 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature, and special warrants approved by Executive Council on the recommendation of Treasury Board.

12.2 The Appropriations Act provides the spending authority for government and is approved annually by the Legislative Assembly. Appropriations for 1997-98 were approved in the Appropriation Act 1997. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor-in-Council.

12.3 In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the 1997 Appropriation Act.

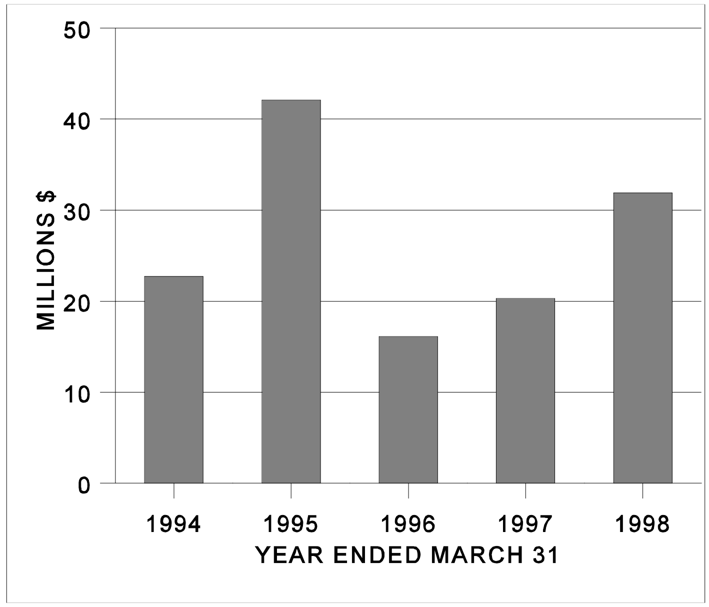
SPECIAL WARRANTS

12.4 Section 16(h) of the Audit Act requires me to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE B** attached to this report.

12.5 For the 1997-98 fiscal year, special warrants totalled $36.7 million compared to $21.6 million in 1996-97. Of the special warrants issued for 1997-98, there were revenue offsets of $4.7 million and funds sequestered of $.1 million. The result was a net increase in provincial appropriations of $31.9 million.

12.6 **Exhibit 12.1** indicates the special warrants net of any offsets for the last five years.

EXHIBIT 12.1
SPECIAL WARRANTS LESS OFFSETS



Approval of Special Warrants

12.7 The Department of Fisheries and Environment requested a special warrant of $732,300 which was approved by an Order-in-Council. The appropriation request indicated it would be fully offset by federal revenue of $147,300 and the sequestration of $585,000 in the Department of Transportation and Public Works-Capital Account. The $585,000 was not sequestered, however, because there were insufficient funds in the Department of Transportation and Public Works-Capital Account. The final unspent balance in the Transportation and Public Works-Capital Account was $303,207.

12.8 The Department of Economic Development and Tourism received a special warrant for $626,400 which was to be 100 percent offset by federal revenues of $477,600 and $148,800 in unspent funds within the Ministry. Final results for 1997-98 show unspent funds within the Ministry exceed $148,800, but the funds were not sequestered to ensure the intent of the Executive Council decision was followed.

12.9 During our audit we noted an addition error of $100,000 in the information submitted on a special warrant request by the Department of Health and Social Services. This error was carried forward to the Treasury Board Minute and to the Order-in-Council, which therefore authorized a special warrant for $100,000 more than was actually required at that time.

Recommendations

12.10 Departmental accounts to be sequestered should be verified to ensure the availability of funds prior to recommending Executive Council approval.

12.11 Funds earmarked by Executive Council, as part of a special warrant approval, should be sequestered.

12.12 Information presented in support of a special warrant should be reviewed for accuracy prior to processing.

MANAGEMENT RESPONSE

12.13 The points raised as a result of the audit have been discussed with management and a written response will be provided.

UPDATE ON PREVIOUS RECOMMENDATIONS

13. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

13.1 Each year, as part of our audit process, we make a number of recommendations to improve management and administration of government operations and programs. We do not infringe on management's right to decide on the best course of action to deal with any of these recommendations. However, we want to ensure that all recommendations are being addressed by management.

13.2 Information is requested each year from departments and agencies on the status of any outstanding audit recommendations. It has been our practice to obtain this follow-up information until we are satisfied that the issues are being addressed. Normally the information is limited to correspondence from the Deputy Minister or CEO of the organization and we do not always further verify or check the information received. However, we do review the responses for reasonableness. In most cases it is more cost-effective to do detailed verification during the next scheduled audit.

13.3 Following is information on the status of recommendations from the special audits and examinations reported in our 1998 Annual Report as well as some outstanding issues from audits prior to 1998.

PUBLIC-PRIVATE PARTNERSHIPS

BACKGROUND

13.4 In recent years Government has become interested in public-private partnerships to address its infrastructure needs. The term "Public-Private Partnership" can encompass a wide variety of arrangements with the private sector. It can include anything from contracting out specific services to having agreements whereby assets are built, financed, owned and operated by the private sector. In between, there could be any number of partnership arrangements applied to the delivery of programs and services.

13.5 There have been a number of these projects completed in Nova Scotia and New Brunswick. In our own case, the construction of the Hillsborough Bridge is an example of a project undertaken through a public-private partnership arrangement. We report on this project in the Immigrant Investor Program section of this report.

13.6 In our 1998 Annual Report to the Legislative Assembly we reported on the topic of Public-Private Partnerships. We provided information on the concept of public-private partnerships and the financial reporting implications and we recommended that government determine overall guiding principles for making decisions on public-private partnership proposals.

13.7 This year we requested the Department of the Provincial Treasury to provide us with a report on its progress in dealing with our concerns. The Department's response is noted in the following paragraphs.

CURRENT STATUS OF RECOMMENDATIONS

Public Private Partnership Proposals

In the original report we had noted:

13.8 Our 1998 Annual Report discussed the financial reporting implications of these arrangements and we noted that when we do audits of capital projects involving public-private partnerships we will consider two main criteria.

- Is the substance of the transaction accounted for in accordance with appropriate accounting principles applied on a consistent basis?
- Was due regard for value-for-money exercised in determining the option chosen?

13.9 The accounting treatment for any transaction including public-private partnerships must be based on the substance of a transaction. Lease agreements can be drawn up as operating leases but if the substance of the transaction is really a capital lease then proper accounting treatment would require it to be recorded as a capital lease. The basic difference between the two is that under an operating lease annual charges are made to operations for the use of an asset while under a capital lease an asset is acquired and is accounted for as a capital asset acquisition. Appropriate accounting treatment impacts on the integrity of government's financial reporting system and is therefore an important factor to consider.

13.10 The second criterion involves due regard for value-for-money. No option should be chosen based solely on the accounting treatment. It is essential that each project be assessed and the impact of all costs and benefits be thoroughly analyzed.

We had recommended:

13.11 Government should determine overall guiding principles which will serve as the basis for decisions on public-private partnership proposals. In addition, comprehensive policies should be established for assessing specific proposals and implementing approved projects.

Current Status

13.12 The Department of the Provincial Treasury has prepared a report entitled "Public/Private Partnering: Status Report and Policy Matters." The Department advised us that this will be used as a guide for any public-private partnership projects the Province decides to explore. In addition to explaining the concept, listing the potential benefits, summarizing the use of public-private partnerships in the Maritimes, and stating accounting and financing matters the document suggests an organization and process framework for selecting, implementing and managing public-private partnerships.

QUEENS REGION HEALTH AND COMMUNITY SERVICES - PHASE 1

BACKGROUND

13.13 Queens Region Health provides a broad range of services to residents of the region as well as additional programs for all residents of the Province. Programs include; acute care, mental health, dental health, child and family services, addiction services and senior services. In 1996-97, Queens Region expended $139 million which represented 46 percent of Provincial health care expenditures.

13.14 In our 1998 Annual Report we reported the results of our audit of Queens Region Health and Community Services - Phase 1. The objective of the audit was to assess the adequacy of management practices and controls in place at the Queens Region. The examination focused on governance, strategic planning, operational planning, financial controls, human resource management and purchasing.

13.15 This year we requested the Region to provide us with a report on its progress in implementing recommendations arising from the audit. The Region's response, indicating the status of implementation of our recommendations, is noted in the following paragraphs.

CURRENT STATUS OF RECOMMENDATIONS

Budget and Actual Expenditures

In the original audit report we had noted:

13.16 The Queens Region did not adjust its programs or its original budget to agree with the budget approved by the Legislative Assembly for 1996-97.

We had recommended:

13.17 The budget for the Queens Region, included in the Estimates to the Legislative Assembly, should be supported by a financial plan and be implemented by the Region.

Current Status

13.18 The Region indicated the budget is developed after extensive consultation with the Department of Health and Social Services. Included in the discussions are new initiatives, projected program expenditures and required reductions. Specific plans are developed for managing the budget based on agreed expenditures and program initiatives. Throughout the year budgets are managed, monitored and results reported both regionally and to the Department. In areas where there are variances, the Region would identify, in discussions with the Department, budget reduction measures with the least impact on program and service delivery.

