



AUDITOR GENERAL

Prince Edward Island

Report to the Legislative Assembly
2018

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

In accordance with the requirements of the *Audit Act*, I have the honour of
presenting my 2018 Annual Report to the Legislative Assembly.

Respectfully submitted,

A handwritten signature in black ink, reading "B. Jane MacAdam".

B. Jane MacAdam, CPA, CA
Auditor General

Charlottetown
Prince Edward Island
March 7, 2018

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INTRODUCTION

REPORT OVERVIEW

This Annual Report provides observations, recommendations, and information pertaining to audits and examinations conducted by the Office during the year.

Following is a brief overview of my 2018 Annual Report:

Chapter 1: Introduction to Special Audits and Examinations

This chapter references the Office's mandate to conduct special audits and examinations. It also includes summary information on the processes for selecting and conducting these audits.

Chapter 2: Social Assistance Program

This audit assessed compliance with selected policies and legislative requirements. We also examined processes to measure and report on program performance.

Chapter 3: Medication Controls: Institutional Pharmacy Program

This audit examined whether medications dispensed for residents of provincially-owned long-term care facilities were adequately controlled.

Chapter 4: Office of the Public Guardian

This audit examined the processes at the Office of the Public Guardian for documenting and authorizing significant care decisions.

Chapter 5: Implementation of 2014 and 2015 Recommendations

This chapter includes information on the implementation of recommendations reported in our 2014 and 2015 Annual Reports. This includes only recommendations arising from special audits and examinations.

Introduction

Chapter 6: Update on 2017 Recommendations

This chapter includes information received from management on the recommendations from special audits and examinations reported in our 2017 Annual Report. For each recommendation, information is included on the action taken, action planned, and management's assessment of the status of implementation.

Chapter 7: Introduction to Financial Audits

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

Chapter 8: Indicators of Financial Condition

This chapter provides summary financial information on the province's operating results and financial position from 2013 to 2017. We also provide information on a number of financial indicators based on the province's audited consolidated financial statements.

Chapter 9: Audit of the Consolidated Financial Statements

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

Chapter 10: Matters Noted in Other Financial Audits

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

Chapter 11: Appropriations and Special Warrants

This chapter provides summary information on appropriations and special warrants for the year ended March 31, 2017.

Chapter 12: Public Accounts Committee

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

Introduction

Chapter 13: Office of the Auditor General

This chapter provides information on the mandate of the Auditor General as well as the Office vision, mission, values, and strategic priorities.

Summary information on our assurance engagements, Office resources, professional standards, and professional affiliations is also included.

ACKNOWLEDGEMENTS

The Office plays an important role in assisting the Legislative Assembly to hold government accountable for the management and use of public resources. To fulfil our mandate and responsibilities, it's important to have the cooperation of ministers, deputy ministers, senior management, and staff of departments, agencies, boards, and Crown corporations. I am pleased to report that my Office received good cooperation from government to complete the audits and examinations included in this Annual Report.

I would also like to take this opportunity to express appreciation to my staff for their continued support and dedication. Their professional work and commitment to the Office are essential to its continued success.

INTRODUCTION

APERÇU DU RAPPORT

Le présent rapport annuel fournit des observations, des recommandations et des renseignements sur les vérifications et les examens menés par le Bureau au cours de l'année.

Voici un aperçu du contenu du rapport annuel de 2018 :

Chapitre 1 : Introduction aux vérifications et aux examens spéciaux

Ce chapitre souligne le mandat du Bureau, soit de mener des vérifications et des examens spéciaux. Il fournit également de l'information sommaire sur la sélection et la procédure de ces vérifications.

Chapitre 2 : Programme d'aide sociale

La vérification a examiné la conformité avec certaines politiques et les exigences prévues par la loi. Le Bureau a aussi examiné les processus permettant d'évaluer le rendement du programme et d'en rendre compte.

Chapitre 3 : Contrôle des médicaments - Programme de pharmacies d'établissements de santé

La vérification a examiné si les médicaments distribués aux résidents des établissements de soins de longue durée appartenant à la province sont bien contrôlés.

Chapitre 4 : Bureau de la tutelle publique

La vérification a examiné les processus suivis par le Bureau de la tutelle publique pour documenter et autoriser les décisions importantes en matière de soins.

Chapitre 5 : Mise en œuvre des recommandations précédentes

Ce chapitre fournit de l'information sur la mise en œuvre des recommandations émises dans nos rapports annuels de 2014 et de 2015. Ce travail vise uniquement les recommandations découlant de vérifications et d'examen spéciaux.

Introduction

Chapitre 6 : Suivi des recommandations de 2017

Ce chapitre comprend les renseignements que les hauts dirigeants nous ont communiqués sur les recommandations découlant des vérifications et examens spéciaux présentés dans notre rapport annuel de 2017. On y indique les mesures prises et les mesures prévues pour chaque recommandation, ainsi que l'évaluation de leur état d'avancement par les hauts dirigeants.

Chapitre 7 : Introduction aux vérifications financières

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

Chapitre 8 : Commentaires sur les indicateurs financiers

Ce chapitre fournit de l'information financière sommaire sur les résultats d'exploitation et la situation financière de la province entre 2013 et 2017. Il fournit également de l'information sur un certain nombre d'indicateurs financiers à partir des états financiers consolidés de la province.

Chapitre 9 : Vérification des états financiers consolidés

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

Chapitre 10 : Questions soulevées dans le cadre d'autres vérifications financières

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

Chapitre 11 : Compte de crédits et mandats spéciaux

Ce chapitre fournit de l'information sommaire sur le compte de crédits et les mandats spéciaux pour l'exercice qui s'est terminé le 31 mars 2017.

Chapitre 12 : Comité des comptes publics

Le Comité des comptes publics révisé le rapport annuel du vérificateur général et joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. Des renseignements sur le comité et ses activités sont fournis dans ce chapitre.

Introduction

Chapitre 13 : Bureau du vérificateur général

Ce chapitre offre des renseignements sur le mandat et les responsabilités du vérificateur général ainsi que sur la vision, la mission, les valeurs et les priorités stratégiques adoptées par le Bureau. De l'information sommaire est également fournie sur les missions de certification, les normes et affiliations professionnelles et les ressources du Bureau.

REMERCIEMENTS

Le Bureau joue un rôle essentiel en aidant l'Assemblée législative à tenir le gouvernement responsable de la gestion et de l'utilisation des ressources publiques. Pour que nous puissions nous acquitter de notre mandat et de nos responsabilités, il est important d'avoir la collaboration des ministres, des sous-ministres ainsi que des hauts dirigeants et du personnel des ministères, des organismes, des conseils et des sociétés de la Couronne. Je suis heureux de rapporter que le Bureau a bénéficié d'une bonne collaboration de la part du gouvernement pour accomplir les vérifications et les examens dont il est fait état dans le présent rapport annuel.

Je profite aussi de l'occasion pour exprimer ma gratitude envers les membres de mon personnel pour leur soutien constant et leur dévouement. Leur professionnalisme et leur engagement sont essentiels au succès continu du Bureau.

SPECIAL AUDITS AND EXAMINATIONS

1. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

1.1 The Auditor General has a broad mandate for conducting special audits and examinations. Subsection 13(2) of the *Audit Act* states that the Auditor General may conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with the applicable statutory provisions.

1.2 Given the complexity and magnitude of government operations, we cannot examine all government programs on an annual basis. We focus our efforts to make the best use of our resources. To determine our annual work plan, we consider numerous factors including:

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

1.3 In addition, we may receive specific requests from the Public Accounts Committee, the Legislative Audit Committee, or Executive Council.

1.4 Performance audits, sometimes referred to as value-for-money audits, provide a high level of assurance and are objective assessments that assist in determining how well government is discharging its responsibilities. These audits are planned, performed, and reported in accordance with Canadian standards for assurance engagements. In performing these audits, the Office complies with independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Prince Edward Island and the Code of Conduct of the Office of the Auditor General.

1.5 These audits assess the broader management issues affecting an organization or program and may examine issues such as accountability relationships, economy, efficiency, compliance with authorities, and

1. Introduction to Special Audits and Examinations

procedures to measure effectiveness. There are three distinct phases in conducting performance audits; planning, implementation, and reporting.

1.6 In the planning phase, audit staff obtain a thorough knowledge of the function, organization, or program selected for audit and the environment in which it operates. Using this knowledge, an audit plan is developed which sets out the audit objectives, criteria, scope, and timing.

1.7 Audit criteria are the standards against which performance is assessed. The audit criteria are determined by the auditor and are often based on regulations, policies, or other generally accepted sources. These are communicated to and discussed with management responsible for the subject matter prior to the commencement of the detailed audit work.

1.8 During the implementation stage, the auditor gathers sufficient appropriate audit evidence using various audit procedures such as interviewing key personnel, reviewing documentation, analyzing data and information, and testing samples of files. Audit evidence is evaluated and assessed against the criteria established in the planning phase. Audit findings are identified and discussed with management.

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

1.10 The recommendations provided in our reports are intended to address the issues identified. It is management's prerogative to select the most appropriate course of action to deal with the issues identified. Our concern is that action is taken to address the issues raised.

2. SOCIAL ASSISTANCE PROGRAM

CHAPTER SUMMARY

What we examined

This audit examined the processes at the Department of Family and Human Services for measuring and reporting on program performance. We looked at the process for the review and approval of social assistance rates and financial exemptions. The audit also assessed whether the Department provided social assistance benefits in accordance with legislation and policy. Finally, we examined case plans to determine whether they were completed and updated as required by policy.

Why it's important

The Social Assistance Program provides support to individuals and families who are not able to meet their basic needs with their own resources. It is important that the Department of Family and Human Services ensures recipients of social assistance are receiving the benefits and services to which they are entitled. Social Assistance Program benefit payments averaged approximately \$34 million annually over the last five fiscal years.

What we found

The Department has not developed performance indicators to measure and report on its progress in achieving program objectives.

Information has not been provided each year to Executive Council for its review of social assistance rates and financial exemptions. We noted:

- Food rates are based on a five year plan with a target of 70 percent of the Atlantic average cost of the National Nutritious Food Basket.
- Shelter rates have not changed since November 2013.
- Rates for clothing, household, and personal requirements have not changed in over ten years.

2. Social Assistance Program

Although the Department of Family and Human Services assessed eligibility in accordance with the requirements in regulations and policies, annual reviews required to confirm continued eligibility were often overdue.

Case plans did not include sufficient information and were not annually updated.

BACKGROUND

2.1 Social Assistance, as defined by the *Social Assistance Act*, includes both financial assistance and social services. The Social Assistance Program (the Program) provides financial support for basic necessities like food, shelter, clothing, household, and personal requirements for an individual or family in need. The amount of financial support depends on factors such as income, family size, ages of family members, and whether the home is rented or owned.

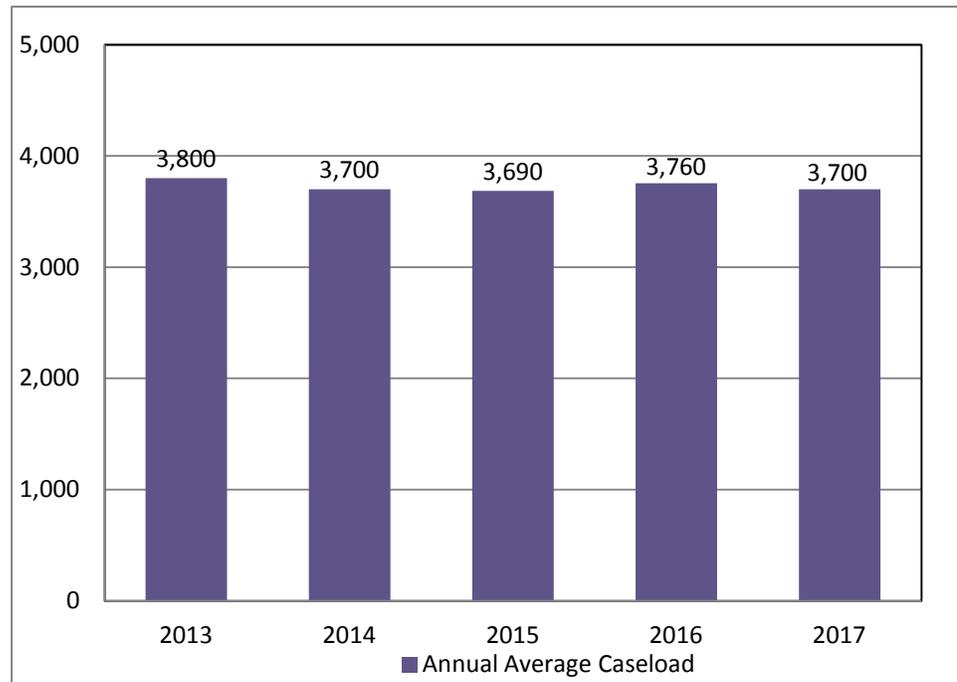
2.2 Social services provided under the Program are prescribed by the *Social Assistance Act Regulations* and have the objective of lessening, removing, or preventing the causes or effects of poverty, child neglect, and dependence on public assistance. These services vary depending on the needs of the recipients and could include counselling, and/or referrals to employment training services.

2.3 Social assistance can be emergency, short-term, long-term, or special assistance. The majority of the caseload consists of long-term recipients.

2.4 A social assistance case is comprised of the applicant(s) and his or her dependants. During 2016-17, the annual average caseload was 3,700. **Exhibit 2.1** shows the average annual caseload for fiscal years 2013 to 2017. During this period, the caseload ranged from approximately 3,700 to 3,800.

2. Social Assistance Program

EXHIBIT 2.1 SOCIAL ASSISTANCE PROGRAM ANNUAL AVERAGE CASELOAD YEAR ENDED MARCH 31



Source: Department of Family and Human Services

2.5 Social assistance payments remained relatively consistent, between \$33-\$34 million, for the fiscal years ended March 31, 2013 to 2016. For the year ended March 31, 2017, total benefits increased to \$38.2 million. This was primarily due to \$3.7 million in payments made at the end of March 2017 for the April 2017 entitlement. **Exhibit 2.2** shows the total social assistance payments for fiscal 2016-17 broken down by category. Almost 95 percent of the payments are regular monthly allowances for shelter, food, clothing, household, and personal requirements.

2. Social Assistance Program

EXHIBIT 2.2
SOCIAL ASSISTANCE PROGRAM
BENEFIT PAYMENTS
YEAR ENDED MARCH 31, 2017
(\$ Millions)

Benefit Type	Amount
Regular Monthly Benefits ¹	\$36.1
Medical, Dental, and Optical	1.6
Funeral	0.3
Special Needs	0.2
Total	\$38.2

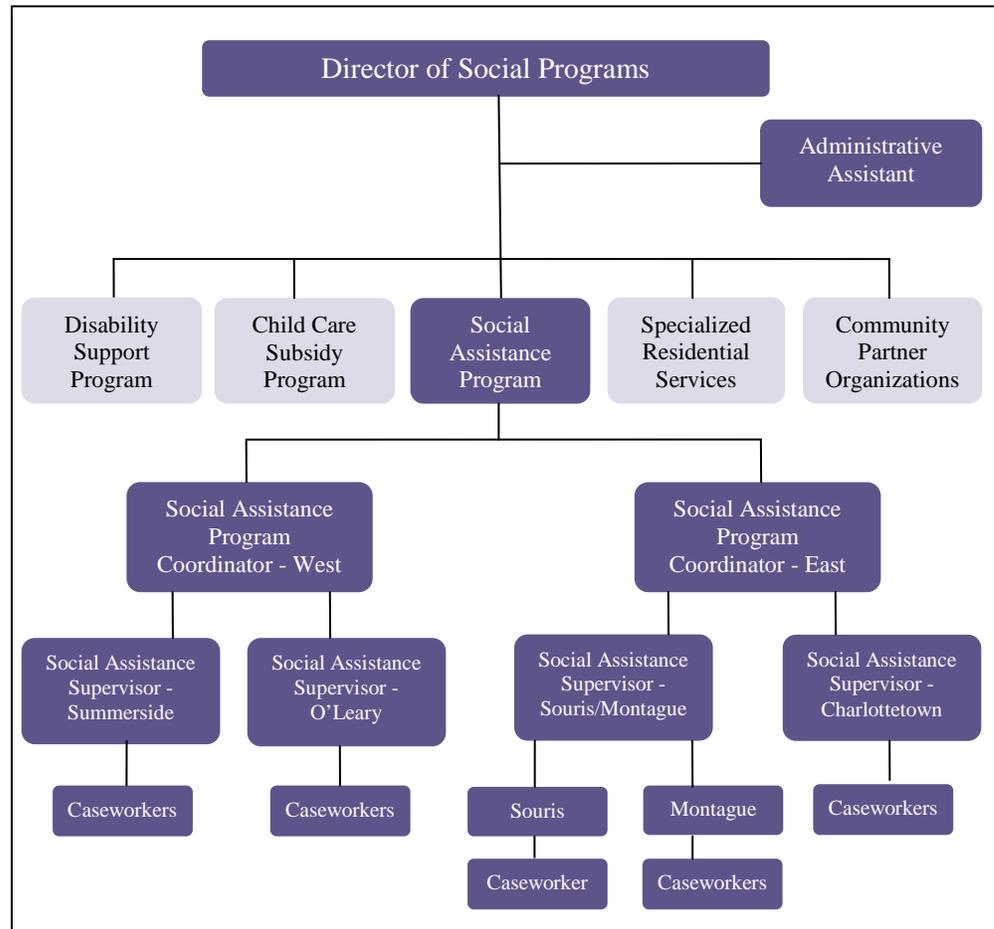
Source: Information compiled from the province's financial information system.

¹Includes benefits such as shelter, food, clothing, household, and personal.

2.6 The Social Assistance Program is administered by the Social Programs Division (the Division) within the Department of Family and Human Services (the Department). The Division operates out of five offices located throughout the province. The total operating costs of the Division were \$5.7 million for the year ended March 31, 2017. These costs are shared with the four other programs administered by the Division. Our audit included only the Social Assistance Program. **Exhibit 2.3** shows the other programs administered by the Division as well as the primary positions involved in the management and delivery of the Social Assistance Program.

2. Social Assistance Program

EXHIBIT 2.3 DEPARTMENT OF FAMILY AND HUMAN SERVICES SOCIAL PROGRAMS DIVISION SOCIAL ASSISTANCE PROGRAM ORGANIZATION STRUCTURE



Source: Adapted from the Department of Family and Human Services organization chart.

2.7 Individuals requesting assistance must complete an application. During this process, staff work with the applicant to identify any income as well as basic needs (expenses) for the individual or family. Basic needs are calculated based on rates established for individuals and qualifying family members. The amount of monthly benefit provided is the difference between the calculated benefit established for basic needs and non-exempt household income.

2. Social Assistance Program

OBJECTIVES AND SCOPE

2.8 The objectives of the audit were to determine whether

- the Department assessed, authorized, and provided benefits in accordance with regulations and policy;
- case plans were completed and updated for social assistance recipients in accordance with policy; and
- social assistance rates and financial resource exemptions were submitted annually to Executive Council for review and approval.

In addition, we examined the Department's processes for measuring and reporting on the achievement of program objectives.

2.9 Details on the audit objectives and scope, and audit criteria are included in **Appendix A** and **Appendix B** of this chapter. A listing of recommendations is included in **Appendix C**. The following sections provide information on the findings, related recommendations, and conclusions from our audit.

OBSERVATIONS AND RECOMMENDATIONS

PROGRAM PERFORMANCE AND REPORTING

2.10 According to Employment and Social Development Canada, Canada does not have an official poverty line. There are a number of measures of low income that are used to assess government programs. One that is commonly used is the Low Income Measure. Based on this measure, individuals are defined as having low income if the after-tax income of their household falls below half of the median adjusted household after-tax income of their province. Based on 2016 Statistics Canada information, approximately 22 percent of children and 16 percent of adults in Prince Edward Island are living in low income households.

2.11 In May 2012, the former Department of Community Services and Seniors tabled the *Social Action Plan to Reduce Poverty* (Plan). The Plan was a government-wide initiative that required coordination and action by several government departments. The goals of this three-year Plan were to

2. Social Assistance Program

- provide support to residents so they could move out of poverty; and
- protect and enhance the standard of living and quality of life of those who cannot participate in the labour force.

The Plan encompassed more than the Social Assistance Program but referenced that, to accomplish these goals, improvements to the Program would be a priority.

2.12 One priority established for the Department in 2015 was to lead the development of a new comprehensive poverty reduction strategy for the Province. As of the date of this audit report, a new strategy has not been developed. In the fall of 2017, government announced that an advisory council would be formed to develop a new strategy.

2.13 The Social Assistance Program is one of a number of supports for addressing the complex needs of vulnerable citizens. The objectives of the Program are outlined in policy as follows:

- To provide the basic necessities of living to those who are unable to provide for their own basic needs.
- To provide timely and appropriate services to prevent social dependency or where dependency exists, to prevent it from being ongoing.
- To strive to enable individuals or families to achieve normal social functioning to the extent possible.

2.14 To gain an understanding of the extent to which the program is achieving its objectives, the Department should define performance indicators, establish program performance targets, and evaluate results achieved.

Program performance not assessed

2.15 The *Social Assistance Act* requires the Director to monitor and evaluate service delivery. The Department has not completed an evaluation of the Program. It has not developed a suite of relevant performance indicators to measure and monitor its progress in achieving the objectives of the Program. There were no performance targets developed for the Program. Consequently, it's difficult to report on the results achieved.

2. Social Assistance Program

2.16 There are a number of performance indicators referenced in various reports that could be used by the Department in monitoring and measuring program outcomes. Some examples are provided below.

PERFORMANCE INDICATOR	DESCRIPTION
PEI social assistance rates compared to other provinces	Comparison of rates would indicate how PEI measures against other provinces. However, it would not account for cost of living differences in each province.
PEI financial resource exemptions compared to other provinces	Comparison of financial resource exemptions would indicate how PEI measures against other provinces. However, it would not account for cost of living differences in each province.
Percentage of recipients paying more than the shelter maximum	The percentage of recipients paying more than the shelter maximum could indicate whether the shelter maximum is adequate.
Percentage of recipients referred to employment training programs	The percentage of recipients referred to employment training programs could provide insight on whether clients are moving toward self sufficiency.
Analysis of social assistance benefits against the established Market Basket Measure (MBM)	The MBM is based on the cost of a specific basket of goods and services including the cost of food, clothing, footwear, transportation, shelter, etc. How much of the basket of goods and services a person can afford with their income can be an indicator of whether their income is sufficient to meet these needs.

2.17 This is not intended to be an all inclusive list or an opinion on the merits of any one indicator. Rather, it's presented to highlight that several relevant measurable indicators are available that could be adopted by the Department to develop a framework for measuring and reporting on program performance. Defining program indicators and targets is an important element of tracking and measuring the progress and success of the Social Assistance Program. The indicators which are selected should drive the information that the Department routinely obtains and analyzes.

2.18 Improved program performance information would assist government in assessing and making decisions on social assistance rates. Policy decisions on social assistance rates impact the outcomes of the Program, and it is important that relevant performance information is obtained and analyzed.

2. Social Assistance Program

Lack of compliance with legislative reporting requirements

2.19 The *Social Assistance Act* requires that an annual report be provided to the Legislative Assembly on the administration of the Act. Historically, there has been no separate report to the Legislative Assembly on the administration of the *Social Assistance Act*, although some program information has been provided in the Department's Annual Report. This information was largely activity based and included caseload information and the amount of benefits paid.

2.20 The *Financial Administration Act* requires that departmental annual reports be made public within six months after the financial year-end, and that these reports contain the goals and results achieved for the Department. As at December 31, 2017, the last annual report of the Department was tabled in February 2015, for the 2012-13 fiscal year. The Department has not issued annual reports for the last four fiscal years as required by legislation.

2.21 Timely relevant reports are required to comply with legislation. Further, they are important to demonstrate the extent to which the Program is meeting its objectives and assisting those in need.

Recommendations

2.22 The Department of Family and Human Services should establish performance indicators and targets to measure and monitor its progress in achieving the objectives of the Social Assistance Program.

2.23 The Department of Family and Human Services should annually report to the Legislative Assembly on the administration of the Social Assistance Program including program goals and results achieved.

RATES OF SOCIAL ASSISTANCE BENEFITS

2.24 Under the *Social Assistance Act*, Executive Council is responsible to establish categories and rates of assistance. Rates have been established for expenses such as food, clothing, household, and personal requirements. Qualifying recipients are eligible for payments based on their family size and ages of dependants. For shelter, the recipient is entitled to actual shelter costs up to the shelter ceiling established pursuant to the Act.

2. Social Assistance Program

Exhibit 2.4 shows the monthly basic allowances and maximum shelter allowance under selected family situations.

EXHIBIT 2.4
SOCIAL ASSISTANCE PROGRAM
MONTHLY BENEFIT AMOUNT
AS AT MARCH 31, 2017

Benefit	Single person	Single person with one child ¹	Couple with two children ²
Basic Needs Allowance			
Food	\$196	\$ 305	\$ 587
Clothing	24	48	99
Household	15	20	31
Personal	<u>19</u>	<u>32</u>	<u>65</u>
Total Basic Needs Allowance ³	254	405	782
Maximum Shelter Allowance	539	681	854
Total	\$793	\$1,086	\$1,636

Source: Compiled based on approved rates pursuant to the *Social Assistance Act* and regulations.

¹Child aged 11 and under.

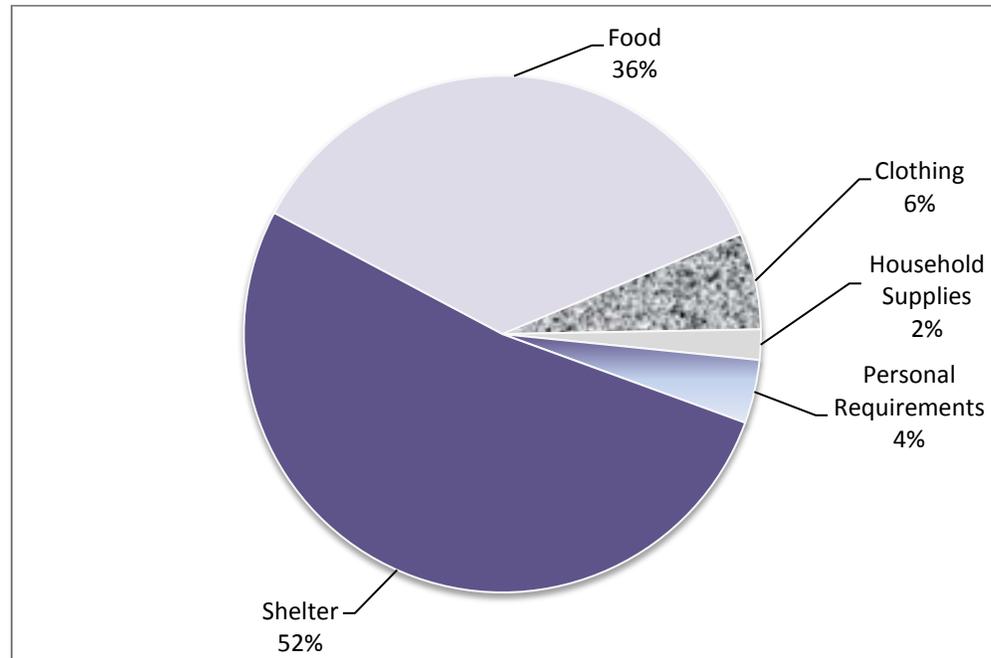
²One child aged 11 and under; another child aged 12-17 years.

³Does not include other benefit amounts such as travel, telephone, and items of special need.

2.25 Exhibit 2.5 shows the breakdown of the typical monthly basic needs allowances and shelter benefits by category which total \$1,636 for a couple with two children. Although the total benefit amounts vary based on family composition, the general breakdown is similar.

2. Social Assistance Program

EXHIBIT 2.5 SOCIAL ASSISTANCE PROGRAM MONTHLY BENEFITS BY CATEGORY¹



Source: Compiled based on approved rates pursuant to the *Social Assistance Act* and regulations.
¹Family includes 2 adults, 1 child aged 11 and under, and another child aged 12-17 years.
Note: Does not include other benefit amounts such as travel, telephone, and items of special need.

Food rates based on a five year plan

2.26 In 2014, Executive Council approved a plan to establish a target for PEI food rates. The goal of this plan was that by the end of year five, the 2018-19 fiscal year, PEI food rates would be 70 percent of the Atlantic average cost of the National Nutritious Food Basket, which is a standard measure. The target included consumer price indexing based on a 10 year rolling average.

2.27 The year one increase was implemented based on the plan, but food rate increases for years two and three were delayed five and seven months respectively. The increase planned for April 1, 2017, year four of the plan, was not implemented as of December 2017.

