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# INTRODUCTION

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## **Mandate and Objectives**

Under the Audit Act, the Auditor General is required to report annually to the Legislative Assembly. This, my 1998 Annual Report provides observations, recommendations and information pertaining to the audits and examinations of government operations conducted by the Office during the year. I also provide information on the status of recommendations in previous reports.

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

## **Overview**

Auditing all of government each year is not possible, however I strive to obtain reasonable audit coverage on a cyclical basis. The audit program this year covered financial statement audits of the Public Accounts of the Province, most Crown agencies, the pension funds, some trust funds and other audits. Special audits and examinations were performed on a number of programs. My Annual Report for the 1998 session of the Legislative Assembly deals mainly with matters pertaining to the 1996-97 fiscal year. However, many of the issues identified remain current and are still being addressed by government.

As in previous years, my report includes some observations on the Province's finances. I have devoted a section of this year's report to the issue of Public-Private Partnerships and the impact these arrangements have on decision-making and financial reporting. My report also provides a summary of government's plans and actions to date to deal with the Year 2000 information technology problem.

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

## Introduction

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

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

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

### Acknowledgements

I continue to receive good cooperation from Ministers, Deputy Ministers, Heads of Crown Agencies, and their staff. The cooperation of client staff at all levels is essential to maximizing the contribution the Office makes to the improved use of public resources. I would also like to acknowledge the assistance provided by the Legislative Audit Committee in the administration of my Office.

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

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# 1. THE PROVINCE'S FINANCES

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## INTRODUCTION

**1.1** The Public Accounts of the Province provide readers with the financial position of the Province at the end of a fiscal year, as well as a summary of where money was spent during that year. The financial statements fulfil a useful role by providing an overview of the Province's finances. They do not, however, provide the entire financial picture to Islanders because key indicators of financial condition and their trends over time are not included.

**1.2** Each year we provide information on the trends in key financial indicators to supplement the data in the Public Accounts. Our purpose is to provide objective and meaningful analysis to assist the Members of the Legislative Assembly in understanding the financial condition of the Province. A clear understanding of the Province's financial condition is a necessary beginning for the Legislature's annual budget deliberations. **Exhibit 1.1** provides key, summary information for the last seven years on the financial condition of the Province.

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

	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
	\$	\$	\$	\$	\$	\$	\$
Revenue	801.1	802.6	825.7	751.5	711.8	714.5	706.7
Expenditure	<u>818.9</u>	<u>803.4</u>	<u>820.4</u>	<u>821.2</u>	<u>792.7</u>	<u>763.8</u>	<u>724.6</u>
	(17.8)	(.8)	5.3	(69.7)	(80.9)	(49.3)	(17.9)
Accounting Adjustments	<u>6.8</u>	<u>9.3</u>	<u>10.2</u>	<u>(12.7)</u>	<u>9.0</u>	<u>(2.1)</u>	<u>4.1</u>
Surplus (Deficit)	<u>(11.0)</u>	<u>8.5</u>	<u>15.5</u>	<u>(82.4)</u>	<u>(71.9)</u>	<u>(51.4)</u>	<u>(13.8)</u>
Net debt	1,015.6	981.1	989.6	1,000.9	880.1	791.0	721.0
Debt Charges	115.7	121.1	118.2	118.0	103.6	94.4	94.4
GDP	2,648	2,506	2,381	2,325	2,151	2,078	1,987
Net Debt/GDP	38%	39%	42%	43%	41%	38%	36%

## 1. The Province's Finances

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**1.3** In 1997, the Canadian Institute of Chartered Accountants released the research report, *Indicators of Government Financial Condition*. This project was undertaken to identify a common set of understandable financial indicators that are relevant to assessing the financial condition of the federal and provincial governments. The study recommends a number of core indicators to describe a government's financial condition.

**1.4** The study defined the financial condition of a government as its financial health measured by sustainability, flexibility, and vulnerability in the context of the overall economic and financial environment. These measures are explained in the subsequent sections.

### SUSTAINABILITY

**1.5** **Sustainability** is the degree to which a government can maintain existing programs and meet creditor requirements without increasing the debt burden on the economy. One indicator used to indicate sustainability is the debt-to-GDP ratio. This ratio measures the level of debt the government carries as a proportion of its gross domestic product (GDP). The GDP is the government's tax base represented by the total value of goods and services in the economy. The tax base is the source of revenues that will be used to pay the government's debt.

**1.6** The accumulation of debt in any one year is not what generates questions about sustainability. It is the accumulation of debt over an extended period of time relative to the government's tax base that eventually can lead to questions about sustainability. A continuous rise in the debt burden requires more of the tax base to support it, and can eventually result in a gradual erosion of the public's standard of living.

**1.7** This is not unlike individuals and businesses who face the same choices in managing their affairs. Individuals can borrow today to meet present needs, however, if that borrowing persists and outstanding debts grow faster than their earnings, their standard of living has to fall. In the long term this trend not only adversely affects living standards but also could result in serious financial difficulty.

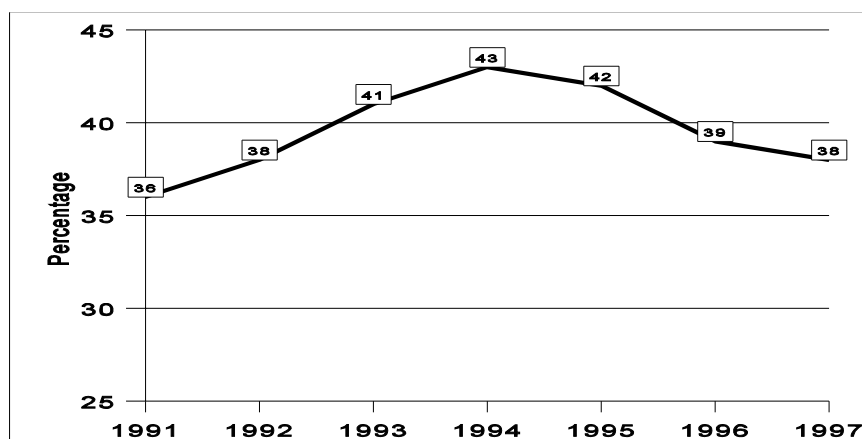
**1.8** The net debt is equivalent to the cumulative deficits of a government. As of March 31, 1997, the Province's net debt was more than **one billion** dollars. As shown in **Exhibit 1.2**, the net debt-to-

## 1. The Province's Finances

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GDP ratio in the nineties has gone from 36 percent to as high as 43 percent and then declined to 38 percent in 1997.

**EXHIBIT 1.2**  
**NET DEBT AS A PERCENT OF GDP**



**1.9** A decreasing ratio is positive because it demonstrates the rate of economic growth is higher than the growth in the debt. Although there are no established benchmarks for what the optimal debt-to-GDP ratio should be, it is clear that the lower the ratio, the more room government has to maneuver in making fiscal choices.

### **FLEXIBILITY**

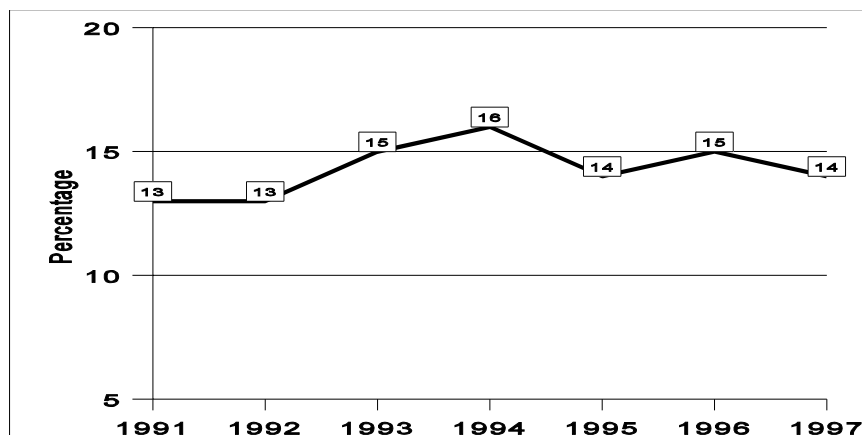
**1.10** The second group of indicators measures government's financial **flexibility**, which is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden. A government reduces its flexibility by continuous borrowing, increasing revenues through taxation, or deferring capital replacements.