In the original audit report we had noted:

13.19 There was insufficient information presented to the Legislative Assembly. The information in the Budget Estimates did not include a breakdown of budget information by regional authority.

In addition, there was inadequate detail for specific budget items such as the Queen Elizabeth Hospital.

We had recommended:

13.20 The budget information in the Estimates should provide a breakdown by Region and more details on expenditures for large items such as the Queen Elizabeth Hospital.

Current Status

13.21 Detailed budget information is provided to the Department of Health and Social Services for all programs and services within Queens Region, including the Queen Elizabeth Hospital. This information is available for presentation to the Legislature.

In the original audit report we had noted:

13.22 The financial statements do not include a comparison of actual to budgeted expenditures.

We had recommended:

13.23 The financial statements of the Queens Region should provide a comparison of budget to actual expenditures by program and in total for each fiscal year.

Current Status

13.24 Information is available by program with comparisons of budget and actual. The information is currently provided to the Department of Health and Social Services.

Financial Control Systems

In the original audit report we had noted:

13.25 The existence of two financial information systems made it inefficient to create monthly financial statements for regional management. Financial reporting was expected to be improved with the implementation of the financial component of the Island Health Information System in June 1997.

We had recommended:

13.26 A standard monthly financial report should be prepared and presented to the Board showing year to date expenditures compared to budget.

Current Status

13.27 A financial report is presented to the Board on a quarterly basis. This report compares budget and actual financial information by major programs.

Organization and Governance

In the original audit report we had noted:

13.28 The structure of the health care sector on Prince Edward Island had been in a state of change for an extended period. Recent legislative changes had expanded the degree of authority and control to be exercised by the Minister, and changed the reporting responsibilities of the regional authorities.

We had recommended:

13.29 The roles of the Board of Directors of the Region, and the Departmental administration should be clearly defined.

Current Status

13.30 The Department, in implementing the Minister's mandate, is involved in setting overall strategic direction for the Province, developing and monitoring policies, outlining processes for measuring results, and providing coordination, consultation and advice to the Regions. The Board is responsible to the Minister for the delivery of services. The CEO is responsible to the Board for the efficient and effective administration of those services. The Department recently summarized the roles, duties, powers and functions of the Minister and the regional health authorities. The Department is planning to meet with the regions over the next few months to further clarify roles and responsibilities.

Accountability

In the original audit report we had noted:

13.31 Certain aspects of an accountability framework were in place within the health care system, however, there had been no agreement on the results to be achieved by the Region.

We had recommended:

13.32 An accountability framework should be established including clearly defined agreement on the results to be achieved by the Queens Region.

Current Status

13.33 The Department of Health and Social Services has completed a Strategic Directions document which provides overall direction and focus for the health system. Region staff advised that, as part of the planning process, indicators will be developed to be reported to the Board and provided to the Department. The Department continues to work on a broader framework of accountability in regards to specific outcome indicators for the system.

In the original audit report we had noted:

13.34 The Region provides information to the Ministry on a regular basis but without agreement on clearly defined objectives and results to be achieved, reporting on performance and progress in achieving goals is difficult.

We had recommended:

13.35 Performance information should be provided periodically to the Ministry and this information should be compared to the expected results for the Region.

Current Status

13.36 The Region is currently in the process of developing performance indicators based on the regional strategic planning process. Quality Councils in each region will be responsible for measuring program results. The results will be reported regionally and provided to the Department.

In the original audit report we had noted:

13.37 The Financial Administration Act requires the Region to submit a statement of goals and results achieved during the reporting period.

We had recommended:

13.38 The Region should comply with the requirements of the Financial Administration Act, and prepare a statement of goals and results achieved.

Current Status

13.39 The Board has approved goals for the Region. Specific operational plans for implementing the goals, as well as indicators, will be developed during the spring of 1999. It is expected the Region will identify in the 1998-99 Annual Report the goals and expected outcomes for the 1999-2000 fiscal year.

Strategic Planning

In the original audit report we had noted:

13.40 A great deal of effort has been directed toward planning at each of the various levels in the health care sector, however, these planning efforts were not directly linked. The desired outcomes at the societal level cannot be traced to the priorities identified in the Provincial Health Plan, and then to the performance required at the regional level.

We had recommended:

13.41 A strategic plan should be prepared for the health care sector. This plan should be linked to and form the basis for plans in each region.

Current Status

13.42 The Department has prepared a Strategic Directions document. This document was used as a basis for moving forward with a strategic plan for the Region.

In the original audit report we had noted:

13.43 In 1995-96, a well-defined strategic planning process was started within the Region but was not carried through to completion due to anticipated legislative and structural changes. Mission and values statements were developed for the Region. Goals were identified, however, specific action plans were not developed.

We had recommended:

13.44 Regional management should document a strategic plan for the Region with goals and strategies which are in line with a strategic plan for the health care sector approved by the Ministry.

Current Status

13.45 A strategic planning process has been initiated by the Board. The Region's mission, vision, and values have been reviewed and the Board has established goals for the Region. The Senior Management Team is now in the process of developing regional strategies for the goals. Each division within the Region will then develop a business plan based on the goals and strategies of the Region to be completed by the end of March 1999.

Board Policies

In the original audit report we had noted:

13.46 The Board had spent a great deal of time on policy development but policies on intended results were still under development.

We had recommended:

13.47 The Board of Directors of Queens Region should obtain direction from the Ministry on the goals and results to be achieved as a basis for preparing its policies on intended results.

Current Status

13.48 After documenting the mission, vision, values and goals, the Board plans to review the policies developed by the previous Board and establish policies consistent with the strategic direction.

THE INFRASTRUCTURE PROGRAM

BACKGROUND

13.49 In January 1994, the Province entered into an Infrastructure Program Agreement with the Federal government with the objective to invest in projects in order to renew and enhance the quality of Canada's and Prince Edward Island's infrastructure and provide for timely and effective employment creation. The funding for the projects was shared equally among the federal and provincial governments and the grant recipients. The Agreement and its amendments provide for total funding of $42.6 million. All projects are to be completed by March 31, 1999.

13.50 In our 1998 Annual Report we reported the results of our audit of the Infrastructure Program. We assessed the management practices in place for program administration and delivery and examined projects in all three funding rounds.

13.51 This year we requested the Department of Community Services and Attorney General to provide us with a report on its progress in implementing recommendations arising from our report. The Department's response indicating the status of the recommendations is noted in the following paragraphs.

CURRENT STATUS OF RECOMMENDATIONS

Roles and Responsibilities

In the original audit report we had noted:

13.52 Under the program, all projects were to be approved by the Management Committee comprised of federal and provincial representatives. We were advised this requirement was followed but approvals were not documented in the Management Committee minutes.

13.53 Significant decisions concerning funding advances, hold back payments, project changes, and other matters were made by Department staff based on policies developed within the Department which were not formally approved by the Management Committee.

We had recommended:

13.54 Decisions on project approvals should be documented in the Management Committee minutes.

13.55 Administrative guidelines and policies defining the decision-making parameters for program staff should be formally approved by the Management Committee.

Current Status

13.56 The Department indicated that Management Committee minutes are being documented and administrative policies and payment procedures are being reviewed with the Federal Government Management Committee.

Adherence to Selection Criteria

In the original audit report we had noted:

13.57 The selection criteria for the projects were broad, leaving much of the discretion for project approval to the subjective assessment of the decision-makers. This process combined with a lack of documentation for decisions taken, precluded us from assessing the reasonableness of the projects selected compared to those rejected.

We had recommended:

13.58 In addition to the broad selection criteria, more definitive guidelines should be in place to guide staff in assessing project applications. All decisions to approve or reject applications should be supported by sufficient documentation.

Current Status

13.59 The Department will review this recommendation with the Management Committee but feels this issue will have to be reconsidered if/when a new Canada-PEI Infrastructure Program is introduced.

Use of Contracts

In the original audit report we had noted:

13.60 Throughout the three rounds of funding, a letter of offer was sent to each potential recipient, which when signed by the recipient and the Minister served as a contract. We noted a number of deficiencies in the letter of offer compared to the guidelines for contracts recommended in the Management Board Policy and Procedures Manual.

13.61 We noted five instances where the letter of offer was not issued until after the project started and one instance where there was no letter of offer. In addition, changes to the nature or funding levels of projects frequently occurred, but the letters of offer were not amended.

We had recommended:

13.62 The content of letters of offer for publicly funded projects should be consistent with Management Board policies for contracts, conditional grants, and funding agreements.

Current Status

13.63 The Department will review this recommendation prior to the implementation of the next infrastructure program.

Support for Expenses Claimed

In the original audit report we had noted:

13.64 The Department paid a number of claims submitted by grant recipients which were not properly supported by paid invoices and other supporting documentation. In addition, we noted some instances where large advance payments were made to projects before the expenditures were incurred.

We had recommended:

13.65 Grants should not be paid until supporting invoices have been submitted and verified.

13.66 Steps should be taken to obtain supporting invoices or to demand refunds for those projects not supported by paid invoices.