2. Social Assistance Program

2.28 Exhibit 2.6 shows actual food rates, as well as a calculated target at April 1, 2017. This calculation uses 70 percent of the Atlantic cost of the National Nutritious Food Basket, indexed at 3.2 percent annually with base year 2014.

EXHIBIT 2.6
SOCIAL ASSISTANCE PROGRAM
MONTHLY FOOD RATES
APRIL 1, 2017

Recipient Category	Actual Rate	Target ¹
Single person	\$196	\$200
Single person with one child ²	\$305	\$304
Couple with 2 children ³	\$587	\$613

Source: Based on approved rates pursuant to the *Social Assistance Act* and regulations.

¹Calculated using 70 percent of the Atlantic cost of the National Nutritious Food Basket, indexed at 3.2 percent annually with base year 2014.

²Child aged 11 and under.

³One child aged 11 and under and another child aged 12-17 years.

Shelter ceiling last increased in 2013

2.29 There is no standard methodology for setting shelter rates. Payments for shelter make up the majority of the monthly benefits provided to recipients and include rent or mortgage costs plus heat, utilities, fire insurance, and property taxes. The same shelter ceiling rate is used across the province. As of January 1, 2018, shelter ceilings had not been increased in over four years, since November 2013.

2.30 The Department of Family and Human Services also administers subsidized housing programs which provide rent supplements for qualifying seniors and families. For these programs, the Department advised that the rent ceiling rates are adjusted annually and are supported by surveys of the actual costs of rental units in Charlottetown and Summerside. These rent supplement programs allow rent ceilings much higher than those allowed for social assistance recipients. In addition, the Island Regulatory and Appeals Commission regularly reviews rental rates and increased rates between November 1, 2013 and March 31, 2017 by a total of 5.25 percent.

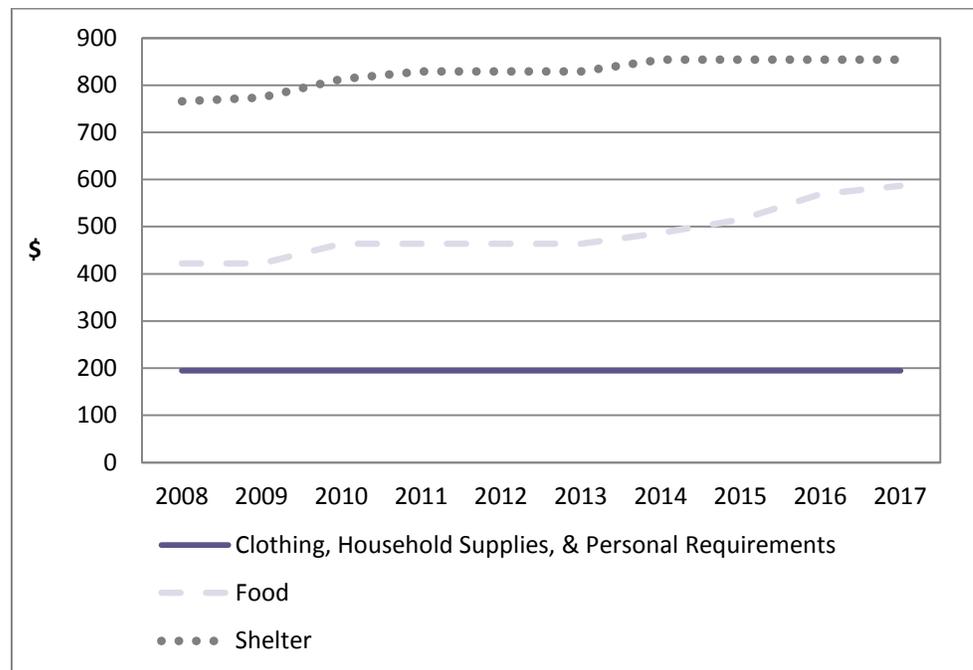
2. Social Assistance Program

Clothing, household, and personal requirement rates not increased in over 10 years

2.31 The Department has not established a methodology for setting monthly rates for clothing, household, and personal requirements. As at December 2017, these rates have not been increased in over ten years.

2.32 Exhibit 2.7 shows the rates for the ten years ended March 31, 2017. Although these rates and amounts vary based on family composition, the ten year trend is consistent for all situations.

EXHIBIT 2.7 SOCIAL ASSISTANCE PROGRAM 10 YEAR RATE HISTORY MONTHLY BENEFITS FOR A FAMILY OF FOUR¹



Source: Compiled based on approved rates pursuant to the *Social Assistance Act* and regulations.

¹Family includes 2 adults, 1 child aged 11 and under, and another child aged 12-17 years.

2. Social Assistance Program

Information on social assistance rates and exemptions not annually provided to Executive Council

2.33 The *Social Assistance Act Regulations* state that Executive Council

shall review annually

(a) the established rates of financial assistance; and

(b) exemptions from the calculation of financial resources

to determine their adequacy in meeting the needs of applicants.

2.34 The Department is not providing information annually to Executive Council for its review of all rates of financial assistance and exemptions from financial resources. The information provided was limited to the specific change requested. For example, changes to the rates for clothing, household, and personal requirements have not been requested in over ten years. Therefore, information on these rates was not provided to Executive Council. Similarly, changes to shelter ceilings were not requested in four years and information on the adequacy of these ceilings was not submitted to Executive Council for review during this time.

2.35 Financial assistance is a major component of the Program and therefore the rates provided are integral to the achievement of program objectives. As previously indicated, the Department should be routinely obtaining and analyzing information on program performance. This information should be provided to Executive Council for its annual review of the social assistance rates and exemptions as required in the regulations. It is important to note that we made similar observations on limitations in information provided to Executive Council in our previous audits in 1994 and 2000.

Rate changes implemented prior to Executive Council approval

2.36 We reviewed the changes to rates and exemptions for the period April 1, 2007 to March 31, 2017 to determine if Executive Council approval was obtained prior to implementation. We noted ten instances where rate changes were implemented by the Department prior to receiving Executive Council approval. In November 2016, revised food rates were implemented but not approved by Executive Council until June 2017. The other instances relate to increases implemented between July

2. Social Assistance Program

2007 and July 2009 but not approved until August 2009. We did not note any issues with the implementation of changes to exemptions for the period April 1, 2007 to March 31, 2017.

Recommendations

2.37 The Department of Family and Human Services should annually provide information to Executive Council to support its review of social assistance rates and exemptions from financial resources.

2.38 The Department of Family and Human Services should ensure that changes in social assistance rates are approved by Executive Council prior to implementation.

DETERMINATION OF ELIGIBILITY

2.39 To determine whether an applicant for social assistance is a person in need, the *Social Assistance Act Regulations* state the following shall be taken into consideration:

- amounts needed by the applicant for items of basic need and items of special need; and
- value of the financial resources of the applicant.

Where the need is greater than the applicant's resources, the applicant may be granted financial assistance by the Department if he or she meets the eligibility criteria established in the regulations.

2.40 Applicants are required to provide the necessary information to support their eligibility and calculate any benefit to which they may be entitled. The calculation must be supported with proof of eligible expenses, medical reports, verification of income and any other information required to assist in assessing eligibility. Based on our sample testing, we found the Department assessed eligibility based on the requirements of regulations and policy. However, continued eligibility was not always assessed on a timely basis.

Annual reviews not always completed on time

2.41 The *Social Assistance Act Regulations* allow assistance to be provided for a period not exceeding 12 months. To continue beyond 12 months, a new application is required. This new application is generally

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completed during the annual review. The annual review is important to ensure continued eligibility of the recipient and to identify changes in the needs of the recipient. All supporting documentation must be provided and a client declaration must be reviewed and signed by the recipient agreeing to report any future changes in circumstances.

2.42 We reviewed documentation to determine whether annual reviews were completed within the required 12 months. Of the files tested where the recipient received benefits for over 12 months, 78 percent of the annual reviews were not completed on time. In many cases, the annual review was over two months late, with one ten months late. In all cases examined, the recipients were still eligible when the reviews were completed, however changes in benefit amounts were sometimes required.

System controls circumvented

2.43 To ensure that annual reviews are completed on time, controls have been built into the Department's case management system. If an annual review is not completed within 14 months of the last review/application, the system will not allow payments to be released for that recipient. A two month window from the 12 month requirement is built in to allow for unforeseen circumstances and is not intended to be used regularly.

2.44 We found that in all instances in our sample where the review was over two months late, this control was circumvented to ensure payments continued. In these situations, a new document was added in the system which allowed payments to continue. However, there was no meeting with the client and the required documentation was not updated. This practice increases the risk that changing needs will not be identified and benefits will be provided to ineligible recipients.

Recommendation

2.45 **The Department of Family and Human Services should complete annual reviews in accordance with the *Social Assistance Act Regulations*.**

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Home visits not consistently conducted

2.46 Program policy requires that home visits be conducted in determining initial and continued eligibility. We expected a home visit to be completed at least annually. In 77 percent of the files in our sample, there was no indication that a home visit had been conducted during our audit scope period.

2.47 Home visits are important to help identify the needs and challenges of recipients. This information would assist the Department to provide the appropriate program resources and services.

Recommendation

2.48 The Department of Family and Human Services should conduct and document home visits in accordance with Program policy.

No process to consistently record denied applications

2.49 We requested information on denied applications. Management provided a report on denied applications, but it was not complete as the Department does not consistently track and record denied applications in the case management system.

2.50 Information on denied applications is needed for management oversight and would be useful to monitor trends such as the number and location of denied applications year over year. In addition, management could periodically select denied applications and conduct reviews to ensure that decisions were made based on regulations and policy.

Applicants not always advised in writing of the decision and right to appeal

2.51 The *Social Assistance Act Regulations* require that all applicants for financial assistance be advised in writing of the decision. If the application is approved, the applicant is to be informed in writing of the amount that will be paid, the method and duration of payment as well as his/her responsibilities. If the application is denied, the applicant is to be advised of the reason for the denial. In addition, all applicants, whether

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their applications are approved or denied, are to be informed of their right to appeal the decision.

2.52 Approved applicants were informed of the duration of their approval and their responsibilities. This was done through a client declaration which was signed by the applicant prior to receiving assistance. However, this document did not include the amount of assistance approved or information on the right to appeal. Management advised that written notification is not routinely provided to denied applicants.

2.53 In total, 40 percent of applicants in our sample were not informed in writing of their right to appeal the decision. When applicants are not provided with written notification, they are not receiving adequate information on the decision, and may not have sufficient information to exercise their right to appeal as provided for under legislation.

Recommendations

2.54 The Department of Family and Human Services should record all applications in the case management system.

2.55 The Department of Family and Human Services should inform all applicants in writing of its decision regarding social assistance, the reason(s) for the decision, any amounts approved, and the right to appeal.

PAYMENT OF BENEFITS

2.56 Payments for basic needs are calculated based on rates established pursuant to the *Social Assistance Act*. **Appendix D**, of this chapter, provides a description of the most common needs categories.

2.57 Applicants are required to provide information on their financial resources as part of their needs calculation. Financial resources include various types of income, employment insurance payments, liquid assets, and any other assets that can be converted to cash as well as money from other sources including windfalls and other types of financial aid. There are various exemptions from the calculation of financial resources such as real property used as the applicant's principal residence, income earned by a dependent child who is in a full-time educational program, and federal child tax benefits.

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2.58 We selected a sample of recipients and reviewed related files to determine whether

- income and needs documentation was obtained;
- benefit payments were made to the correct payee;
- benefit payments were made in the correct amount; and
- payments were properly authorized.

Proper documentation obtained and payments made to the correct payee

2.59 For each of our sample recipients, the proper income and needs documentation was obtained and on file. All benefit payments we reviewed were made to the correct payee.

Some payments not properly calculated

2.60 For a sample of recipients, we recalculated all payments from April 1, 2016 to March 31, 2017. Thirteen percent of the recipients in our sample received less benefits than they were entitled to receive based on their circumstances and documentation in their file. The impact to the clients varied and ranged from \$9 to \$154 per month. In a program with recurring monthly payments, it's important that processes are implemented to detect and correct errors on a timely basis.

2.61 In 2016-17, the Department's Audit Services Section implemented a process to randomly review recipient files. Part of this process involved examining supporting documentation and application of program policies to ensure payments were correct. We expect that this internal review function will assist in identifying and addressing payment issues on a go forward basis. These internal reviews are a key control and it is important that the Department continues to randomly select files to ensure compliance with regulations and policies.

Recommendation

2.62 The Department of Family and Human Services should maintain the internal review function of its Audit Services Section.

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Payments not authorized in accordance with Treasury Board Policy

2.63 Treasury Board Policy requires anyone authorizing payments to have signing authority delegated by the Deputy Minister. Further, payments can only be authorized up to the signing authority delegated.

2.64 Most social assistance payments tested were not properly authorized in accordance with Treasury Board Policy. Only senior staff within the Division were delegated signing authority by the Deputy Minister. Caseworkers, who authorize the large majority of social assistance benefits, were not delegated signing authority in accordance with Treasury Board Policy.

Recommendation

2.65 Management of the Social Programs Division should ensure social assistance payments are authorized in accordance with Treasury Board Policy.

CASE PLANNING

2.66 A key document required when receiving social assistance benefits is a case plan. Policy requires these case plans include specific goals, tasks, and services which are intended to help the recipient achieve the greatest level of self sufficiency. Two of the three program objectives relate to preventing or reducing social dependency, as well as enabling individuals or families to achieve normal social functioning, to the extent possible. Successful and relevant case planning is needed to achieve these objectives.

2.67 Program policy requires a case plan be developed for each recipient of social assistance and their family. Ongoing compliance with the case plan is a condition of continued eligibility.

2.68 Based on program policy, we reviewed a sample of recipient files to determine whether case plans

- were prepared for each recipient;
- were signed by each recipient;
- contained goals and related tasks for each recipient;
- were applicable to each individual recipient's circumstances; and
- were updated at least annually.

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Case plans vague and not tailored to the recipient's circumstances

2.69 Case plans were completed for 93 percent of the recipients in our sample and were signed to indicate knowledge and acceptance of the plan. However, many were not comprehensive and were often not completed on a timely basis.

2.70 Case plans should have goals and related tasks based on each individual's situation. We found that case plans often did not contain goals and tasks as required by policy. When case plans contained goals, they were often vague and it was not clear how they would benefit the recipient. There were rarely specific tasks that would assist the recipient to improve self sufficiency.

2.71 In situations where the recipient had specific challenges, the case plans should reflect these challenges. Twelve recipients in our sample were considered exempt from seeking employment for medical reasons. In approximately 30 percent of these, the case plan did not mention the medical issues, or how these issues would be addressed. In these situations it is clear that the case plans were not specific to the individual recipient's circumstances.

2.72 Policy states that case plans for young parents should contain an assessment of strengths and weaknesses of the recipient and address supports which would be needed for successful parenting. We noted an instance where a recipient was expecting a child and would soon be a young parent. The recipient's case plan did not contain the assessment required or supports to address the upcoming change in circumstances.

Case plans not updated in a timely manner

2.73 The circumstances of recipients can change frequently and when this happens the case plans should be updated to reflect the changed circumstances, as well as the impact on the recipients' goals. Program policy requires a case plan to be updated at least annually. This is usually done at the time of the annual review. Adherence to the case plan is also a requirement for continued eligibility. In 77 percent of files examined, the case plans were not updated as required. Of these, over half were more than 60 days overdue.

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2.74 Case plans are an important tool to assist in achieving self sufficiency and accessing appropriate services which would benefit recipients. Where case plans are not complete, or are not current, the recipient's plan for working towards independence is not documented. In addition, without timely case planning, the revised needs of recipients and their families may not be identified by caseworkers and required services may not be provided.

Recommendation

2.75 The Department of Family and Human Services should complete and update case plans for recipients of social assistance in accordance with policy.

CONCLUSION

2.76 Social assistance rates and financial resource exemptions were not submitted annually to Executive Council for review. Information on specific rates and exemptions was only provided when changes were requested by the Department.

2.77 The Department of Family and Human Services assessed eligibility based on requirements in regulations and policy. However, annual reviews required to confirm continued eligibility were often overdue. Social assistance payments were not always appropriately calculated and most payments were not authorized in accordance with Treasury Board Policy.

2.78 Case plans were not completed and updated for social assistance recipients in accordance with policy. The tasks and goals were often vague and did not reflect the needs of the recipient.

2.79 The Department has not developed performance indicators to measure and report on the achievement of program objectives.

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MANAGEMENT RESPONSE

The Department of Family and Human Services acknowledges and accepts the audit recommendations and will be meeting as a senior team to ensure they are addressed in a timely manner.

Our intent is to incorporate your recommendations into an ongoing review of the Social Assistance Program. Our aim is to modernize the program and ensure it is more client focused and delivered in a collaborative manner with clients, other government departments and service providers. Your recommendations will build upon a number of recently introduced departmental initiatives related to enhancing case management and increasing focus on client supports and outcomes. We have recently trained all staff on motivational interviewing, and will continue to support staff through additional training, coaching and mentorship. In addition, we are transitioning to a collaborative case management model through spring 2018 which will lead to more effective case management and better outcomes for clients.

We have also begun to place greater focus on performance management by introducing an accountability framework, key performance indicators, and developing client profiles to better understand individual needs. We intend to use this information to support broader evaluation and program redesign efforts. As well, we are trending monthly social assistance appeal rates over the past three years and have seen a significant reduction for this fiscal year; which we believe is attributed to a change in how we respond to client needs that fall outside of policy. A new Exemptions and Exceptions Committee, within the Social Programs Division, will monitor exceptions to support changes in policy that better reflect the changing needs of Islanders accessing social assistance.

Thank you for the efforts of your team and the recommendations. We are committed to addressing the audit recommendations and look forward to reporting on the positive impacts of the social assistance reform efforts in the months to come.

AUDIT OBJECTIVES AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island. The purpose of this audit is to conclude on whether the review of social assistance rates and financial exemptions, provision of benefits, and completion of case plans complies in all significant respects with the applicable criteria. The Department of Family and Human Services accepted responsibility for the subject under audit.

Work conducted for this audit was performed to a reasonable level of assurance in accordance with the Canadian Standards for Assurance Engagements (CSAE) 3001 - Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook - Assurance.

The Office applies the Canadian Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal, and regulatory requirements.

In conducting the audit work, we have complied with independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Prince Edward Island and the Code of Conduct of the Office of the Auditor General of Prince Edward Island. Both the Rules of Professional Conduct and the Code of Conduct are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

OBJECTIVES

The objectives of this audit were to determine whether

- social assistance rates and financial exemptions were submitted annually to Executive Council for review and approval;
- the Department of Family and Human Services assessed, authorized and provided social assistance benefits in accordance with regulations and policy; and

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APPENDIX A

- case plans were completed and updated for social assistance recipients in accordance with policy.

We developed a number of criteria to assess whether the Department of Family and Human Services had met the objectives. These criteria are listed in Appendix B.

Criteria were primarily based on relevant legislation and policies. Management accepted the relevance and suitability of the criteria used in the audit.

We also assessed the Department's processes for measuring and reporting on achievement of program objectives.

SCOPE AND APPROACH

The scope of our audit covered the period April 1, 2016 to March 31, 2017. We examined documentation outside that period as necessary.

Our approach included

- interviews with management and staff of the Department of Family and Human Services and the Department of Finance;
- review of relevant legislation and policies;
- review and analysis of documentation obtained from the Department; and
- testing a sample of applicant files.

In testing applicant files, we examined eligibility, benefit payments, and case plans developed during the audit scope period.

In reviewing rates and financial exemptions, we examined related Executive Council approvals for the ten year period ending March 31, 2017.

We reviewed recent reports completed by the Department's Audit Services Section and considered this work in the development of our audit plan.

We did not audit the IT system. We did however, examine selected IT controls relevant to our audit objectives.

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APPENDIX A

Our audit was not designed to report on whether the assistance provided was adequate to meet the needs of clients.

It is important to note that our observations and conclusions relate only to the management practices of the Department of Family and Human Services. Consequently, our comments and conclusions do not pertain to the practices or performance of any third parties.

DATE OF REPORT

We obtained sufficient and appropriate audit evidence on which to base our conclusions on January 22, 2018, in Charlottetown, Prince Edward Island.

AUDIT CRITERIA

We had three objectives for this audit. The objectives and criteria follow:

1. Audit Objective

To determine whether the social assistance rates and financial resource exemptions are submitted annually to Executive Council for review and approval.

Audit Criteria

The Department of Family and Human Services should provide information annually to Executive Council for its review of social assistance rates and financial resource exemptions.

Social assistance rates and financial resource exemptions should be authorized by Executive Council.

2. Audit Objective

To determine whether the Department of Family and Human Services assesses, authorizes, and provides social assistance benefits in accordance with regulations and policy.

Audit Criteria

Applicants should be assessed for eligibility and authorized based on regulations and policy.

Applications should be supported with the proper income and needs documentation.

Benefits payments should be made in the correct amount to the correct payee.

3. Audit Objective

To determine whether case plans are completed and updated for social assistance recipients in accordance with policy.

Audit Criteria

Case plans should be completed as required by policy.

Case plans should be reviewed and updated every 12 months in accordance with policy.

RECOMMENDATIONS*
<p>Recommendation 2.22 The Department of Family and Human Services should establish performance indicators and targets to measure and monitor its progress in achieving the objectives of the Social Assistance Program.</p>
<p>Recommendation 2.23 The Department of Family and Human Services should annually report to the Legislative Assembly on the administration of the Social Assistance Program including program goals and results achieved.</p>
<p>Recommendation 2.37 The Department of Family and Human Services should annually provide information to Executive Council to support its review of social assistance rates and exemptions from financial resources.</p>
<p>Recommendation 2.38 The Department of Family and Human Services should ensure that changes in social assistance rates are approved by Executive Council prior to implementation.</p>
<p>Recommendation 2.45 The Department of Family and Human Services should complete annual reviews in accordance with the <i>Social Assistance Act Regulations</i>.</p>
<p>Recommendation 2.48 The Department of Family and Human Services should conduct and document home visits in accordance with Program policy.</p>
<p>Recommendation 2.54 The Department of Family and Human Services should record all applications in the case management system.</p>
<p>Recommendation 2.55 The Department of Family and Human Services should inform all applicants in writing of its decision regarding social assistance, the reason(s) for the decision, any amounts approved, and the right to appeal.</p>
<p>Recommendation 2.62 The Department of Family and Human Services should maintain the internal review function of its Audit Services Section.</p>
<p>Recommendation 2.65 Management of the Social Programs Division should ensure social assistance payments are authorized in accordance with Treasury Board Policy.</p>
<p>Recommendation 2.75 The Department of Family and Human Services should complete and update case plans for recipients of social assistance in accordance with policy.</p>

*Note: Recommendation numbers refer to the paragraph number in this chapter.

2. Social Assistance Program

APPENDIX D

SOCIAL ASSISTANCE PROGRAM DESCRIPTION OF BENEFIT CATEGORIES

Benefit payments are calculated based on rates set for categories of need. Information on some of the more common categories is provided below.

Benefit Type	Description of Monthly Amounts
Food	An allowance to cover grocery costs in accordance with the size of the family unit. Food rates range from \$196 for a single adult to \$587 for a family of four. ¹ Food rates are increased by \$114 to \$190 for each additional person in the family, depending on age and family size.
Shelter	Actual shelter costs are provided up to a ceiling cut off. Ceiling rates include rent or mortgage cost plus heat, utilities, fire insurance, and property taxes and range from a maximum of \$539 for a single person to \$854 for 4 persons. For each additional person above four, an additional \$47 is added up to a maximum of 7 persons in total.
Clothing	A clothing allowance of \$24/adult, \$27/child 12-17, and \$24/child 0-11.
Personal requirements	An allowance for personal requirements for items such as toiletries and grooming supplies. Personal requirement rates are: \$19/adult, \$34/couple, \$18/child 12-17, and \$13/child 0-11.
Household supplies	An allowance to cover basic household supplies with rates ranging from \$15 per single person to \$45 for an 8 person or more family unit.
Telephone	An allowance for telephone expense for a single basic telephone of approximately \$35, upon providing proof of expense. Long-distance charges are ineligible.
Transportation	Eligible clients are provided a basic transportation allowance of \$25 per household for local travel. Other transportation allowances can be provided on an as-needed basis, including out-of-province medical, general medical, child care transportation, employment, education, and special needs.
Medical	Clients may obtain medical supplies and equipment when required for health, safety, or well being of the client. The amount provided is the cost of the item of need rather than a set allowance. Medical supplies and equipment could include items such as bandages, disposable needles, disposable diapers, wheel chairs, and modified dinnerware.
Funeral	Funeral expenses are paid where the estate cannot cover the cost and there are no other means to meet these costs. The rates for funeral expenses are \$2,500 for adults and \$1,320 for children under 12.
School Allowance	An allowance to assist applicants with the extra costs of children attending school, such as supplies, fees, and gym clothing. The school allowance rates are \$75/child 10 years and under, and \$100/child 11 years and older.

Source: Department of Family and Human Services.

¹Two adults, one child under 11, and one child aged 12-17. Amounts in effect at March 31, 2017.

3. MEDICATION CONTROLS: INSTITUTIONAL PHARMACY PROGRAM

CHAPTER SUMMARY

What we examined

This audit examined whether medications, dispensed through the Institutional Pharmacy Program, for residents of provincially-owned long-term care facilities were adequately controlled. A particular focus was on the control of narcotics and other federally controlled drugs. We did not evaluate the appropriateness of prescribed medications.

The Institutional Pharmacy Program is administered by the Provincial Pharmacy and provides fully subsidized prescription medications to residents of provincially-owned long-term care facilities.

Why it's important

In Canada, high risk medications have become a leading public health and safety concern. Health PEI is responsible for residents of ten provincially-owned long-term care facilities. Narcotics and controlled drugs dispensed through the Program including opioids and sedatives are among the types of drugs most commonly misused. Given the volume and inherent risks associated with these drugs, it is important that controls are implemented to protect patient safety and to reduce the likelihood of misuse and/or diversion.

What we found

Overall, we concluded that narcotics and controlled drugs for residents of provincially-owned long-term care facilities were not adequately controlled. Health PEI's medication control practices could be strengthened with improved coordination and the establishment of policies and procedures in key areas. The following weaknesses have been identified:

- There were several inventory control weaknesses at the Provincial Pharmacy including unsupported inventory adjustments.

3. Medication Controls: Institutional Pharmacy Program

- Health PEI's system for dispensing narcotics to provincially-owned long-term care facilities does not provide adequate control over inventory and limits the ability of Provincial Pharmacy staff to provide effective oversight.
- Inventory of controlled drugs such as benzodiazepines was not routinely counted, recorded, and reconciled in long-term care facilities. However, inventory processes for counting and reconciling narcotics were generally operating as expected in four wards examined.
- There were inadequate controls over the return of unused narcotics and controlled drugs from the provincially-owned long-term care facilities to the Provincial Pharmacy.
- Narcotics and controlled drugs awaiting disposal at the Provincial Pharmacy were not de-natured or disposed of by a licensed dealer in accordance with Health Canada requirements.

In addition, we noted there were adequate controls over the transportation of narcotics and controlled drugs from the Provincial Pharmacy to long-term care facilities. Physical security over narcotics was adequate at four selected wards examined.

BACKGROUND

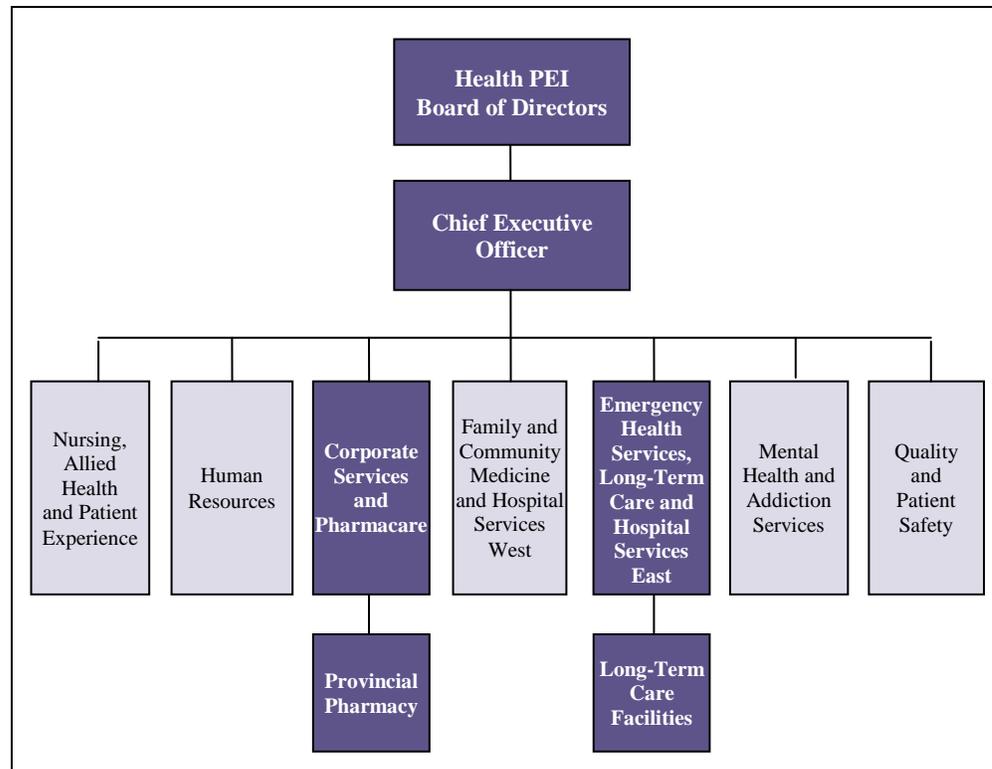
3.1 The Institutional Pharmacy Program provides pharmacy services to provincially-owned long-term care facilities. This program is 1 of 13 subsidized pharmacare programs administered by the Provincial Pharmacy. All residents in government operated long-term care homes are automatically eligible under the program and receive full coverage for any medications approved on the *PEI Pharmacare Formulary*.