**1.11** One measure of financial flexibility is the public debt charges-to-revenues indicator which is sometimes referred to as "interest bite." This indicator provides information on the amount of current revenues which are used to finance previous deficits. The higher the interest bite the less that will be available for program spending.

## 1. The Province's Finances

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**EXHIBIT 1.3**  
**DEBT COSTS AS A PERCENT OF REVENUE**



**1.12** As indicated in **Exhibit 1.3**, after steady increases from 1992 to 1994 the interest bite has levelled off at between 14 and 15 percent of total revenues. However, the deficit for 1997 and projected deficit for 1998 result in increased debt and related interest charges. Unless these additional interest charges can be offset by increased revenues or more attractive rates on renewal of existing debt, the interest bite will rise.

**1.13** Our debt charges were \$116 million for the year ended March 31, 1997. Debt charges are government's first expenditure commitment before any funds can be spent on programs such as health and education. It should be emphasized that interest charges will not disappear when annual deficits are eliminated. In fact, the billion dollar existing debt will have to be rolled over and converted to new debt until it is paid. The notion that eliminating the annual deficit is the answer to all our fiscal problems is simply not true. Balancing the books will stabilize the debt but it will require many years of surpluses to reduce the debt and the interest charges we pay to service it.

**1.14** Another indicator of flexibility is the annual change in net capital assets. This would show the impact of budgeting decisions on the remaining useful life of government's capital assets. Capital assets include highways, schools, hospitals, and other infrastructure. Currently the information base is insufficient to support this type of reporting in the Public Accounts of the Province. Recent recommendations by the Public Sector Accounting and Auditing Board will require



## 1. The Province's Finances

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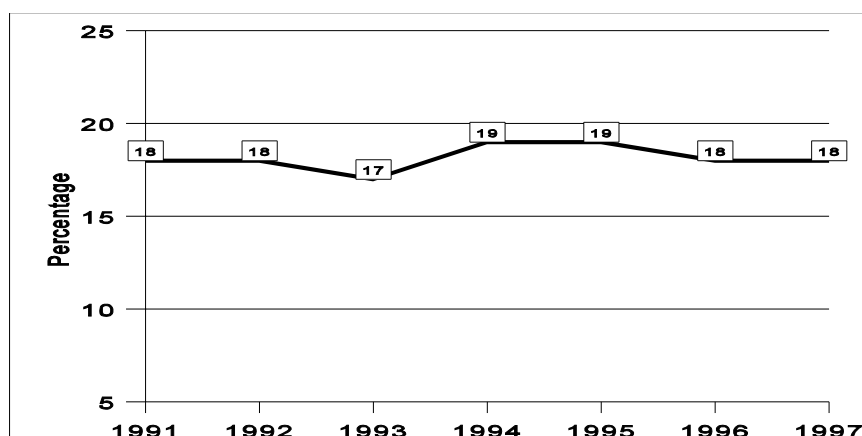
improved information on the status of capital assets. Unless better information is provided it will not be evident whether capital expenditures are keeping pace with the rate of asset deterioration. This can eventually lead to budgetary problems and reduced flexibility when government is forced to take remedial action.

**1.15** A review of capital expenditures for the past five years would indicate we are now in this bind. Even though capital expenditures have been maintained at a relatively stable level, they have been insufficient to keep up with the deterioration of our highway system and depreciation of our buildings and equipment. In fact, the bulk of the capital expenditures in the last five years has been used for highways, leaving only \$61 million of a total of \$241 million for schools, hospitals, and other infrastructure. More appropriate information needs to be reported on capital assets and their depreciation so taxpayers can understand the need to enhance the public sector infrastructure on a planned, ongoing basis. It is important to monitor this information so that corrective action can be taken as capital assets deteriorate. Otherwise facilities will be inadequate for providing required services and costs will be deferred to future budgets when more expensive reconstruction may be required.

**1.16** Provincial revenues-to-GDP is the third indicator of flexibility. This indicator shows the extent to which the government is taking income out of the provincial economy through taxation and user charges. A rising value in this indicator leads to reduced flexibility in terms of future access to these same revenue bases. In other words, as government increases taxes and user fees, the ability to increase these further is reduced. As shown in **Exhibit 1.4** the percentage of provincial revenue-to-GDP has remained relatively constant over the past six years.

## 1. The Province's Finances

**EXHIBIT 1.4**  
**PROVINCIAL REVENUES AS A PERCENT OF GDP**

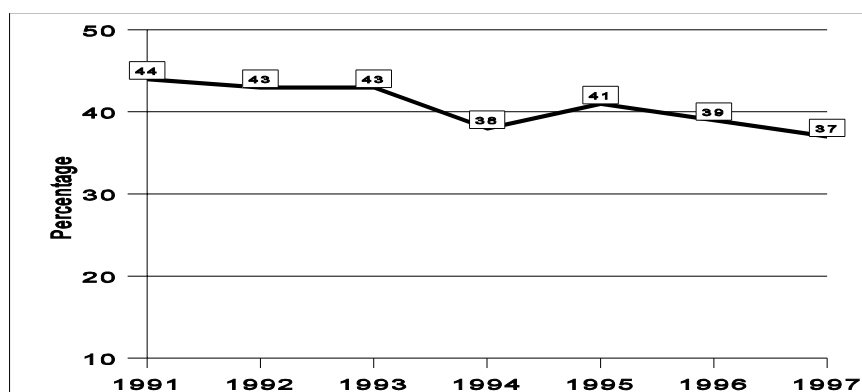


### VULNERABILITY

**1.17 Vulnerability** is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international. The Province of PEI has no foreign currency debt and is not vulnerable to the risks of having such debt.

**1.18** However, the Province faces a degree of vulnerability as a result of its dependence on the Federal Government for a large portion of its revenue. The Federal Government provides funding in such fields as health, education, social assistance and manpower training. Federal transfers as a percentage of total revenues is one indicator of our degree of dependence on federal assistance. **Exhibit 1.5** shows the trend in this percentage over the last six years.

**EXHIBIT 1.5**  
**FEDERAL TRANSFERS AS A PERCENT OF REVENUE**



## 1. The Province's Finances

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**1.19** The declining percentage signals less reliance on federal revenues. However, the flip side is, this could not be achieved without increasing provincial revenues, reducing program spending, or allowing the deficit to rise.

### CONCLUSION

**1.20** Overall, the numbers reveal we are moving in the right direction. However, even if there is no annual deficit in 1998-99 as projected, we still have a long way to go. As previously stated, elimination of the annual deficit does not eliminate the accumulated debt of more than one billion dollars and the related interest charges. Also, the investment required to upgrade our schools and hospitals will pose a significant budgeting challenge in the next few years. This, combined with our sensitivity to any increase in interest rates, will make it very challenging for government in its efforts to balance prudent fiscal management and the maintenance of essential public services such as health care and education.

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## 2. PUBLIC - PRIVATE PARTNERSHIPS

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### BACKGROUND

**2.1** In the last year I have received a number of requests for comments on the concept of public-private partnerships. In addition, the Office has been asked on a number of occasions by government officials to comment on the accounting and audit implications of entering into these types of arrangements for specific projects. In the process of responding to these requests I have held a number of discussions and reviewed a substantial amount of documentation on this important subject.

**2.2** I have concluded that it would be useful to provide Members of the Legislative Assembly with some relevant information on this topic and provide indications of how our Office will approach these arrangements from an audit standpoint.

**2.3** It should be noted that some good research has been done on this topic within government during the last year. For example, a discussion paper was prepared and submitted to the Department of Education, and officials in the Department of the Provincial Treasury have developed recommendations to be included in a policy framework for public-private partnerships. In my view this work provides a good basis for government to determine a comprehensive strategy for dealing with public-private partnership opportunities. Government would be prudent to heed the advice provided in these presentations.

### THE CONCEPT

**2.4** The term “public-private partnership” can encompass a wide variety of arrangements with the private sector. It can include anything from contracting out specific services to having agreements whereby assets are built, financed, owned and operated by the private sector. In between, there could be any number of partnership forms applied to the delivery of programs and services.

**2.5** There is considerable interest in this concept in other jurisdictions as well. In fact, a number of projects have already been completed in other provinces. In our own case, the construction of the Hillsborough Bridge is an example of a project undertaken through a public-private partnership arrangement. There are a number of potential benefits to these projects and naturally with any new approach there are risks as well. Although there may be some common

## 2. Public-Private Partnerships

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denominators to public-private partnerships, it is more meaningful to assess the benefits and risks of arrangements of this type on a project-by-project basis.