Current Status

13.67 The Department has indicated that administrative staff have implemented operating procedures to ensure this happens and projects without proper support have been followed up.

Goods and Services Tax

In the original audit report we had noted:

13.68 Grant recipients were eligible for GST rebates on project expenditures. This effectively reduced the project costs. The issue was not clearly addressed until after some project payments had been issued. The failure to consider the implications of the GST cost the program $35,000.

We had recommended:

13.69 Grant programs which fund expenditures subject to GST should address the issue of any rebates to grant recipients.

Current Status

13.70 The Department indicated this issue has been addressed and is reflected on the applicant claim form.

Overpayments

In the original audit report we had noted:

13.71 There were weaknesses in the monitoring of project costs. We found three examples where recipients had claimed and been paid the same expense items twice.

We had recommended:

13.72 Claim processing procedures should be reviewed and revised, where necessary, to ensure invoices are only claimed once.

Current Status

13.73 Administration and infrastructure staff have reviewed their processing procedures and are monitoring the payment of invoices.

Other Administrative Issues

In the original audit report we had noted:

13.74 Invoices were not always applied against the correct project. Where a municipality had several projects proceeding at the same time, program staff would apply the first invoices against the first project to prevent funding from lapsing. This resulted in misleading information on actual project costs in each fiscal year.

We had recommended:

13.75 Paid invoices, submitted as support for grant payments, should be applied against the specific projects to which they relate.

Current Status

13.76 Provincial staff have implemented procedures with federal government staff to ensure paid invoices are applied against the correct projects.

SOURIS FOOD PARK DEVELOPMENT PROJECTS

BACKGROUND

13.77 Souris Food Park Development Corporation was incorporated as a wholly owned subsidiary of Enterprise PEI in 1994. The Corporation was established to act as an agent through which the funding from the Eastern Kings Redevelopment Initiative, a federal/provincial agreement, would flow. The objective of the Corporation is to design, construct, own and operate a food processing industrial mall and park.

13.78 In our 1998 Annual Report we reported the results of our audit of the Souris Food Park Development Projects. We focused on expenditures incurred by the Souris Food Park Development Corporation during 1996-97 under both construction and consultant contracts. We assessed whether standard procedures were followed, appropriate approvals were obtained, and controls in place functioned properly.

13.79 This year we requested the Deputy Minister of Development to provide us with information on the status of our recommendations. A summary of our original report and the Department's progress in implementing our recommendations is noted in the following paragraphs.

CURRENT STATUS OF RECOMMENDATIONS

Souris Food Park Infrastructure

In the original audit report we had noted:

13.80 A competitive process had been used to select the primary consultant to oversee the project management and construction management for the park. The same consultant was retained for the design of the two processing plants slated to be constructed in the park, as well as other additional design work carried out.

We had recommended:

13.81 All consulting work carried out for publicly-funded projects should be subject to a competitive process and be authorized under a signed contract.

Current Status

13.82 The Corporation intends to follow our recommendations on future projects.

Seafood Processing Plant

In the original audit report we had noted:

13.83 In 1995 a decision was made by government to construct a state of the art seafood processing plant in the Souris Food Park, cost-shared by the federal and provincial governments. We noted that business proposals were not requested from operators in the industry but Senior government officials made an offer to an operator in the area.

13.84 The Corporation was to approve the design and specifications of the plant but documented approval was not obtained.

We had recommended:

13.85 For major projects, business proposals should be publicly invited.

13.86 Staff should ensure that terms and conditions included in funding agreements are followed.

Current Status

13.87 The Corporation indicated that our recommendations will be followed on future projects.

Dim Sum Processing Plant

In the original audit report we had noted:

13.88 A consultant provided assurance to government that the investors in the Dim Sum Processing Plant, slated to be constructed in the Souris Food Park, were legitimate in their intentions and had resources to support their proposal. The consultant was paid for his services but no documented report was obtained.

We had recommended:

13.89 Consulting service engagements should specify the work to be done and include the requirement for a written report.

Current Status

13.90 The Corporation will follow our recommendations in future projects.

INSPECTION SERVICES

BACKGROUND

13.91 The Planning and Inspection Services Division of the Department of Community Services and Attorney General is responsible for the protection of public health and safety through its inspection and licensing activities. Inspection activities are carried out by four sections of the Inspection Services Branch. These sections include: Boilers, Propane, and Plumbing; Electrical and Elevators; Property Development; and the Fire Marshall.

13.92 In our 1998 Annual Report we reported the results of our audit on the Inspection Services Branch. The audit examined activities in the 1996-97 fiscal year. Our objective was to assess management practices and controls over inspection activities. We also examined the Branch's compliance with the major provisions of legislation dealing with inspections.

13.93 This year we requested an update on the status of the Department's progress in implementing our recommendations. A summary of our original report and the Department's progress in implementing our recommendations is noted in the following paragraphs.

CURRENT STATUS OF RECOMMENDATIONS

Computerized Databases

In the original audit report we had noted:

13.94 Improvements are required in the computerized database systems used to record and report on the permits and licenses issued.

We had recommended:

13.95 The Division should review all existing databases in order to identify the necessary information to be accumulated and how it can be most efficiently obtained. Management reports should be designed to assist in the implementation of priority inspection guidelines and monitoring of the inspection activities.

Current Status

13.96 The Department has contracted with a consultant to do a requirement analysis for an integrated inspection system. The Division is reviewing its options with appropriate target dates to ensure a fully operational system before the year 2000 as the present stand-alone systems are not Y2K compliant.

Invoicing and Accounts Receivable Systems

In the original audit report we had noted:

13.97 A variety of manual and computerized systems were used for invoicing and accounts receivable management. The systems were cumbersome, required extensive administrative effort and did not provide timely access to the information needed to manage revenues.

We had recommended:

13.98 The feasibility of having one system for all invoicing and accounts receivable management should be investigated. The invoicing and accounts receivable systems should provide useful management information such as: balances by customer account; the age of accounts; and details of invoices and payments for balancing purposes.

Current Status

13.99 Comprehensive invoicing and improved information for accounts receivable management is a requirement of the proposed integrated inspection system**.**

Revenue Recording

In the original audit report we had noted:

13.100 Insufficient information was maintained on the source of the cash receipts which makes it difficult to refer back to the specific permits, licenses or fees. As a result, staff cannot check to ensure that revenue has been collected for all licenses issued and have difficulty in following up disputes over payments.

We had recommended:

13.101 Data should be accumulated which allows for the integration of information with other databases and the reporting of revenue by type and location. Revenue data for license fees collected should be accumulated and compared to a record of licenses issued.

Current Status

13.102 Program codes have been added for each license type which enables the Department to match revenues received against licenses issued. In addition the new integrated information system is expected to address our concerns.

PROVINCIAL TAX REVENUES

BACKGROUND

13.103 The Taxation and Property Records Division of the Department of Provincial Treasury is responsible for the administration of the Province's tax systems. In 1997 we assessed the management practices and controls associated with the Province's taxation systems and followed up on observations from previous audits. In our 1998 Annual report, we reported the results of our audit.

13.104 This year we requested the Department to provide a report on its progress in implementing our recommendations. A summary of our original report and the Department's response on the status of implementation is noted in the following paragraphs.

CURRENT STATUS OF RECOMMENDATIONS

Gasoline Tax

In the original audit report we had noted:

13.105 Fuel is taxed based on deliveries of gasoline or diesel oil by agents. These transfers are reported on a monthly statement but audit procedures are not carried out by the Division to verify the information reported on sales and inventory levels. Instances of unusual inventory levels were not investigated and reconciliation of tax-exempt transfers between agents was not performed.

We had recommended:

13.106 The Division should:

- carry out periodic audits of oil companies to determine compliance with legislation;
- seek explanations in cases where unusual inventory balances are reported by the oil companies; and
- reconcile tax exempt sales and purchases between oil companies.

Current Status

13.107 The Department indicated that the Division is currently reorganizing the Tax Administration and Client Services Section and will attempt to assign resources to these activities.

Property Tax

In the original audit report we had noted:

13.108 One of the objectives of the property assessment process is uniformity of assessment. The Assessment Section established a target to have assessments fall within a range of 90 to 105 percent of market values. A review of a sample of land sales in 1994 and 1995 indicated that the target range was not being achieved and assessed values compared to market values were inconsistent among counties.

We had recommended:

13.109 The Department should:

- continue to monitor assessed values compared to market values;
- compare assessed values to their targets; and
- take corrective action where necessary.

Current Status

13.110 The Department has requested the establishment of an assessment analyst position. This person will review sales assessment ratios and identify geographic areas or property types which fall outside the acceptable target range.

In the original audit report we had noted:

13.111 Assessors had significant discretion in the application of policy and there was limited monitoring of assessors' work.

We had recommended:

13.112 Management of the Assessment Section should carry out more monitoring of assessors' work. This should include a combination of: exception reporting; an approval process for policy deviations; and reviews of similar properties to ensure consistency.

Current Status

13.113 The Division will review existing reports and consider implementation of additional reports to address the issues noted.