3.2 Health PEI is responsible for the operation and delivery of publicly funded health services in Prince Edward Island. During our audit, the Provincial Pharmacy operated under the Corporate Services and Pharmacare Division, one of Health PEI's seven divisions. Provincially-owned long-term care facilities fall under the Emergency Health Services, Long-Term Care and Hospital Services East Division. In October 2017, responsibility for clinical services provided by the Provincial Pharmacy was transferred to this division. Responsibility for administration of Pharmacare programs was retained under Corporate Services and

3. Medication Controls: Institutional Pharmacy Program

Pharmacare. **Exhibit 3.1** shows a summarized organization chart for Health PEI as of August 31, 2017.

EXHIBIT 3.1 ORGANIZATION CHART HEALTH PEI AUGUST 31, 2017



Source: Adapted from Health PEI organization chart.

3.3 The Provincial Pharmacy is staffed by nine employees, consisting of one managing pharmacist, two pharmacists, and six pharmacy technicians, who are responsible for dispensing prescriptions to the residents of provincially-owned long-term care facilities. Medications are administered to residents by nursing staff at each facility.

3.4 The Institutional Pharmacy Program accounted for 92 percent of all medications dispensed and 75 percent of all active clients served by the Provincial Pharmacy during our scope period. **Exhibit 3.2** provides summary information on the provincially-owned long-term care facilities including the number of residents and prescriptions dispensed through this program during the year ended March 31, 2017.

3. Medication Controls: Institutional Pharmacy Program

EXHIBIT 3.2 PRESCRIPTIONS BY FACILITY INSTITUTIONAL PHARMACY PROGRAM YEAR ENDED MARCH 31, 2017

Long-Term Care Facility	# of Active Clients	# of Scripts	% of Scripts
Colville Manor	70	3,374	6%
Riverview Manor	71	4,861	8%
Prince Edward Home	182	11,466	20%
Beach Grove Home	170	11,328	20%
Summerset Manor	114	7,390	13%
Wedgewood Manor	116	7,540	13%
Stewart Memorial	26	2,072	4%
Margaret Stewart Ellis Home	46	3,779	7%
Maplewood Manor	67	4,741	8%
Sherwood Home	13	813	1%
Total	875	57,364	100%

Source: Provincial Pharmacy Data

3.5 The Sherwood Home is a small government operated, long-term care facility that provides care for those with physical and intellectual disabilities. While it is included under the Institutional Pharmacy Program, the focus of our work was on the nine long-term care homes providing care to seniors.

3.6 The *PEI Pharmacare Formulary* is a listing of therapeutically effective medications approved by Health PEI for coverage under each of the drug programs. Our focus was on narcotics and controlled drugs, particularly benzodiazepines, approved on the formulary. These medications are frequently used in the long-term care facilities.

3.7 Specific federal legislation has been enacted resulting in stringent control requirements over narcotics and benzodiazepines. The *Controlled Drugs and Substances Act* and supporting regulations govern the use of these drugs in hospitals, pharmacies, and long-term care facilities. **Appendix D**, in this chapter, provides summary information on these types of drugs referenced to federal legislation.

3. Medication Controls: Institutional Pharmacy Program

3.8 Opioids are a common example of narcotics used to treat pain. Benzodiazepines are a category of drugs that are sedating and are used for treating anxiety and sleep disorders. Both categories of drugs, prescribed to residents in the long-term care setting, are not recommended for long-term use due to patient safety concerns including a higher risk of developing serious adverse effects, tolerance, dependence, or addiction. These drugs are subject to greater risk of diversion and/or misuse due to their addictive properties.

OBJECTIVES AND SCOPE

3.9 The objective of this audit was to determine whether medication for residents of provincially-owned long-term care facilities was adequately controlled. Details on the audit objectives and scope, and audit criteria are included in **Appendix A** and **Appendix B** of this chapter. The recommendations are listed in **Appendix C**. The following sections provide information on the findings, related recommendations, and conclusions from our audit.

OBSERVATIONS AND RECOMMENDATIONS

MEDICATION CONTROLS: POLICIES AND COORDINATION

3.10 Medication controls are a shared responsibility across various divisions of Health PEI. Both the Provincial Pharmacy and the provincially-owned long-term care facilities have a responsibility to ensure the security of high risk medications and to implement appropriate controls based on best practice within their respective operations.

3.11 Weaknesses in medication controls increase the risk of medication errors and diversion of medications. Our audit focused on narcotics and other federally controlled drugs. We examined the inventory controls at the Provincial Pharmacy, dispensing to the long-term care facilities, medication distribution controls in the long-term care facilities, the return of unused medications from the long-term care facilities, and the disposal of medications by the Provincial Pharmacy. Throughout this cycle, Health PEI must ensure there is a clear line of sight over, and accountability for, each unit of narcotics and controlled drugs.

3.12 In addition to operational responsibility, the control of medication is a shared responsibility among several disciplines. Healthcare professionals including nurses and pharmacists have a responsibility to

3. Medication Controls: Institutional Pharmacy Program

comply with their respective professional standards related to safe administration and control over medications. A coordinated effort among all parties involved is required to implement and enforce appropriate procedures to comply with federal legislation as well as nursing and pharmacy practice standards.

3.13 The control of narcotics and other controlled drugs requires a systematic approach for the prevention and detection of loss and misuse throughout the entity. We expected Health PEI to have a framework to effectively monitor narcotics and other controlled drugs and provide a readily available trail of accountability for each unit of these medications.

Need for additional policies and procedures

3.14 Based on our work, we found that Health PEI does not have policies and procedures to guide staff in certain key medication control areas. We requested all medication related policies from Health PEI and were provided with several approved policies which apply to both the Provincial Pharmacy and long-term care facilities.

3.15 This report identifies several areas where controls over narcotics and controlled drugs need to be improved. These areas include

- inventory controls at the Provincial Pharmacy;
- dispensing and profiling practices;
- inventory controls at long-term care facilities; and
- medication disposal procedures.

Additional policies and procedures in these areas are needed to establish expectations and improve control over medications. These policies would also help provide assurance that legislative requirements and professional standards are being met.

Need for improved coordination

3.16 We also noted a lack of coordination between the Provincial Pharmacy and the provincially-owned long-term care facilities including the return of unused medications and the completion of medication reviews. In addition, there was limited involvement of pharmacists in the

3. Medication Controls: Institutional Pharmacy Program

long-term care facilities which affects the pharmacists' ability to monitor the distribution and use of narcotics.

3.17 A multi-disciplinary Drugs and Therapeutics Committee is one approach to improved coordination among disciplines and operational divisions. These committees are considered good practice and are commonly used in other jurisdictions to provide oversight, for example in development of policies and procedures, and monitoring of narcotics usage.

3.18 We noted that Health PEI has a multi-disciplinary Drugs and Therapeutics Committee. The purpose of the Committee is to make recommendations regarding all matters relating to drug usage throughout the province. The scope of activities includes policies and procedures relating to prescription distribution and administration of drugs.

3.19 We were advised this Committee has been primarily involved in decisions regarding changes to the *PEI Pharmacare Formulary* and other emerging policy areas. It has not been focused on medication control practices in the Provincial Pharmacy and provincially-owned long-term care facilities. The Drugs and Therapeutics Committee has a role to facilitate improved coordination. In addition, it has a role to oversee the development of policies and procedures to guide staff on medication controls in accordance with legislation as well as nursing and pharmacy standards.

Recommendation

3.20 Health PEI should develop policies and procedures to strengthen medication controls and improve coordination for management and delivery of the Institutional Pharmacy Program.

PROVINCIAL PHARMACY: INVENTORY CONTROLS

3.21 The Provincial Pharmacy is responsible to procure and dispense medications for residents at Health PEI's provincially-owned long-term care facilities. Due to the increased risks associated with narcotics and other controlled drugs, federal regulations stipulate that pharmacists and practitioners must take all reasonable steps necessary to ensure their security. The Provincial Pharmacy does not have documented policies and procedures on inventory controls. We examined whether the Provincial Pharmacy has implemented sufficient inventory controls over narcotics and other controlled medications. Overall, we identified several

3. Medication Controls: Institutional Pharmacy Program

inventory control weaknesses related to inventory adjustments and electronic logins.

3.22 Narcotics and controlled drugs should be counted on a monthly basis. These counts should be documented, reconciled with perpetual inventory records, and any discrepancies investigated. Further, any unexplained shortages must be reported to Health Canada within 10 days in accordance with federal regulations.

Monthly inventory counts not conducted

3.23 We checked for monthly counts of narcotics and controlled drugs at the Provincial Pharmacy. We found that only 7 of the 12 monthly counts of narcotics in our scope period had been conducted. Further, monthly counts of benzodiazepines were not conducted.

3.24 Non narcotics, including controlled drugs such as benzodiazepines, are counted and reconciled to the perpetual records on an annual basis. Annual inventory counts should include records of at least the following

- the name, strength, form and quantity of the drug counted;
- the signature of the pharmacist or technician that performed the count;
- the date the count was taken; and
- the reconciliation records.

3.25 The Provincial Pharmacy completed annual inventory counts of controlled drugs but these records were not signed and dated indicating who conducted the count and when it was performed.

3.26 The Pharmacy maintains perpetual inventory records using an automated program which tracks all manual adjustments related to physical counts and all other activity including procurements, disbursements, and returns. Manual adjustments are made if there are variances between quantities on hand and quantities recorded in the inventory records.

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Manual inventory adjustments not always supported

3.27 Manual adjustments to electronic records are a high risk area. We were advised that Pharmacy management does not routinely investigate adjustments for inventory shortages.

3.28 We requested supporting documentation for 45 manual adjustments made to narcotics and benzodiazepines from September 2016 to August 2017. Most of these adjustments related to expired medications or variations in receipt of medication from suppliers. We found three adjustments, totalling 191 pills, related to shortages in benzodiazepines for which pharmacy staff could not provide supporting documentation. Further, these unsupported shortages were not reported to Health Canada.

Electronic login controls not utilized

3.29 The Pharmacy's electronic inventory system controls access to the inventory records by requiring individual login information. This unique login is important because it creates an electronic record that links specific users to their activity in the program and prevents unauthorized users from adjusting the records.

3.30 We observed that the electronic login access was not being used as intended. Pharmacy staff regularly leave their user profile signed on, allowing others to record subsequent activity to the same profile. The circumvention of this basic electronic control renders the electronic record unreliable in the event of an unexplained discrepancy.

3.31 Federal legislation and provincial policies impose additional monitoring controls over narcotics and controlled drugs due to the potential for diversion and the risk to patient health. The control weaknesses identified at the Provincial Pharmacy provide the opportunity for unidentified diversion. Weaknesses in inventory counts, management's review of discrepancies, and login controls make it more difficult to identify and assign responsibility should an incident occur.

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Recommendations

3.32 The Provincial Pharmacy should conduct and adequately document monthly inventory counts of narcotics and controlled drugs.

3.33 The Provincial Pharmacy should investigate all inventory discrepancies of narcotics and controlled drugs. All discrepancies should be supported with documentation, reviewed, and signed off by management. Any unexplained variances should be reported.

3.34 The Provincial Pharmacy should enforce individual electronic login protocols.

PROVINCIAL PHARMACY: DISPENSING AND OVERSIGHT

3.35 Health PEI is responsible to ensure that dispensing practices promote control over medication and safe and effective medication use. Narcotics and other controlled drugs are of particular concern and require a systematic approach for prevention and detection of abuse. We examined the processes for dispensing narcotics and controlled drugs to the long-term care facilities.

3.36 Subject to valid prescriptions, licensed pharmacists are responsible for controlling the distribution of narcotics and controlled drugs and promoting their safe use. Based on their professional standards, pharmacists are required to review each prescription and consider patient specific information prior to dispensing. This includes ensuring

- there are no significant drug interactions;
- the medication is appropriate and still required;
- the dose and instructions for use are correct; and
- the resident is receiving appropriate monitoring for the medication.

3.37 Dispensing practices in the Provincial Pharmacy differ from those of a community pharmacy serving the general public. At the Provincial Pharmacy, pharmacists have no interaction with the long-term care patients they serve at the time of dispensing. Therefore, the importance of complete and current patient medication profiles is increased in order for pharmacy staff to provide adequate medication oversight.

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Non narcotics

3.38 The Provincial Pharmacy uses an individual medication order system to dispense non narcotic medications, including benzodiazepines and other controlled drugs to individual patients. Dispensed medication is labeled for the individual resident at the provincially-owned long-term care facility using blister packages that contain no more than a 35 day supply.

3.39 With this system, a patient-specific medication profile is maintained which allows pharmacy staff to review all medications prescribed for a resident before dispensing each prescription. Based on this review, staff can detect or prevent problems such as allergic reactions, duplicate therapy, negative interactions, inappropriate length of therapy, and inappropriate consumption patterns. This oversight is particularly important given the lack of face to face interaction the Provincial Pharmacy has with its patients.

3.40 Another key benefit of maintaining detailed medication patient profiles is the ability to monitor each patient's medication consumption and the timing of refills. Automated alerts are set up notifying pharmacy staff if the time of a refill request is inconsistent with expectations. When this alert is triggered, it could indicate possible patient safety concerns, misuse, or diversion and requires follow up.

Inventory controls not adequate for narcotics dispensed to wards

Narcotics

3.41 For narcotics that are not high-dose, Health PEI has adopted an alternate ward stock based dispensing system. Narcotics are dispensed to the ward and several residents may be consuming from the same blister package. With this system, prescriptions are verified by a pharmacist for appropriateness prior to being recorded in the patient's profile. However, because the order may be dispensed to several patients, there is no individual patient information on the label. The date and quantity details are not recorded in individual patient profiles which makes automated refill alerts ineffective. This process for dispensing narcotics to wards limits the Provincial Pharmacy's ability to monitor for inappropriate

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length of therapy and/or consumption patterns and increases the risk to patient safety. The practice also increases the risk of undetected diversion.

3.42 The use of a ward stock system for dispensing narcotics provides less control than if narcotics were dispensed to individual residents. Management advised that one purpose of using a ward stock system is to limit the total amount of narcotics held in the ward at any given time as multiple residents are sharing one blister package.

3.43 The use of a ward stock based dispensing system for ongoing narcotic treatment is not considered good practice for residents in long-term care facilities. Good practice indicates the use of ward stock narcotics should be limited to the types of narcotics approved for use in the event of an emergency or commonly prescribed on an as needed basis.

3.44 Where ward stock narcotics are used, other mitigating procedures should be implemented. In many jurisdictions, controls over ward stock have been improved with the use of automatic dispensing cabinets. In these situations, electronic controls are implemented to record the date, time, and amount of medication withdrawn for each patient by a person authorized to administer the medication. Other mitigating measures include

- on-site periodic reconciliations of narcotics conducted by pharmacy staff;
- detailed follow-up and accounting for all *Narcotic Control Sheets* by pharmacy staff; and
- periodic review by a multi-disciplinary committee, such as a Drugs and Therapeutics Committee, of the usage of narcotics.

These mitigating measures were not in place at provincially-owned long-term care facilities, and inventory controls relating to ward stock narcotics were not adequate.

Narcotics dispensed to two facilities not in accordance with standard practice

3.45 At the time of our audit, two long-term care facilities were dispensing medications under a slightly different process. For both Colville Manor and one ward in the Prince Edward Home, non-narcotics

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were dispensed through the Queen Elizabeth Hospital (QEH) Pharmacy, but all narcotics continued to be dispensed through the Provincial Pharmacy.

3.46 Prescriptions for narcotics for these two locations were received by hospital pharmacy staff, assessed, and entered into patient profile records in the hospital pharmacy system. The Provincial Pharmacy was instructed to dispense the narcotics. Subsequent refill requests for narcotics were received by Provincial Pharmacy directly from nursing staff of these two facilities. No corresponding prescription or resident information was provided to the Provincial Pharmacy, nor did they have access to the patient profiling system at the hospital pharmacies.

3.47 In these instances, the Provincial Pharmacy staff were not provided the basic information required to dispense narcotics in accordance with standard practice or any documentation supporting that the prescriptions were verified by a hospital pharmacist. A final check should also be performed after medications are prepared and labelled for issue, which includes reading and interpreting the prescription, checking the labels to identify the drug and finally countersigning the prescription prior to dispensing.

3.48 For these two locations, the Provincial Pharmacy was dispensing narcotics without collecting and interpreting relevant patient information. This deviation from standard dispensing controls could impact patient safety and creates an opportunity for diversion.

Recommendations

3.49 Health PEI should improve controls over dispensing and oversight of ward stock narcotics for provincially-owned long-term care facilities.

3.50 Provincial Pharmacy staff should have access to essential information to evaluate the appropriateness of initial prescriptions and refill requests prior to dispensing medication.

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3.51 Medications are transported from the Provincial Pharmacy by couriers to the provincially-owned long-term care facilities. Courier services for facilities in Charlottetown are primarily provided by government employees. Health PEI has contracted a local courier to perform daily pickups and deliveries for two long-term care facilities in Charlottetown and all facilities outside of the Charlottetown area. Given the volume of narcotics and other controlled drugs transported to these facilities, it is important that there are basic controls to document the chain of custody and reduce the overall risk of diversion during transportation.

3.52 Health PEI did not have an approved policy to outline basic control requirements for the transportation of medication between facilities. We examined the process for transporting medication from the Provincial Pharmacy to long-term care facilities. We expected the process to include

- contracts with bonded couriers;
- packing slips used to document the chain of custody; and
- signed verification on receipt of medication.

Controls adequate over transportation of medication to the long-term care facilities

3.53 The agreement between Health PEI and the contracted courier requires that all drivers be bonded. This provides a level of assurance that background checks have been performed on the employees of the courier.

3.54 We examined packing slips to ensure that they were signed by the pharmacist, courier, and recipient to ensure that each party accepted responsibility for the parcel. This process provides an audit trail in the event that a package is missing. Narcotic control sheets were also examined to ensure that they were signed by the pharmacist verifying the quantity prior to shipment and again by the nurse at the ward. This ensures that the quantity dispensed by the Provincial Pharmacy agrees to the actual amounts received by the long-term care wards. Based on our work, we concluded that there were adequate controls over the transportation of medication from the Provincial Pharmacy to the long-term care facilities.

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Recommendation

3.55 Health PEI should document a policy on the transportation of medications from the Provincial Pharmacy to the provincially owned long-term care facilities.

MEDICATION REVIEWS

3.56 Comprehensive medication reviews are an established good practice in long-term care facilities. These medication reviews include the pharmacist's consideration of the resident's medication profile and medical history as well as consultation with the prescriber, nursing staff, and the resident. Given their age and the frequency of multiple medications, residents of long-term care facilities are often considered a higher risk of experiencing medication related problems. Conducting these types of reviews for high risk patients is part of the standards of practice for pharmacists. These reviews should be conducted in collaboration with the health care team. This face to face interaction allows pharmacists to evaluate the results of current medication therapy and identify required adjustments to correct or prevent medication related problems.

3.57 Licensing standards for private nursing homes, approved by the Department of Health and Wellness, require medication reviews to be performed for private nursing home residents. Health PEI subsidizes medication reviews performed by community pharmacists for private nursing home residents taking three or more chronic prescription medications.

3.58 Health PEI does not have a similar policy or guideline governing medication reviews for residents of provincially-owned long-term care facilities. The Provincial Pharmacy is the dispensing pharmacy but it does not routinely conduct comprehensive medication reviews for residents of provincially-owned long-term care facilities. We have been advised by management that some of these facilities have engaged community pharmacists to provide this service. However, this practice was not coordinated with Provincial Pharmacy staff.

3.59 Health PEI has a responsibility to ensure monitoring practices are in place to promote safe and effective medication use. Comprehensive medication reviews are an important service to identify medication related problems in this population of high-risk long-term care patients.

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Recommendation

3.60 Health PEI should establish a policy on conducting comprehensive medication reviews for residents of provincially-owned long-term care facilities.

LONG-TERM CARE FACILITIES: SECURITY AND INVENTORY CONTROLS

Physical security

3.61 Provincially-owned long-term care facilities are organized by ward which have varying levels of care. The number of residents on each ward can vary depending on the facility and needs of the residents. Narcotics and other controlled drugs received are stored in secure cabinets located in each ward. Each facility also maintains a stock room which holds an emergency supply of prescription and non-prescription medications.

3.62 Federal regulations require that institutions take all necessary steps to protect narcotics and other controlled drugs from loss or diversion. Health PEI has further established a policy for the storage of medication in the long-term care facilities requiring

- double locked storage areas for narcotics;
- locked storage for non narcotics; and
- restricted access to medication storage.

Physical security of narcotics and other controlled drugs was adequate at selected wards examined

3.63 We assessed whether physical security over narcotics and controlled drugs met the requirements of Health PEI policies. We inspected storage areas in wards and stock rooms at four long-term care facilities and assessed the control over access to these areas.

3.64 The physical security over narcotics and other controlled drugs was adequate in the four wards selected for examination.

Inventory controls

3.65 Health PEI has a responsibility to ensure that narcotics and controlled drugs dispensed are traceable along the supply chain. Part of Health PEI's tracking process includes *Narcotics Control Sheets* provided

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to the long-term care homes when narcotics are dispensed from the Provincial Pharmacy. Each blister package of narcotics has a corresponding *Narcotics Control Sheet*. As each dose is removed from the blister pack, the resident's name is recorded and the total quantity is updated. This documentation provides a form of accountability for each unit of narcotic. In addition, the dose is recorded in the respective resident's medication administration record.

3.66 Long-term care facilities are expected to have a process for counting the physical inventory of narcotics and controlled drugs and reconciling these counts to the control sheets. This information should be recorded by the nurse responsible for medication administration in each ward on an approved shift count record at the end of each shift and co-signed by the nurse assuming responsibility for the drugs. Any unexplained missing medication should be handled as an incident and reported to Health Canada within 10 days.

3.67 For the four wards examined, inventory processes for counting and reconciling narcotics were generally operating as expected. However, long-term care facilities were not routinely recording, counting, and reconciling inventory of controlled drugs including benzodiazepines.

Narcotics counted and reconciled at selected wards examined

3.68 We selected a ward at each of four long-term care facilities. At each location we counted narcotics on hand, reconciled the amounts to the corresponding *Narcotic Control Sheets* and the most recent shift count record. No discrepancies were found as a result of our counts. However, at one location shift count records maintained did not include actual count results for each drug, only signatures confirming that the practice had been completed. This practice reduces control and accountability and increases the risk of undetected diversion.

3.69 Nurses administering medications are required to maintain individual resident medication administration records separate from the *Narcotic Control Sheets* as previously described.

3.70 We selected a sample of commonly used narcotics at four long-term care facilities. Corresponding *Narcotic Control Sheets* issued during

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the scope period were reviewed to determine whether only residents who were profiled for the narcotics were listed on these control sheets.

3.71 We also cross referenced a sample of *Narcotics Control Sheets* to the patient medication administration records and the daily narcotic count records. We checked that each resident included on these sheets had a prescription on file. We did not find any discrepancies in these records.

Inventory of benzodiazepines not recorded and counted

3.72 Controlled drugs, such as benzodiazepines, are used in the long-term care facilities and have an elevated risk of misuse and/or diversion. The administration of these drugs are recorded in the resident's medication administration record. However, inventory control sheets were not used to track these drugs and regular counts were not performed. This means that actual quantities on hand are never reconciled to inventory records to determine if there are shortages that should be investigated.

Recommendations

3.73 Provincially-owned long-term care facilities should ensure that inventory records for narcotics include the actual amount of each drug counted in addition to verification that the count was completed.

3.74 Provincially-owned long-term care facilities should ensure controlled drugs are recorded and regularly counted. Discrepancies should be investigated and unexplained shortages should be reported.

LONG-TERM CARE FACILITIES: RETURN OF MEDICATIONS

3.75 It is important for Health PEI to have a process to ensure that medication is traceable along the supply chain, from point of purchase to point of use or return and disposal. The return of unused drugs is an area of elevated risk of diversion. Health PEI has a policy requiring the return of expired medications to the dispensing pharmacy. This policy does not address the return of unused medications after treatment is discontinued or the resident is discharged. We examined Health PEI's processes to monitor and account for the return of unused narcotics and other controlled drugs to the Provincial Pharmacy from the provincially-owned long-term care facilities.

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3.76 Overall, there were inadequate controls to account for all narcotics and controlled drugs. In addition, there were inadequate controls to ensure unused medications were returned to the Provincial Pharmacy.

Unused narcotics not monitored and returned

3.77 A framework of controls should provide the Provincial Pharmacy assurance that all narcotics have been administered as prescribed or returned if no longer in use by patients in a ward. *Narcotic Control Sheets*, sent to long-term care facilities, are used as a perpetual inventory record and should be returned to the Provincial Pharmacy to account for the use of all narcotics. When the blister package of narcotics is fully used, the sheet should show that all medications have been administered. In the case of unused narcotics, the remaining medication should be returned with the attached control sheet.

3.78 We expected each long-term care facility to return all unused and expired medications. We expected the Provincial Pharmacy to implement controls to periodically verify that all control sheets issued have been returned and investigate all that have not been returned as expected with any unused medications.

3.79 *Narcotic Control Sheets* are filed at the Provincial Pharmacy when received back from the long-term care facility. However, there were no procedures to account for all narcotics and corresponding *Narcotic Control Sheets* issued by the Pharmacy. During our sample testing, we noted 17, or 5 percent, of the *Narcotic Control Sheets* requested could not be located by Provincial Pharmacy or long-term care staff. These sheets are the inventory control records for 16 blister packages and one vial of narcotics. Because the sheets could not be located, we could not determine if the medication was fully used or if there was unused medication that should have been returned. This control weakness increases the risk of excessive narcotics held within each ward, the potential for medication errors if administered to another resident, as well as unidentified diversion.

3.80 The narcotics ward stock system used by the Provincial Pharmacy makes it difficult to track narcotics that should be returned. At a minimum, we expected that unused drugs would be returned when no one in the ward was prescribed the narcotics. We obtained a listing of

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discharged residents for our scope period and identified the narcotics these residents were receiving at the time of their discharge. We reviewed the related *Narcotics Control Sheets* to determine whether the facility had returned the unused narcotics to the Provincial Pharmacy.

3.81 There were 27 narcotics control sheets related to the discharged residents which included unused narcotics that should have been returned. Only 6 of those narcotics blister packages were returned to the Provincial Pharmacy. The remaining 21 blister packages were kept in the long-term care facility. The narcotic control sheets indicated the narcotics were subsequently used by another resident. This practice limits the Provincial Pharmacy's ability to monitor the use of narcotics and increases the risk to patient safety for example where the drug is administered to another resident. Stockpiling of unused medications also increases the risk of unidentified diversion.

Return of unused benzodiazepines not monitored

3.82 There were inadequate processes to account for unused controlled drugs including benzodiazepines that should be returned to the Provincial Pharmacy. Based on a physical inspection at four long-term care facilities, we noted that benzodiazepines are routinely stored in wards and stockrooms. As previously noted, inventory control sheets were not used to track these controlled drugs and regular counts were not performed. The Provincial Pharmacy and the long-term care facilities could not demonstrate accountability for the return of unused controlled drugs. This increases both the risk to patient safety and the risk of unidentified diversion.

Recommendations

3.83 Health PEI should implement policies and procedures to require the Provincial Pharmacy and the long-term care facilities to maintain a clear trail of accountability for all narcotics and controlled drugs.