**2.6** These partnerships can be attractive to government in fulfilling a number of its objectives. However, it is clear that for government, capital projects in particular are posing a major challenge because of their direct impact on the debt. From the questions I have received it is clear that one of the main attractions for considering public-private partnership arrangements for capital projects is the opportunity the arrangement might present to have assets constructed without increasing the debt. There is nothing wrong with this objective as long as this does not in itself become the overriding factor for deciding on the arrangement. To do so, to the exclusion of the other risks and benefits for a specific project, would not be in the long-term best interests of the taxpayer.

### FINANCIAL REPORTING IMPLICATIONS

**2.7** From our standpoint we will be following a consistent approach in our audit of any capital projects. Two main criteria will be used when providing assurance to the Legislature on these projects:

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

**2.8** These two main criteria require some elaboration. The accounting treatment for any transaction including one involving public-private partnerships must be based on the substance of the transaction. Legal agreements can be crafted to meet most of the technical requirements of an accounting recommendation. However, this does not necessarily mean the overriding consideration of substance over form has been met. For example, lease agreements can be drawn up as operating leases but if the substance of the transaction is really a capital lease then proper accounting treatment dictates that it be accounted for as a capital lease. Under an operating lease, annual charges are made to operations for the use of an asset which is owned by the private developer. A capital lease on the other hand transfers substantially all the risks and benefits to the government and is in substance the acquisition of an asset, and is accounted for as such. A

## 2. Public-Private Partnerships

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case in point is the Hillsborough Bridge which was legally structured to be an operating lease, but when ownership considerations and the risks and benefits assumed by the Province are assessed, it is in substance a capital expenditure. The Department of the Provincial Treasury recognized this and recorded the transaction as an expenditure.

**2.9** If appropriate accounting treatments are not applied to these transactions, the whole area of financial reporting is opened up to inconsistencies and manipulation. This can only result in a distortion of our actual financial condition. Some argue that the current accounting requirements are too onerous and are causing the creativity behind some public-private partnerships. These same accounting principles are in place for all jurisdictions. In my view, the level of debt governments are carrying is more likely the problem, and attempts through these arrangements to minimize it are understandable. However, the integrity of government's financial reporting cannot be compromised in the process.

**2.10** The second criterion is even more important and involves due regard for value for money. No option should be chosen based solely on the accounting implications. It is essential that each project be assessed and the impact of all costs versus the benefits be thoroughly analyzed. Depending on the complexity of the arrangement there are numerous considerations to be assessed in determining the most cost-effective option. Needless to say costs, although not the only factor, are the major factor in deciding these projects. That is why the assessment of proposed projects must include a thorough analysis of all costs over the life cycle of the arrangement. For example, it may be advantageous to enter into an operating lease because the arrangement will not result in an increase in the debt. However, if the cash flow requirements over the life of the project make the acquisition of the asset less costly, that option is the most economical for the taxpayer.

**2.11** Public-private partnerships are an option for government in fulfilling its objectives. Whether or not they are entered into is a policy decision to be made by government. If a decision is made to enter into this kind of arrangement, the same value-for-money considerations that are taken into account in other government decisions still apply and steps need to be taken to ensure this occurs.

## 2. Public-Private Partnerships

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**2.12** Public-private partnerships can be an innovative option for delivering programs and constructing infrastructure in the public sector. However, measures must be built in to protect the public interest and government's investment.

### **Recommendation**

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

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## **3. INFORMATION TECHNOLOGY AND THE YEAR 2000**

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### **INTRODUCTION**

**3.1** Governments, businesses, and other organizations around the world are faced with a looming crisis in the information technology (IT) field. This crisis is known as the Year 2000 problem, or the millennium bug.

**3.2** The problem stems from the early days of system development where it became common practice to represent the year by a two digit code. Thus the year 1998 would be represented as "98". Today many operational computer systems and programs continue to rely on a two digit year. When the Year 2000 is processed, these systems could interpret the year "00" as meaning the year 1900 or as some type of system initialization date, such as the date on which the system was created or implemented.

**3.3** Dates are commonly used in computer systems. The incorrect interpretation of a date value can have serious and far reaching consequences in the processing of information and the resulting outputs of the system. For example, the Year 2000 could produce erroneous results in applications which calculate loan interest. Similarly, a Year 2000 date could produce unexpected results in other date sensitive applications such as pension systems, registration and licensing systems, accounting systems, scheduling and time management systems, and so on. The Year 2000 problem is not limited to large computer systems. Personal computers and work stations at home and in most offices are also at risk.

### **YEAR 2000 IN THE PROVINCIAL GOVERNMENT**

**3.4** The provincial government is not immune to the Year 2000 challenge. Departments and agencies rely heavily on information technology in their day to day operations and in delivering programs and services. Failure of some of these systems could have dramatic consequences to the citizens of the Province. These consequences range from inconvenience to economic hardship.

**3.5** The purpose of this section of our report is to provide information to the Legislative Assembly on the efforts being made to address the Year 2000 challenge in government. We believe the high



### 3. Information Technology and the Year 2000

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cost of the work required and the possible consequences of failure make it important that the members of the Legislature be aware of this project.

**3.6** Some of the information contained in this section has been gathered from the departments and agencies involved in the Year 2000 effort. In addition, our status as an observer and participant on a number of government committees has allowed us to make several observations on the Year 2000 initiative. An audit of the individual efforts being undertaken by departments and agencies has not been carried out.

#### **YEAR 2000 PROJECT**

**3.7** In order to successfully address the Year 2000 challenge, a well-defined approach must be chosen and implemented. The Province has defined six phases in its Year 2000 project plan. These six phases are described in the paragraphs which follow.

#### Phase 1 - Awareness

**3.8** This phase of the project includes efforts necessary to mobilize and organize government's resources to address the Year 2000 issue. Key components of this phase include:

- Promoting awareness of the Year 2000 problem;
- Obtaining senior management support for the Year 2000 project; and
- Defining the project and establishing a project management structure.

**3.9** While many of the components of this phase have already been completed, maintaining awareness and senior management support is necessary throughout the life of the project. It is said that the Year 2000 project is the most significant IT initiative to be undertaken by organizations. Without continued support from senior management such a major undertaking is likely to fail.

#### **Observations**

**3.10** In July of 1996 the Supply and Services Division of the Department of the Provincial Treasury coordinated presentations to a large group of government senior managers and IT planners. This presentation, designed to illustrate the Year 2000 problem and the need for immediate action, was later repeated for government deputy ministers.

### 3. Information Technology and the Year 2000

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**3.11** In September 1996 Supply and Services initiated efforts on the Year 2000 project. The overall project management structure has since evolved including:

- the assignment of responsibility to each department and agency for managing their own Year 2000 problems;
- the assignment of a Year 2000 coordinator in each department to manage and coordinate action at the departmental level;
- the assignment of an overall Year 2000 project manager to coordinate the government-wide project, track progress, and deal with common issues; and
- the establishment of a reporting structure.

**3.12** Quarterly progress reports are being made to Treasury Board by the overall project manager. The same provincial progress report is presented to the deputy heads. In addition to this reporting structure, each department or agency should have its own reporting protocol for monitoring their Year 2000 project responsibilities.

Phase 2 - Assessment

**3.13** In the assessment phase of the project a detailed inventory of government's IT resources was taken in order to estimate the effort and cost of ensuring that the systems can process Year 2000 dates.

#### **Observations**

**3.14** Initial assessments of each department were coordinated by information system consultants from the Supply and Services Division of the Provincial Treasury. The Division assisted departments in the preparation of an inventory and carried out research in order to come up with standards that could be applied to estimate the cost of repair. Estimates were subsequently refined at the departmental level.

**3.15** In March 1997, the assessment phase was essentially complete. The results were consolidated for all government and presented to deputy heads and Treasury Board in April and May of 1997. In total, the assessment phase anticipated costs of approximately \$2.3 million.

Phase 3 - Detailed  
Analysis/Planning

**3.16** In this phase the output from the assessment phase is used to further refine cost estimates, establish budgets, and conduct the detailed planning on what changes have to be made as well as the

### 3. Information Technology and the Year 2000

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schedule for carrying out those changes, testing the changes, and implementing the changes.