In the original audit report we had noted:

13.114 The market value of farm land had increased substantially since 1989 when the farm assessment rate of $150 dollars per acre was established. The value of tax concessions on farm properties had increased as well.

13.115 The bona fide farmer status declaration is used to establish whether an individual qualifies for bona fide farmer status primarily in relation to major sources of income. We noted this information was not verified.

13.116 The database of farm properties listed 10,357 properties subject to bona fide farmer status of which 4,900 had not been reviewed since the records were computerized in 1984. This total could include properties which no longer qualify for bona fide farm status.

13.117 In addition , we found inconsistency between the wording and the application of the legislation related to farm assessment.

We had recommended:

13.118 The Assessment Section should:

- periodically review and update rates established for farm assessments;
- request documentation to support the income declaration in bona fide farmer applications;
- subject bona fide farm properties to a periodic review process to ensure their continued eligibility; and
- ensure the wording of the Real Property Tax Act allows for the collection of tax based on a farm assessment.

Current Status

13.119 The Department indicated the method of developing farm assessment rates is under review and a request for income information will be included in the bona fide farm application process. In addition, bona fide farm status indicated as marginal will be reviewed on an annual basis and a request has been initiated to have the wording of the Real Property Tax Act amended.

Health Tax on Tobacco

In the original audit report we had noted:

13.120 Due to a lack of inventory information supplied by tobacco wholesalers, the Division was not able to ensure they were accounting for all of the taxable product received. Although the Division has the right to conduct audits of wholesalers, audits had focused on retail sales tax in recent years.

We had recommended:

13.121 The Division should:

- require tobacco wholesalers to fully complete their monthly tax return; and
- monitor wholesale inventory levels to ensure all taxable product is being accounted for.

Current Status

13.122 The Department indicated a revised monthly tax return for tobacco wholesalers is currently in draft form and the information on inventory levels is now required on the new return.

Sales Tax

In the original audit report we had noted:

13.123 Sales tax adjustments entered into the system were not subject to interest or penalties which could result in lost revenue to the Province. As well, the method of calculating interest on overdue tax remittances needed to be reviewed.

We had recommended:

13.124 Procedures for processing return adjustments should be reviewed to ensure that interest and penalty charges are applied correctly.

13.125 Management should consider the feasibility of modifying systems to calculate interest on a daily basis from the due date.

Current Status

13.126 The Department indicated that a revised process is now in place to ensure applicable interest and penalties are charged on adjustments. The new Revenue Tax System will address the issue of daily interest.

Tax Audit Section

In the original audit report we had noted:

13.127 Audit recovery figures on sales tax audits conducted were not adjusted for reductions approved subsequent to the audit assessment. Therefore, audit recovery figures reported through the sales tax auditors were different from the amounts that were ultimately collected.

We had recommended:

13.128 For the purposes of monitoring and reporting, the Audit Section should track any adjustments from the originally reported audit recovery figures.

Current Status

13.129 The adjustment of audit recovery figures to reflect adjustments approved subsequent to the audit assessment has been initiated for the 1997-98 year.

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS

BACKGROUND

13.130 In 1997, the Department of Transportation and Public Works requested the Office of the Auditor General to perform audit work on a number of issues of concern to the Minister regarding the Department's operations. I advised the Minister that my Office does not perform fraud investigations and that our review would be limited to a review of internal controls as well as economy and efficiency issues.

13.131 We did not audit all of the Department's programs and activities, but limited our work to an examination of the following matters:

- purchase and placement of new culverts, and use or disposal of used culverts;
- storage of culverts and other materials used in highway maintenance;
- truck rentals from employees; and
- follow-up on the North River Bridge Project.

13.132 In June 1997, we issued a special report on our work arising from the Department's request. The Department released the report to the public in September 1997.

13.133 Our examination found deficiencies in management practices and internal controls in a number of instances. In various audits as far back as 1988 we made recommendations to strengthen controls over areas susceptible to loss.

13.134 This year we conducted follow-up work on our special report to determine the Department's progress in implementing our recommendations. This follow-up consisted of interviews with Department personnel responsible for delivery of the Department's programs. We also reviewed documentation supporting program changes which was provided by the Department. The following paragraphs summarize the results of our follow-up.

CURRENT STATUS OF RECOMMENDATIONS

Culverts

In the original audit report we had noted:

13.135 Controls were inadequate over culverts issued to private contractors hired by the district supervisors to install culverts. Without notification from the district supervisors, Department staff issued shipping orders, which authorized the supplier to bill the Department for culverts released to contractors.

We had recommended:

13.136 District supervisors should authorize the release of culverts to private contractors. District supervisors should submit to Department staff a written summary of culvert installations.

Current Status

13.137 Before issuing a shipping order, staff now confirm verbally with the supervisor that the culvert requested by the contactor is for a government job. Supervisors do not formally report culvert installations assigned to private contractors, but no culvert is paid for without a copy of the corresponding shipping order bearing the supervisor's signature acknowledging that the culvert was for a government job.

In the original audit report we had noted:

13.138 Culverts were sometimes delivered to a Department stockpile when no one was present to sign the freight slip. Payment processing staff did not follow up unsigned freight slips to ensure that the culverts were actually delivered to the Department. Also, in the case of part shipments, there was inadequate communication to let staff know whether an entire shipment was actually received.

We had recommended:

13.139 Unsigned freight slips should be followed up with district supervisors to ensure that all culverts purchased were received.

Current Status

13.140 Culverts are no longer delivered to stockpiles when no one is present to sign for their receipt.

In the original audit report we had noted:

13.141 Culverts having an estimated value of $300,000 at March 31, 1997 were stored in five stockpiles throughout the Province. Of these, culverts costing $200,000 were stored at sites lacking physical controls to safeguard against unauthorized removal.

We had recommended:

13.142 Security measures should be strengthened to safeguard against unauthorized removal of culverts.

Current Status

13.143 Culverts are stored at seven stockpiles throughout the Province, all of which are now secured with adequate fencing, locked gates, and "no trespassing" signs.

In the original audit report we had noted:

13.144 Although our previous audit reports in 1987, 1991 and 1994 identified inadequate record-keeping and a lack of accountability for the use of culverts, the Department still had not implemented the necessary improvements, and was not complying with the Management Board policy on Inventory Management.

We had recommended:

13.145 The Department should implement a record-keeping system for culverts purchased, used, and in inventory.

Current Status

13.146 Employees responsible for the stockpiles periodically report culverts received and distributed, and the administrative staff use these reports to prepare spreadsheets of culvert transactions that are reconciled to annual physical inventory counts. Staff also advised that unannounced inventory counts will be conducted, although none had been carried out as of January 1999.

In the original audit report we had noted:

13.147 The Department's reported culvert sales during 1996-97 totalled $15,000, with all of these occurring in Prince County. In addition to culverts, the Department also had sand and salt sales totalling approximately $130,000 annually. The controls over sales were inadequate to ensure that all sales were being invoiced, and there was no accounts receivable listing of amounts owed to the Department, nor was there any follow-up of unpaid invoices. The estimated accounts receivable for culvert sales alone totalled $11,000 as at April 30, 1997, of which $10,000 was outstanding for more than a year.

We had recommended:

13.148 Controls over sales revenue should be improved by the use of prenumbered sales slips, timely invoicing of sales and follow-up of accounts receivable.

Current Status

13.149 The Department has implemented improvements to address the concerns raised.

Asphalt Chips

In the original audit report we had noted:

13.150 The Department uses asphalt chips planed from highway construction projects for various highway maintenance purposes such as shoulder repairs, culvert installations, road repairs, and pavement resurfacing. The value of asphalt chips used in 1996-97 was estimated to be greater than $400,000. The Department's records and controls were inadequate for ensuring that all asphalt chips were accounted for.

We had recommended:

13.151 Controls should be strengthened to ensure that all asphalt chips from highway construction projects are accounted for.

Current Status

13.152 Standard government tickets were completed when transporting asphalt chips from highway construction projects directly to highway maintenance projects or to the stockpiles. When stockpiled asphalt chips are delivered to highway maintenance projects a variety of tickets and slips are used. However, quantities on hand are not reconciled to supporting records. The Department is considering reconciliation procedures to address this problem.

Truck and Equipment Rentals

In the original audit report we had noted:

13.153 The Department meets a significant portion of its needs by renting trucks and equipment from its employees and the private sector. Rental costs totalled $4.4 million in 1996-97.

We had recommended:

13.154 We reiterate our 1991 recommendation that the Department keep track of basic management information on truck and equipment rentals to facilitate the most cost effective decisions for obtaining these items.

Current Status

13.155 Staff indicated that there is a move to replace previously rented items with purchased items in cases where it appears reasonable. An example is the replacement of previously rented trucks with the purchase of seven, 1 ton multi-purpose trucks.

In the original audit report we had noted:

13.156 In February 1993 Treasury Board exempted the Department from its travel policy, to allow for hourly truck rentals from employees. However, the Board expressed concern about the overall cost of renting light duty and heavy duty trucks for crews, and directed the Department to forward for review and approval its internal policy for truck rentals, and to provide its proposed strategy for determining rates for fiscal year 1993-94 and beyond. The Department had not complied with this directive, and continued to rent trucks from its employees.