3.84 Provincially-owned long-term care facilities should return all unused, discontinued, and expired narcotics and controlled drugs to the Provincial Pharmacy.

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PROVINCIAL PHARMACY: DISPOSAL OF NARCOTICS AND OTHER CONTROLLED DRUGS

3.85 Federal legislation includes specific requirements to mitigate the increased risk of diversion and environmental contamination at the point of disposal. Health Canada, in accordance with the *Controlled Drugs and Substances Act*, has provided two alternatives for pharmacists to follow when disposing or destroying unserviceable narcotics and/or controlled drugs. The first option is for the Provincial Pharmacy to de-nature the drugs, making them unusable, and dispose of them in accordance with applicable environmental standards. The second option is to engage a third party who is licensed to destroy narcotics and controlled drugs.

3.86 Under both alternatives, Health PEI is required to maintain detailed records supporting the disposal of narcotics and controlled drugs including

- the disposal date;
- the name, strength and quantity of the drug; and
- a statement from both the pharmacist and a witnessing practitioner indicating they witnessed the destruction.

These records must be maintained by Health PEI for a two year period in a manner that permits an audit by Health Canada.

Controls over disposal not adequate

3.87 Overall, we found controls over disposal of medication were inadequate. Health PEI does not have documented procedures to guide staff in the safe, legal, and environmentally sound disposal of unserviceable narcotics and other controlled drugs. We noted inadequate disposal practices and non compliance with federal legislative requirements.

3.88 We requested detailed records of narcotics and other controlled drugs held for disposal at the Provincial Pharmacy. We were informed that these records were not maintained, or available for audit, as required by federal legislation. Without these records, there is an increased risk that any diversion could remain undetected.

3.89 We observed the Provincial Pharmacy has a segregated area for drugs destined for disposal. Based on our physical inspection and interviews with pharmacy staff, we found that narcotics and controlled drugs awaiting disposal at the Provincial Pharmacy were not de-natured.

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Therefore, in order to meet Health Canada requirements, Health PEI must contract a licensed dealer for their destruction. We noted Health PEI has contracted a third party to pick up and dispose of these medications, but the contractor is not a licensed dealer in accordance with the terms set out by Health Canada. Therefore, the Provincial Pharmacy was not in compliance with federal regulations related to disposal.

Recommendations

3.90 Health PEI should develop documented procedures for the disposal of medications consistent with federal regulatory requirements.

3.91 Documentation supporting the disposal of narcotics and controlled drugs should be maintained by the Provincial Pharmacy in accordance with federal regulatory requirements.

3.92 Unserviceable narcotics and controlled drugs should either be de-natured and disposed of by the Provincial Pharmacy or destroyed by a licensed third party in accordance with Health Canada requirements.

CONCLUSION

3.93 We concluded that narcotics and controlled drugs for residents of provincially-owned long-term care facilities were not adequately controlled. Health PEI needs to establish additional policies and procedures to guide staff in several key medication control areas.

3.94 Health PEI's system for dispensing narcotics to wards at long-term care facilities does not provide adequate control over inventory and limits the Provincial Pharmacy's ability to provide effective oversight. We also noted several inventory control weaknesses at the Provincial Pharmacy including unsupported inventory adjustments. Further, the Provincial Pharmacy's disposal practices were not in compliance with federal legislative requirements. Adequate controls were in place for the transportation of medication to the long-term care facilities.

3.95 The long-term care facilities were not consistently returning unused narcotics and controlled drugs to the Provincial Pharmacy. Inventory of controlled drugs such as benzodiazepines was not routinely counted, recorded, and reconciled. However, inventory processes for

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counting and reconciling narcotics were generally operating as expected for four wards examined.

MANAGEMENT RESPONSE

Health PEI places a high priority on the quality and safety of its operations. Your report provides additional support for us to continue with initiatives that commenced prior to your report to improve the delivery of medications to our public long term-care facilities. Two of those initiatives of particular note are:

- 1) the automated dispensing cabinet project, to improve the security and tracking of medications; and
- 2) the integration of the Provincial Pharmacy clinical dispensing unit with the QEH hospital pharmacy group to improve the consistent application of pharmacy dispensing standards and policies.

We believe that once fully implemented, they will address a number of the recommendations in your report.

Health PEI's long-term care facilities do strive to review each of their residents' medication profiles at least annually with the resident's most responsible physician/nurse practitioner, with support from other professionals as deemed appropriate.

We have reviewed all the audit recommendations. We have taken action or plan to take action on the recommendations.

Health PEI is committed to continuously improving the delivery of healthcare and appreciates the insights which your report provides on opportunities to improve. I would like to thank you and your staff for your collegiality and professionalism during the audit and for bringing these recommendations to our attention.

AUDIT OBJECTIVES AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island. Our role is to conclude on whether the medication controls for provincially-owned long-term care facilities comply in all significant respects with the applicable criteria. Management at Health PEI long-term care facilities and the Provincial Pharmacy accepted responsibility for the subject under audit.

Work conducted for this audit was performed to a reasonable level of assurance in accordance with the Canadian Standards for Assurance Engagements (CSAE) 3001 - Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook - Assurance.

The Office applies Canadian Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Prince Edward Island and the Code of Conduct of the Office of the Auditor General of Prince Edward Island. Both the Rules of Professional Conduct and the Code of Conduct are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

OBJECTIVES

The objective of this audit was to determine whether medication for residents of provincially-owned long-term care facilities was adequately controlled.

We developed a number of criteria to assess whether Health PEI had met the objective. These criteria are listed in Appendix B.

SCOPE AND APPROACH

Criteria were developed from various sources including relevant legislation, Health PEI policies, professional standards, and best practices. Management accepted the relevance and suitability of the criteria used in the audit.

The scope of our audit included analysis and testing of records for the period of September 1, 2016 to August 31, 2017 as well as observation of security and reconciliation controls as of the testing dates.

Our approach included:

- interviews with management and staff of the Provincial Pharmacy;
- interviews with management and staff of long-term care facilities;
- review of relevant legislation, policies and procedures, and reports;
- consultation with subject matter experts;
- interview with the PEI College of Pharmacists;
- walkthroughs and physical observation of controls; and
- analysis and detailed testing of medication controls within the scope period.

In performing detailed analysis and testing of controls, our focus was on narcotics and benzodiazepines.

It is important to note that our observations and conclusions relate only to the management and control practices of Health PEI. Consequently, our comments and conclusions do not reflect on the professional competencies of pharmacists and other health care professionals, or the performance of any third parties. We did not assess the appropriateness of any medications prescribed for individual residents.

DATE OF REPORT

We obtained sufficient and appropriate audit evidence on which to base our conclusions on February 14, 2018, in Charlottetown Prince Edward Island.

AUDIT CRITERIA

To determine whether medication for residents of provincially-owned long-term care facilities was adequately controlled, we used the following criteria:

1. Health PEI identifies and addresses discrepancies within the Provincial Pharmacy for inventory of higher risk prescription medications.
2. Health PEI has adequate controls for the transportation of prescription medication between the Provincial Pharmacy and provincially-owned long-term care facilities.
3. The storage of prescription medication within provincially-owned long-term care facilities is adequately controlled and monitored.
4. The distribution of prescription medication within the provincially-owned long-term care facilities is adequately controlled and monitored.
5. Health PEI monitors and controls the return and disposal of unused prescribed medications.

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APPENDIX C

RECOMMENDATIONS*
Recommendation 3.20 Health PEI should develop policies and procedures to strengthen medication controls and improve coordination for management and delivery of the Institution Pharmacy Program.
Recommendation 3.32 The Provincial Pharmacy should conduct and adequately document monthly inventory counts of narcotics and controlled drugs.
Recommendation 3.33 The Provincial Pharmacy should investigate all inventory discrepancies of narcotics and controlled drugs. All discrepancies should be supported with documentation, reviewed, and signed off by management. Any unexplained variances should be reported.
Recommendation 3.34 The Provincial Pharmacy should enforce individual electronic login protocols.
Recommendation 3.49 Health PEI should improve controls over dispensing and oversight of ward stock narcotics for provincially-owned long-term care facilities.
Recommendation 3.50 Provincial Pharmacy staff should have access to essential information to evaluate the appropriateness of initial prescriptions and refill requests prior to dispensing medication.
Recommendation 3.55 Health PEI should document a policy on the transportation of medications from the Provincial Pharmacy to the provincially owned long-term care facilities.
Recommendation 3.60 Health PEI should establish a policy on conducting comprehensive medication reviews for residents of provincially-owned long-term care facilities.
Recommendation 3.73 Provincially-owned long-term care facilities should ensure that inventory records for narcotics include the actual amount of each drug counted in addition to verification that the count was completed.
Recommendation 3.74 Provincially-owned long-term care facilities should ensure controlled drugs are recorded and regularly counted. Discrepancies should be investigated and unexplained shortages should be reported.
Recommendation 3.83 Health PEI should implement policies and procedures to require the Provincial Pharmacy and the long-term care facilities to maintain a clear trail of accountability for all narcotics and controlled drugs.
Recommendation 3.84 Provincially-owned long-term care facilities should return all unused, discontinued, and expired narcotics and controlled drugs to the Provincial Pharmacy.
Recommendation 3.90 Health PEI should develop documented procedures for the disposal of medications consistent with federal regulatory requirements.
Recommendation 3.91 Documentation supporting the disposal of narcotics and controlled drugs should be maintained by the Provincial Pharmacy in accordance with federal regulatory requirements.
Recommendation 3.92 Unserviceable narcotics and controlled drugs should either be de-natured and disposed of by the Provincial Pharmacy or destroyed by a licensed third party in accordance with Health Canada requirements.

*Recommendation numbers relate to the paragraph number in this chapter.

**NARCOTIC AND CONTROLLED DRUGS
SUMMARY CHART**

Classification	Description	Federal Act and Regulations
Narcotic Drugs E.g. buprenorphine, codeine, fentanyl, hydromorphone, morphine, nabilone, novahistex, oxycodone, meperidine, etc.	Drugs listed in the Schedule to the federal <i>Narcotic Control Regulations</i> - (E.g. opium poppy, (papaver somniferum), its preparations, derivatives, alkaloids, and salts)	<i>Controlled Drugs and Substances Act, Narcotic Control Regulations</i>
Benzodiazepines & Other Targeted Substances E.g. alprazolam, diazepam, flurazepam, lorazepam, chlordiazepoxide, clobazam, clorazepate, oxazepam, triazolam, etc.	Drugs listed in Schedule I of Part I to the federal <i>Benzodiazepines and Other Targeted Substances Regulations</i>	<i>Controlled Drugs and Substances Act, Benzodiazepines and Other Targeted Substances Regulations</i>
Controlled Drugs Part I E.g. amphetamines, methylphenidate, etc.	Drugs listed in Part I, II, & III of Schedule to Part G the federal <i>Food and Drug Regulations</i> - (E.g. amphetamines, their salts, derivatives, isomers and analogues and salts of derivatives, isomers and analogues)	<i>Food and Drug Act Regulations, Controlled Drugs and Substances Act</i>
Controlled Drugs Part II E.g. butorphanol, most barbiturates (e.g. phenobarbital)		
Controlled Drugs Part III anabolic steroids and derivatives (e.g. testosterone)		
Other Prescription Drugs	All drugs listed in the Prescription Drug List of the federal <i>Food and Drug Regulations</i> or in Schedule I of National Association of Pharmacy Regulatory Authorities National Drug Schedules.	<i>Food and Drug Act, Food and Drug Act Regulations</i>

4. OFFICE OF THE PUBLIC GUARDIAN

CHAPTER SUMMARY

What we examined

This audit examined the processes at the Office of the Public Guardian for documenting and authorizing care decisions. For purposes of our audit, a care decision was defined as a significant health care decision or a change in a client's residence and/or care provider.

The Public Guardian is one role of the Office of the Public Trustee, Public and Official Guardian. This audit is the second phase of an audit conducted last year on the Office of the Public Trustee.

Why it's important

The Office of the Public Guardian responds to the needs of those deemed medically incapable of making their own personal care decisions when there are no trusted family or friends available or willing to assume responsibility. The Public Guardian is responsible to act in the best interests of guardian clients and represents some of Prince Edward Island's most vulnerable adult residents.

What we found

Overall, we found the Office does not have adequate processes to guide staff in authorizing and documenting client care decisions.

We made specific observations as follows:

- The Office of the Public Guardian did not formally communicate its roles and responsibilities to care providers;
- The Office of the Public Guardian did not define and communicate to care providers the types of decisions that must be authorized by the Public Guardian; and
- There were no documented policies to guide staff in making and documenting decisions for clients.

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In addition, there were instances where significant care decisions were made by care providers on behalf of clients without the Office's prior knowledge or documented authorization. Based on our examination of significant care decisions made by the Office, we noted a few instances where there was insufficient documentation in the file including authorization and rationale for decisions.

BACKGROUND

4.1 The role of the Office of the Public Trustee, Public and Official Guardian is to ensure that certain vulnerable members of society are appropriately cared for and are not at risk. The Office operates under the Family Law and Court Services Division of the Department of Justice and Public Safety (the Department). Operating costs were approximately \$362,000 in 2016-17 which were funded through the Department's annual budget.

4.2 The Office has three distinct roles. The Public Guardian role is to assist individuals over the age of 18 who are unable to look after their own **personal** affairs and have no trusted family or friends who can do this for them. The Public Trustee role is to assist individuals who are unable to look after their own **financial** affairs and the Official Guardian role is to assist certain individuals in litigation issues. For purposes of this audit, our work focused entirely on the Office's role as Public Guardian. Any references to the Office in the remainder of this report relate only to the Public Guardian role.

4.3 The Office's guardianship services were delivered by the Public Guardian, the Deputy Public Guardian, and an administrative support staff member. We were advised that during the scope of our work, the Deputy Public Guardian's time was fully dedicated to Public Guardian responsibilities while both the Public Guardian and the administrative support person spent a portion of their time on other responsibilities related to the Public Trustee and Official Guardian. In October 2017, the Public Guardian was appointed as Acting Prothonotary. Although his appointment as Public Guardian had not been formally rescinded, he was no longer working in that capacity.

4.4 As of the date of our audit report, there was no specific guardianship legislation in PEI. We were advised that government is in

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the process of developing new legislation on guardianship. In the absence of specific legislation, there are two acts that provide authority for the Public Guardian to carry out his role: the *Mental Health Act* and the *Consent to Treatment and Health Care Directives Act*.

4.5 Under the *Mental Health Act*, an interested party may submit an application to the court requesting guardianship for a person. The application must be accompanied by two certificates of incapacity indicating that, in the opinion of two physicians, the person is incapable of managing his or her personal affairs. The judge makes an order appointing a guardian which may be a trusted family member or friend, or where one is not available, the Public Guardian may be named. The Public Guardian may also initiate an application for guardianship where a person is in need of guardianship and no one is willing or able to make an application to the court.

4.6 Under the *Consent to Treatment and Health Care Directives Act*, the Public Guardian may make medical decisions on behalf of Public Guardian clients. In addition, the Public Guardian may be requested to act for certain individuals, on a case by case basis, as a substitute decision maker. This situation occurs when an individual is unable to consent to a required medical treatment and there is no one else available or able to provide consent on his or her behalf.

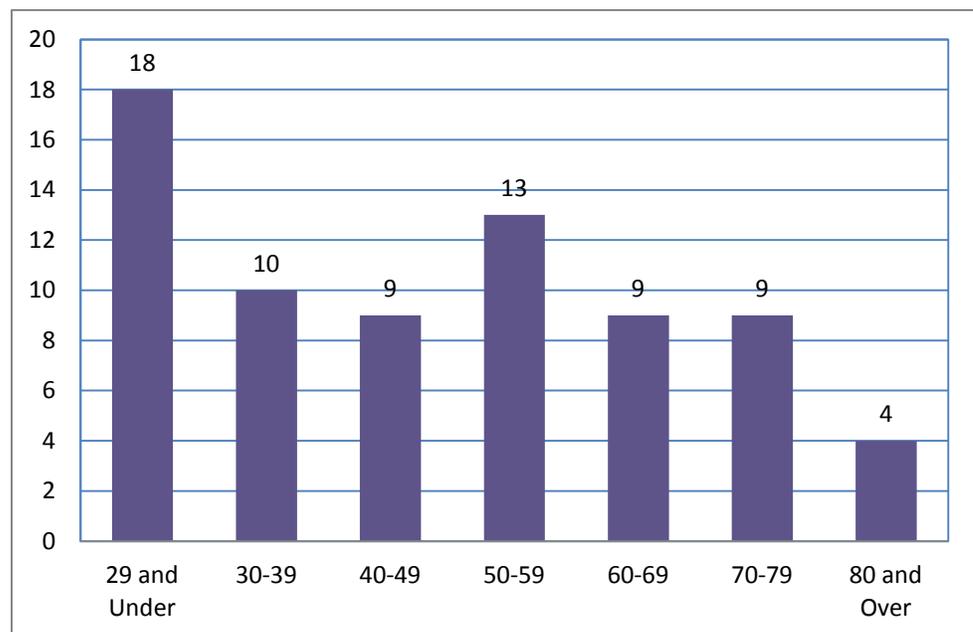
4.7 When authorized by a court order, the Office may exercise all the rights and powers relating to personal matters that a person could have exercised if competent. The types of services provided may vary depending on the client's needs and circumstances, but may involve areas such as personal care, residence, education, nutrition, and medical care.

4.8 The nature of public guardianship often requires that the day-to-day care of the individual is delegated to external care providers. There can be numerous care providers involved with each client including social workers, health care professionals, long-term care staff, social housing services and private residential care providers. The Office works with and relies on the clients' care providers for much of the daily personal care decisions.

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4.9 At March 31, 2017, the Public Guardian had 72 clients. According to the most recent historical data included in the Department’s annual reports, the Office has seen a 47 percent increase in clients since March 31, 2013. **Exhibit 4.1** provides a breakdown of Public Guardian clients by age.

EXHIBIT 4.1
OFFICE OF THE PUBLIC GUARDIAN
CLIENT DISTRIBUTION BY AGE
AS AT MARCH 31 2017



Source: Prepared from information provided by the Office of the Public Guardian

OBJECTIVES AND SCOPE

4.10 The objective of the audit was to determine whether the Office of the Public Guardian has a well defined process to support the rationale, documentation and approval of care decisions, where a care decision is defined as a significant health care decision or a change in a client’s residence and/or care provider. Details on the audit objective and scope, and audit criteria, are included in **Appendix A** and **Appendix B** of this chapter. **Appendix C** includes a listing of recommendations. The following report sections provide information on our audit findings, and related recommendations and conclusions.

4. Office of the Public Guardian

OBSERVATIONS AND RECOMMENDATIONS

ROLES AND RESPONSIBILITIES

4.11 When the Public Guardian is granted authority by a court order, the basic rights of the individual to make autonomous personal decisions are removed and transferred to the Office. This has a significant impact and can leave the individual and relevant parties with many questions about the roles, responsibilities, and the practices of the Office. There is a wide variation in the circumstances of individual clients. Some clients may be relatively high functioning, whereas other clients may be severely compromised. Some clients are in an individual's home under a private care provider, while others are in an institutional setting such as a nursing home or a hospital where standards of care are well defined. The extent of involvement by the Office of the Public Guardian varies based on the needs of the client.

4.12 It is important that the Office outlines its mandate and responsibilities to care providers. The Office should provide documentation to communicate the following

- the Office's authority under the court order;
- the roles and responsibilities of the Office; and
- the types of decisions that must be approved by the Public Guardian.

Roles and responsibilities not clearly and consistently communicated

4.13 We examined the process and practices to communicate with care providers on the roles and responsibilities of the Public Guardian. We noted that when the Public Guardian was appointed to act on behalf of an individual, a one page letter was sent to the client, the care provider, and other relevant parties along with the court order appointing guardianship. The Office also had some public information available on its website. However, this correspondence and public information did not describe the roles and responsibilities of the Office or the types of decisions that must be approved by the Public Guardian.

4.14 We were advised that the roles and responsibilities of the Office were verbally communicated to clients, care providers, and other relevant parties. Notes were sometimes kept on these discussions. However, in the absence of formal communication or general information available to the public, it is difficult for the Office to demonstrate that key responsibilities

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were consistently communicated to all care providers. In addition, in situations where Public Guardian clients are in an institutional setting, the individual care providers may change frequently making it even more important to provide documented communication of roles and responsibilities.

No decision making limits established

4.15 Under the *Mental Health Act*, when appointed by a court order, the Office is empowered to make all decisions of a personal nature on behalf of its clients. The impact of a particular care decision may vary greatly for each individual depending on his or her circumstances. However, regardless of the client's circumstances, some decisions pose an elevated risk to the client and the Office.

4.16 We found that the Office had not established and formally communicated the types of decisions care providers can make on their own and those decisions that must be approved by the Office of the Public Guardian. This categorization and communication of required authorization for key decisions is important to reduce the risk of significant decisions being made without the prior knowledge of the Office. It would also help to ensure that the Office is involved in significant decisions that impact the personal interests of its clients. Further, it can demonstrate that the Office has fulfilled its responsibilities and acted with reasonable care. We recognize, however, that there are certain situations where legislation allows care providers to act without specific authorization from the Public Guardian, for example in the case of a health care emergency.

Recommendations

4.17 The Office of the Public Guardian should clearly and consistently communicate its roles and responsibilities to care providers.

4.18 The Office of the Public Guardian should define the types of significant care decisions that must be approved by the Public Guardian and formally communicate this information to care providers.

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POLICIES

4.19 The role of the Public Guardian is to protect the interests of its clients. It is important that the Office of the Public Guardian can demonstrate it has

- fulfilled the responsibilities delegated by court orders;
- acted in the best interests of its clients;
- complied with applicable legislation; and
- acted with reasonable care to protect the Office from liability.

No documented policies

4.20 Given the nature of guardianship work, providing services to vulnerable clients under high legal and ethical standards, we expected the Office would have documented policies to guide staff in managing key risks and responsibilities. These policies could include:

- confidentiality of client information;
- security of staff;
- client intake procedures;
- minimum requirements for client monitoring; and
- documentation requirements to support significant decisions.

4.21 We found that the Office of the Public Guardian did not have documented policies. Documented policies and procedures provide an operational framework that helps an organization define responsibilities, establish expectations and manage risks. If consistently applied, documented policies can assist the Office of the Public Guardian in demonstrating it has met its expected standards, fulfilled its responsibilities, and acted with reasonable care.

Recommendation

4.22 The Office of the Public Guardian should document and implement policies to guide staff in managing key risks and responsibilities.

4.23 While each of the above policy areas are important, the focus of this audit was on the decision making processes. In the absence of such policies, the Office should still have a consistent approach to document its

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approval and supporting rationale for significant decisions which inherently pose an elevated risk to both the client and the Office.

4.24 We expected that for significant care decisions, the Office of the Public Guardian would have established consistent documentation requirements including the nature of the decision, the relevant supporting documentation, and the Office's authorization of the decision.

No documentation requirements for significant care decisions

4.25 The Office of the Public Guardian had not established documentation requirements to support client care decisions. In general, the practice followed by the Office was to document its communications with clients and care providers. In some cases there were meetings of multi-disciplinary teams of health care providers to discuss care decisions, but in most cases meetings were limited to the primary care provider. Client files contained varying details of meetings and discussions. The Office's authorization of a particular decision may be inferred from these notes; however, the extent of supporting documentation varied.

4.26 We examined a sample of significant care decisions included within the Office's client files. The Office had not assigned a degree of significance to any type of decisions; however, for the purpose of our audit we identified both health care treatment and changes in residency and/or care provider as decisions of elevated risk. Health care decisions include significant medical treatments such as surgery, major dental work, psychiatric treatment, and changes in chronic mental health services.

Authorization not always documented in the file

4.27 Significant decisions selected were examined for file documentation to support that the decision was authorized by the Office of the Public Guardian prior to the actual event or change in circumstances. We did not assess the appropriateness of the decision.

4.28 Of the 30 significant health care and residential decisions tested, we found 5 instances where there was no documented authorization in the file for the decision.

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4.29 In three of these instances, the Office was not aware of the decision before it was made. For these significant decisions, the Office did not have input into the decisions because they were not informed by the care provider. In the previous section of the report, we made recommendations regarding clear and consistent communication of roles and responsibilities to care providers and approval of significant care decisions. Implementing these recommendations may assist in preventing these types of situations in the future. In the two other instances, we were advised the Office was involved in discussions relating to the decision, but no documentation was maintained to support its authorization of the decision.

Rationale for care decisions not always documented

4.30 For significant care decisions, it's important that the Office obtains the relevant information to ensure the decision is supported, the benefits outweigh the risks, and that it is in the best interests of the client who may not have the capacity to make such an assessment.

4.31 In the case of significant health care decisions, we examined client files for documented evidence supporting that the Office consulted with health care professionals to ensure that decisions were made in the clients' best interests. For residential decisions, we examined the file for a documented rationale to support that the relocation was required and the client still had the appropriate care provider supports given his or her limited capacity.

4.32 Based on the 30 significant care decisions tested, the Office of the Public Guardian had prior knowledge of the decision in 27 of those cases. Of these, we found one instance where there was no documentation on file to support consultations with health care providers. In another instance, documentation was not on file to support a change in care provider and residency. Maintaining sufficient documentation in client files is important to demonstrate that significant care decisions are appropriately supported and authorized.

Recommendation

4.33 The Office of the Public Guardian should document the authorization and rationale for significant care decisions.

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CONCLUSION

4.34 The Office of the Public Guardian did not have a well defined process for documenting the rationale and approval of significant client care decisions. Policies were not documented to define responsibilities, establish expectations, and manage risks. The Office did not clearly and consistently communicate roles and responsibilities to care providers.

MANAGEMENT RESPONSE

The Office of the Public Guardian welcomes the opportunity to improve process and service to vulnerable Islanders. The Office is

- drafting a policy and procedure manual that will set out best practices and guidelines for the Office. This manual will cover areas including, but not limited to, documentation of significant care decisions, file management client intake procedures, and client monitoring and oversight; and
- drafting public information documents and protocols to clearly and consistently communicate its roles and responsibilities to care providers and to the public. Further, the Office is collaborating with stakeholders in Health PEI and Adult Protection to ensure this consistent and clear information is provided at the outset of the potential involvement of the Public Guardian.

This work will assist with ensuring both the public and clients of the Office are best positioned to understand the nature and function of the Public Guardian role. Further, it will ensure staff are best positioned to provide effective and consistent service to vulnerable Islanders.

Justice and Public Safety has allocated additional resources to the Office of the Public Guardian to assist with the development of the policy documents and has undertaken a file management review to ensure the Office is supported in achieving best practices.

Justice and Public Safety and the Office of the Public Guardian appreciate the opportunity to review and respond to the recommendations of the Auditor General to improve service to vulnerable Islanders.

AUDIT OBJECTIVE AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island on the Office of the Public Guardian. Our role is to conclude on whether the Office of the Public Guardian complies in all significant respects with the applicable criteria when making care decisions. Management of the Department of Justice and Public Safety and the Office of the Public Guardian accepted responsibility for the subject under audit.

Work conducted for this audit was performed to a reasonable level of assurance in accordance with the Canadian Standards for Assurance Engagements (CSAE) 3001 - Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook - Assurance.

The Office of the Auditor General of Prince Edward Island applies Canadian Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Prince Edward Island and the Code of Conduct of the Office of the Auditor General of Prince Edward Island. Both the Rules of Professional Conduct and the Code of Conduct are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

OBJECTIVE

The objective of this audit was to determine whether the Office of the Public Guardian has a well defined process to support the rationale, documentation, and approval of care decisions, where a care decision is defined as a significant health care decision or a change in a client's residence and/or care provider.

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APPENDIX A

SCOPE AND APPROACH

We developed a number of criteria to assess whether the Office of the Public Guardian had met the objective. These criteria are listed in Appendix B.

Criteria were developed from various sources including generally accepted management practices for the public sector and relevant legislation. Management accepted the relevance and suitability of the criteria used in the audit.

The scope of our audit covered the period April 1, 2015 to March 31, 2017. We examined documentation outside that period as necessary.

Our approach included

- interviews with management and staff of the Office;
- interviews with care providers;
- review of relevant legislation, policies, and procedures;
- review and analysis of documentation obtained from the Office; and
- testing of client files.

We tested a sample of client files. For each file selected, we examined all significant decisions during the audit scope period that met our definition of care decision.

In testing care decisions, our work was limited to the documentation contained within the client files maintained by the Office of the Public Guardian. Based on this limitation, there is a risk that not all significant decisions were documented within client files and available for testing.

We did not assess the appropriateness of the client care decisions tested. It is important to note that our observations and conclusions relate only to the management practices of the Office of the Public Guardian. Consequently, our comments and conclusions do not pertain to the practices or performance of any third parties.