#### **Observations**

**3.17** In May 1997 all departments were instructed to have a Year 2000 coordinator in place and to take steps to prepare a high level three year plan for their Year 2000 efforts. These plans were completed in the summer of 1997, and have been aggregated by the project manager for purposes of monitoring and management of the overall project.

**3.18** In June 1997 the project manager and departmental Year 2000 coordinators began to meet regularly as a group in order to coordinate efforts, share information, and work together on common problems. As of December 1997 the Detailed Analysis and Planning Phase was essentially complete.

Phase 4 - Conversion  
and Testing

**3.19** In this phase the detailed plan is put into action. Actual conversion of program code and testing the repairs is expected to consume the largest part of the project schedule and is therefore the phase that is most likely to contribute to budgetary and schedule slippage.

#### **Observations**

**3.20** The Province's mainframe computer hardware has undergone upgrading to accommodate the increased demands for testing Year 2000 program changes while still carrying out the normal day to day production schedule. In addition, the upgrading of the mainframe operating software to a Year 2000 compliant version is underway. Completion is expected in the winter of 1998. These changes in the data processing centre are necessary initial steps to ensure the mainframe environment is ready to process the upgraded mainframe applications of departments and agencies.

**3.21** A certain amount of overlap of the project phases exists at this point. All departments are currently working in this phase of the project while some departments have actually completed some of their applications and have moved into the implementation phase for those systems. A number of key applications have been repaired and are being tested. These include motor vehicle registration, drivers licensing, driver records management, and corporations registry.

### 3. Information Technology and the Year 2000

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**3.22** In addition to repairing applications, some departments are implementing new systems. This avoids the need to repair existing systems and provides the opportunity to upgrade and incorporate new functionality. For example, the Department of Community Affairs and Attorney General is proceeding with implementing a new courthouse automation system which will replace six existing systems that would otherwise need repair.

Phase 5 -  
Implementation

**3.23** In this phase the tested applications are put into production. In many systems this phase will also require the conversion of existing data. As noted above there are some systems entering this phase.

Phase 6 - Post  
Implementation

**3.24** In this phase, systems in production are monitored and corrective action taken where necessary. This phase will run beyond the Year 2000.

#### **CHALLENGES AND EXPOSURES**

**3.25** A number of challenges lie ahead in the Province's Year 2000 efforts. Some of these challenges may pose a threat to the project schedule, thereby impacting on the overall success of the project. A number of these exposures are outlined below:

- **Competing Priorities** - The day-to-day operation of departments places demands on information technology resources. For instance, new system development or modification and enhancement of existing systems to deal with changes in legislation or policy will continue. These demands compete with Year 2000 efforts for the same limited resources. Senior management must ensure Year 2000 projects are the top priority and will have to find ways to deal with the other initiatives.
- **Retaining IT Staff** - The Year 2000 problem is a global problem. As the Year 2000 approaches, there is an ever growing shortage of technical staff. As a result, organizations are significantly increasing compensation packages to attract personnel. Governments have much more limited flexibility to match these salary demands and as a result are exposed to the risk of losing personnel. Failure to retain sufficient staff resources could jeopardize the project schedule. The same issue could significantly drive up the overall cost of the project. Some action has taken place provincially to deal with staffing issues. The Province has worked with the Federal Government, through the Knowledge Economy

### 3. Information Technology and the Year 2000

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Partnership, to train programmers. Some of these trainees are now employed in the Province's Year 2000 effort.

- **Managing the Supply Chain** - Government relies on a number of vendors for a variety of products and services necessary for operations. For example, a number of software products are purchased from vendors. The timing and availability of Year 2000 compliant upgrades can have an impact on the Province's Year 2000 readiness. Suppliers of services such as electricity and telecommunications are also vital components. Year 2000 failures within these providers could impact on government's service delivery. Determining the state of readiness of key suppliers and their products is a challenging and critical component of Year 2000 efforts.
- **Capping the Problem** - Proper management of the supply system must also ensure that ongoing acquisitions of hardware, software, and third-party developed systems are Year 2000 ready. Non-compliant products have been sold throughout the 1990s and continue to be sold today. As an example, the financial information system acquired by the Province in 1995 is not Year 2000 compliant and must be upgraded.
- **Other Interdependencies** - A number of systems interface with external systems and in many cases exchange data. Failure in those external systems or anomalies in the data that is exchanged can impair the operations of government systems.

#### CONTINGENCY PLANS

**3.26** One of the unique things about the Year 2000 project is that the deadline for completion cannot be modified. The Gartner Group, an industry research firm, has reported that 70 percent of IT projects fail, are cancelled, or are more than one year late. Should this happen with the Year 2000 effort, then systems will fail.

**3.27** If schedule slippage occurs, departments may have to consider the option of devoting their efforts to saving their most mission-critical systems first and deferring other work. In such a scenario, a contingency operating plan would be necessary for those systems which are being deferred. Contingency plans are not currently being made as part of the Province's Year 2000 effort.

### 3. Information Technology and the Year 2000

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**3.28** We observed that there has been some effort made on a government-wide basis to prioritize some of the Year 2000 work. For example, five major systems from different departments were identified as the initial priority for the programmer repair team. This type of approach, if applied consistently within each department, will help to ensure that key systems are completed and that schedule slippage will only impact on lower priority systems. We also noted that the project manager has developed a Year 2000 watch list of key government systems that are to be repaired or replaced. Project status on these systems is subject to closer scrutiny.

**3.29** The Province's Year 2000 project management structure is well positioned to monitor project effort on a government-wide basis. This has the benefit of being able to identify schedule problems as they arise in departments or agencies. Once problems are identified, corrective action or contingency plans can be implemented.

#### CONCLUSION

**3.30** The Year 2000 problem presents a significant challenge for businesses and governments world wide. The Province does have a Year 2000 project plan in place and reasonable steps are being taken to deal with this issue to the extent problems can be anticipated. On the other hand, there are several challenges and exposures which could impact on the success of the effort. There is a management structure in place which appears to be well positioned to monitor progress and deal with project problems as they become apparent. In the final analysis, our preparedness will be put to the ultimate test on January 1, 2000.

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## 4. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

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### AUDIT PROCESS

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

**4.2** Due to the size and complexity of the Province's operations, it is not possible to audit all programs each year. Audits are conducted on a cyclical basis and various factors are considered in deciding on the annual audit program such as the results of previous audits, financial impact, and significance to the Legislature.

**4.3** Our special audits and examinations are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants and are conducted in a number of stages. During the planning phase we gather information to gain an understanding of the program or organization and prepare an audit plan. We collect and analyze evidence, and develop our findings and recommendations during the next stage. In the reporting phase we prepare a draft report for discussion with the auditee. A final report is issued to the department or agency and we request a written response on each report.

**4.4** Most of our audits result in recommendations to address problems identified. However, we do not infringe on management's right to select the most appropriate course of action to deal with any problems or issues arising from our audits. We are concerned, however, that the issues be satisfactorily addressed.

**4.5** Section 16 of the Audit Act requires me to call attention to any matters considered necessary to be brought to the attention of the Legislative Assembly. This year we are reporting on the following special audits and examinations; Queens Region Health and Community Services - Phase 1, The Infrastructure Program, Souris Food Park

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Development Projects, Inspection Services, Provincial Tax Revenues and Department of Transportation and Public Works.