We had recommended:

13.157 The Department should comply with Treasury Board's 1993 directive and provide the requested information concerning truck rentals.

Current Status

13.158 The Department has not complied with the Treasury Board directive, but continues to rent trucks on an hourly basis from its employees.

Mechanical Branch Vehicle Purchases

In the original audit report we had noted:

13.159 During 1996-97, the Mechanical Branch purchased six trucks costing $168,000, none of which were included in its vehicle fleet plan. Management could not explain why two light duty trucks were not included, but said that four larger trucks were excluded because they are exempted from government's Fleet Management System (FMS). This explanation was not valid because, notwithstanding their exemption from the FMS, larger vehicles are not similarly excluded from the Management Board policy on vehicle acquisitions.

We had recommended:

13.160 All planned vehicle acquisitions should be included with the annual budget submission to Management Board.

Current Status

13.161 The Department indicated that heavy duty trucks over 1 ton are not included on the vehicle fleet plan submitted to Treasury Board (formerly Management Board) because such vehicles would normally cost more than $50,000 and be included in the capital budget presented to Treasury Board for approval. All other vehicles, including trucks up to and including 1 ton should be included on the vehicle fleet plan, however, this was not the case with the 1998-99 plan submitted to Treasury Board. More specifically, the 1998-99 plan listed 12 planned vehicle acquisitions costing a total of $82,900 but we found that actual purchases to December 1998 totalled 20 vehicles costing $285,666, a difference of eight vehicles, and $202,766.

HIGHWAY CONSTRUCTION

BACKGROUND

13.162 The Capital Projects Division of the Department of Transportation and Public Works is responsible for highway construction. The Division contracts with local construction companies to carry out its projects, but provides its own project design, management, and quality control.

13.163 Our 1996 Annual Report to the Legislative Assembly included the results of our audit which was conducted to assess management practices and controls used for planning and administering highway construction projects. Our 1997 and 1998 Annual Reports included updates on the Department's progress in implementing our recommendations.

13.164 This year we again requested the Department to provide an update on its progress in implementing our recommendations, and we conducted some follow-up work on the Department's representations. The following paragraphs summarize the outstanding issues and the Department's response.

Comments From Our 1996 Audit

13.165 *In the original audit report we had noted:*

- The Department had identified a number of strategies to ensure the highway network was maintained. These included focusing efforts on the primary highways while maintaining the secondary system in a passable condition, developing a transportation plan, establishing measurable targets for highway system performance, implementing more efficient maintenance approaches and improving personnel qualifications. The strategies were not integrated and documented in a formal plan.
- The Road Program Committee was successful in presenting a plan for the highway construction program, however, it was not completed sufficiently in advance of the construction season to maximize the effectiveness of the construction effort.

- Construction priorities were developed on a district basis in consultation with MLAs. This method did not necessarily provide the best allocation of resources on a provincial basis.
- The information provided by the Pavement Management System was not as useful for planning purposes as it could be. The project size used in the Pavement Management System to define road sections was different from the typical project actually constructed.
- Our analysis of the compaction data for asphalt indicated that only 45 percent of the lots tested met the specifications. A system of bonuses and penalties was introduced, however it was not applied to all projects.
- Consultants are acquired for both engineering design and management of complex highway construction projects. The decision to use consultants rather than acquiring expertise within the Department was not supported by a cost/benefit analysis.
- The process used to negotiate fees for consultants did not necessarily result in the most economic contract. The Department usually obtained competitive proposals for the design aspect of the work but not the services required during construction.
- The Department does not formally evaluate the performance of the consultants for each project.

Current Status

13.166 The Department provided the following update on these issues.

- The Department has developed a strategic plan which was submitted to the Strategic Planning Committee in November 1998.
- The Department advised that 87 percent of its total tenders were called by early June 1998. The first 19 project tenders were called prior to the end of March 1998 compared to 16 projects in the previous year and 12 projects the year before.
- The Department indicated that the Pavement Management System is still relied on as a tool to identify highway reconstruction projects. The major highways and their collectors account for approximately 50 percent of expenditures, and the Pavement

Management System is used to identify and prioritize these projects on a province-wide basis. Reconstruction projects on local roads, which account for the other 50 percent of expenditures, are identified with the assistance of the Pavement Management System, but priorities continue to be established on an individual district basis in consultation with MLAs.

- The Department is developing a Pavement Condition Management System, capable of assessing sections of variable lengths of highway. The old Pavement Management System will be replaced by the new Pavement Condition Management System, which should be operational by April 1999.

- Under normal circumstances, asphalt compaction specifications and penalties for failure to meet the specifications are applied to all reconstruction projects; however conditions such as an inferior sub-base or inclement weather sometimes exist which prevent normal compaction, in which case the Department will waive any penalties which might otherwise be assessed. Staff advised that contractors' compliance with asphalt compaction specifications has increased from a rate of 45 percent to a rate of over 70 percent in 1997 and over 87 percent in 1998.

- The Department has increased the use of its own staff for services that were previously contracted. An additional project management position and another highway design position have been created.

- The Department agreed that when it is clear that project implementation will follow detailed project design, and existing staff are unable to provide management services, it is logical to combine project design and management functions under a single tender call. They advised that in the case of the one major project during 1998 for which consultant services were contracted, a single tender call covered both project design and management services.

- The Department has not yet implemented a formal evaluation procedure for consultant performance.

PEI LOTTERIES COMMISSION

BACKGROUND

13.167 The PEI Lotteries Commission is responsible to conduct and manage lottery schemes on behalf of the Province. The Lotteries Commission does not, itself, operate lotteries. However, a number of lottery games developed and managed by the Atlantic Lottery Corporation (ALC) are sanctioned by the Commission. The ALC is jointly and equally owned by the four Atlantic Provinces.

13.168 In 1997 we reported on the results of our financial audit of the Commission. In addition, we made observations on allocation of ALC profit, the Video Lottery Program, and the costs of involving third-party coin operators.

13.169 This year we requested the Department of the Provincial Treasury to provide us with an update on their progress in implementing our recommendations. A summary of our observations and recommendations as well as the Department's response, indicating the status of implementation of our recommendations, is noted in the following paragraphs.

Allocation of Atlantic Lottery Corporation Profit

In 1997 we had noted:

13.170 The annual financial statements of ALC did not show the specific contribution of video lottery receipts and ticket games to the gross profit. There is a need to disclose additional information by game or program type.

We had recommended:

13.171 The PEI Lotteries Commission should request ALC to provide schedules segmenting the gross profit portion of the statement of operations by program type in its annual financial statements. This information should be included in the annual report of the PEI Lotteries Commission.

Current Status

13.172 The Department advised that the annual reports of both the Atlantic Lottery Corporation and the PEI Lotteries Commission now contain information on gross profits for the video lottery program and the ticket games. The Department also indicated that it believes the new information being provided on gross profits addresses our recommendation.

Video Lottery Program

In 1997 we had noted:

13.173 New Brunswick and Prince Edward Island have involved third-party private sector coin operators in the Video Lottery Program. The ALC operates this program for Nova Scotia and Newfoundland without private sector coin operators. This results in considerable cost savings because commissions to third-party coin operators are eliminated. We estimated that if ALC had operated the Video Lottery Program instead of the third-party private sector coin operators, the Province would have increased its net profit by a total of $4.5 million for the two years ended March 31, 1996.

We had recommended:

13.174 The PEI Lotteries Commission should prepare a cost analysis of alternate methods of operating the Video Lottery program.

Current Status

13.175 The Department advised that based on their own deliberations and on consultations with the Atlantic Lottery Corporation and their colleagues from New Brunswick, the Department and the Commission are satisfied that savings would accrue to the Province if ownership and operation of the video lottery machines are taken over by the Atlantic Lottery Corporation. Planning is proceeding with the Atlantic Lottery Corporation and the private sector video lottery machine owners to establish a fair and timely process for the Atlantic Lottery Corporation's acquisition and operation of the video lottery machines.

PROVINCIAL GOVERNMENT LAND

BACKGROUND

13.176 At the time of our audit in 1996, the Province's public sector collectively owned real property assessed at approximately $450 million including buildings and 122,000 acres of land. This included real property of government departments, Crown corporations and agencies, hospitals, and educational facilities. Each organization has specific legislation giving it authority to own real property. The Public Works Act gives the Minister of Transportation and Public Works exclusive rights to acquire and dispose of real property for all government departments.

13.177 Our 1997 Annual Report to the Legislative Assembly included the results of our audit which was conducted to assess the management practices in place for identifying, acquiring, transferring, disposing and leasing of real property for government departments. In addition, we determined the real property holdings of all public sector entities.

13.178 This year we requested the Department to provide an update on its progress in implementing our recommendations, and we conducted some follow-up work on the Department's representations. The following paragraphs summarize the Department's response and the results of our follow-up work on items carried forward from last year.