DATE OF REPORT

We obtained sufficient and appropriate audit evidence on which to base our conclusion on January 4, 2018, in Charlottetown, Prince Edward Island.

AUDIT CRITERIA

The objective of this audit was: to determine whether the Office of the Public Guardian has a well defined process to support the rationale, documentation, and approval of care decisions, where a care decision is defined as a significant health care decision or a change in a client's residence or care provider. We used the following criteria:

1. The Office of the Public Guardian should have documented policies to provide guidance for making care decisions on behalf of its clients.
2. The roles and responsibilities of the Office of the Public Guardian should be clearly communicated to care providers.
3. The Office of the Public Guardian should have established levels of authorization required for the review and approval of care decisions.
4. All care decisions should be appropriately authorized.
5. For health care decisions, the Office of the Public Guardian should have a process that includes the following: <ul style="list-style-type: none">• The Office of the Public Guardian documented its discussions with health care professionals to demonstrate that the health care decision is in the client's best interests; and• The Office of the Public Guardian clearly documented the decision in the client file.
6. For non-health care decisions, the Office of the Public Guardian should clearly document the decision and the rationale in the client file.

RECOMMENDATIONS*

Recommendation 4.17

The Office of the Public Guardian should clearly and consistently communicate its roles and responsibilities to care providers.

Recommendation 4.18

The Office of the Public Guardian should define the types of significant care decisions that must be approved by the Public Guardian and formally communicate this information to care providers.

Recommendation 4.22

The Office of the Public Guardian should document and implement policies to guide staff in managing key risks and responsibilities.

Recommendation 4.33

The Office of the Public Guardian should document the authorization and rationale for significant care decisions.

*Note: Recommendation numbers refer to the paragraph numbers in this chapter.

PREVIOUS RECOMMENDATIONS

5. IMPLEMENTATION OF 2014 AND 2015 RECOMMENDATIONS

CHAPTER SUMMARY

What we examined

This chapter provides summary information on the implementation of recommendations related to special audits and examinations that were reported in our 2014 and 2015 annual reports. We obtained assertions from management on the status of implementation of these recommendations. We conclude on whether the recommendations are implemented or are still outstanding.

Why it's important

Recommendations resulting from special audits and examinations are designed to address specific findings and issues identified, improve government processes, and protect the interests of taxpayers. It is important that MLAs and Islanders are provided with information on the progress government is making in implementing our recommendations.

What we found

The 2014 and 2015 annual reports of the Auditor General included 69 recommendations arising from 8 special audits and examinations.

Based on our work, we concluded that 76 percent of the audit recommendations reported in 2014 have been implemented. We found that only 17 percent of recommendations reported in 2015 were implemented.

Management of the audited department, Crown corporation or agency has had at least three years to implement our 2014 and 2015 recommendations. These implementation rates are lower than the 80 percent rate we expect for recommendations that have been outstanding for at least three years. The low rate of implementation for 2015 is particularly concerning.

5. Implementation of 2014 and 2015 Recommendations

Action has been taken on some of these outstanding recommendations but they are not fully implemented. In some instances, management advised the action to address the recommendation is related to an update or upgrade of an electronic system which can be a significant undertaking.

BACKGROUND

5.1 Every year, we make recommendations specific to each of the special audits and examinations conducted by our Office. The recommendations made in each audit report are intended to address the findings and issues identified. We do not infringe on management's right to select the best course of action to deal with the issues identified. However, we are concerned that action be taken to address the issue.

5.2 We follow up on the implementation of recommendations three years after the audit was initially reported in the annual report. We follow up again on these same recommendations for one additional year.

5.3 This year, we are providing information on the status of implementation of recommendations made in our 2014 and 2015 annual reports. We requested management to advise us on whether the recommendations were implemented or not implemented. In addition, for each recommendation that management reported as implemented, we requested details on the action taken. We received all information requested.

5.4 The objective of our follow-up work was to provide limited assurance on the implementation of the recommendations. We did not conduct a follow-up audit, but we conducted sufficient procedures to assess the plausibility of the responses received from management.

5.5 The following section provides information on the results of this work on special audits and examinations. **Appendix A** includes all outstanding recommendations from special audits and examinations included in our 2014 and 2015 annual reports. Further details on our objectives and scope are included in **Appendix B** of this chapter.

5.6 Recommendations made to departments, Crown corporations, and agencies pursuant to our financial audit work are followed up annually as part of our financial audit process and are not discussed in this chapter.

5. Implementation of 2014 and 2015 Recommendations

OBSERVATIONS

IMPLEMENTATION RATES **5.7** Exhibit 5.1 shows the implementation rates of recommendations from our 2012 to 2015 annual reports.

EXHIBIT 5.1 SPECIAL AUDITS AND EXAMINATIONS IMPLEMENTATION OF RECOMMENDATIONS ANNUAL REPORT YEARS

	2012	2013	2014	2015*
Implementation Rate	93%	87%	76%	17%

*2015 to be updated in 2019

2014 ANNUAL REPORT

5.8 Exhibit 5.2 presents the rate of implementation of recommendations by each specific audit included in our 2014 annual report.

EXHIBIT 5.2 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS BASED ON LIMITED ASSURANCE 2014 ANNUAL REPORT

Audit	Recommendations				
	Total	No Longer Applicable	Outstanding	Implemented	
				#	Percent
Information Technology - Governance and IT Contracting	14	-	2	12	86%
Diabetes - Strategy and Organization of Care	7		3	4	57%
Child Protection - Internal Controls	16	-	4	12	75%
Island Community Fund Grant Program*	2	2	-	-	N/A
Total*	39	2	9	28	76%

*Percent implemented excludes recommendations that are no longer applicable.

5.9 This is the second year we followed up on recommendations from our 2014 Annual Report. Last year, we reported that 49 percent of recommendations from the 2014 report were implemented. Based on our work this year, 76 percent of the recommendations are now implemented.

5. Implementation of 2014 and 2015 Recommendations

Information Technology - Governance and IT Contracting

What our original audit examined

5.10 Information Technology Shared Services (ITSS) provides information technology (IT) services to all government departments and the majority of Crown corporations and agencies. The objectives of our audit were to determine whether

- a governance model was in place for providing IT services that was consistent with selected aspects of a recognized IT governance framework; and
- IT contracted services were managed in accordance with key aspects of applicable legislation, Treasury Board policies, and best practices for IT contract management.

Status of recommendations

5.11 Our audit included 14 recommendations. As shown in the table below, 2 of the 14 recommendations from our audit are still outstanding. These are discussed in the paragraphs that follow.

Status Date	Implemented	Outstanding	Total
December 31, 2017	12	2	14

5.12 We recommended that ITSS management document service level objectives to clearly outline IT roles and responsibilities of both ITSS and government departments, Crown corporations, and agencies. Management responded that ITSS was in the process of developing service level objectives to outline its responsibilities regarding Crown corporations, agencies, and departments. Based on evidence obtained, we found that work was in progress, but agreements have yet to be formalized.

5.13 We also recommended that government take action to develop an IT strategic plan which outlines government-wide strategic direction and priorities. ITSS plans to draft an IT strategic plan, but the work has not been completed.

5. Implementation of 2014 and 2015 Recommendations

Diabetes - Strategy and Organization of Care

What our original audit examined

5.14 In 2014, we conducted an audit to determine whether the Department of Health and Wellness or Health PEI had a comprehensive strategy to prevent diabetes related health complications and whether Health PEI had organized its Diabetes Program in accordance with evidence-based standards of diabetes care.

Status of recommendations

5.15 This audit included seven recommendations. As shown in the table below, three of the seven recommendations from our audit remain outstanding. These are discussed in the paragraphs that follow.

Status Date	Implemented	Outstanding	Total
December 31, 2017	4	3	7

5.16 We recommended that Health PEI ensure the Diabetes Program has sufficient access to specialist support services. Management indicated that a permanent nurse practitioner position was funded and approved by Treasury Board in October 2017 to assist in providing primary care to Islanders with diabetes, particularly for those without a family physician. However, we were also advised that the Diabetes Program lost an endocrinologist who served diabetes patients in the western part of the province. This has resulted in an increase in diabetes patients for Prince Edward Island's sole diabetes specialist. Based on our work, access to specialist support services has not improved since our initial audit.

5.17 We recommended that Health PEI conduct a cost-benefit analysis to assess the optimal use of resources for delivering diabetes care. At the time of our audit, some diabetes educator services were offered directly through certain physicians' offices, rather than the provincial program. Health PEI indicated its intention to complete a review of funding provided to physicians for private diabetes educators; however, this review has not yet been completed.

5.18 We also recommended that if arrangements are established to provide collaborative diabetes care outside of the Diabetes Program,

5. Implementation of 2014 and 2015 Recommendations

Health PEI should obtain information to monitor and report on the results achieved. Health PEI advised it is working towards setting clearly defined key indicators as a method of analysis for the collaborative Diabetes Program; however, this work has yet to be completed.

Child Protection - Internal Controls

What our original audit examined

5.19 In 2014, we conducted an audit on selected controls in the Child Protection Program. Our objective was to identify and assess

- internal controls over cash transactions initiated through Summerside Child Protection Office and Tyne Valley Youth Center; and
- selected IT controls over payments for children in care.

Status of recommendations

5.20 This audit included 16 recommendations. As shown in the table, 4 of the 16 recommendations from our audit remain outstanding. These are discussed in the paragraphs that follow.

Status Date	Implemented	Outstanding	Total
December 31, 2017	12	4	16

5.21 We recommended management ensure that all payments are appropriately approved with approval documentation maintained. Although some action was taken, based on our work controls are still not adequate to ensure all types of payments are appropriately approved.

5.22 We recommended that the Department generate and review the accounts receivable reports on a regular basis. Management advised that a staff vacancy caused a delay in implementing this recommendation and it is still outstanding.

5.23 Another recommendation was to establish procedures to ensure

- all amounts owing are recorded;
- collection procedures are documented;

5. Implementation of 2014 and 2015 Recommendations

- amounts outstanding are followed up; and
- accounts receivable adjustments are reviewed and approved by management.

Management advised that a financial officer has been hired to develop new procedures relating to receipts. However, this recommendation is not fully implemented.

5.24 We recommended that payment end dates entered in the case management system reflect a reasonable time frame for review of each child's file. Management advised that it is working with ITSS to make changes to the case management system to implement this recommendation.

Island Community Fund Grant Program

5.25 Our 2014 Annual Report included an audit on the Island Community Fund Grant Program. We made two recommendations. The Program was discontinued in 2015, therefore we did not conduct any follow-up work.

5.26 This is the first year we assessed the implementation of our 2015 recommendations. Overall, we concluded that only 17 percent of these recommendations were implemented. **Exhibit 5.3** provides a breakdown of the results.

2015 ANNUAL REPORT

EXHIBIT 5.3 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS BASED ON LIMITED ASSURANCE 2015 ANNUAL REPORT

Audit	Recommendations			
	Total	Outstanding	Implemented	
			#	Percent
Access PEI	13	12	1	8%
Out-of-Province Health Services	7	5	2	29%
Management of Contaminated Sites	9	8	1	11%
Write-offs and Cancellations	1	-	1	100%
Total	30	25	5	17%

5. Implementation of 2014 and 2015 Recommendations

Access PEI

What our original audit examined

5.27 In 2015, we completed an audit on Access PEI, which is a division of the Department of Transportation, Infrastructure and Energy (formerly Fisheries, Aquaculture and Rural Development). Access PEI provides centralized service delivery to Islanders for many provincial government programs.

5.28 The objectives of our audit were to determine whether Access PEI had

- an adequate internal control framework over selected operational and IT risks; and
- policies and procedures were implemented to monitor and report on the performance and quality of its services.

Status of recommendations

5.29 Our audit included 13 recommendations. As shown in the table below, 12 of the 13 recommendations from our audit are outstanding. These are discussed in the paragraphs that follow.

Status Date	Implemented	Outstanding	Total
December 31, 2017	1	12	13

5.30 We recommended that Access PEI and Highway Safety Division, in conjunction with ITSS, reconcile outstanding registration validation stickers on a regular basis. Access PEI currently reconciles expired registration validation stickers. Based on our work, registration stickers that are not expired are still not reconciled.

5.31 We recommended that Access PEI reconcile transactions recorded in the Single Window Access Technology System (SWAT) and the Driver Vehicle System (DVS) on a regular basis and take action to investigate and correct any errors. Management indicated that all variances between systems are emailed to managers and reviewed by the SWAT administrator. Based on our review of the system reconciliation, we noted

5. Implementation of 2014 and 2015 Recommendations

that there was still a large unexplained variance and this recommendation is still outstanding.

5.32 We recommended modification of the DVS to allow for efficient investigation and review of management overrides. Management overrides are used to allow processing of unique or unusual transactions which by their nature are higher risk. It is important they are periodically reviewed by management. Management indicated that customer service representatives have been asked to provide a detailed explanation when requesting an override. Management also noted that the review of transactions in DVS is still cumbersome and it is difficult to obtain and review supporting documentation. Based on our work, while some progress has been made, this recommendation is not implemented. Management plans to address this recommendation.

5.33 We recommended that Access PEI and Highway Safety Division monitor user activity in SWAT and DVS and remove or disable dormant user accounts in a timely manner. Management indicated that there was no report to monitor user activity in SWAT, and although a report can be generated for DVS, user activity is not monitored in either system. There is a risk that users who are no longer authorized to use SWAT and DVS have access to sensitive information. Management intends to take action to address this recommendation.

5.34 There were an additional eight recommendations that were still outstanding at the date of our follow-up. For these recommendations, management reported that they were outstanding and we did not perform any review procedures.

The additional outstanding recommendations follow:

- Two recommendations related to completing and signing operational and service level agreements. Management responded that these recommendations will be implemented.
- Two recommendations, related to numbering of transactions and expiry of passwords, require an IT change to the SWAT system. Management indicated programming changes are required to meet these recommendations and additional work is required.

5. Implementation of 2014 and 2015 Recommendations

- One recommendation related to creating unique username and passwords for individuals using the SWAT and the DVS. We were advised that unique username and passwords have been incorporated into the systems; however, these changes need to be tested prior to completion.
- One recommendation related to establishing a policy for granting and removing user access in the SWAT and the DVS. Management indicated it needs to develop and implement a policy for user access.
- Two recommendations related to establishing service level standards and monitoring and reporting on performance. Management advised it is working on these recommendations.

Out-of-Province Health Services

What our original audit examined

5.35 In 2015, we completed an audit on out-of-province Health Services. These costs arise either when an Island resident is out of province at the time a health issue occurs or when an Island resident is directed out of province because the services required are not available in PEI.

5.36 The objectives of the audit were to determine whether Health PEI

- monitored out-of-province health services expenditures;
- ensured referred services received prior approval; and
- properly administered health service payments.

Status of recommendations

5.37 We made seven recommendations. Two recommendations have been implemented. One of these recommendations was to seek opportunities to identify cost savings in relation to out-of-province health services. Health PEI has implemented this recommendation through a number of actions. However, we emphasize the importance for management to continuously seek opportunities for potential cost savings in relation to out-of-province health services.

5. Implementation of 2014 and 2015 Recommendations

5.38 As shown in the table below, five of the seven recommendations are outstanding. These are discussed in the paragraphs that follow.

Status Date	Implemented	Outstanding	Total
December 31, 2017	2	5	7

5.39 We recommended that Health PEI monitor whether physicians are submitting referrals for out-of-province health services and take appropriate action to ensure policies are followed. Management indicated they have issued bulletins, held education sessions, and sent correspondence to physicians who had low or no referrals to remind physicians of proper referral policies. Based on our work, we found action was taken, however, Health PEI has not been regularly monitoring the extent to which referrals required by policy are submitted.

5.40 We also recommended Health PEI clarify its out-of-province health services policies. During the 2015 audit, we highlighted four key out-of-province policies that needed clarification: addiction referrals, mental health referrals, alternate arrangements for transplant patients, and follow-up appointments. Management provided us with updated policies for addiction referrals and alternate arrangements for transplant patients. Based on our review of policies, the mental health and follow-up appointment referral policies have yet to be updated. We were advised Health PEI plans to update the mental health referral policy and the follow-up appointments referral policy during the July 2018 policy review.

5.41 We recommended that Health PEI obtain out-of-province billing information electronically. Management responded that work has commenced to implement electronic submissions for out-of-province claims, but this recommendation is still outstanding.

5.42 We recommended that Health PEI work to establish internal control procedures to ensure claims meet key requirements of the billing arrangement. Management responded that reports are produced to identify invalid personal health numbers, and Health PEI is currently working on an electronic interprovincial billing system which will allow for other key requirement checks. Based on our review, this recommendation has not been fully implemented.

5. Implementation of 2014 and 2015 Recommendations

5.43 We also recommended Health PEI identify arrangements for out-of-province health services that warrant formal documentation of terms and conditions. Management responded that they have identified a number of services where agreements are warranted and are working on documenting arrangements. This recommendation is still outstanding.

Management of Contaminated Sites

What our original audit examined

5.44 Our 2015 Annual Report included an audit on the Management of Contaminated Sites. A contaminated site is one where a substance occurs in a concentration that exceeds the maximum acceptable amount under an environmental standard and therefore could have an adverse effect on human health and the environment.

5.45 The objectives of the audit were to determine whether

- the Environment Division of the Department of Environment, Labour and Justice has adequate processes for recording and responding to complaints and notifications received concerning possible contaminated sites; and
- government has adequate information and processes to effectively manage its responsibilities for contaminated sites in accordance with applicable legislation and select aspects of best practice.

Status of recommendations

5.46 We made nine recommendations. As shown in the table below, eight out of the nine recommendations are still outstanding. These are discussed in the paragraphs that follow.

Status Date	Implemented	Outstanding	Total
December 31, 2017	1	8	9

5.47 We recommended that all contaminated sites identified be added to the Contaminated Sites Registry (Registry). Although the Department has identified all contaminated sites, not all of these sites have been included in the Registry. Management advised it is in the process of notifying all

5. Implementation of 2014 and 2015 Recommendations

landowners of the contaminated sites on their property. Based on evidence obtained, this recommendation has not been implemented.

5.48 We recommended that procedures be implemented to ensure required reports from site professionals are obtained and reviewed on a timely basis. Based on our work, we concluded this has not been implemented.

5.49 We made a recommendation that for government owned contaminated sites the Department of Environment, Labour and Justice (now the Department of Communities, Land and Environment) complete required risk assessments, prioritize based on risk, and identify required remediation work. Management responded that a multi-year strategy to address this recommendation has been developed and was approved by Treasury Board in January 2018. Based on evidence obtained, we noted that risk assessments have been completed and sites have been prioritized. The next phase is to conduct environmental site assessments to identify required remediation work.

5.50 We recommended that the backlog of open complaints and notification files be reviewed to ensure appropriate action has been taken on each file. We noted that the backlog has been significantly reduced and management advised that work will continue. Based on evidence obtained, some progress has been made but there is still a backlog of open complaints and notifications.

5.51 Management indicated that a new Information Management and Compliance System will be replacing the Complaints Management System. Management advised that three of our recommendations will be addressed when the new system is implemented. They include:

- Development of policy to address complaints and notifications. This policy should include at a minimum;
 - a process for prioritization of complaints; and
 - key data to be recorded in the Complaint Management System.
- Regularly monitor and address open complaint and notification files; and
- Implement a process to review action taken by staff in addressing complaints and notifications.

5. Implementation of 2014 and 2015 Recommendations

5.52 We also recommended that the Department of Transportation and Infrastructure Renewal (now the Department of Transportation, Infrastructure and Energy) determine, where required, the cost to close, monitor, and complete remediation work on sites owned by government and sites for which government has accepted responsibility. Initial cost estimates have been completed. Management advised that the estimates will be updated when the environmental site assessments are completed.

Write-offs and Cancellations

What our original chapter reported

5.53 Our 2015 Annual Report included a chapter on Write-offs and Cancellations. It was focused on claims, obligations, and debts due to the province.

Status of recommendation

5.54 We made one recommendation. As shown in the table, this recommendation has been implemented.

Status Date	Implemented	Outstanding	Total
December 31, 2017	1	-	1

5.55 We recommended that the Minister of Finance clarify the authorization requirements for write-offs and cancellations of amounts owing to the province. In October 2016, amended legislation was proclaimed. Section 26.1 of the Financial Administration Act was changed to include Crown corporations. Section 26.2 was amended to require that all debt write-offs greater than \$25,000 be disclosed to the public through orders-in-council. Based on our work, we concluded that this recommendation has been implemented.

5. Implementation of 2014 and 2015 Recommendations

CONCLUSION

5.56 Based on our limited assurance review we concluded that:

- 76 percent of the recommendations from special audits and examinations included in our 2014 Annual Report have been implemented; and
- 17 percent of the recommendations from the special audits and examinations included in our 2015 audit report have been implemented.

5.57 Based on the procedures performed and the evidence obtained, nothing has come to the attention of my Office to indicate that there is a significant deviation in the percentage of implementation of recommendations as reported. Additional information provided in this chapter is not intended to take away from our overall conclusion.

5. Implementation of 2014 and 2015 Recommendations

APPENDIX A

2014 ANNUAL REPORT SPECIAL AUDITS AND EXAMINATIONS OUTSTANDING RECOMENDATIONS

Audit	Department/ Agency	Year	Para.	Recommendation
Information Technology - Governance and IT Contracting	Finance (formerly Finance, Energy and Municipal Affairs)	2014	2.21	ITSS management should ensure service level objectives are documented to clearly outline IT roles and responsibilities of both ITSS and client departments and agencies.
			2.25	Government should take action to ensure an IT strategic plan is developed which outlines government-wide strategic direction and priorities.
Diabetes - Strategy and Organization of Care	Health and Wellness / Health PEI	2014	3.53	Health PEI should ensure the Diabetes Program has sufficient access to specialist support services.
			3.72	When considering physician requests for funding of private diabetes educators, Health PEI should conduct a cost-benefit analysis to assess the optimal use of resources for delivering diabetes care.
			3.73	If arrangements are established providing collaborative diabetes care outside of the Diabetes Program, Health PEI should obtain information to monitor and report on results achieved.
Child Protection - Internal Controls	Family and Human Services (formerly Community Services and Seniors)	2014	4.29	Management of Child Protection should ensure that all payments are appropriately approved and approval documentation is maintained.
			4.47	Management of Child Protection should generate and review the accounts receivable reports on a regular basis.
			4.48	Management of Child Protection should establish procedures to ensure <ul style="list-style-type: none"> • all amounts owing are recorded; • collection procedures are documented; • amounts outstanding are followed up; and • accounts receivable adjustments are reviewed and approved by management.
			4.68	Management of Child Protection should ensure that payment end dates entered in the system reflect a reasonable time frame for review of the child's file.

5. Implementation of 2014 and 2015 Recommendations

APPENDIX A

2015 ANNUAL REPORT SPECIAL AUDITS AND EXAMINATIONS OUTSTANDING RECOMENDATIONS

Audit	Department/ Agency	Year	Para.	Recommendation
Access PEI	Transportation, Infrastructure and Energy (formerly Department of Fisheries, Aquaculture and Rural Development)	2015	2.19	Access PEI should ensure service level agreements are signed with each department for which services are provided.
			2.34	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure outstanding registration validation stickers are reconciled on a regular basis.
			2.40	Access PEI, Highway Safety Division, and ITSS should develop an agreement which defines the accountability and responsibility of each party in relation to the Single Window Access Technology System and the Driver Vehicle System.
			2.43	Access PEI should ensure transactions recorded in the Single Window Access Technology System and the Driver Vehicle System are reconciled on a regular basis. Action should be taken to investigate and correct any errors.
			2.45	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure numbers assigned to transactions are issued in sequence. The data in the Single Window Access Technology System and the Driver Vehicle System should be periodically reviewed for completeness.
			2.51	Highway Safety Division, in conjunction with ITSS, should modify the Driver Vehicle System to allow for efficient investigation and review of management overrides.
			2.59	Access PEI, Highway Safety Division, and ITSS should ensure a standard password expiry of 90 days is implemented for the Single Window Access Technology System and the Driver Vehicle System. Adherence to password protocols should be monitored periodically.
			2.60	Access PEI, Highway Safety Division, and ITSS should ensure that all users within the Single Window Access Technology System and the Driver Vehicle System have individual usernames and passwords.
			2.63	Access PEI and Highway Safety Division should establish policies and procedures for granting and removing user access to the Single Window Access Technology System and the Driver Vehicle System.
2.64	Access PEI and Highway Safety Division should monitor user activity in the Single Window Access Technology System and the Driver Vehicle System and remove or disable dormant user accounts in a timely manner.			

5. Implementation of 2014 and 2015 Recommendations

APPENDIX A

Audit	Department/ Agency	Year	Para.	Recommendation
Access PEI	Transportation, Infrastructure and Energy (formerly Department of Fisheries, Aquaculture and Rural Development)	2015	2.71	Access PEI should establish service level standards for the services it provides to Islanders.
			2.72	Access PEI should monitor and report performance against established service level standards.
Out-of-Province Health Services	Health PEI	2015	3.36	Health PEI should <ul style="list-style-type: none"> • monitor whether physicians are submitting referrals for out-of-province health services; and • take appropriate action to ensure policies are followed.
			3.43	Health PEI should clarify policies for out-of-province health services.
			3.52	Health PEI should identify arrangements for out-of-province health services that warrant formal documentation of terms and conditions. Where warranted, arrangements should be formalized.
			3.53	Health PEI should establish internal control procedures to ensure claims for out-of-province hospital services meet the key requirements of the interprovincial billing arrangements.
			3.55	Health PEI should work to obtain out-of-province billing information electronically, especially from the two provinces that provide the majority of the out-of-province health services accessed by Island residents.
Management of Contaminated Sites	Communities, Land and Environment (formerly the Department of Environment, Labour and Justice)	2015	4.19	The Department of Environment, Labour and Justice (now the Department of Communities, Land, and Environment) should ensure that all contaminated sites are added to the Contaminated Sites Registry in accordance with the <i>Environmental Protection Act</i> and regulations.
			4.29	Management of the Environment Division should develop an internal policy to guide staff in addressing complaints and notifications. This policy should include at a minimum: <ul style="list-style-type: none"> • a process for prioritization of complaints; and • key data to be recorded in the Complaints Management System.
			4.33	Management of the Environment Division should implement procedures to ensure required reports from site professionals are obtained and reviewed on a timely basis.

5. Implementation of 2014 and 2015 Recommendations

APPENDIX A

Audit	Department/ Agency	Year	Para.	Recommendation
Management of Contaminated Sites	Communities, Land and Environment (formerly the Department of Environment, Labour and Justice)	2015	4.39	Management of the Environment Division should review the backlog of open complaints and notification files and ensure appropriate action is taken on each file.
			4.40	Management of the Environment Division should regularly monitor open complaint and notification files and ensure they are addressed in a timely manner.
			4.43	Management of the Environment Division should implement a process to review action taken by staff in addressing complaints and notifications.
			4.57	The Department of Environment, Labour and Justice (now the Department of Communities, Land and Environment) should ensure that all government owned contaminated or suspected contaminated sites <ul style="list-style-type: none"> • have required risk assessments completed; • are prioritized based on risk; and • have any required remediation work identified.
			4.58	The Department of Transportation and Infrastructure Renewal (now the Department of Transportation, Infrastructure and Energy) should determine, where required, the cost to close, monitor, and complete remediation work on sites owned by government and sites for which government has accepted responsibility.

OBJECTIVE AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island on the status of the implementation of recommendations made in our 2014 and 2015 Annual Reports. Work conducted for this review was performed to a limited level of assurance in accordance with the Canadian Standards for Assurance Engagements (CSAE) 3001 - Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook - Assurance.

The Office of the Auditor General of Prince Edward Island applies Canadian Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting this assurance work, we have complied with independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Prince Edward Island and the Code of Conduct of the Office of the Auditor General of Prince Edward Island. Both the Rules of Professional Conduct and the Code of Conduct are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

OBJECTIVE

Based on limited assurance, the objective of our work was to determine the status of implementation of the recommendations from special audits and examinations included in our 2014 and 2015 annual reports.

SCOPE AND APPROACH

The scope of our work included only recommendations from special audits and examinations included in the 2014 and 2015 annual reports. We assessed the implementation as at December 31, 2017.

Our approach included

- obtaining assertions from management on the status of implementation of each recommendation;

5. Implementation of 2014 and 2015 Recommendations

APPENDIX B

- interviews with management and staff;
- examination of documents; and
- review of specific controls and processes.

If management indicated that a recommendation was not implemented, we did not conduct review procedures.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

DATE OF REPORT

We obtained sufficient evidence on which to base our limited assurance conclusion on February 20, 2018, in Charlottetown, Prince Edward Island.