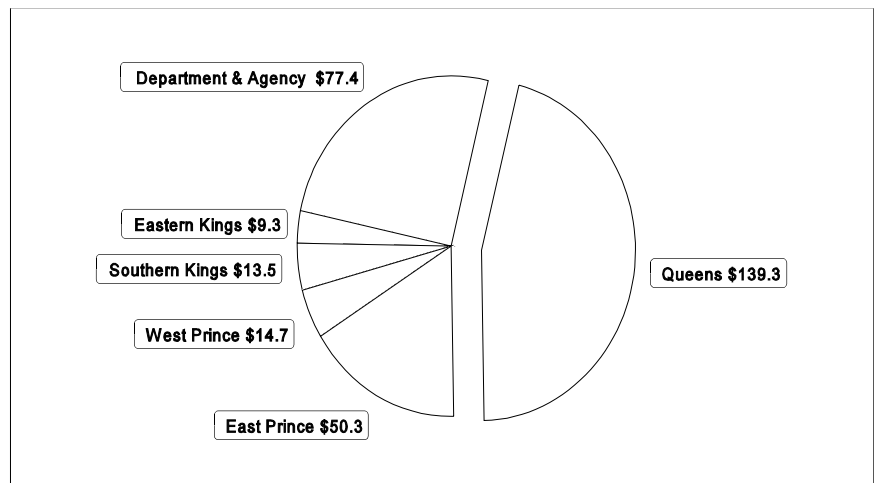
## 5. QUEENS REGION HEALTH AND COMMUNITY SERVICES - PHASE 1

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### INTRODUCTION

5.1 Major reforms were undertaken in the health care sector in 1993 with the enactment of the Health and Community Services Act. The health care sector accounts for 37 percent of total provincial expenditures and impacts on every resident of Prince Edward Island. Total health care sector expenditures in 1996-97 were \$304.5 million of which 46 percent were made through the Queens Region, as illustrated in **Exhibit 5.1**.

**EXHIBIT 5.1  
HEALTH CARE SECTOR  
EXPENDITURES  
1996-97  
(Millions)**



5.2 A breakdown of expenditures for Queens Region is as follows:

	(millions)
Acute Care/Mental Health	\$63.7
Primary Services	42.7
Senior Services	15.1
Assigned Programs	10.7
Correctional Services	5.3



## 5. Queens Region Health and Community Services - Phase 1

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Administration and Community Projects 1.8  
\$139.3

### OBJECTIVES AND SCOPE

**5.3** In accordance with Section 13 of the Audit Act we conducted an audit of the Queens Region Health and Community Services. The objective of the audit was to assess the adequacy of management practices and controls in place at the Queens Region.

**5.4** The Queens Region accounts for almost half of all the expenditures in the health care sector. The Region provides the full range of programs offered through the other regions as well as additional programs for the entire Province. Given the magnitude and complexity of the expenditures and delivery systems, we limited our scope for this phase of the audit to six broad projects dealing with issues that affect the entire region. These included the following; governance, strategic planning, operational planning, financial controls, human resource management, and purchasing. In future we will audit other programs.

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### OVERALL COMMENTS

**5.5** Under health reform, legislation was enacted in 1993 which resulted in a complete restructuring of the health care system. Four levels were established including the Department of Health and Social Services, the Policy Council, the Health and Community Services Agency, and the regional authorities. Each of these entities had unique responsibilities under the Act but also a number of matters were common to each.

**5.6** The revised organizational framework posed many challenges from the beginning. The introduction of the regional authorities under the Act changed the accountability relationships significantly. The Act provided for the regional authorities to undertake most of the program delivery responsibilities and become the focal point for public accountability. The Department, the Policy Council and the Agency were to primarily deal with setting standards, strategic planning, funding, evaluation, and control.

**5.7** Our previous work at the Agency, audits of welfare assistance and this year's work on the Queens Region revealed that there were problems in making the new organizational structure work. Under ideal circumstances, adjusting to the new environment would have been a difficult transition. What actually transpired was far from ideal

## 5. Queens Region Health and Community Services - Phase 1

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and there were numerous stumbling blocks in attempting to implement a revised health care system for the Province.

**5.8** Unfortunately what may look reasonable and workable on paper must face the test of practical reality in implementation. The changes required were wide-ranging and affected everyone in the system including the public, front-line workers, senior management, the Agency, and the Department. To have successful implementation there would have to be cooperation and coordination among these key players. If these working relationships were to be cultivated, leadership would have to be focused and consistent.

**5.9** This was not the case. There has been extensive turnover in the senior ranks of the health care system. Since 1993, there have been five Deputy Ministers of Health and Social Services, two Chief Executive Officers of the former Agency, three Chief Executive Officers of the Queens Region and extensive changes in senior management positions across the entire system. In addition there was a change in government, a new Minister and further amendments to the Legislation altering authorities and responsibilities. This combination of events portrays a health care system that has been in the throes of change and uncertainty since 1993. Given the lack of consistent and firm direction, and the absence of an integrated strategic plan to guide the health care system through this period of transition, it has been challenging for those working in the health care sector.

**5.10** This audit report takes no position on policy decisions made in the past or contemplated for the future. However, this report does demonstrate that strong, consistent, focused leadership along with an integrated strategic plan is needed to bring stability and a sense of direction to a situation that has gone on for too long.

**5.11** Even though an assessment of overall progress signifies many of the larger issues are yet unsolved, we did observe many initiatives to make improvements. Many individuals and groups of individuals throughout the system have dedicated substantial efforts to make improvements to health care in the Province. Much of this work is valuable and its contribution to improved health and community services can be maximized if a more integrated and coordinated approach is taken in the future. The remainder of this report deals primarily with issues arising from our audit of the Queens Region.

## 5. Queens Region Health and Community Services - Phase 1

This report provides observations and recommendations that we hope will be helpful in improving management practices and accountability in the entire health care sector.

### DETAILED AUDIT OBSERVATIONS

#### Budget and Actual Expenditures

**5.12** A comparison of budget to actual expenditures indicates the Queens Region has been over budget for the last two years as illustrated in **Exhibit 5.2**.

**EXHIBIT 5.2**  
**QUEENS REGION**  
**COMPARISON OF BUDGET**  
**TO ACTUAL EXPENDITURES**  
**(Millions)**

	Original Budget	Actual	Difference	Budget Transfers	Surplus (Deficit) Before Special Warrant
<b>1996-1997</b>					
Net Expenditures <u>\$(8.9)</u>		<u>\$119.8</u>	<u>\$134.1</u>	<u>(\$14.3)</u>	<u>\$5.4</u>
<b>1995-1996</b>					
Net Expenditures <u>\$(6.2)</u>		<u>\$115.1</u>	<u>\$125.4</u>	<u>(\$10.3)</u>	<u>\$4.1</u>
<b>1994-1995</b>					
Net Expenditures <u>\$ 1.0</u>		<u>\$113.6</u>	<u>\$121.2</u>	<u>(\$ 7.6)</u>	<u>\$8.6</u>

**5.13** Queens Region generally followed the same budget process which was used throughout the provincial government. The budget from Queens Region was forwarded to the Agency, which in future will be the Department, where it was consolidated into the budget for the entire health care sector and included in the Budget Estimates submitted to the Legislative Assembly.

**5.14** The dynamics of this process in the Queens Region is cause for concern. Normally the planning process would lead to operational objectives that are approved or modified, and then funded with an

## 5. Queens Region Health and Community Services - Phase 1

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approved budget. This has not been the case in the Queens Region. The 1995-96 budget of the Queens Region was \$6.1 million less than the actual expenditures of the prior year. For 1995-96 the Region had a deficit of \$6.2 million. The budget for 1996-97 was \$5.6 million less than the expenditures of the prior year. For 1996-97 the Region had a deficit of \$8.9 million. These deficits were covered by special warrants.

**5.15** In pursuing answers as to how these deficits arose and the steps taken to implement the budget reductions, we were advised that the Region did not adjust its programs or its original budget after being informed of the reductions. Management advised us that programs were not adjusted because they were directed by government to continue core programs as in the past. As a result the budgeted amounts presented and approved in the Legislative Assembly were not the same as the budget used by the Region to monitor and control spending. No plan existed for implementing the reduced budget approved by the Legislative Assembly.

**5.16** Management of the Region acknowledged that they knew from the first day of the fiscal year that the Region would overspend its budget. We were told that efforts were made by the Agency and all the regional authorities to identify ways to achieve expenditure reductions across the health care sector, but there was difficulty in obtaining consensus and government approval. These efforts were unsuccessful and in the meantime the Region continued to operate the programs as before, at historic expenditure levels.

**5.17** To compound the problem there is insufficient information presented to the Legislative Assembly. The information in the Budget Estimates does not include a breakdown of budget information by regional authority. In addition there is inadequate detail to allow for reasonable questions and debate on specific items. For example, the Budget Estimates contain a one line item for the Queen Elizabeth Hospital for expenditures amounting to \$48 million. In contrast, there are 12 pages of detail supporting the \$18 million budget for the Department of Agriculture. In addition the financial statements of the Region do not include a comparison of actual to budgeted expenditures. As a result it is not evident from the public financial documents for the Queens Region that in 1996-97 the Region was \$8.9 million over budget.