Comments From Our 1996 Audit

13.179 *In the original audit report we had noted:*

- The Land Inventory Management System was developed in 1995, however, the system was not providing the necessary information to develop management plans and keep track of the acquisition, utilization and disposal of land.
- Provincial government lands have been assigned to various departments, however, the departments have not formally accepted management responsibility for them. Formal acceptance would require them to develop a management plan for each property.
- The reporting capabilities of the inventory system were not adequate to highlight the status and utilization of properties.
- We found a number of problems with the administration of leases. Procedures were lacking for determining the total revenue that should be received, billing lessees, determining if land is being utilized, following up on non-payment of accounts, and ensuring lease rates are set at fair market value.
- The current lease rates were well below market rates and were not based on an analysis of current rates.

Current Status

13.180 The Department provided the following information on the status of these issues:

- The Land Inventory Management System was redesigned in accordance with noted deficiencies that were part of the original design. The changes were implemented and the system became fully operational in May 1998.

- Management responsibility for government lands, with the exception of CN lands, has been finalized in the form of signed Managing Department Agreements with the respective departments.

- The Land Inventory Management System is now capable of generating a variety of reports. Staff enter record selection criteria depending on the user needs to obtain custom reports such as the status of surplus lands, lease rental payment schedules, and property acquisitions and disposals.

- The Land Inventory Management System provides status reports on past due accounts, and the Properties Section is now responsible for the billing and collection of land rental leases.

- A Provincial government land leasing policy was implemented. It was approved by Executive Council in June 1997. Staff advised that lease rates are now set in accordance with this policy.

EMPLOYMENT DEVELOPMENT AGENCY

BACKGROUND

13.181 At the time of our audit the mandate of the Employment Development Agency (EDA) was to address the problems of individuals who are hindered from gaining permanent employment by providing access to training and identifying and developing meaningful work projects. The Agency provided a wage subsidy for special work projects carried out by project sponsors. In addition, the Agency administered the Jobs for Youth Program, a wage subsidy program for youth.

13.182 In our 1997 Annual Report we reported the results of our audit of EDA which at that time was part of the Department of Economic Development and Tourism. The audit examined activities taking place in the 1995-96 fiscal year. We conducted this audit to determine how EDA functions in comparison to its legislated mandate, and to assess the management and administrative practices in place.

13.183 In our 1998 Annual Report we provided an update of the Department's progress in implementing the recommendations arising from the audit and there were some outstanding issues to be addressed. In July 1998 the Department of Development assumed responsibility for the Agency. We requested a further update on the progress in implementing the recommendations arising from the audit. The outstanding issues and management's response is provided in the following paragraphs.

Comments From Our 1997 Report

13.184 *In the original audit report we had noted:*

- The Agency's mandate had not been sufficiently analysed and developed into a strategic and operational plan for the Agency.
- The organizational structure of the Agency was not in accordance with the legislation, and the lines of accountability were not clear. The legislation calls for a Board of Directors with an Executive Director responsible for day to day administration. We found that a Board had not been appointed and the appointed Executive Director was not actively involved in the operations of the Agency.
- The financial resources of the Agency were not distributed throughout the Province based on an objective evaluation of requirements such as differences in demographics, employment rates, or the availability of worthwhile projects.
- The evaluation process for project proposals was weak and the focus tended to be on finding enough work weeks rather than the quality of the projects. Some of the projects were approved based on very limited information in the proposals. We also noted there was no attempt to monitor or evaluate project achievements.

- There were a number of examples where the Agency did not comply with its own policies and program guidelines. We also noted that basic audit procedures on project payroll records were not carried out.

Current Status

13.185 It was reported that EDA still plans to prepare a strategic and operational plan for management's review. In 1998, a Board of Directors was appointed by Executive Council. The Agency has compiled statistics, in conjunction with Human Resource Development Canada, to assess program requirements and these are being reviewed. The Department expects that the issues related to the evaluation of project proposals will be addressed as a result of the strategic and operational planning exercise that they will be conducting. The Department also indicated that basic audit procedures will be performed in future and the Agency will continue to monitor all projects that are funded.

PUBLIC ACCOUNTS COMMITTEE

14. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

14.1 The Public Accounts Committee is an important link in the accountability process. It provides a forum in which members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable. The primary function of the Committee is the review of the Auditor General's Report subsequent to its tabling in the Legislative Assembly.

PROCEEDINGS AND RESULTS

14.2 The Committee holds public meetings and requires the Auditor General and other individuals to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

14.3 The Committee has been very active in the last several months. I met with the Committee five times to discuss my 1998 Annual Report, the audit report on the University of Prince Edward Island, and the provincial financial involvement in two major private sector entities that have financial dealings with the Charlottetown Area Development Corporation. The Committee was also in the process of hearing from other individuals on these issues. The Committee is expected to report to the Legislature on its recommendations and proceedings in the Spring 1999 Sitting of the Legislative Assembly.

14.4 The Committee through its deliberations is able to make a difference by contributing to improved accountability and effectiveness in government operations. I look forward to working with the Committee in fulfilling its important role.

OFFICE OF THE AUDITOR GENERAL

15. OFFICE OF THE AUDITOR GENERAL

Mission and Mandate

15.1 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 best practices in government operations.

15.2 The mandate of the Office is derived from the Audit Act. As a servant of the Legislative Assembly, the Auditor General is independent of government.

Responsibilities and Functions

15.3 The responsibilities of the Auditor General are set out in the Audit Act. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. Audit responsibilities of the Office do not extend to government policy matters. Government is held accountable for its policies through the workings of the Legislative Assembly including questions and debates, estimates approval, and legislative reviews and changes.

15.4 In order to fulfill the Office's mandate and the established responsibilities, two types of assignments are conducted - financial audits, and special audits and examinations.

15.5 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the auditor of a number of Crown agencies. In addition, the Office is responsible for the audit of those Crown agencies that are not subject to financial audit by other auditors. Comments on our audit of the Public Accounts and other financial audits are contained in a separate section of this report.

15.6 The Audit Act allows the Auditor General to 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 the applicable statutory provisions.

OPERATING PHILOSOPHY

Independence

15.7 The Audit Act establishes the legal framework for an independent audit office. Some of the key components in building that independence include: the existence of a Legislative Audit Committee which ensures the Office's resources and operations are determined independent from government, the authority to carry out the audits and examinations which the Auditor General deems necessary, the right of access to records and information necessary to perform audit functions, the power to request and receive any information or explanations required, and the requirement to report annually to the Legislative Assembly.

15.8 In addition to these important components, the independence of the Office is supported by an office code of conduct which includes, among other things, policy and guidance on integrity, impartiality, and potential conflict of interest situations.

Reporting Approach

15.9 There are typically two reporting approaches used by the Office in fulfilling its mandate. Under the first approach, **attest reporting**, the auditor expresses an opinion on the fairness of management's assertions on its performance. An example of this approach is the audit opinion expressed on financial statements prepared by management. In this case the financial statements are management's assertions about the organization's financial position and results, and the audit report consists of an opinion on the statements. Similarly, management could prepare a report with assertions on organizational performance and the auditor could attest to the fairness of those assertions. In our opinion, this would be the best way for management to fulfill its accountability responsibilities, however, this type of attest reporting on performance is not expected to be in place for some time.

15.10 The absence of comprehensive management reporting has led to the development of a **direct reporting** approach by legislative auditors. Under this approach, the auditor gathers management information directly and makes an assessment based on that information. The direct reporting approach has been used in our special audits and examinations.

Planning Our Work

15.11 Each year an audit work plan is developed consistent with the audit priorities established and includes a number of financial statement audits as well as special audits and examinations. Financial statement audits are completed annually.

15.12 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a particular division or program. Occasionally an audit may be carried out on a particular function on a government-wide basis.

15.13 Various factors are considered in establishing priorities for special audits and examinations. These include; materiality of the expenditures, results of previous audits, the date of the last audit, and the impact on the public. Other factors considered in planning each audit include; our audit mandate, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, complexity of the operations, and possible matters of significance that may arise from the audit.

Professional Standards

15.14 Generally accepted accounting principles and auditing standards for government are established through the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with a number of accounting and auditing issues.

15.15 Our audits are conducted in accordance with these generally accepted auditing standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities. We rely on generally accepted accounting principles for the public sector as well as other recommendations of the CICA contained in the CICA Handbook.

15.16 The Office is subject to a periodic practice inspection carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession.

PERSONNEL, ADMINISTRATION AND AFFILIATIONS

15.17 The Office consists of the Auditor General, three audit directors, ten auditors and two administrative staff. There are four positions that have been vacant for some time and have not been filled due to budgetary restraint. We continue to strive with limited staff to provide audit coverage of significant areas of government on a cyclical basis.

15.18 Under the Audit Act the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible to the Legislature for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is Chairperson; the Leader of the Opposition; and the Provincial Treasurer.

15.19 The Office maintains a number of professional affiliations that are essential for maintaining our level of competence and are useful in supporting our efforts of improving the efficiency and effectiveness of the Office. Some of the key affiliations include the following:

- The Canadian Conference of Legislative Auditors - This annual conference brings together legislative auditors from the federal government and the provinces and provides an opportunity for information exchange and discussion.

- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. It is a Canadian research and education Foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

- The Public Sector Accounting and Auditing Board - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting and auditing practices. The Board conducts research and issues recommendations on public sector accounting and auditing issues.

- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession through membership on various provincial and national committees.

OBJECTIVES AND ACCOMPLISHMENTS

15.20 The following paragraphs highlight our performance in relation to the goals established in our three-year business plan.

Objective: To prepare an Annual Report for the Legislative Assembly as required under the Audit Act, on the results of the audits that have been carried out.

15.21 The Annual report is a summary of the most significant issues and recommendations resulting from our work. The Report quality, therefore, is determined by the quality and performance achieved in the audits carried out throughout the year.

15.22 It is our hope that the Annual Report presented each year will act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts provides the impetus to bring about the improvements recommended in the Report.

15.23 Our 1998 Annual Report was presented to the Legislative Assembly in March 1998. In January 1999, the Public Accounts Committee began discussions on my report and I appeared before the Committee to participate in the discussion and provide further explanation and information as requested.

Objective: To express opinions on the financial statements of the Public Accounts of the Province and other Crown agencies subject to audit.

15.24 I am pleased to report that we were able to issue an unqualified opinion on the Public Accounts again this year. We continue to receive excellent cooperation from the Department of the

Provincial Treasury and the Office of the Comptroller in carrying out the audit.

15.25 In addition to the Public Accounts, we conduct a number of audits of Crown Corporations, Pension and Trust Funds, and other Agencies.

Objective: To issue management letters including recommendations to address any problems or deficiencies noted as a result of financial statement audits.

15.26 In carrying out financial audits we are often in a position to identify control deficiencies or other areas of administration which could be improved upon. In this past year we issued management letters for a number of financial audits.

Objectives

- **To perform selective special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.**

- **To prepare reports for departments and agencies including observations and recommendations as a result of special audits and examinations.**

15.27 The amount of special audit and examination work that we are able to carry out is a function of the amount of staff resources we have available after having carried out the financial statement audits that we are required by legislation to complete. This year we were directed by the Legislative Assembly to carry out a value-for-money audit of the University of Prince Edward Island. Summary information is reported elsewhere in this report on that audit as well as information on a number of other special audits and examinations completed in the past year.

Objective: To perform other investigations as may be required from time to time.

15.28 Occasionally we are asked to investigate potential weaknesses in control or to follow up on specific observations from our reports.

For example, two years ago we were asked by the Minister of Transportation and Public Works to investigate potential inventory control weaknesses. We reported on the results of this audit work in our 1998 Annual Report. This year we followed up on our recommendations and our comments are included in this Report.

Objectives:

- **To remain technically competent in an evolving accounting and auditing environment.**

- **To remain aware of and provide input to the development of auditing and accounting standards for government.**

- **To provide training opportunities for staff.**

- **To retain professionally qualified staff.**

15.29 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep abreast of developing accounting and auditing issues. Standards are promulgated by the Public Sector Accounting and Auditing Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting and auditing standards.

15.30 All audit staff within the Office have professional accounting designations. We ensure experienced and technically competent staff are available through providing a range of in-house and external training and professional development opportunities. We have held in-house sessions on value-for-money and financial auditing matters in the past year. In addition, a number of professional development sessions have been attended by individual staff.

Objective: To assist government departments and agencies on financial and managerial matters as resources permit.

15.31 Our audit reports are designed to identify observations and make constructive recommendations to assist management in addressing the issues identified. In addition, we are periodically asked for assistance in various matters. For example, we are providing assistance to the Employee Benefits Division of the Public Service

Commission in implementing internal controls for the Civil Service Superannuation Fund.

SCHEDULES

OPERATING FUND

APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 1997/98	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 1997/98	UNDER EXPENDITURES	EXPENDITURES 1996/97
AGRICULTURE, FISHERIES AND FORESTRY	$ -	$ -	$ -	$ -	$ -	$ -	$ 22,049,547
AGRICULTURE AND FORESTRY	18,307,100	350,000	-	18,657,100	18,591,457	65,643	-
PEI GRAIN ELEVATORS CORPORATION	147,700	-	-	147,700	147,700	-	197,700
EDUCATION	167,923,900	-	-	167,923,900	167,894,947	28,953	126,021,184
HIGHER EDUCATION, TRAINING AND ADULT LEARNING	-	-	-	-	-	-	41,840,665
EMPLOYMENT DEVELOPMENT AGENCY	3,239,000	1,125,000	-	4,364,000	4,177,680	186,320	4,783,382
ENVIRONMENTAL RESOURCES	-	-	-	-	-	-	7,861,782
FISHERIES AND ENVIRONMENT	9,464,600	732,300	-	10,196,900	10,191,979	4,921	-
EXECUTIVE COUNCIL	1,988,200	105,900	-	2,094,100	1,931,185	162,915	1,920,524
PROVINCIAL TREASURY	14,583,100	2,100,000	-	16,683,100	16,517,795	165,305	16,038,469
EMPLOYEE BENEFITS	8,177,600	6,525,500	-	14,703,100	14,703,012	88	11,093,200
ECONOMIC DEVELOPMENT AND TOURISM - NOTE 1 12,080,200	1,150,400	-	13,230,600	13,230,520	80	19,550,439	
ENTERPRISE PEI	22,554,700	3,232,000	-	25,786,700	25,691,011	95,689	25,388,033
PEI ENERGY CORPORATION	68,200	39,700	-	107,900	106,887	1,013	78,954
PROVINCIAL AFFAIRS AND ATTORNEY GENERAL	-	-	-	-	-	-	22,270,885
COMMUNITY AFFAIRS AND ATTORNEY GENERAL	24,535,200	-	-	24,535,200	22,953,146	1,582,054	-

OPERATING FUND

APPROPRIATIONS

ORDINARY		**ORIGINAL APPROPRIATION ACT 1997/98**	**SPECIAL WARRANTS**	**TRANSFERS**	**TOTAL BUDGET**	**EXPENDITURES 1997/98**	**UNDER EXPENDITURES**	**EXPENDITURES 1996/97**
ISLAND REGULATORY AND APPEALS COMMISSION		$ 815,800	$ -	$ -	$ 815,800	$ 743,750	$ 72,050	$ 850,000
LEGISLATIVE ASSEMBLY		2,491,300	138,500	-	2,629,800	2,629,642	158	3,283,360
HEALTH AND SOCIAL SERVICES		289,997,900	4,591,300	1,500,000	296,089,200	296,077,538	11,662	2,261,959
HEALTH AND COMMUNITY SERVICES AGENCY		-	-	-	-	-	-	292,536,800
TRANSPORTATION AND PUBLIC WORKS		44,249,900	2,794,100	-	47,044,000	46,451,959	592,041	44,425,020
PEI CROWN BUILDING CORPORATION		210,000	106,000	-	316,000	312,775	3,225	210,000
AUDITOR GENERAL		1,070,000	-	-	1,070,000	1,001,020	68,980	1,060,141
GENERAL GOVERNMENT		4,608,600	3,200,000	(1,500,000)	6,308,600	6,293,914	14,686	3,001,870
COUNCIL OF MARITIME PREMIERS	187,500	-	-	187,500	175,883	11,617	176,731	
INTEREST CHARGES ON DEBT		108,605,000	-	-	108,605,000	102,290,509	6,314,491	118,234,677
STAFFING AND CLASSIFICATION BOARD		959,600	-	-	959,600	949,389	10,211	984,777
INTERMINISTERIAL WOMEN'S SECRETARIAT		264,300	-	-	264,300	260,021	4,279	-
TOTAL ORDINARY		$736,529,400	$26,190,700	$ -	$762,720,100	$753,323,719	$9,396,381	$766,120,099
CAPITAL								
TRANSPORTATION AND PUBLIC WORKS		$ 40,439,600	$10,544,700	$ -	$ 50,984,300	$ 50,681,093	$ 303,207	$ 44,103,692
GRAND TOTAL		$776,969,000	$36,735,400	$ -	$813,704,400	$804,004,812	$9,699,588	$810,223,791

NOTE 1: At the date of our report a special warrant of $7,700 for Economic Development and Tourism had not received formal approval.