6. UPDATE ON 2017 RECOMMENDATIONS

CHAPTER SUMMARY

We obtained an update from management on the status of implementation of recommendations arising from special audits and examinations included in our 2017 Annual Report.

For these recommendations, we report the status of implementation based on management's response, with no assurance provided. For each recommendation, we provide details on the action taken, action planned, and the status of implementation as reported by management.

It is important to provide information to members of the Legislative Assembly and the public on management's intended actions to implement our audit recommendations.

After management has had at least three years to take action to implement the recommendations, we will assess the implementation of the recommendations. We will be reporting on the implementation of these recommendations in 2020.

6. Update on 2017 Recommendations

CLIMATE CHANGE

6.1 Following are the recommendations resulting from our audit of Climate Change reported in the 2017 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Communities, Land and Environment.

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
2.43 The Department of Communities, Land and Environment should coordinate provincial strategy development and implementation related to climate change.	The Climate Change Secretariat (CCS), which resides within the Department of Communities, Land and Environment (CLE), is in the process of developing a Climate Change Action Plan (CCAP) which will include both strategies and implementation measures regarding climate change.	The CCAP is currently being developed.	On-going
2.44 The Department of Communities, Land and Environment should develop a climate change strategy including both mitigation and adaptation which focuses on the key risks and vulnerabilities of the province. The strategy should include at a minimum: <ul style="list-style-type: none"> • objectives; • planned actions; • timeframe; • roles and responsibilities; and • public reporting requirements. 	The pending CCAP will encompass both mitigation and adaptation strategy components. The CCAP will be constructed in stages with the climate change mitigation components being drafted in 2017. Adaptation components will be drafted in 2018. A flood risk assessment from a climate change perspective is to begin in 2018. This assessment will inform the CCS on flood risks to public and other assets. The CCAP, along with associated implementation plans, will include objectives; planned actions; timeframe; roles and responsibilities; and details around public reporting.	The CCAP is currently being developed.	On-going

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
2.45 Executive Council should approve provincial climate change strategies.	The CCAP will be presented to Executive Council for approval.		Pending
2.46 The Department of Communities, Land and Environment should provide annual public reports on progress made to mitigate and adapt to climate change.	The CCS will be reporting on a regular basis on progress made to adapt to and mitigate climate change. At a minimum there will be annual reports submitted to the Legislature.	Report planning will begin post development of the CCAP.	Pending
2.66 Executive Council should establish clearly defined provincial targets for the reduction of greenhouse gas emissions. These targets should be publicly communicated.	Provincial targets will be considered as part of the mitigation portion of the CCAP, which will be submitted to Executive Council for approval. Any target(s) adopted will be publicly communicated.		Pending
2.67 The Department of Communities, Land and Environment should ensure documented implementation plans are complete for all key mitigation actions. This would include at a minimum: <ul style="list-style-type: none"> • assignment of responsibility; • timelines for each action; • financial and other resources required; and • performance measures. 	The CCAP will include measures for implementation of key actions around climate change mitigation including the assignment of leads, determination of timelines, required resources including partnerships, as well as listing co-benefits and metrics to measure progress.	Implementation plans will be completed.	Pending
2.76 The Department of Communities, Land and Environment should prepare a province-wide risk assessment for adaptation to climate change. This assessment should identify, analyze and prioritize key risks.	A funding agreement with the Federal government has been recently signed on cost sharing for a flood risk assessment program.	A flood risk assessment is to begin in 2018. This assessment is being led by Transportation, Infrastructure and Energy and CCS. It will inform on flood risks and provide tools for municipalities to assess flood risks.	Work to begin early 2018.

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
<p>2.77 The Department of Communities, Land and Environment should ensure documented implementation plans are completed for all key adaptation actions. This would include at a minimum:</p> <ul style="list-style-type: none"> • assignment of responsibility; • timelines for each action; • financial and other resources required; and • performance measures. 	<p>The CCAP will include measures for implementation of key actions around climate change adaptation including the assignment of leads, determination of timelines, required resources, as well as listing co-benefits and metrics to measure progress.</p>	<p>Implementation plans will be completed.</p>	<p>Pending</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

OFFICE OF THE PUBLIC TRUSTEE

6.2 Following are the recommendations resulting from our audit of the Office of the Public Trustee reported in the 2017 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Justice and Public Safety.

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
3.25 The Public Trustee Office should document and regularly update key summary information on each client.	<p>Policy and Procedures Manual being developed which includes sections on collection and updating of client information.</p> <p>Consultations are underway with care providers to provide regular updates on changes in client circumstance.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update case management software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p> <p>Process improvements continue to be discussed with Health, NGOs and service providers.</p>
3.26 The Public Trustee Office should record the revenues and expenses for each client.	<p>Policy and Procedures Manual being developed which includes sections on itemizing and tracking revenues and expenditures for each client.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update accounting software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
3.27 The Public Trustee Office should provide adequate oversight for all clients.	<p>Policy and Procedures Manual being developed which includes sections on case management, file management, client intake, monitoring and oversight.</p> <p>Consultations underway with care providers to provide regular reporting to the PT Office regarding clients.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update case management and accounting software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p> <p>Process improvements continue to be discussed with Health, NGOs and service providers.</p>
3.32 The Public Trustee Office should act in a timely manner to establish a complete listing and take control of assets and liabilities for each client.	<p>Policy and Procedures Manual being developed which includes sections on asset inventories and file management.</p> <p>The Office is undertaking a complete file review on all files and providing an update to management.</p> <p>Consultations underway with Adult Protection to streamline process of taking inventory of client assets.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update accounting software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p> <p>Process improvements being discussed with Health, NGOs and service providers.</p>
3.33 The Public Trustee Office should reconcile auction proceeds to the inventory of significant assets and maintain appropriate documentation.	<p>Policy and Procedures Manual being developed which includes sections on asset inventories.</p> <p>The Office is undertaking a complete file review on all files and providing an update to management.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update accounting software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
<p>3.40 The Public Trustee Office should develop and implement adequate internal controls to safeguard and maintain clients' financial assets. This, at a minimum, should include:</p> <ul style="list-style-type: none"> • appropriate segregation of duties; • review and approval of documentation to support disbursements; and • timely preparation and review of monthly bank reconciliations. 	<p>Policy and Procedures Manual being developed, which includes sections on segregation of duties in the Office, reconciling and documenting payments and disbursements as well as monthly client finance reviews.</p> <p>The Office is undertaking a complete file review on all files and providing an update to management.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update accounting software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p>
<p>3.43 The Public Trustee should obtain regular summary reports to facilitate oversight of client accounts.</p>	<p>Policy and Procedures Manual being developed which includes sections on regular client accounting and reporting.</p> <p>The Office is undertaking a complete file review on all files and providing an update to management.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update accounting software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
3.47 The Public Trustee Office should maintain organized client files containing all relevant documentation to support transactions.	<p>Policy and Procedures Manual being developed which includes sections on file management.</p> <p>File reorganization is underway in the Office.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update case management software.</p> <p>A resource has been seconded to the Office to assist in file reorganization.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p> <p>File reorganization to be completed by end of this fiscal year.</p>
3.57 The Public Trustee Office should take action to implement an accounting system that facilitates timely, accurate information for management decision making and reporting.	<p>Policy and Procedures Manual being developed which includes sections on accounting software and accounting processes.</p>	<p>Finalize Policy Manual.</p> <p>A needs Assessment is underway to review and update accounting software.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p>
3.67 The Public Trustee Office should establish documented policies and procedures to guide staff in conducting the work of the Office. At a minimum, these should include: <ul style="list-style-type: none"> • administration of client files; • financial controls; • managing client investments; and • contacting known heirs. 	<p>Policy and Procedures Manual being developed which includes sections on carrying out work functions and duties in the Office.</p>	<p>Finalize Policy Manual.</p>	<p>Policy Manual to be completed by spring 2018.</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
3.71 The Office of the Public Trustee should establish documented performance measures.	<p>Policy and Procedures Manual being developed which includes standards for Office staff when carrying out their duties.</p> <p>Cross-Canada analysis is underway on identifying quantifiable performance indicators used by other PT Offices.</p>	<p>Finalize Policy Manual.</p> <p>A needs assessment is underway to review and update accounting and case-management software (as well having software pull raw data in relation to the identified performance measures).</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Analysis on performance indicators to be completed by spring 2018.</p> <p>Software review to be completed by the end of fiscal year 2017-18.</p>
3.72 The Public Trustee Office should annually report to the public on its performance.	<p>Policy and Procedures Manual being developed which includes standards to be used as the basis of performance indicators.</p> <p>Discussions underway for analyzing improvements to the Advisory Board as well as the Annual Report.</p>	<p>Finalize Policy Manual.</p>	<p>Policy Manual to be completed by spring 2018.</p> <p>Analysis on Advisory Board and Annual Report to be completed by spring 2018.</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

SENIORS HOUSING PROGRAM

6.3 Following are the recommendations resulting from our audit of the Seniors Housing Program in the 2017 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Family and Human Services.

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
4.28 The Housing Services Division should prepare a long-term plan to address the current and expected future demand for low income seniors housing.	<p>The Minister's Mandate Letter included the development of this action plan which was further supported through a Throne Speech commitment.</p> <p>A Project Charter has been developed and approved.</p> <p>A Project Management Team (PMT) has been established and is operating.</p> <p>A Co-development Team (CDT) has been established and is operating.</p> <p>A Housing Supply Task Force (HSTF) has been announced (market and supply side).</p> <p>A public engagement process has started.</p>	<p>The PMT, CDT and HSTF work will continue through winter 2017/18 to capture relevant information, define the housing problem and develop solutions.</p> <p>Expected completion date is June 2018.</p>	<p>Timelines on target with Project Charter</p> <p>Expected completion date June 2018</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
<p>4.40 The Housing Services Division should establish a process for housing officers to verify income, assets, and housing costs at the time of application.</p>	<p>Processes to assess and verify assets have been reviewed.</p> <p>Housing Officers have reviewed the standards for what documentation is required to support housing costs identified by applicants.</p> <p>The Canada Revenue Agency Information Sharing Program was implemented in 2016 to verify applicant income.</p> <p>Processes to assess income at the application stage as opposed to the placement stage have been implemented.</p>	<p>A policy update is underway to ensure new processes are initiated and existing processes are clearly documented for guidance.</p>	<p>Ongoing - expect to complete by March 2018.</p>
<p>4.41 The Housing Services Division should ensure that housing officers comply with policy in assessing applicants.</p>	<p>A management review and sign-off process has been added to the Application and Assessment Form to ensure applicant assessments have been reviewed, are completed consistently by all staff, and any issues requiring updated policy, process, or guidance are identified and addressed on a timely basis.</p> <p>The updated form will be formally implemented when policy updates are complete.</p>	<p>A policy update is underway to ensure new processes are initiated and existing processes are clearly documented for guidance.</p>	<p>Ongoing - expect to complete by March 2018.</p>

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
4.42 The Housing Services Division should implement a quality control review process for assessments.	<p>A management review and sign-off process has been added to the Application and Assessment Form to ensure applicant assessments have been reviewed, are completed consistently by all staff, and any issues requiring updated policy, process, or guidance are identified and addressed on a timely basis.</p> <p>The updated form will be formally implemented when policy updates are complete.</p>	A policy update is underway to ensure new processes are initiated and existing processes are clearly documented for guidance.	Ongoing - expect to complete by March 2018.
4.52 The Housing Services Division should develop a process to ensure accurate, relevant wait list information is available for the Seniors Housing Program on a timely basis.	Database specifications (content, fields and reporting needs) have been completed.	<p>Database completion and implementation work continues.</p> <p>Policy development work will provide guidance to staff on entry of applicant information in the database.</p>	Ongoing - expect to complete by March 2018.
4.70 The Housing and Services Division should ensure placements are made based on program policy. Exceptions to policy should be documented and authorized by senior management.	Discussions have occurred with staff regarding the importance of ensuring all documentation is in client files and reasoning to support decisions is documented.	A policy update is underway to ensure new processes are initiated and existing processes are clearly documented for guidance.	Ongoing - expect to complete by March 2018.
4.71 The Housing Services Division should ensure sufficient documentation is maintained to support placement decisions.	Discussions have occurred with staff regarding the importance of ensuring all documentation is in client files and reasoning to support decisions is documented.	A policy update is underway to ensure new processes are initiated and existing processes are clearly documented for guidance.	Ongoing - expect to complete by March 2018.

*Paragraph number refers to the 2017 Auditor General's Annual Report.

6. Update on 2017 Recommendations

Auditor General's Recommendation*	Management Response		
	Action Taken	Action Planned	Status
4.72 The Housing Services Division should provide guidance to housing officers regarding challenging applicants.	Processes are already in place to support difficult to place applicants to ensure they access other available services that can support a successful rental placement.	Management will continue to review and improve these processes as appropriate.	Completed
4.75 The Housing Services Division should establish performance indicators as a basis to measure and report on program performance.	Performance indicators that speak to the effectiveness of housing programs will be determined and developed as part of both the provincial housing action plan and the national housing strategy.	Work on both the action plan and the national strategy continues. Reporting will be included in the annual report for the Department of Family and Human Services and the Prince Edward Island Housing Corporation.	Implementation will depend on completion of both the action plan and the national strategy as well as specific reporting needs identified.
4.76 The Housing Services Division should report publicly on the performance of its low income Seniors Housing Program.	Performance indicators that speak to the effectiveness of housing programs will be determined and developed as part of both the provincial housing action plan and the national housing strategy.	Work on both the action plan and the national strategy continues. Reporting will be included in the annual report for the Department of Family and Human Services and the Prince Edward Island Housing Corporation.	Implementation will depend on completion of both the action plan and the national strategy as well as specific reporting needs identified.

*Paragraph number refers to the 2017 Auditor General's Annual Report.

FINANCIAL AUDITS

7. INTRODUCTION TO FINANCIAL AUDITS

7.1 Members of the Legislative Assembly and the public need sufficient, reliable, and timely information on the province's financial position and operating results. This information is important to hold government accountable for its use and control of public resources. Governments provide such information by preparing annual consolidated financial statements which are intended to provide a full accounting of the financial and other resources that government controls. Financial statements provide information to describe the changes in a government's financial position and its revenues and expenses for the fiscal period. Financial statements and other financial information help governments demonstrate accountability.

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

7.3 To add credibility to financial reports, users often rely on the work of an independent auditor. The auditor objectively assesses the accounting principles used, the estimates made, and other management assertions reflected in the financial reports. The auditor examines the entity's accounts and the presentation and disclosure of its financial information in accordance with Canadian auditing standards. These standards require the auditor to obtain a high level of assurance to determine whether the financial information is fairly presented. Upon completion of the examination, the auditor's opinion is expressed in the independent auditor's report.

7.4 The *Audit Act* requires the Auditor General to perform financial audits of the province's consolidated financial statements, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to a financial audit by a separate external auditor.

7. Introduction to Financial Audits

7.5 In addition to the audit of the province's consolidated financial statements, we perform the annual financial statement audit for the following entities:

- Health PEI
- PEI Advisory Council on the Status of Women
- PEI Agricultural Insurance Corporation
- PEI Aquaculture and Fisheries Research Initiative Inc.
- PEI Civil Service Superannuation Fund
- PEI Crown Building Corporation
- PEI Grain Elevators Corporation
- PEI Housing Corporation
- PEI Human Rights Commission
- PEI Liquor Control Commission
- PEI Lotteries Commission
- PEI Self-Insurance and Risk Management Fund
- PEI Teachers Superannuation Fund
- Pension Plan for Members of the Legislative Assembly
- Public Trustee
- Supreme Court of PEI Trust Accounts

7.6 We also audited nine operating claims submitted by the province to the Canada Mortgage and Housing Corporation.

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

7.8 In the chapters that follow, we provide summary financial highlights and comments on indicators of financial condition for the province. We also report on observations and recommendations resulting from our audits of:

- the province's consolidated financial statements;
- financial statements of agencies, boards, trusts, and Crown corporations; and
- appropriations and special warrants.

8. INDICATORS OF FINANCIAL CONDITION

CHAPTER SUMMARY

What we examined

In this chapter, we provide commentary and other information based on the operating results and financial position of the province for the past five years. Summary financial information and highlights are also included.

Financial indicators related to sustainability, flexibility, and vulnerability are presented for each fiscal year from 2013 to 2017.

Why it's important

Information in this chapter is presented to promote discussion and assist legislators, the public, and other users to understand the financial condition of the province.

What we found

2016-2017:

- The province incurred a deficit of \$1.3 million, an improvement from the prior year.
- Net debt increased slightly by \$2.4 million and totaled \$2.17 billion at March 31, 2017.
- Improvements were noted in the sustainability indicators. The ratio of net debt to gross domestic product (GDP) and net debt to total revenues declined. The net debt per capita also decreased by \$225 per Island resident.
- The province's ratio of federal revenue to total revenue increased indicating increased vulnerability.

8. Indicators of Financial Condition

2013-2017:

- Annual deficits were incurred each year and totaled \$160.5 million over the five year period.
- Net debt increased by \$132.3 million or 6.5 percent since March 31, 2013.
- The province's ratio of net debt to GDP and net debt to total revenue has declined each year since 2013. The net debt per capita however, has increased by \$240 per Island resident compared to 2013.

BACKGROUND

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

8.2 Consolidated financial statements are helpful to provide an overview of the financial status of the province at its year-end and for the prior period. However, financial statements do not provide a complete perspective on how the province is performing in relation to the overall economic and fiscal environments. Therefore, financial statements used in conjunction with indicators of financial condition are more useful in assessing the state of the province's finances.

8.3 Our current update provides financial information and indicators for the last five fiscal periods. Certain prior period results have been restated due to accounting changes. The most recent estimates of nominal gross domestic product (GDP) and population were used in the determination of various indicators. Consistent with other jurisdictions, nominal GDP is presented on a calendar year basis.

8. Indicators of Financial Condition

SUMMARY FINANCIAL INFORMATION

FINANCIAL HIGHLIGHTS

8.4 Exhibit 8.1 summarizes the province's financial position and operating results for the last five years.

EXHIBIT 8.1 SUMMARY FINANCIAL INFORMATION YEAR ENDED MARCH 31 (\$ Millions)

	2013 Restated	2014	2015	2016 Restated	2017
Financial Assets	\$ 829.7	\$1,229.2	\$1,131.6	\$1,081.7	\$1,099.3
Liabilities	<u>2,869.3</u>	<u>3,328.2</u>	<u>3,265.8</u>	<u>3,251.2</u>	<u>3,271.2</u>
Net Debt	2,039.6	2,099.0	2,134.2	2,169.5	2,171.9
Non-Financial Assets	<u>975.2</u>	<u>988.7</u>	<u>1,003.6</u>	<u>1,025.9</u>	<u>1,026.9</u>
Accumulated Deficit	<u>\$1,064.4</u>	<u>\$1,110.3</u>	<u>\$1,130.6</u>	<u>\$1,143.6</u>	<u>\$1,145.0</u>
Revenues	1,597.0	1,691.8	1,726.4	1,758.7	1,837.4
Expenses	<u>1,676.9</u>	<u>1,737.7</u>	<u>1,746.7</u>	<u>1,771.8</u>	<u>1,838.7</u>
Annual Deficit	<u>\$ 79.9</u>	<u>\$ 45.9</u>	<u>\$ 20.3</u>	<u>\$ 13.1</u>	<u>\$ 1.3</u>
Nominal Gross Domestic Product*	<u>\$ 5,571</u>	<u>\$ 5,753</u>	<u>\$ 5,849</u>	<u>\$ 6,077</u>	<u>\$ 6,321</u>

Source: *Statistics Canada published November 8, 2017.

8.5 An important and widely accepted measure of financial condition is net debt. Net debt is the difference between liabilities and financial assets. It provides a measure of the amount of future revenue that will be required to pay for past operations.

8.6 As at March 31, 2017, net debt increased slightly by \$2.4 million from the prior year and was \$2.17 billion at year-end. Net debt increased by approximately \$132.3 million or 6.5 percent since March 31, 2013.

8. Indicators of Financial Condition

8.7 Investments in non-financial assets, the majority of which are tangible capital assets, combined with annual deficits contributed to the increase in net debt. Of the \$132.3 million increase in net debt over the past four years, \$51.7 million or 39.1 percent related to net investments in non-financial assets and \$80.6 million or 60.9 percent related to accumulated deficits.

8.8 **Exhibit 8.1** also shows total liabilities have increased by approximately \$401.9 million or 14 percent since March 31, 2013.

8.9 At March 31, 2017, the province had outstanding short-term loans, loans payable, and debentures totaling \$2.95 billion making up 90.3 percent of total liabilities. These borrowings are partially offset by sinking fund assets. Included in loans payable are promissory notes to the province's pension funds totaling \$534.8 million.

8.10 The annual surplus/deficit indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether a government is living within its means.

8.11 For the year ended March 31, 2017, the province incurred a deficit of \$1.3 million. This is an improvement from the prior year deficit of \$13.1 million. It is also less than the deficit of \$9.6 million budgeted for 2016-17.

8.12 **Exhibit 8.2** provides a summary breakdown of the change in the province's annual deficit from the prior period.

EXHIBIT 8.2
CHANGE IN ANNUAL DEFICIT
YEAR ENDED MARCH 31
(\$ Millions)

	2016	2017	Change
Revenues	\$ 1,758.7	\$1,837.4	\$78.7
Expenses	(1,771.8)	(1,838.7)	(66.9)
Annual Deficit	\$ (13.1)	\$ (1.3)	\$11.8

8. Indicators of Financial Condition

Revenues

8.13 Overall, revenues increased by \$78.7 million or 4.5 percent from 2016 to 2017. **Exhibit 8.3** shows increased revenues from the Government of Canada and government business enterprises were the main drivers of the revenue increase for the year ended March 31, 2017.

EXHIBIT 8.3 CHANGE IN ANNUAL REVENUES YEAR ENDED MARCH 31 (\$ Millions)

Revenues	2016	2017	Change \$	Change %
Government of Canada:				
Equalization	\$ 361.0	\$ 380.1	\$19.1	5.3%
Canada Health Transfer	139.5	148.6	9.1	6.5%
Canada Social Transfer	53.0	55.0	2.0	3.8%
Disaster Relief	-	6.0	6.0	100.0%
Investing in Canada Plan	-	4.4	4.4	100.0%
Strategic Investment Fund	-	3.9	3.9	100.0%
Other	91.4	97.9	6.5	7.1%
Total	644.9	695.9	51.0	7.9%
Government Business Enterprises:				
Island Investment Development Inc.	13.2	28.2	15.0	113.6%
PEI Energy Corporation	9.4	7.6	(1.8)	(19.1%)
PEI Lotteries Commission	12.5	16.0	3.5	28.0%
Other	21.3	21.3	-	0%
Total	56.4	73.1	16.7	29.6%
Taxes:				
Personal Income Tax	348.5	349.9	1.4	0.4%
Sales Tax	244.9	235.0	(9.9)	(4.0%)
Corporate Income Tax	73.2	79.9	6.7	9.2%
Other	222.4	231.1	8.7	3.9%
Total	889.0	895.9	6.9	0.8%
Other	168.4	172.5	4.1	2.4%
Total Revenues	\$1,758.7	\$1,837.4	\$78.7	4.5%

8. Indicators of Financial Condition

Expenses

8.14 Expenses increased by \$66.9 million or 3.8 percent from 2016 to 2017. **Exhibit 8.4** provides a breakdown of expenses by department. Health related expenses account for 35.9 percent of the total provincial expenses.

EXHIBIT 8.4 CHANGES IN ANNUAL EXPENSES YEAR ENDED MARCH 31 (\$ Millions)

Department	2016	2017	Change \$	Change %
Health and Wellness	\$ 635.8	\$ 659.9	\$ 24.1	3.8%
Education, Early Learning and Culture	242.8	255.4	12.6	5.2%
Workforce and Advanced Learning	126.0	137.2	11.2	8.9%
Family and Human Services	96.3	106.8	10.5	10.9%
Interest Charges on Debt	129.8	125.5	(4.3)	(3.3%)
Other	541.1	553.9	12.8	2.4%
Total Expenses	\$1,771.8	\$1,838.7	\$66.9	3.8%

FINANCIAL INDICATORS

8.15 Consistent with prior years, we continue to provide information on a number of selected indicators of financial condition. We provide indicators that help assess the province's sustainability, flexibility, and vulnerability.

SUSTAINABILITY

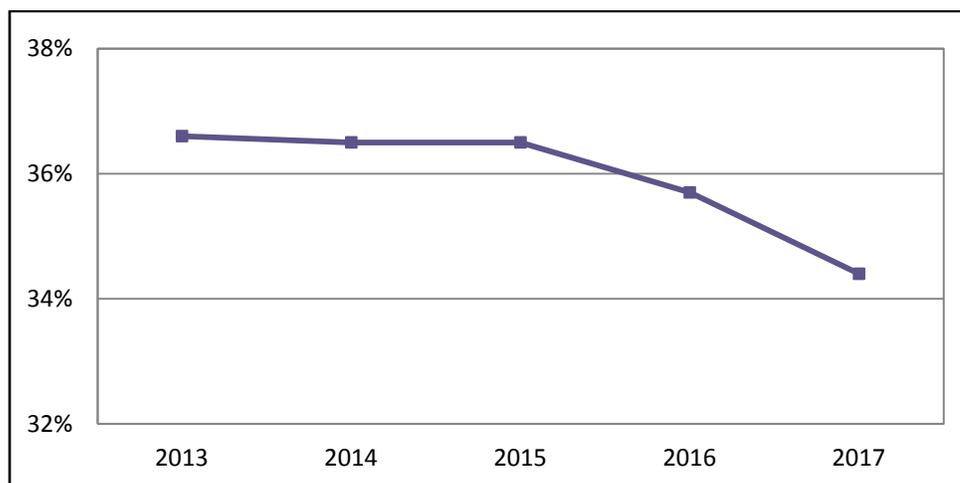
8.16 Sustainability is an important indicator to include in an assessment of financial condition because it shows the extent to which programs and services can be maintained and existing creditor, employee, and other obligations can be met without increasing the debt or tax burden. Sustainability is a significant consideration because of its potential impact on current and future generations.

8. Indicators of Financial Condition

Net Debt to GDP

8.17 Net debt to GDP provides a measure of the financial demands placed on the economy by the province's spending and taxation policies. An increasing ratio indicates net debt is growing at a rate faster than the growth in the economy which places higher demands on future revenues. The province's net debt to GDP ratio reached its highest level in 2013. Since then, it has continued to decline as shown in **Exhibit 8.5**.

EXHIBIT 8.5
NET DEBT TO GDP
YEAR ENDED MARCH 31

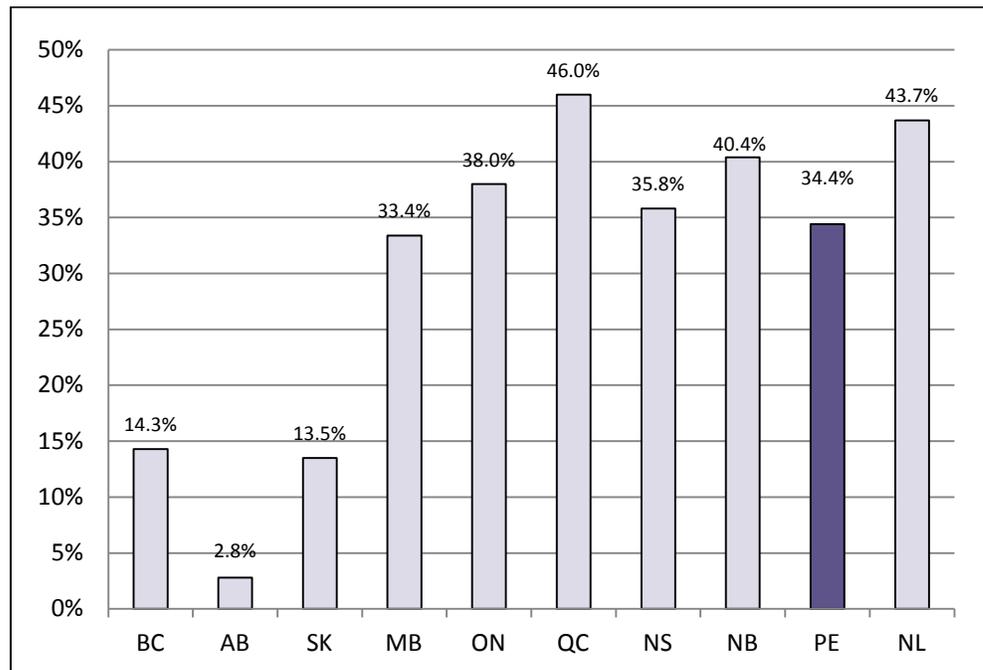


	2013 Restated	2014	2015	2016	2017
Net Debt to GDP	36.6%	36.5%	36.5%	35.7%	34.4%

8. Indicators of Financial Condition

8.18 Exhibit 8.6 compares the province's net debt to GDP with other Canadian provinces. At March 31, 2017, PEI's net debt to GDP ratio is lower than five other provinces and higher than British Columbia, Alberta, Saskatchewan, and Manitoba.