## 5. Queens Region Health and Community Services - Phase 1

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### Recommendations

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

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

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

### Financial Control Systems

**5.21** With the creation of Queens Region Health and Community Services several organizations were amalgamated into one. The Queen Elizabeth Hospital had its own customized financial system while the sections of the Department of Health and Social Services that were transferred, as well as Addiction Services, used the government's financial information system. Queens Region management decided to maintain the existing systems with modifications as required until the financial component of the Island Health Information System was implemented in June 1997.

**5.22** The complexities of dealing with the two systems made it inefficient to create monthly financial statements for regional management and the Board of Directors, therefore, they were not prepared. The implementation of the new financial system, subsequent to the 1996-97 year end, is expected to improve the financial reporting capabilities of the Region.

**5.23** Several Board policies assign the responsibility for budgeting and financial control to the Chief Executive Officer (CEO) of the Region. The policy stipulates the CEO cannot budget to spend more funds than can be expected to be received, and cannot spend more funds in one year than have been received subject to a limited ability to use short-term debt. The Region incurred deficits in the last two years, but the Board and the Agency were informed the Region was operating at a deficit. The CEO advised that assurances were received from the Agency that additional funding would be provided.

## 5. Queens Region Health and Community Services - Phase 1

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**5.24** The Board policies require reports to monitor budgeting, financial condition and asset protection. The purpose of these reports is to inform the Board on adherence to the policies and allow the Board to assess whether adherence to the policies is having the desired results. There is no standard financial report for internal monitoring of financial condition, however, there have been frequent presentations and discussions at the Board level over the past year.

### **Recommendation**

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

### **Organization and Governance**

**5.26** In 1992, a Transition Team was established to recommend an implementation plan for the recommendations in the report “Health Reform: A Vision for Change” developed by the PEI Health Task Force under the government reform initiative. At that time health services were delivered through numerous organizations including; the Department of Health and Social Services, the Hospital and Health Services Commission, Addiction Services, as well as hospitals, nursing homes, correctional facilities, and community organizations each with its own leadership, mandate and goals.

**5.27** The Transition Team made recommendations which provided the blueprint for the Health and Community Services Act, 1993. Under the Act, the Minister of Health and Social Services was responsible for assuring the provision of essential health and community services and for overall leadership to promote and maintain the good health and social well being of Prince Edward Island residents.

**5.28** Under the original Health and Community Services Act, the Council on Health and Community Services Policy was established as an advisory body to the Minister while the Health and Community Services Agency was responsible for providing direction, defining core programs and services, and monitoring the delivery of services by the regional authorities.

**5.29** Amendments were made to the Health and Community Services Act in 1997 which resulted in the elimination of the Agency and the Policy Council, more direct accountability from the regional

## 5. Queens Region Health and Community Services - Phase 1

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health authorities to the Minister, and the transfer of all powers from the Agency to the Minister.

**5.30** The structure of the health care sector on Prince Edward Island has been in a state of change for an extended period. The legislative changes in 1997 have required yet another adjustment in how health care is governed and managed. These changes, combined with a lack of continuity at the Deputy Minister and senior management levels, are making it difficult for those working in the health care sector to bring stability back into the system.

**5.31** The recent legislative changes eliminated the Agency, expanded the degree of authority and control to be exercised by the Minister, and changed the reporting responsibilities of the regional authorities. The parameters of decision-making need to be clarified. To date, the reporting responsibilities of the CEO, and the roles of the Board of Directors of the Queens Region and the Department, have not been adequately ironed out. These issues need to be addressed if a system that has been struggling with change and uncertainty is to move forward in a focused and coordinated partnership.

### **Recommendation**

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

**5.33** An amendment to the legislation removed the requirement for board members to be elected. The Board of Directors in place April 1, 1997 was to remain in place until superseded by a process to be defined in the regulations. Recently regulations were approved giving the Minister authority to appoint board members. Government is now reviewing options to determine the future role of the regional boards.

### **Accountability**

**5.34** In order for the Minister to provide direction, set standards and monitor the delivery of services through the regions as required by the legislation, a framework for setting goals and reporting on performance must be established. This would include:

- clearly delegated responsibility from the Minister to the regions;
- agreement on results to be achieved and how they will be measured;
- periodic reporting on results; and

## 5. Queens Region Health and Community Services - Phase 1

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- approval or sanctioning of these results by the Minister.

**5.35** Certain aspects required for an accountability framework are in place within the health care system but integrated planning and reporting, based on results, has not been achieved. For example, under the Act, responsibility for the delivery of core services rests with the Region. However, there has not been agreement on the results to be achieved. The Region provides information to the Ministry on a regular basis but without agreement on clearly defined objectives and results to be achieved, reporting on performance and progress in achieving goals is difficult.

**5.36** An amendment to the Financial Administration Act in 1996 requires the Region to submit a statement of goals and results achieved during the reporting period. The Region has not included a statement of goals and results achieved in their 1996-97 annual report. However, there is a three-year phase in period for this new requirement with the understanding that reporting entities will make best efforts to meet the spirit and intent of the annual reporting framework as quickly as possible.

### **Recommendations**

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

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

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

### **Strategic Planning**

**5.40** The health care sector provides a broad range of services which have been developed under separate pieces of legislation. A plan is necessary to integrate the goals and objectives for these services and ensure there is congruence in the direction of the various divisions and programs. A strategic plan which prioritizes objectives is even more critical during periods of significant change.



## 5. Queens Region Health and Community Services - Phase 1

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**5.41** In 1994 the Council on Health and Community Services Policy developed and published five societal health goals. These goals were issued in draft form and were presented but not formally approved by Executive Council. The following year the Health and Community Services Agency developed the Provincial Health Plan which established four long-term goals at the Ministry level. The Provincial Health Plan does not mention the societal health goals nor does it illustrate how performance toward the goals within the Plan will assist in the achievement of each of the broad health goals established by the Council on Health and Community Services Policy.

**5.42** We found a great deal of effort was directed toward planning at each of the various levels in the health care sector, however these planning efforts were not directly linked. The desired outcomes at the societal level cannot be traced to the priorities identified in the Provincial Health Plan, and then to the performance required at the regional level. Rather than taking the direction from the level above and working within that, each level carried out their planning efforts separately. In summary, an integrated strategic plan for the health care system still does not exist five years after health reform was initiated.

### **Recommendation**

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

**5.44** During 1995-96 a well-defined strategic planning process was undertaken within the Region but it was not carried through to completion due to anticipated legislative and structural changes. The process involved staff from all levels of the organization and included extensive consultation sessions. It resulted in the development of mission and values statements for the Region. Client-focused groups were established which identified goals for those particular clients' needs but this was not carried through to specific action plans.

**5.45** The Canadian Council on Health Services Accreditation, which formerly accredited facilities, has developed a more comprehensive regional accreditation methodology which will be undertaken in Queens Region in June 1998. With the impending accreditation, focus has shifted from developing action plans foreseen in the strategic planning process to preparation for the accreditation. This requires the

## 5. Queens Region Health and Community Services - Phase 1

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collection and analysis of a wide variety of information and a consideration of processes that will provide an opportunity to identify and plan for improvements in service.

### **Recommendation**

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

### **Board Policies**

**5.47** The policy governance model in place within the Region requires the Board to develop four categories of policies:

- policies on intended results;
- policies that limit CEO authority;
- policies that prescribe how the Board itself will operate; and
- policies that delineate the manner in which governance is linked to management.

**5.48** The Board has spent a great deal of time in policy development and assessment but at the date of our fieldwork, policies on intended results were still under development and were not approved. The development of these policies, which define the results to be achieved by the organization, is significant. Development of meaningful policies on results to be achieved would have to be linked to and flow from a strategic plan for the health care sector, approved by the Ministry.

### **Recommendation**

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

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### **MANAGEMENT RESPONSE**

**5.50** Our report was issued to the Queens Region Health and Community Services in December 1997. Management intends to provide a written response to indicate how our observations and recommendations will be addressed.

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## 6. THE INFRASTRUCTURE PROGRAM

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### INTRODUCTION

**6.1** In January 1994, the Province entered into an Infrastructure Program Agreement with the Federal Government. The purpose of the cost-shared Agreement is to invest in projects in order to renew and enhance the quality of Canada's and Prince Edward Island's infrastructure, and provide for timely and effective employment creation.