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	AGRICULTURE AND FORESTRY		
	AGRICULTURE		
	Agriculture Resource Team		
EC 1998-161	Grants		$ 350,000
	To fund additional expenditures in the Agriculture Industry Transition Program fully offset by revenue from the Federal government under the Canada/PEI Atlantic Freight Rate Transition Program.		
	EMPLOYMENT DEVELOPMENT AGENCY		
	MANAGEMENT		
EC 423/97	Administration	$ 10,000	
	Equipment	15,000	
	Salaries	90,000	
	Travel & Training	10,000	$ 125,000
	JOB CREATION AND PLACEMENT		
	Special Projects		
EC 423/97	Grants	750,000	
EC 1998-50	Grants	250,000	1,000,000
	Special Warrants EC 423/97 and EC 1998-50 provide funds required to meet employment demands across the Province partially offset by revenue from Human Resources Development Canada of $125,000.		
	Total		$ 1,125,000
	FISHERIES AND ENVIRONMENT		
	DEPARTMENT MANAGEMENT		
EC 1998-128	Professional & Contract Services	$ 14,000	
	Salaries	47,300	$ 61,300
	Additional professional expenditures of $14,000 will be fully offset by federal revenue.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**			
	ENVIRONMENTAL PROTECTION			
	Administration			
EC 1998-128	Salaries		$ 29,300	
	Provincial Waste Management			
EC 1998-128	Materials, Supplies & Services	$ 218,700		
	Grants	289,100	$ 507,800	$ 537,100
	To cover increased expenditures in the implementation of the Provincial Solid Waste Management Strategy.			
	WATER RESOURCES			
	Administration			
EC 1998-128	Equipment	5,500		
	Salaries	35,400	40,900	
	Shellfish Program			
EC 1998-128	Salaries		4,400	45,300
	Funds required for the delivery of water related programs fully offset by federal revenue.			
	FISH AND WILDLIFE			
	Administration			
EC 1998-128	Salaries		2,100	
	Wetland Management			
EC 1998-128	Professional & Contract Services	81,500		
	Salaries	1,600		
	Travel & Training	2,800	85,900	88,000
	To cover cost of increased activities within the Wetlands Management programs fully offset by revenue from the Canadian Wildlife Service, Ducks Unlimited Canada and Wildlife Habitat Canada.			
	PLANNING AND ADMINISTRATION			
EC 1998-128	Administration			600
	Total			$ 732,300

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	EXECUTIVE COUNCIL		
	Executive Council Office		
EC 1998-86	Salaries		$ 105,900
	Funding to cover staff commitments partially offset by sequestration of $95,200 originally appropriated to Enterprise PEI.		
	PROVINCIAL TREASURY		
	OFFICE OF THE COMPTROLLER		
	Expenditure Management		
EC 1998-166	Equipment	$ 100,000	
	Professional & Contract Services	100,000	$ 200,000
	TAXATION AND PROPERTY RECORDS		
	Tax Administration		
EC 1998-170	Debt		1,900,000
	To provide for write-offs, cancellation of accounts and allowance for doubtful accounts under the Revenue Tax Act, Real Property Tax Act and Gasoline Tax Act.		
	Total		$ 2,100,000
	EMPLOYEE BENEFITS		
	Government Pension Contributions		
EC 1998-167	Salaries		$ 230,000
	Workers Compensation		
EC 1998-702	Salaries		6,295,400
	To cover the accrual adjustment for workers compensation costs, unpaid vacation leave and retirement allowances as at March 31, 1998.		
	Workers Compensation		
EC 1999-134	Salaries		100
	Total		$ 6,525,500

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	ECONOMIC DEVELOPMENT AND TOURISM		
	DEPARTMENT MANAGEMENT		
	Cooperation Agreement		
EC 1998-126	Grants		$ 626,400
	To address a budget shortfall for the Cooperation Agreement for Regional Economic Development offset by revenue from ACOA of $477,600.		
	TOURISM PEI - MARKETING		
	Visitor Services		
EC 1998-163	Professional & Contract Services	$ 65,100	
	Salaries	38,200	103,300
	TOURISM PEI - DEVELOPMENT		
	Links at Crowbush Cove		
EC 1998-163	Salaries	143,600	
	Parks East		
EC 1998-163	Salaries	81,900	
	Parks West		
EC 1998-163	Salaries	187,500	413,000
	To cover over expenditures in the tourism sector offset by increased revenues of $482,300 from various provincial golf-related sources.		
	Total		$ 1,142,700
	ENTERPRISE PEI		
	LENDING		
	Interest Operations		
EC 1998-470	Debt		$ 1,482,000
	Additional funding required to meet Court awarded damages relating to the fire at Georgetown Shipyard Inc. in 1984.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	DEVELOPMENT		
	Aerospace and Food		
EC 1998-470	Salaries	$ 27,100	
	Slemon Park Tax Incentives		
EC 1998-51	Grants	1,197,900	
	Home Computer Purchase Plan		
EC 1998-127	Grants	368,000	
	Infrastructure Assistance		
EC 1998-127	Grants	157,000	$ 1,750,000
	Total		$ 3,232,000
	PEI ENERGY CORPORATION		
	GENERAL		
EC 1998-164	Salaries		$ 39,700
	LEGISLATIVE ASSEMBLY		
	LEGISLATIVE SERVICES		
EC 1998-608	Administration	$ 2,000	
EC 1998-129	Equipment	7,100	
	Materials, Supplies & Services	6,900	
EC 1998-608	Materials, Supplies & Services	4,000	
EC 1998-129	Salaries	77,100	
	Grant - Office of the Third Party	5,300	$ 102,400
	MEMBERS		
EC 1998-608	Travel & Training		36,100
	Total		$ 138,500
	HEALTH AND SOCIAL SERVICES		
	REGIONAL SERVICES		
	In-Province Acute Care Hospitals		
EC 1998-165	Grant - Western Hospital	$ 67,700	
	Grant - Prince County Hospital	1,335,400	
	Grant - Queen Elizabeth Hospital	602,600	
	Grant - Kings County Memorial Hospital	518,700	$ 2,524,400

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	Regional Services			
EC 1998-165	Grant		$1,080,100	
EC 1998-607	Grant		813,400	$ 1,893,500
	To cover operating deficits of the Health & Community Services System, including operations of the five Regional Health Authorities.			
	FINANCE, ADMINISTRATION AND HEALTH INFORMATICS			
	Financial Services			
EC 1998-165	Grant - Capital Equipment			173,400
	Total			$ 4,591,300
	Special Warrant EC 1998-165 is partially offset by revenue of $3,133,800 from the Federal government, representing settlement of prior years' claims under the Canada Assistance Plan.			
	TRANSPORTATION AND PUBLIC WORKS			
	GENERAL ADMINISTRATION			
EC 1998-171	Professional & Contract Services			$ 186,600
	HIGHWAY MAINTENANCE PAVING			
	Prince County			
EC 1998-171	Materials, Supplies & Services	$ 24,500		
	Salaries	70,000	$ 94,500	
	Queens County			
EC 1998-171	Materials, Supplies & Services	194,000		
	Salaries	185,400	379,400	
	Kings County			
EC 1998-171	Materials, Supplies & Services	143,100		
	Salaries	345,400	488,500	962,400
	SNOW REMOVAL			
	Western Region			
EC 1998-171	Professional & Contract Services		52,400	

ORDER-IN-

COUNCIL LIST OF SPECIAL WARRANTS

	Central Region			
EC 1998-171	Professional & Contract Services	$ 139,100		
	Salaries	78,400	$ 217,500	
	Eastern Region			
EC 1998-171	Professional & Contract Services	37,700		
	Salaries	20,800	58,500	$ 328,400
	SANDING AND SALTING			
	Western Region			
EC 1998-171	Materials, Supplies & Services		34,800	
	Central Region			
EC 1998-171	Materials, Supplies & Services	364,200		
	Salaries	135,900	500,100	
	Eastern Region			
EC 1998-171	Materials, Supplies & Services	185,800		
	Professional & Contract Services	60,000	245,800	780,700
	BUILDINGS MAINTENANCE INDIRECT			
	District Heating Plant			
EC 1998-171	Salaries			56,000
	BUILDINGS MAINTENANCE DIRECT			
	Jones Building			
EC 1998-171	Materials, Supplies & Services			48,400
	BUILDING ACCOMMODATIONS			
	Queens Region Health Authority			
EC 1998-171	Materials, Supplies & Services		89,900	
	Health - Garfield Street building			
EC 1998-171	Materials, Supplies & Services		6,700	
	St. Paul's Rectory			
EC 1998-171	Materials, Supplies & Services		16,100	
	Davies Law Courts			
EC 1998-171	Professional & Contract Services		60,000	
	Highway Safety Office			
EC 1998-171	Materials, Supplies & Services		141,800	

	Sherwood Court House		
EC 1998-171	Administration	$ 42,000	$ 356,500
	HIGHWAY SAFETY		
	Administration		
EC 1998-171	Salaries	50,000	
	Registration & Licensing		
EC 1998-171	Equipment	25,100	75,100
	Total		$ 2,794,100

PEI CROWN BUILDING CORPORATION

	ADMINISTRATION	
EC 1998-162	Debt	$ 106,000

To cover operating losses of the Charlottetown Veterinary Clinic.

GENERAL GOVERNMENT

	GRANTS	
EC 1998-168	Grants	$ 2,000,000

To cover expenditures associated with Human Rights Commission settlements.

	HEPATITIS C		
	Administration		
EC 1998-169	Grants	$1,000,000	
EC 1998-624	Grants	200,000	1,200,000

To fund the provincial share of the total federal/ provincial compensation package for victims of Hepatitis “C”.

Total	$ 3,200,000

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**	
	TRANSPORTATION AND PUBLIC WORKS CAPITAL	
	CAPITAL - HIGHWAYS	
EC 1998-172	Bridges and Road under Lease Capital-Development Cost	$10,544,700
	Funding required to meet the 1997-98 costs associated with the construction of the Hillsborough Bridge.	