EXHIBIT 8.6
NET DEBT TO GDP
CANADIAN PROVINCES
MARCH 31, 2017



Source: Net debt derived from the province's consolidated financial statements at March 31, 2017. GDP data from Statistics Canada published November 8, 2017.

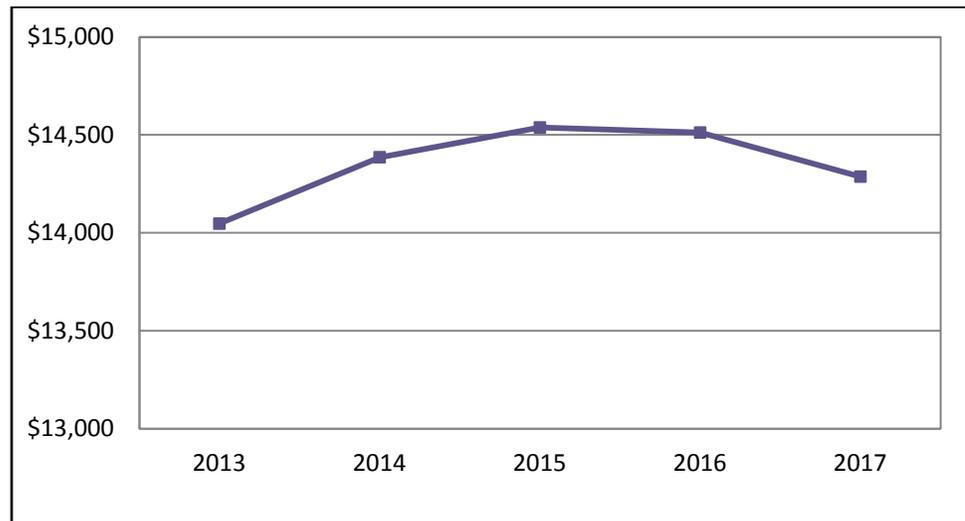
8. Indicators of Financial Condition

Net Debt per Capita

8.19 Net debt per capita is the amount of net debt attributable to each resident of the province. The province’s net debt per capita decreased by \$225 from the previous year. This indicates net debt is growing at a slower rate than the population.

8.20 Exhibit 8.7 shows the province’s net debt per capita increased from 2013 to 2015. It decreased slightly in 2016 and again in 2017. The net debt attributable to each Island resident was \$14,287 at March 31, 2017, down from \$14,512 at March 31, 2016.

**EXHIBIT 8.7
NET DEBT PER CAPITA
YEAR ENDED MARCH 31**



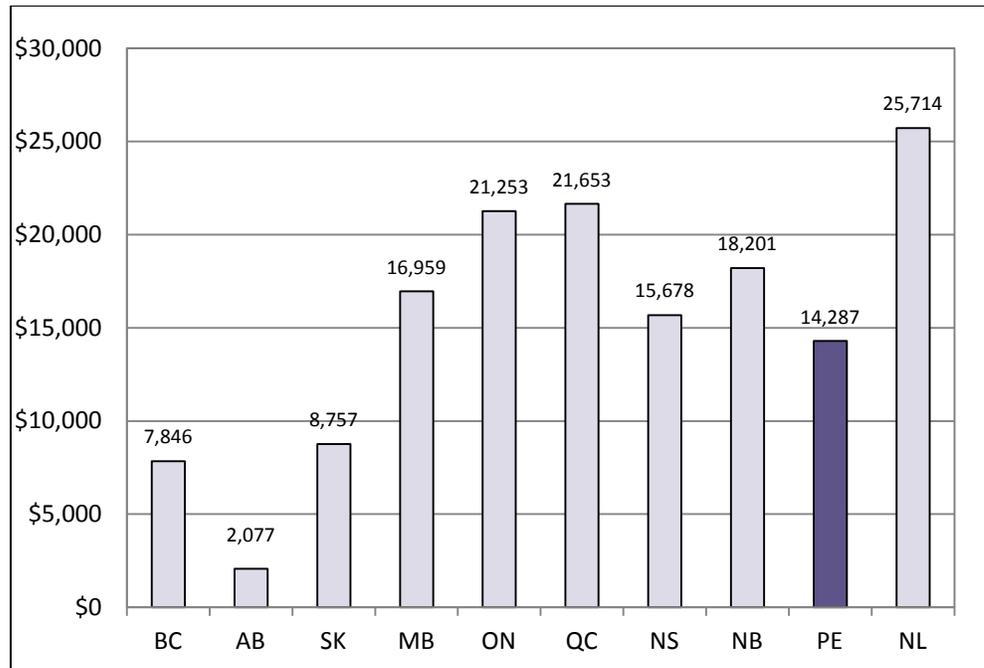
Source: Population data from Statistics Canada published September 27, 2017.

	2013 Restated	2014	2015	2016 Restated	2017
Net Debt per Capita	\$14,047	\$14,386	\$14,538	\$14,512	\$14,287

8. Indicators of Financial Condition

8.21 A comparison of PEI's net debt per capita to other Canadian provinces is provided in **Exhibit 8.8**. PEI's net debt per capita ratio is more favorable than the other provinces, except for British Columbia, Alberta, and Saskatchewan.

EXHIBIT 8.8
NET DEBT PER CAPITA
CANADIAN PROVINCES
MARCH 31, 2017



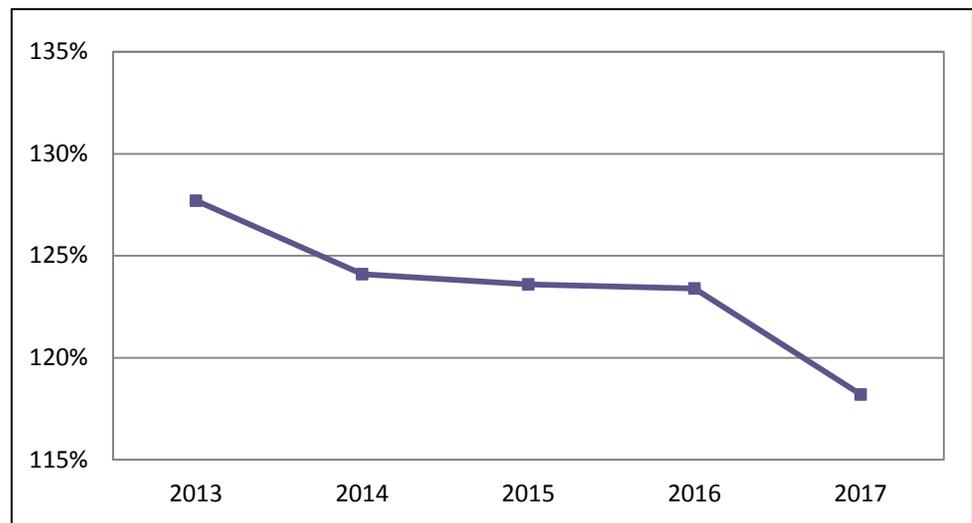
Source: Net debt derived from province's consolidated financial statements at March 31, 2017. Population data from Statistics Canada published September 27, 2017.

8. Indicators of Financial Condition

Net Debt to Total Revenues

8.22 Exhibit 8.9 depicts the ratio of net debt to total revenues. This ratio is a measure of the future revenue which will be required to pay for past transactions. An increasing ratio indicates more time will be needed to repay the debt. The province's ratio has decreased each year from 2013 to 2017. At March 31, 2017, the province's net debt to total revenues ratio was 118.2 percent.

**EXHIBIT 8.9
NET DEBT TO TOTAL REVENUES
YEAR ENDED MARCH 31**



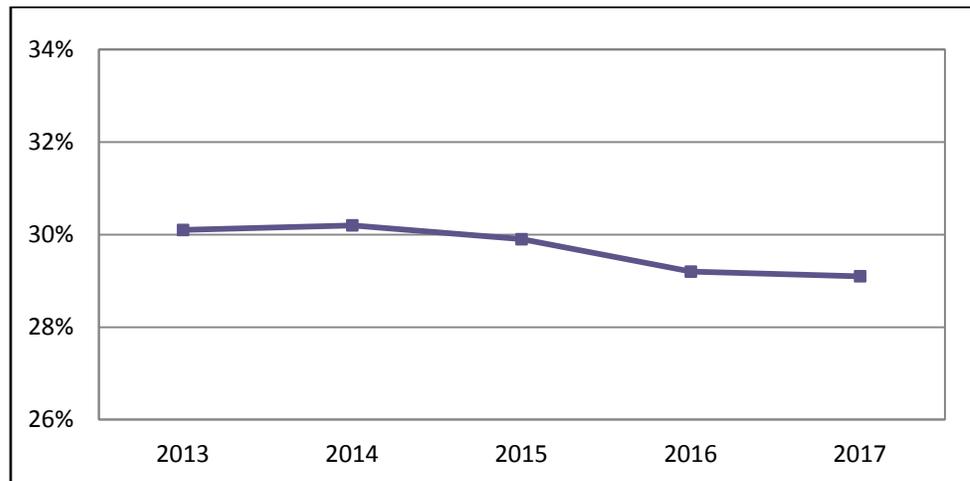
	2013 Restated	2014	2015	2016	2017
Net Debt to Total Revenues	127.7%	124.1%	123.6%	123.4%	118.2%

8. Indicators of Financial Condition

Expenses to GDP

8.23 During 2016-17, government expenses increased by \$66.9 million from the prior period. Comparing expenses to GDP provides the trend of government spending over time in relation to the growth in the economy. An increasing ratio indicates government spending is growing at a rate faster than the growth in the economy. Expenses as a percentage of GDP are consistent with the previous year and have declined over the past four years. **Exhibit 8.10** shows that government spending at March 31, 2017 represented approximately 29.1 percent of GDP, compared to 29.2 percent in 2016 and 30.1 percent in 2013.

**EXHIBIT 8.10
EXPENSES TO GDP
YEAR ENDED MARCH 31**



	2013 Restated	2014	2015	2016	2017
Expenses to GDP	30.1%	30.2%	29.9%	29.2%	29.1%

FLEXIBILITY

8.24 Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either increasing its debt or raising additional revenue. A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher interest rates, without making substantial changes to the way it operates.

8.25 Flexibility provides insight into the management of financial resources. A government that increases its current borrowings reduces its future flexibility to respond to adverse economic circumstances.

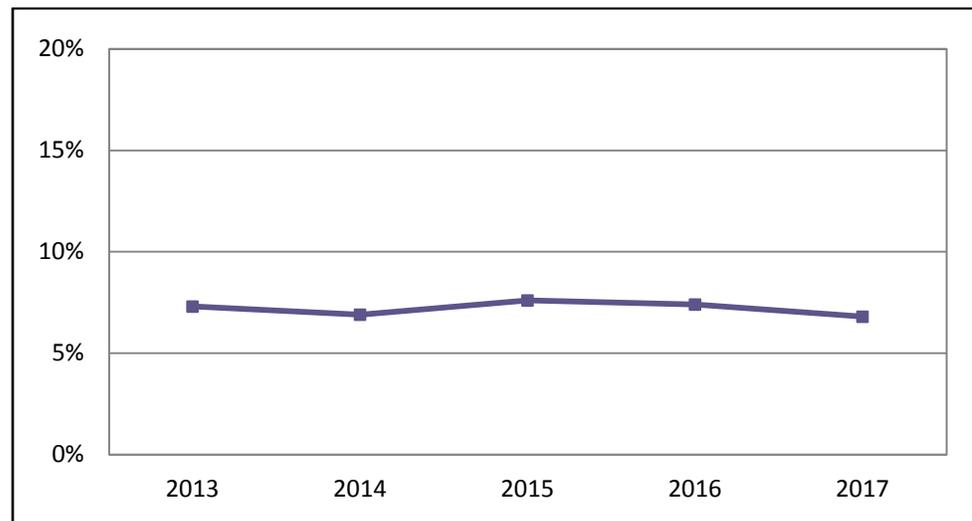
8. Indicators of Financial Condition

Similarly, increasing taxation or fees reduces a government’s ability to do so in the future as citizens and businesses approach the limit that they can or are willing to bear.

Interest Costs to Total Revenues

8.26 One measure of a government’s flexibility is the “interest bite”. This is the interest cost as a percentage of total revenues and is shown in **Exhibit 8.11**. This indicator illustrates the extent to which past borrowing decisions constrain a government’s ability to provide programs and services in the future.

EXHIBIT 8.11
INTEREST COSTS TO TOTAL REVENUES
YEAR ENDED MARCH 31



	2013 Restated	2014	2015	2016	2017
Interest Costs to Total Revenues	7.3%	6.9%	7.6%	7.4%	6.8%

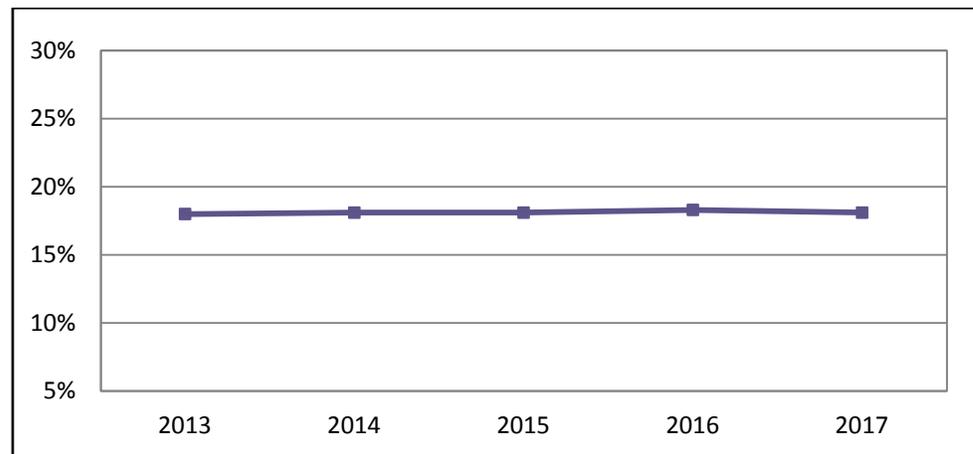
8.27 Interest costs totaled \$125.5 million during 2016-17. This means the first \$125.5 million of revenue must be used to pay interest costs and is not available for government programs and services. Interest charges were approximately 6.8 percent of total revenues for the March 31, 2017 fiscal year. The interest costs to total revenues ratio has declined since last year and has also decreased since 2013.

8. Indicators of Financial Condition

Own Source Revenues to GDP

8.28 Own source revenues as a percentage of GDP indicates the extent to which a government is taking money out of the local economy through taxation, fees, and/or other charges. **Exhibit 8.12** indicates the percentage has been stable since 2013.

**EXHIBIT 8.12
OWN SOURCE REVENUES TO GDP
YEAR ENDED MARCH 31**



	2013 Restated	2014	2015	2016	2017
Own Source Revenues to GDP	18.0%	18.1%	18.1%	18.3%	18.1%

VULNERABILITY

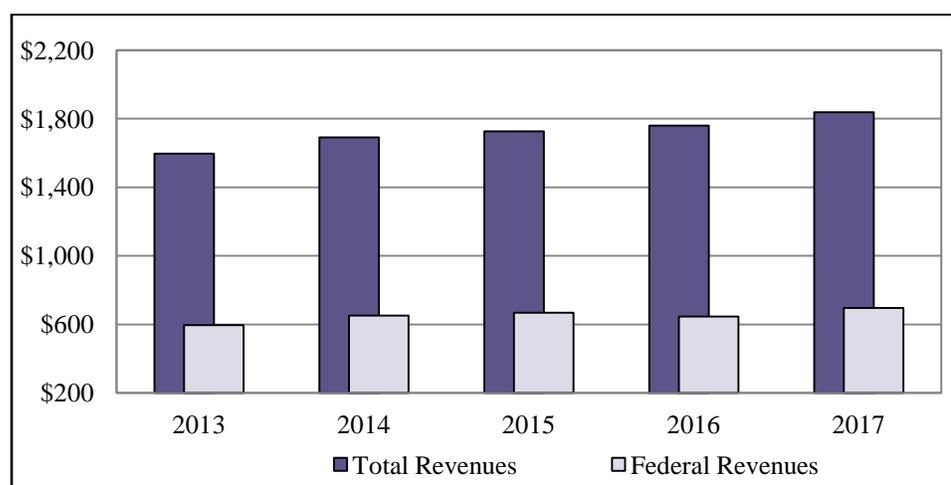
8.29 Vulnerability is the degree to which a government depends on sources of funding outside its control or influence. It provides insight into the risks the province is exposed to that could affect its ability to meet existing service commitments to the public and financial commitments to creditors,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

8. Indicators of Financial Condition

Federal Revenues to Total Revenues

8.30 As indicated in **Exhibit 8.13**, federal revenues as a percentage of total revenues have increased over the previous year and compared to 2013. An increasing ratio indicates more vulnerability. In 2016-17, the federal government provided 37.9 percent of the province's total revenues or \$695.9 million. The increase in federal revenues is attributable mainly to higher equalization and Canada Health transfers as well as new federal programs.

EXHIBIT 8.13
FEDERAL REVENUES TO TOTAL REVENUES
YEAR ENDED MARCH 31
(\$ Millions)



	2013 Restated	2014	2015	2016	2017
Provincial Revenues	\$1,001.6	\$1,040.0	\$1,058.1	\$1,113.8	\$1,141.5
Federal Revenues	<u>595.4</u>	<u>651.8</u>	<u>668.3</u>	<u>644.9</u>	<u>695.9</u>
Total Revenues	<u>\$1,597.0</u>	<u>\$1,691.8</u>	<u>\$1,726.4</u>	<u>\$1,758.7</u>	<u>\$1,837.4</u>
Provincial Revenues as Percent of Total	62.7%	61.5%	61.3%	63.3%	62.1%
Federal Revenues as Percent of Total	37.3%	38.5%	38.7%	36.7%	37.9%

8. Indicators of Financial Condition

GLOSSARY

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

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

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

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

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

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

Accumulated deficit is the sum of all surpluses and deficits incurred over the years.

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

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

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

9. AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

CHAPTER SUMMARY

What we examined

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

Why it's important

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

What we found

- The 2016-17 consolidated financial statements fairly present the province's financial results. An unqualified audit opinion was issued on October 24, 2017.
- Audit readiness continues to be a problem for some Crown corporations.
- Some prior period recommendations were not addressed.
- Measurement and recognition of financial corporation capital tax revenue needs to be reassessed.

9. Audit of the Consolidated Financial Statements

BACKGROUND

9.1 The *Financial Administration Act* requires the Comptroller to annually prepare the province's Public Accounts. Volume I of the Public Accounts contains the province's audited consolidated financial statements. All information in and decisions related to these statements are the responsibility of government. The Public Accounts also include Volume II which contains the unaudited Operating Fund financial statements and details of revenues and expenses of the Operating Fund; and Volume III which includes the audited financial statements of agencies, boards, Crown corporations, and funds.

9.2 The Auditor General is required to conduct an audit of the consolidated financial statements. Each year, we audit the province's consolidated financial statements and issue an independent auditor's report.

9.3 The *Financial Administration Act* requires the Minister of Finance to annually table the Public Accounts in the Legislative Assembly. The Public Accounts for March 31, 2017, were tabled on October 31, 2017.

OBJECTIVES AND SCOPE

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

9.5 Under Section 17 of the Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. As part of the audit of the consolidated financial statements, the Auditor General reviews certain audit work performed by the external auditors of significant entities.

9.6 In the following sections, we provide information on our independent audit opinion on the province's consolidated financial statements for the fiscal year ended March 31, 2017. We also include observations and recommendations arising from our work. Information to address other reporting requirements under the *Audit Act* is also provided.

9. Audit of the Consolidated Financial Statements

AUDIT OPINION

9.7 Our audit was conducted in accordance with Canadian auditing standards. On October 24, 2017, the Auditor General issued an unqualified audit opinion on the province's consolidated financial statements. The independent audit opinion stated the province's consolidated financial statements for the year ended March 31, 2017, are fairly presented in accordance with Canadian public sector accounting standards.

OBSERVATIONS AND RECOMMENDATIONS

TIMELY COMPLETION OF GOVERNMENT ORGANIZATION AUDITS

9.8 As the auditor of the consolidated financial statements, we are required to obtain sufficient appropriate audit evidence regarding the financial information of all government organizations included in the government reporting entity. The audited financial statements of the government organization would normally be the most significant audit evidence obtained, although not the only form of evidence. The *Financial Administration Act* requires each government organization to submit audited financial statements to the appropriate Minister within three months of its fiscal year-end.

9.9 Each year, we meet with management of the government organizations audited by our office. We discuss audit readiness and agree on timelines for receipt of information for audit purposes. A formal letter is then issued detailing the final agreed upon deadlines. These procedures are important to facilitate the timely completion of audited financial statements.

Government organizations not meeting reporting requirements

9.10 There were audit readiness issues in conducting the audits of four Crown corporations/agencies. This was due to auditee delays in meeting audit readiness deadlines and responding to audit requests. These delays can impact the timely completion of the consolidated financial statements because the financial statements of Crown corporations and agencies are needed to prepare the province's consolidated financial statements. These delays can also result in inefficiencies in the audit process.

9. Audit of the Consolidated Financial Statements

9.11 We performed alternate procedures to satisfy audit requirements for the government reporting entity. However, it is essential that audits of government organizations are completed in a timely manner in order to ensure audit readiness deadlines for the consolidated financial statements can be met.

Recommendation

9.12 The Office of the Comptroller should take action to monitor and help ensure government organizations meet audit readiness deadlines.

PRIOR PERIOD RECOMMENDATIONS

9.13 The consolidated financial statements are the responsibility of government and are prepared by the Comptroller. Our audit involves performing procedures to obtain sufficient and appropriate audit evidence to provide a basis for the audit opinion. This audit evidence is prepared by and provided to us by the Comptroller.

9.14 As part of the audit process, we evaluate the audit evidence and the financial statements and identify any audit adjustments required. We provide these adjustments to management and request that all adjustments be posted to the financial statements. We also identify issues requiring improvements in the areas of internal control and financial reporting. At the completion of the audit, we provide a management letter detailing our observations and recommendations for improvement.

Prior period recommendations repeated

9.15 For the past number of years, we made several recommendations which have not been implemented. The following paragraphs discuss these recommendations.

Audit adjustments

9.16 Consistent with the prior period, there were a significant number of audit adjustments identified. Although all significant adjustments were subsequently made by the province, considerable time was required by both audit staff and staff of the Comptroller's Office to discuss, follow up, and address these adjustments. Given the number of audit adjustments,

9. Audit of the Consolidated Financial Statements

we recommended improvements in the province's quality control processes for preparation of the consolidated financial statements.

Consolidated budget estimates

9.17 For the past two years, we reported that calculated variances between budget to actual for a few Crown corporations were incorrectly reported in the consolidated financial statements. Similar errors were noted at March 31, 2017.

9.18 While these issues were immaterial to the consolidated financial statements, improvements are needed to properly reflect budget to actual comparisons.

Contractual Obligations and Commitments

9.19 Disclosure of significant contractual obligations provides information to users of the financial statements about government resources that have already been committed for future spending. Errors were found in the schedule of contractual obligations and the note disclosures provided for audit. Care should be taken to ensure information on contractual obligations is complete and accurate.

Other Issues

9.20 We continue to note instances of non-compliance with Treasury Board policy, errors in accounting for tangible capital assets, long outstanding allowances for doubtful accounts, and issues with inadequate segregation of duties. All of these matters were reported to the client in the prior period.

Recommendation

9.21 The Comptroller's Office should address audit recommendations in a timely manner

9. Audit of the Consolidated Financial Statements

BUDGET PREPARATION

No action taken on consolidated budget issues

9.22 For several years, we noted the province's budget is not prepared on the same basis as its consolidated financial statements. Again this year, we report that no action has been taken.

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

9.24 Similar to previous years, a separate reconciliation was necessary to present the budget on the same comparative basis as the actual financial results. For the year ended March 31, 2017, original budget revenues and expenses were increased by \$96.7 million to put them on a comparative basis with the actual financial results presented in the consolidated financial statements.

9.25 The operating budgets for government business enterprises are also prepared on a net basis and the details of each entity's revenues and expenses are not disclosed to the Legislature nor are they publicly available. This is significant because government business enterprises had revenues of \$183.5 million (2016 - \$159.7 million) and expenses of \$110.3 million (2016 - \$103.2 million) for the year ended March 31, 2017. Government business enterprises also controlled \$842.8 million (2016 - \$820.1 million) in total assets at year end.

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

Recommendations

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

9. Audit of the Consolidated Financial Statements

9.28 Detailed budget information of significant agencies, boards, and Crown corporations should be provided to the Legislative Assembly as part of the budget approval process.

TAX REVENUE

Measurement and recognition of financial corporation capital tax revenue needs to be reviewed

9.29 Canadian public sector accounting standards (PSAS) require provincial tax revenue to be measured based on management's best estimate of the amount of tax revenue to be received. The standards also require that revenue be recognized in accordance with the accrual basis of accounting.

9.30 We noted that financial corporation capital tax revenue is accrued by the province, but only up to the corporations' year-ends. Payments received between the corporation's year-end and the province's year-end is recorded as revenue on a cash basis but should be recorded on an accrual basis.

9.31 The province's current methodology has resulted in misstatements for the past two years, with the 2016-17 overstatement of revenue calculated at \$1.5 million. This recommended audit adjustment was not recorded by the Comptroller's Office. Without a sound methodology consistent with PSAS, there is a higher risk of significant revenue adjustments.

Recommendation

9.32 Financial corporation capital tax revenue should be measured and recognized in accordance with Canadian public sector accounting standards.

9.33 Our observations and recommendations have been discussed with the Office of the Comptroller and Treasury Board Secretariat.

9. Audit of the Consolidated Financial Statements

OTHER REPORTING REQUIREMENTS

DEBTS CANCELLED, DISCHARGED, WRITTEN OFF

9.34 Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, debts, or monies due to the province that have been discharged, cancelled, and/or released under Section 26 of the *Financial Administration Act*. For the year ended March 31, 2017, the amount cancelled or discharged under Section 26 is detailed in **Exhibit 9.1**. Also included are amounts written off under Section 26.1(1).

EXHIBIT 9.1 AMOUNTS CANCELLED, DISCHARGED OR WRITTEN OFF YEAR ENDED MARCH 31, 2017

	Cancellations Section 26(1)	Write-offs Section 26.1(1)
<i>Revenue Tax Act</i>	\$ -	\$ 412,044
<i>Real Property Tax Act</i>	642,373	-
PEI Grain Elevators Corporation	-	931
PEI Century 2000 Fund Inc.	9,935,249	3,541,944
Health PEI	778,109	61,715
Department of Finance	-	87,807
Finance PEI	888,277	1,784,383
Department of Family and Human Services	1,629	9,243
Total	\$12,245,637	\$5,898,067

SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS

9.35 Section 16 of the *Audit Act* also requires the Auditor General to include information in the Annual Report on surpluses/deficits of agencies, boards, and Crown corporations. **Exhibit 9.2** includes the surplus or deficit of each entity.

9. Audit of the Consolidated Financial Statements

EXHIBIT 9.2 SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS YEAR ENDED MARCH 31, 2017

	Annual Surplus (Deficit)
Charlottetown Area Development Corporation*	\$322,548
Public Schools Branch	(7,583)
Finance PEI	2,035,943
French Language School Board	9,658
Health PEI	(11,121,692)
Innovation PEI	-
Island Investment Development Inc.	28,293,393
Island Waste Management Corporation	295,205
PEI Advisory Council on the Status of Women	1,092
PEI Agricultural Insurance Corporation	8,272,911
PEI Aquaculture and Fisheries Research Initiative Inc. **	(13,623)
PEI Energy Corporation	7,535,605
PEI Grain Elevators Corporation (July 31, 2016)	(49,676)
PEI Housing Corporation **	(228,400)
PEI Human Rights Commission	(23,979)
PEI Liquor Control Commission	20,792,045
PEI Lotteries Commission	15,968,274
PEI Museum and Heritage Foundation	222,689
PEI Regulatory and Appeals Commission	(63,325)
PEI Self-Insurance and Risk Management Fund	1,421,277
PEI Student Financial Assistance Corporation	(1,975)
PEI 2014 Inc.	(7,260)
Summerside Regional Development Corporation*	(222,531)

* Includes the provincial portion only

**Based on draft financial statements

10. MATTERS NOTED IN OTHER FINANCIAL AUDITS

CHAPTER SUMMARY

What we examined

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

Why it's important

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

What we found

We issued management letters for the majority of financial statement audits completed. Issues identified during our audits and reported to management can be summarized into three main areas: accounting concerns, compliance issues, and internal control weaknesses.