**6.2** The program involves three parties with funding for projects shared equally among the federal and provincial governments and the grant recipients. The Agreement and its amendments provide for total funding of \$42.6 million by all three parties. All projects are to be completed by March 31, 1999. As at the date of our audit field work in October 1997, total spending on approved infrastructure projects was \$36 million. Projects were approved or rejected through three rounds of funding as shown in **Exhibit 6.1**.

#### EXHIBIT 6.1 PROGRAM ACTIVITY

	<u>Applications</u>			
	<u>Approved</u>		<u>Rejected</u>	
	<u>#</u>	<u>Millions</u>	<u>#</u>	<u>Millions</u>
Round 1 - March 1994	47	\$21.1	100	\$ 84.6
Round 2 - January 1995	65	14.6	67	59.2
Round 3 - May 1997	<u>69</u>	<u>6.9</u>	<u>100</u>	<u>32.6</u>
	<u>181</u>	<u>\$42.6</u>	<u>267</u>	<u>\$176.4</u>

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### OBJECTIVES AND SCOPE

**6.3** The objective of our audit was to assess the management practices in place for program administration and delivery. Our audit covered projects in all three funding rounds.

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### OVERALL AUDIT OBSERVATIONS

**6.4** The Infrastructure Program had a very positive impact on Prince Edward Island. As of May 1997, in excess of \$42 million had

## 6. The Infrastructure Program

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been approved under this program to enhance the Province's infrastructure and create employment. The program was well received and gave municipalities considerable flexibility in planning and implementing projects.

**6.5** Our audit examined the administration of the program. Over 400 applications were assessed in the three funding rounds, indicating a keen interest in the program and the need for well-defined administrative policies and procedures.

**6.6** We noted some areas where improvements are required:

- administrative policies and procedures should be approved by the management committee and this approval should be documented in the minutes of committee meetings;
- decisions on project applications need to be explained and documented; and
- payment procedures were not adequate to demonstrate that funds were spent in accordance with the terms of the approved projects.

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## DETAILED AUDIT OBSERVATIONS

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### Roles and Responsibilities

**6.7** At the outset of our audit we reviewed the organizational structure for the program. We expected there to be a clear definition of the roles and responsibilities of the parties involved, including a clearly defined management structure.

**6.8** The Federal-Provincial Agreement gives the management committee the authority and responsibility for administering the Infrastructure Program, including the development of guidelines for project review and selection and the establishment of management systems. The Management Committee is comprised of two federal and two provincial representatives.

**6.9** Under the program, all projects are to be approved by the Management Committee. We were advised this requirement was followed, however, approvals were not documented in Committee minutes. In fact, minutes of the Management Committee were not kept until May 1997.

## 6. The Infrastructure Program

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**6.10** The actual day to day administration of the program is carried out by staff of the Department of Community Affairs and Attorney General. Significant decisions concerning funding advances, holdback payments, project changes, and other matters were made based on administrative guidelines and policies developed by program staff. These policy guidelines were not formally approved by the Management Committee.

### Recommendations

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

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

### Adherence To Selection Criteria

**6.13** We examined a sample of projects which had been approved for funding under the program. The selection criteria for the projects are broad, leaving much of the discretion for project approval to the subjective assessment of the decision-makers. This process, combined with a lack of documentation for decisions taken, precluded us from assessing the reasonableness of the projects selected compared to those rejected.

**6.14** The infrastructure agreement does not specifically exclude private sector projects, however the wording of the agreement suggests that the thrust of the program is for public oriented projects. In addition, one of the criteria used for project selection states that lower priority will be given to private sector projects which provide questionable public good. We noted three projects in our sample that included private sector interests. These projects were supported by the municipalities involved and approved by the Management Committee. However, there were no explanations as to why these particular projects were given priority over other strictly public sector projects which were rejected.

**6.15** One of the main objectives of the program is to provide timely and effective employment creation. There was no indication that the employment levels indicated on project applications had any bearing on those projects selected for funding. As well, there was nothing to

## 6. The Infrastructure Program

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suggest that the employment levels were reviewed to ensure they were reasonable.

**6.16** The Federal-Provincial Agreement states one of the selection criteria under the program is that projects should be incremental or cause a significant acceleration of investment. Providing funds for projects that would have been undertaken anyway would not accomplish the program objectives of creating additional investment and employment. Compliance with this criterion by applicants was difficult to establish and in many cases the Management Committee did not have an effective means of addressing and evaluating against this criterion. Program officials indicated that it was often difficult to determine if a project would be incremental thus they were forced, to a great extent, to rely on the declaration of the applicant.

### **Recommendation**

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

### **Use of Contracts**

**6.18** Management Board policy requires that contracts be used where conditions are attached to funding. Throughout the three rounds of the program a letter of offer was sent to the potential recipient outlining the terms and conditions attached to the grant. Essentially this letter of offer serves as a contract. Applicants sign the letter if they accept the terms. The Minister of Community Affairs and Attorney General signs the letter on behalf of the Infrastructure Program.

**6.19** We compared the contents of this letter to the guidelines for contracts recommended in the Management Board Policy and Procedures Manual. As a result of our review we noted a number of deficiencies in the letter of offer used.

**6.20** We also noted five instances where the letter of offer was not issued until after the project was started. In another example we found no letter of offer for a \$200,000 project.

## 6. The Infrastructure Program

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**6.21** Changes to the nature or funding levels of projects frequently occurred, but the corresponding letters of offer were not amended to reflect these changes. These changes included additional funds for cost overruns, and using unspent project funds for different projects. Also, letters were never amended to reflect extensions to deadlines specified in the original letter.

### **Recommendation**

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

### **Support for Expenses Claimed**

**6.23** A number of claims submitted by grant recipients were not properly supported by paid invoices and other supporting documentation. Basic claim procedures would require that paid invoices be presented with the request for payment in accordance with the conditions of the program. These procedures were not followed and the Department needs to follow up on a number of projects where paid invoices were not received. Otherwise, there is no documentation that these expenditures were incurred or that they complied with the requirements of the project approval. We found a number of instances where claims were paid with insufficient supporting documentation including the following examples:

- A \$300,000 project for constructing a new recreational community building was approved to cover the building costs but not the related recreational equipment that was also going to be purchased. Since the building was not going to be completed by March 31, 1996, program staff advised the municipality that any equipment required should be purchased in advance and the claim submitted before March 31, 1996. A claim was submitted and paid based on invoices for the recreational equipment. As of the date of our audit all of the invoices related to the building construction component of the project have not been received.
- A \$555,000 claim for a roadway project was paid based on a letter from the project engineer to a municipal official. The letter stated the amount of the anticipated final payment due to the contractor, and indicated that the cost should be finalized within a week. Documentation to support this payment was not obtained until over a year later.

## 6. The Infrastructure Program

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- Payment on a \$200,000 project was processed based solely on correspondence from an auditor which stated the municipality had incurred costs of \$228,000. Invoices to support these costs as required under the program were not provided.

**6.24** We noted some instances where large payments were made to recipients before expenditures were incurred or before supporting invoices were provided. The advance payments appear to have been made because budgeted funds were at risk of being unspent by the end of the fiscal year. The practice of advance payments means that some payments are made without any evidence that the projects were carried out in accordance with the conditions of the program. Following are examples from our audit sample where advance payments were made:

- A community received an advance of \$230,000 from the Province's 1995-96 budget. The project was to have been largely completed in 1995-96 but delays caused less work to be completed than expected by March 31, 1996. Invoices supporting the advance were not received until 1997.
- Another community received a \$300,000 advance in March 1996. Supporting invoices covering this advance were not received until September 1996.

### **Recommendations**

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

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

### **Goods and Services Tax**

**6.27** Grant recipients, depending on their status, are eligible for a refund of all or a large portion of GST paid on expenditures. The issue of GST rebates was not clearly addressed until after payments for projects in Round One had started. This led to inconsistent treatment of similar situations and some overpayments to grant recipients at the beginning of the program. The rebates effectively reduced the cost of a project to an amount that was lower than the initially approved project costs. Project costs submitted in the claims should have been net of any GST rebates. Failure to properly consider the implications of the GST cost the program at least \$35,000.



## 6. The Infrastructure Program

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### Recommendation

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

### Overpayments

**6.29** As part of our review of the claim payment process we noted weaknesses in the monitoring of project costs. We found three examples where recipients claimed the same expense items twice. These items were not detected by program staff and were subsequently paid twice.