BACKGROUND

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

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

10. Matters Noted In Other Financial Audits

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

10.4 The auditor details any significant issues arising from the audit in a separate communication commonly referred to as a management letter. This letter identifies any significant concern noted in the entity's system of internal control, in management processes, significant accounting adjustments or disclosures identified by the audit, compliance issues, or any other matter which the auditor concludes should be brought to the attention of management and those charged with governance. Recommendations are provided to address concerns noted. Our audits can also identify matters of a less significant nature. These items are verbally communicated to management.

10.5 Prior to finalizing a management letter, we discuss each finding and recommendation with management. We also request a written response to our management letters. A copy of each management letter is provided to the Secretary to Treasury Board and to the Office of the Comptroller.

SCOPE

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

SUMMARY OBSERVATIONS

10.7 For the majority of the financial statement audits completed, management letters were issued. The main issues identified and detailed in our management letters can be categorized into the following areas: accounting concerns, compliance issues, and internal control weaknesses.

10. Matters Noted In Other Financial Audits

Following is a description of each category along with examples of issues identified in the financial statement audits.

10.8 *Accounting Concerns* - Financial statements are prepared in accordance with a set of accounting standards. An objective of these standards is to enable users of the financial statements to understand the information and for the information to be fairly presented. The majority of accounting concerns noted in the management letters related to how amounts were determined, recorded and disclosed, the application of accounting standards, and the adequacy of supporting documentation. Audit readiness was also noted as a concern as discussed in Chapter 9 of this Annual Report.

10.9 *Compliance Issues* - Governments have objectives and establish regulations, policies, and procedures to clearly communicate expectations. We reported compliance matters in the management letters we issued. These matters related to compliance with legislation, agreements, and entity policies. In addition, we noted non-compliance with several Treasury Board policies including appropriation transfers, human resources, signing authority, and contracts.

10.10 *Internal Controls* - Internal controls help to ensure transactions are appropriately recorded and authorized. They also ensure business processes operate as intended. Weaknesses in internal control can expose an entity to business and financial risks. Internal control issues identified included inadequate segregation of duties, lack of documented policies and procedures, and the need to improve transaction controls.

10.11 In each subsequent financial audit, we follow up on the implementation of recommendations in our management letters. We encourage the auditees to implement these recommendations on a timely basis.

11. APPROPRIATIONS AND SPECIAL WARRANTS

CHAPTER SUMMARY

What we examined

We examined the processes for recording current and capital appropriations for the fiscal year ended March 31, 2017. We also examined the approvals, processing, and recording of special warrants, appropriation transfers, and sequestrations.

Why it's important

Government's annual spending authority is approved by members of the Legislative Assembly through an appropriation act. Our work provides assurance that special warrants, transfers, and sequestrations comply with applicable legislation and Treasury Board Policy.

What we found

- Special warrants provided an additional \$42.9 million in authorized spending for operating expenditures and \$11.6 million for capital expenditures.
- Consistent with prior years, delays were noted in the issuance of special warrants.

11. Appropriations and Special Warrants

BACKGROUND

11.1 The *Appropriation Act (Current Expenditures) 2016* authorized \$1,651.2 million in operating expenditures for the fiscal year ended March 31, 2017. The *Appropriation Act (Capital Expenditures) 2016* authorized capital spending of \$77.9 million.

11.2 Authorization to exceed the initial amount set by an appropriation act is provided by a special warrant or transfer of a previously appropriated amount.

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

11.4 This chapter provides comments and recommendations resulting from the audit of the province's appropriations and special warrants for the year ended March 31, 2017. In addition to the information provided in this chapter, readers should also consider the province's consolidated financial statements and our independent auditor's report on those financial statements.

11.5 **Schedule A** of this Annual Report provides a comparison of operating and capital appropriations to actual expenditures in accordance with the classifications in the 2016 appropriation acts.

OBSERVATIONS AND RECOMMENDATION

SPECIAL WARRANTS

11.6 For the year ended March 31, 2017, special warrants totaling \$54.5 million were issued for operating and capital expenditures. **Exhibit 11.1** provides a summary of these special warrants. The *Audit Act* requires the Auditor General to list in detail appropriations made by special warrant and the purpose of such appropriations. This information is included in **Schedule B** of this Annual Report.

11. Appropriations and Special Warrants

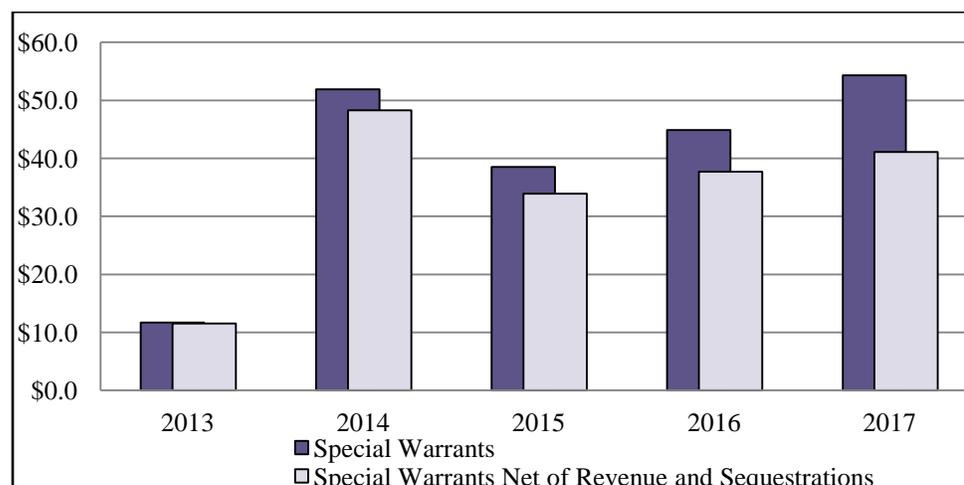
EXHIBIT 11.1 SUMMARY OF SPECIAL WARRANTS MARCH 31, 2017

Entity	Special Warrant
Current:	
Family and Human Services	\$10,358,100
Health PEI	21,502,100
Innovation PEI	3,867,400
Justice and Public Safety	75,000
Legislative Assembly	204,000
Workforce and Advanced Learning	6,888,200
Total Current	42,894,800
Capital:	
Communities, Land and Environment	91,000
Family and Human Services	48,200
Justice and Public Safety	70,000
Transportation, Infrastructure and Energy	11,365,000
Total Capital	11,574,200
Total Special Warrants	\$54,469,000

11.7 Special warrants were partially offset by a \$13.2 million increase in revenue and a \$48,000 sequestration for a net increase in spending authority of \$41.3 million. **Exhibit 11.2** shows the total special warrants and special warrants net of revenue and sequestrations for each of the last five years.

11. Appropriations and Special Warrants

EXHIBIT 11.2
SPECIAL WARRANTS
YEAR ENDED MARCH 31
(\$ Millions)



	2013	2014	2015	2016 Restated	2017
Total Special Warrants	\$11.7	\$51.9	\$38.5	\$44.9	\$54.5
Revenue and Sequestrations	0.2	3.6	4.6	7.2	13.2
Special Warrants Net of Revenue and Sequestrations	\$11.5	\$48.3	\$33.9	\$37.7	\$41.3

11.8 In March 2017, additional warrants of \$7.0 million were approved for the 2015-16 fiscal year. This was subsequent to the date of our 2017 Annual Report. These special warrants are included in **Schedule C**. The total special warrants for 2015-16 as presented in **Exhibit 11.2** reflect these additional warrants.

Delay in Issuing Special Warrants

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

11. Appropriations and Special Warrants

11.10 Consistent with prior years, our audit identified instances where a special warrant was not authorized prior to the expenditure being incurred. The most significant instance relates to Health PEI. In 2016-17, Health PEI's operating expenditures exceeded its operating budget by \$21.5 million. The special warrant was not authorized by Executive Council until October 17, 2017.

11.11 Canadian public sector accounting standards require that government transfers be recognized by the recipient (Health PEI) when the transfer is authorized and all eligibility criteria have been met. Since the special warrant was not authorized until after March 31, 2017, Health PEI reported an operating deficit.

Recommendation

11.12 Special warrants should be obtained prior to expenditures being incurred.

11.13 We have discussed our findings and recommendation with Treasury Board Secretariat.

PUBLIC ACCOUNTS COMMITTEE

12. PUBLIC ACCOUNTS COMMITTEE

REVIEW OF AUDITOR GENERAL'S REPORTS

12.1 The Legislative Assembly of Prince Edward Island is charged with holding government accountable for the resources entrusted to it and the stewardship of those resources. To help fulfill this responsibility, the Legislative Assembly established the Standing Committee on Public Accounts.

12.2 This Committee is charged with matters concerning the Public Accounts of the province, the Annual Report of the Auditor General, and fiscal management. The Committee may meet to inquire into other matters as deemed necessary by the Committee. Through its work and reporting to the Legislative Assembly, the Committee contributes to improvements in operations, transparency, and accountability in the province's public sector.

12.3 Our Annual Report to the Legislative Assembly is referred to the Committee for review and consideration. The Committee calls upon the Auditor General and other witnesses to appear and answer questions on matters raised in her reports.

12.4 On December 1, 2017, the Committee submitted a report to the Legislative Assembly on its activities. The Committee endorsed all the recommendations in the following reports of the Auditor General:

- Special Assignment: Government's Involvement with the E-gaming Initiative and Financial Services Platform;
- Joint Audit of Atlantic Lottery Corporation;
- 2016 Annual Report to the Legislative Assembly; and
- 2017 Annual Report to the Legislative Assembly.

12. Public Accounts Committee

12.5 The Committee requested that the implementation of recommendations be reviewed and their status be presented in the Auditor General's next report to the Legislative Assembly.

12.6 The Committee also recommended that the *Audit Act* be reviewed and compared to similar legislation in other jurisdictions. The purpose of this review would be to update and strengthen the *Audit Act*.

OFFICE OF THE AUDITOR GENERAL

13. OFFICE OF THE AUDITOR GENERAL

AUDITOR GENERAL'S MANDATE

13.1 The Auditor General is an independent officer of the Legislative Assembly appointed under the authority of the *Audit Act*. The *Audit Act* establishes the framework for an independent audit office. This independence enables the Office of the Auditor General (the Office) to offer impartial opinions, observations, and recommendations on government operations and management practices.

13.2 The key components of the Office's independence are:

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

13.3 The *Audit Act* provides the Office with the authority to conduct audits and examinations of provincial departments, Crown corporations, agencies, and funds. Financial audits include the province's consolidated financial statements, other financial statements, and other reports on which we provide assurance that the financial information is fairly presented. Special audits and examinations conducted by our Office include performance audits which are sometimes referred to as value-for-money audits.

13.4 In accordance with the *Audit Act*, the Auditor General reports annually to the Legislative Assembly. The annual report

- provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year;
- calls attention to anything that the Auditor General considers necessary to be brought to the attention of the Legislative Assembly; and

13. Office of the Auditor General

- includes other specific reporting requirements pursuant to the *Audit Act*.

13.5 By exercising these responsibilities, the Auditor General assists the Legislative Assembly to hold government accountable for its management of public resources.

OUR VISION

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

OUR MISSION

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

OUR VALUES

13.8 Our values serve as a constant reminder of our commitments and guide our work. Our values are a statement of the high standards we apply to ourselves and our work. Our values are

- **Independence**

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

13. Office of the Auditor General

- **Reliability**

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

- **Progressive**

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

- **Relevance**

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

OUR PRIORITIES

13.9 Our vision, mission and values guide us in our day-to-day actions and work as independent professionals. We have identified three strategic objectives to support the achievement of our vision.

Increase support and communication to our external stakeholders.

- Deliver the best mix of audit products consistent with our mandate that maximizes the impact and value of our audit work.
- Seek opportunities to enhance understanding of our role and responsibilities with
 - Members of the Legislative Assembly;
 - Public Accounts Committee;
 - management;
 - governing bodies; and
 - Islanders.
- Improve communications with our external stakeholders.

Provide a more rewarding professional work environment.

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

13. Office of the Auditor General

Improve our audit and administrative work practices.

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

13.10 Our efforts are directed by our strategic objectives and planned actions. We have completed several action items and continue to make progress on others. We have identified recommendations implemented as one key performance measure for our Office.

13.11 Each year, we include information on previous audit recommendations from our special audits and examinations. Information on implementation rates is provided in Chapter 5, Implementation of 2014 and 2015 Recommendations. Chapter 6 includes an update on 2017 recommendations.

AUDITS AND OTHER ASSURANCE ENGAGEMENTS

13.12 Each year, we conduct a variety of audits and reviews, some of which are mandated by legislation, others at the discretion of the Auditor General.

13.13 The Office is responsible to annually complete 26 financial audits, including the consolidated financial statements of the province. On an annual basis, the Office completes a number of performance audits and/or special examinations. Various factors are considered in establishing priorities for special audits and examinations. In addition, follow-up work is completed on previous audit recommendations. Work plans can also be impacted by requests from the Legislative Assembly and/or Executive Council.

RESOURCES

13.14 Office operations are funded by an annual appropriation approved by the Legislative Assembly. For the year ended March 31, 2018, the Office's approved budgeted expenditures amounted to \$2,114,000 and are summarized in **Exhibit 13.1**. Salaries and benefits account for approximately 93 percent of the Office budget for 2017-18.

13. Office of the Auditor General

EXHIBIT 13.1
OFFICE OF THE AUDITOR GENERAL
BUDGET
YEAR ENDED MARCH 31, 2018

Account	Budget
Administration	\$ 35,400
Equipment	4,000
Materials, supplies, and services	24,200
Professional services	57,400
Salaries	1,958,100
Travel and training	26,300
Grants - CAAF	8,600
Total	\$2,114,000

13.15 The Office staff complement consists of two audit directors, a director of professional practice and quality assurance, fourteen professional auditors, and two administrative staff. Three auditor positions are part-time.

13.16 All audit staff in our Office have a professional accounting designation and continue to meet the annual professional development requirements of the Chartered Professional Accountants of Prince Edward Island (CPAPEI). We strive to provide staff with relevant and timely professional development opportunities and training. Individual staff members attend various professional courses, conferences, webinars, and meetings. Staff also participate in the Canadian Council of Legislative Auditors (CCOLA) committees and study groups.

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

PROFESSIONAL STANDARDS

13.18 The Accounting Standards Board and the Auditing and Assurance Standards Board establish the accounting and assurance standards which

13. Office of the Auditor General

apply to public sector entities and our work. In conducting our work, we rely on these standards as well as guidance provided by the Chartered Professional Accountants of Canada (CPA Canada) and other authoritative sources.

13.19 For financial audits, the Office is subject to a periodic practice inspection conducted by CPAPEI, which is the regulatory body that provides oversight of the public accounting profession in the province. A practice inspection is designed to protect the public interest by ensuring Office practices meet professional standards. The next practice inspection by CPAPEI is scheduled for 2018.

13.20 Our Office also participates in the CCOLA peer review process for financial statement audits and special audits and examinations. This peer review process provides additional assurance that the Office is conducting audits in compliance with the applicable standards of CPA Canada. The peer review process also exposes our Office to practices and methodologies of other offices which assists in improving our professional practices.

13.21 In addition to participating in the CPAPEI practice inspection and the CCOLA peer review processes, our Office also complies with the Canadian Standard on Quality Control 1 of CPA Canada. This standard requires internal practice reviews and monitoring processes to help ensure compliance with standards.

PROFESSIONAL AFFILIATIONS

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

13. Office of the Auditor General

13.23 Key affiliations include

- **Canadian Council of Legislative Auditors (CCOLA)** - The Auditor General is a member of CCOLA. CCOLA brings together legislative auditors of the federal government, the provinces, and the territories. The Council provides an opportunity for professional development and practice improvement through information exchange, peer reviews, discussion, and sharing of audit methodologies and practices. Office staff also serve on various CCOLA committees and study groups.
- **Chartered Professional Accountants of Canada and Chartered Professional Accountants of Prince Edward Island** - The Office maintains an important professional relationship with these organizations. We provide input into the development of accounting and assurance standards and receive information on various topics relevant to the profession.
- **Canadian Audit and Accountability Foundation (CAAF)** - The Office has been a member and supporter of CAAF since its inception in 1980. CAAF is an organization dedicated to promoting and strengthening public sector performance audit, oversight, and accountability in Canada and abroad through research, education, and knowledge sharing.

SCHEDULES

OPERATING APPROPRIATIONS

	APPROPRIATION ACT 2016	SPECIAL WARRANTS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2017	UNDER/(OVER) EXPENDITURES 2017
CURRENT						
AGRICULTURE AND FISHERIES	\$ 32,965,200	\$ -	\$ -	\$ 32,965,200	\$ 30,896,205	\$ 2,068,995
AUDITOR GENERAL	2,028,800	-	-	2,028,800	1,960,343	68,457
COMMUNITIES, LAND AND ENVIRONMENT	20,728,600	-	(48,000)	20,680,600	20,673,102	7,498
COUNCIL OF ATLANTIC PREMIERS	188,400	-	-	188,400	63,302	125,098
ECONOMIC DEVELOPMENT AND TOURISM	1,137,800	-	-	1,137,800	1,003,464	134,336
EDUCATION, EARLY LEARNING AND CULTURE	250,979,300	-	-	250,979,300	250,970,210	9,090
EMPLOYEE BENEFITS	60,138,400	-	-	60,138,400	56,890,246	3,248,154
EMPLOYMENT DEVELOPMENT AGENCY	5,231,500	-	-	5,231,500	5,142,247	89,253
EXECUTIVE COUNCIL	7,244,300	-	-	7,244,300	6,684,691	559,609
FAMILY AND HUMAN SERVICES	96,808,400	10,358,100	-	107,166,500	107,166,440	60
FINANCE	73,852,200	-	-	73,852,200	71,550,444	2,301,756
GENERAL GOVERNMENT	10,300,000	-	-	10,300,000	9,942,047	357,953
HEALTH AND WELLNESS	12,547,600	-	-	12,547,600	11,289,492	1,258,108
HEALTH PEI	604,664,100	21,502,100	-	626,166,200	617,247,345	8,918,855
INNOVATION PEI	32,203,100	3,867,400	-	36,070,500	36,070,500	-
INTERMINISTERIAL WOMEN'S SECRETARIAT	438,600	-	-	438,600	438,559	41
ISLAND REGULATORY AND APPEALS COMMISSION	1,200,300	-	-	1,200,300	1,200,000	300
JUSTICE AND PUBLIC SAFETY	52,541,700	75,000	-	52,616,700	52,614,055	2,645
LEGISLATIVE ASSEMBLY	5,992,100	204,000	-	6,196,100	6,196,057	43
PEI PUBLIC SERVICE COMMISSION	7,344,700	-	-	7,344,700	7,182,747	161,953
TOURISM PEI	13,609,100	-	-	13,609,100	13,602,659	6,441
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	111,688,600	-	-	111,688,600	109,524,968	2,163,632
WORKFORCE AND ADVANCED LEARNING	120,690,000	6,888,200	-	127,578,200	127,577,641	559
INTEREST CHARGES ON DEBT	<u>126,698,100</u>	<u>-</u>	<u>-</u>	<u>126,698,100</u>	<u>123,881,044</u>	<u>2,817,056</u>
TOTAL CURRENT	<u>\$ 1,651,220,900</u>	<u>\$ 42,894,800</u>	<u>\$ (48,000)</u>	<u>\$ 1,694,067,700</u>	<u>\$ 1,669,767,808</u>	<u>\$ 24,299,892</u>

Appropriations and expenditures are presented in accordance with the classification in the Appropriation Acts 2016. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2016	SPECIAL WARRANTS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2017	UNDER/(OVER) EXPENDITURES 2017
<u>CAPITAL</u>						
COMMUNITIES, LAND AND ENVIRONMENT	\$ 250,000	\$ 91,000	\$ -	\$ 341,000	\$ 340,194	\$ 806
EDUCATION, EARLY LEARNING AND CULTURE	15,210,000	-	-	15,210,000	10,889,226	4,320,774
FAMILY AND HUMAN SERVICES	750,000	48,200	-	798,200	798,122	78
FINANCE	9,231,700	-	-	9,231,700	8,295,930	935,770
HEALTH PEI	21,415,200	-	-	21,415,200	13,487,242	7,927,958
JUSTICE AND PUBLIC SAFETY	355,000	70,000	-	425,000	422,422	2,578
TOURISM PEI	750,000	-	-	750,000	749,915	85
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	<u>29,934,000</u>	<u>11,365,000</u>	<u>-</u>	<u>41,299,000</u>	<u>41,298,472</u>	<u>528</u>
TOTAL CAPITAL	<u>\$ 77,895,900</u>	<u>\$ 11,574,200</u>	<u>\$ -</u>	<u>\$ 89,470,100</u>	<u>\$ 76,281,523</u>	<u>\$ 13,188,577</u>
GRAND TOTAL	<u>\$ 1,729,116,800</u>	<u>\$ 54,469,000</u>	<u>\$ (48,000)</u>	<u>\$ 1,783,537,800</u>	<u>\$ 1,746,049,331</u>	<u>\$ 37,488,469</u>

Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Acts 2016. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

**ORDER-IN-
COUNCIL**

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2017 FISCAL YEAR

FAMILY AND HUMAN SERVICES

EC2017-150 CHILD AND FAMILY SERVICES

Grants - Supports for Children	\$ 446,000	
Professional Services	147,400	
Salaries	666,500	

SOCIAL PROGRAMS

Grants - Child Care Subsidy	338,700	
Grants - Community	182,800	
Grants - Disability Support Program	1,482,600	
Grants - Social Assistance Benefits	<u>2,962,100</u>	<u>6,226,100</u>

To fund additional costs for social programs, disability support, and child and family services.

EC2017-639 CHILD AND FAMILY SERVICES

Grants	38,100	
Grants - Supports for Children	134,300	

HOUSING SERVICES

Grants	174,100	
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SOCIAL PROGRAMS

Grants - Disability Support Program	1,183,400	
Grants - Social Assistance Benefits	<u>2,602,100</u>	<u>4,132,000</u>

To fund additional costs for social programs, disability support, child and family services, and housing services, partially offset by federal revenue of \$174,100.

Total Department of Family and Human Services		<u>\$10,358,100</u>
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HEALTH PEI

EC2017-577 ACUTE MENTAL HEALTH

Salaries		\$ 773,100
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AMBULANCE AND BLOOD SERVICES

Grants	426,900
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LONG-TERM CARE

Salaries	942,000
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MEDICAL AFFAIRS

Professional Services - In-Province Physician Services	7,515,200
Professional Services - Out-of-Province Health Services	4,266,600

PHARMACARE

Grants	2,412,200
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PRIMARY HEALTH CARE

Materials, Supplies & Services	183,300
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PRINCE COUNTY HOSPITAL

Salaries	851,500
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PROVINCIAL CLINICAL SERVICES

Salaries	406,500
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QUEEN ELIZABETH HOSPITAL

Materials, Supplies & Services	974,400
Salaries	<u>2,750,400</u>

Total Health PEI	<u>\$21,502,100</u>
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To fund over-expenditures relating to in-province medical services, out-of-province health services, hospital services, Provincial pharmacy, acute mental health, and laboratory materials.

INNOVATION PEI

EC2017-151 BUSINESS DEVELOPMENT PROGRAMS

Grants - PEI Tax Incentives \$ 3,867,400

To fund additional costs for tax incentives, partially offset by increased corporate income tax revenue in the Department of Finance of \$3,818,900.

JUSTICE AND PUBLIC SAFETY

EC2017-640 COURT AND SHERIFF SERVICES

Equipment \$ 15,000
Salaries 60,000

Total Department of Justice and Public Safety \$ 75,000

To fund costs of a project to support the Canadian Victims Bill of Rights, fully offset by federal revenue.

LEGISLATIVE ASSEMBLY

EC2017-152 ELECTIONS

Administration \$ 154,900

To fund additional expenditures for Elections PEI.

EC2017-578 ELECTIONS

Administration 49,100

To fund additional expenditures for Elections PEI.

Total Legislative Assembly \$ 204,000

WORKFORCE AND ADVANCED LEARNING

EC2017-153 POST-SECONDARY AND CONTINUING EDUCATION

Grants - Holland College \$ 2,492,000
Grants - UPEI 1,454,000

SKILLS PEI

Grants - Canada Job Fund	189,200	
Grants - Career Preparation Program	500,000	
Grants - Labour Market Development Agreement	2,178,600	
Professional Services	<u>63,400</u>	<u>6,877,200</u>

To fund increased costs for infrastructure projects at post-secondary institutions, the Canada Job Fund, the Career Preparation Program, and the Labour Market Development Agreement, partially offset by federal revenue of \$5,877,200.

EC2017-641 POST-SECONDARY AND CONTINUING EDUCATION

Grants		<u>11,000</u>
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To fund additional costs for Collège de l'Île, fully offset by federal revenue.

Total Department of Workforce and Advanced Learning		<u>\$ 6,888,200</u>
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TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES		<u>\$42,894,800</u>
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COMMUNITIES, LAND AND ENVIRONMENT

EC2017-635 EQUIPMENT

Equipment & Machinery Purchases	\$	43,000
Vehicle Purchases - Light Fleet		<u>48,000</u>
 Total Department of Communities, Land and Environment		 <u>\$ 91,000</u>

To fund equipment costs, partially offset by sequestering \$48,000 from the department's operating budget.

FAMILY AND HUMAN SERVICES

EC2017-636 CAPITAL IMPROVEMENTS

Housing Unit Renovations	\$	<u>48,200</u>
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To fund additional costs of housing renovations for seniors units.

JUSTICE AND PUBLIC SAFETY

EC2017-637 EQUIPMENT

Computer Hardware	\$	22,000
Equipment & Machinery Purchases		<u>48,000</u>
 Total Department of Justice and Public Safety		 <u>\$ 70,000</u>

To fund equipment costs for corrections and court services, partially offset by federal revenue of \$15,000.

TRANSPORTATION, INFRASTRUCTURE AND ENERGY

EC2016-849 CAPITAL IMPROVEMENTS - HIGHWAYS

Bridges	\$ 800,000	
National and Collector Highways	<u>10,200,000</u>	<u>11,000,000</u>

To fund additional capital expenditures for bridge and highway construction projects, partially offset by federal revenue of \$3,200,000.

**ORDER-IN-
COUNCIL**

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2017 FISCAL YEAR

EC2017-638 CAPITAL IMPROVEMENTS - HIGHWAYS

National and Collector Highways 177,000

To fund additional capital expenditures for highway construction projects.

EC2018-96 CAPITAL IMPROVEMENTS - HIGHWAYS

National and Collector Highways 188,000

To fund additional capital expenditures for highway construction projects.

Total Department of Transportation, Infrastructure and Energy \$11,365,000

TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES \$11,574,200

TOTAL SPECIAL WARRANTS ISSUED FOR THE 2017 FISCAL YEAR \$54,469,000

ORDER-IN-
COUNCIL

ADDITIONAL SPECIAL WARRANTS ISSUED FOR 2016 FISCAL YEAR*

EMPLOYEE BENEFITS - CURRENT

EC2017-148 EMPLOYEES' FUTURE BENEFITS

Severance Payments \$ 3,410,300

GOVERNMENT PENSION CONTRIBUTION

Civil Service Pension Plan 2,771,100

Total Employee Benefits \$ 6,181,400

To fund additional severance payments and pension costs.

INTEREST CHARGES ON DEBT - CURRENT

EC2017-149 PROMISSORY NOTES FOR PENSION FUNDS

Debt \$ 908,800

To fund additional interest costs for pension fund promissory notes.

TOTAL SPECIAL WARRANTS SUBSEQUENTLY ISSUED FOR 2016 FISCAL YEAR \$ 7,090,200

*Issued subsequent to the date of the Auditor General's 2017 Annual Report



Significance of our logo

Province House has been the seat of the Legislative Assembly of Prince Edward Island since 1847. The Auditor General is an independent officer of the Legislative Assembly.

Features of the logo:

- A modern illustration of iconic Province House symbolizes that the Office is **progressive** and in constant evolution as it strives to remain **relevant** and add value. The Office assists elected members in their role to ensure sound management of public resources for the benefit of Islanders.
- The deep purple is strongly rooted in tradition and symbolizes strength and **independence**.
- The slab serif font style was chosen as it is often recognized as the most respectable and **reliable** of typeface styles.