**6.30** Two of the examples involved different projects sponsored by the same municipality. Duplicate payments amounting to \$281,000 occurred in November 1995. The municipality subsequently discovered the errors and notified program administrators in June 1996. At that time the municipality did not offer to repay the overpayment but instead requested approval to apply the overpayments against other municipal projects which had not been previously approved under the Infrastructure Program. This course of action was accepted by program officials.

**6.31** In another example, a municipality claimed a holdback payment twice. This \$27,000 duplicate payment went undetected by program staff.

### Recommendation

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

### Other Administrative Issues

**6.33** Invoices were not always applied against the correct project. For example, larger municipalities often had two or more projects proceeding at the same time, including both round one and round two projects. In an attempt to prevent funds from lapsing, program staff would apply the first invoices submitted to the first project approved even if they did not relate to that project. In the end the payments made on a project may include invoices from two or three different projects. This practice is inappropriate and results in misleading information on actual project costs in each fiscal year.

## 6. The Infrastructure Program

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### Recommendation

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

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### MANAGEMENT RESPONSE

**6.35** Our audit report was issued to the Department in December 1997. As of the date of this report, the Department of Community Affairs and Attorney General was in the process of preparing a detailed response.

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## 7. SOURIS FOOD PARK DEVELOPMENT PROJECTS

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### INTRODUCTION

**7.1** Last year, as part of our audit of development incentives and lending activities of the Ministry of Economic Development and Tourism, we performed preliminary work on projects administered by the Souris Food Park Development Corporation. We identified issues for further audit work at that time. In addition, we received a request from the Deputy Minister of Economic Development and Tourism to review the projects undertaken by the Corporation.

**7.2** As a result of a fire in 1993 a major fish processing facility in Kings County was destroyed. The Ministry of Economic Development and Tourism began pursuing economic prospects for location in the area to offset job losses. The Souris Food Park Development Corporation was incorporated as a wholly owned subsidiary of Enterprise PEI in 1994. The Corporation was established to act as an agent through which the funding from the Eastern Kings Redevelopment Initiative would flow. The objective of the Corporation is to design, construct, own and operate a food processing industrial mall and park.

**7.3** **Exhibit 7.1** summarizes the expenditures to March 31, 1997 for projects administered by the Souris Food Park Development Corporation.

**EXHIBIT 7.1**  
**SOURIS FOOD PARK DEVELOPMENT CORPORATION**  
**EXPENDITURES AS OF MARCH 31, 1997**  
**(Millions)**

	<b>Actual</b>			<b>Forecast</b>
	<b>Federal</b>	<b>Provincial</b>	<b>Total</b>	<b>Expenditures</b>
Infrastructure				
- General Infrastructure	\$6.6	\$0.5	\$7.1	\$7.3
- Seafood Plant Design Fees	0.4	-	0.4	0.4
- Dim Sum Plant Design Fees	0.3	-	0.3	0.3
Seafood Processing Plant				
- Building	-	3.0	3.0	3.0
- Cold Storage	3.6	-	3.6	4.0
Dim Sum Processing Plant				
- Building	0.2	-	0.2	.2

## 7. Souris Food Park Development Projects

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### OBJECTIVES AND SCOPE

Totals \$11.1 \$3.5 \$14.6 \$15.2

**7.4** In accordance with Section 13 of the Audit Act we conducted a review of projects administered by the Souris Food Park Development Corporation. Our objective was to assess the adequacy of the management procedures and controls in place for the administration of construction and consultant contracts.

**7.5** Our examination focused on expenditures incurred by the Souris Food Park Development Corporation during the 1996-97 year under both construction and consultant contracts. We assessed whether standard procedures were followed, appropriate approvals were obtained, and controls in place functioned properly.

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### OVERALL AUDIT OBSERVATIONS

**7.6** To replace the loss of a major employer in 1993, the federal and provincial governments entered into an agreement to stimulate economic development in eastern Kings County. Under the Eastern Kings Redevelopment Initiative, the Souris Food Park Development Corporation spent approximately \$15 million as of March 31, 1997. These funds were used in the construction of general infrastructure and a seafood processing facility.

**7.7** Our audit found that the construction contracts were tendered and except for the site services contract, were substantially in accordance with the tender costs and specifications. Consultant fees amounting to \$1.2 million were incurred for design, project management and construction management for these projects and approximately \$800,000 of this amount was not subject to a competitive bidding process. Approximately \$600,000 of the consultant fees pertained to the design of two processing plants. One of these projects was a seafood processing plant and the other was a proposed food processing operation that did not get beyond the design stage. The construction costs of these projects were 100 percent publicly funded.

**7.8** Public funds amounting to \$7 million were spent on the construction of a seafood processing facility that was leased to the operator for \$1 per year for five years, with an option to purchase for \$1 at the end of the lease term.

## 7. Souris Food Park Development Projects

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### DETAILED AUDIT OBSERVATIONS

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#### Souris Food Park Infrastructure

**7.9** The infrastructure project involves a number of different aspects of the physical park including waste treatment, roads, lighting, and fencing. The construction of these components along with all design and engineering costs form the park infrastructure. A budget of \$7.7 million was approved for park infrastructure under the Eastern Kings Redevelopment Initiative.

**7.10** The engineering consulting fees associated with the project involved both project management and construction management. Project management involves bringing the project from the concept stage to the construction stage, including acquiring the necessary expertise to complete the design and prepare the tender documents. Construction management involves the coordination of contractors and oversight of the construction schedule.

**7.11** A competitive process led to the selection of a primary consultant for the project. The contract with the consultant consisted of two components. The project management portion of the contract was a fixed amount while the construction management part was on a per diem basis with a submitted bid, and additional staff costs were to be charged at amounts listed in the contract.

**7.12** Design fees of \$244,000, for the park infrastructure, were also paid to the primary consultant. This component was not subject to a competitive process. The Corporation agreed with this approach based on the explanation from the consultant that time constraints would not permit tendering and the costs would be lower.

**7.13** The primary consultant was retained by the private sector operators for the two processing plants slated to be constructed in the Food Park. This design work was not tendered. We were informed that the operators wanted the primary consultant to be retained as their design engineer. The design fees of \$555,000 were paid with public funds and included under infrastructure costs.

**7.14** **Exhibit 7.2** shows the breakdown of payments to the primary consultant. Total payments amounted to \$1,514,000. Of this amount \$1,234,000 was for consultant fees, \$148,000 related to out-of-pocket costs reimbursed to the consultant, and the remaining \$132,000 was

## 7. Souris Food Park Development Projects

for provincial tax. Of the \$1,234,000 in consultant fees, approximately \$800,000 was not subject to a competitive process.

**EXHIBIT 7.2**  
**SOURIS FOOD PARK**  
**DESIGN/ENGINEERING COSTS**  
**TO MARCH 31, 1997**  
**(Thousands)**

	<u>Fees</u>		<u>Disburse-</u> <u>ments</u>	<u>PST</u>	<u>Total</u>
	<u>Bid</u>	<u>Actual</u>			
Project Management	\$169	\$159	\$68	\$16	\$243
Construction Management	115	276	5	30	311
Seafood Processing					
Design/Engineering	-	356	34	39	429
Dim Sum Processing					
Design/Engineering	-	199	39	21	259
Other	-	244	2	26	272
	<u>\$284</u>	<u>\$1,234</u>	<u>\$148</u>	<u>\$132</u>	<u>\$1,514</u>

**7.15** During construction of the infrastructure a change order system was in place and contract changes were appropriately approved. However, the construction contract for site services was increased from the amount tendered of \$536,000 to the amount paid of \$932,000 without a competitive process. The primary consultant stated he did not tender the additional construction because of time constraints and confidence in the fairness of the price received on the original tender.

### **Recommendation**

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

### **Seafood Processing Plant**

**7.17** In 1995 a decision was made by government to replace the Usen Fisheries plant, which was destroyed by fire, with a state of the art seafood processing plant. This plant was constructed at a cost of approximately \$7 million which was cost-shared by the federal and provincial governments.

**7.18** Business proposals were not requested from operators within the industry to determine who should be the recipient of the proposed

## 7. Souris Food Park Development Projects

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new processing facility. Instead, senior government officials approached an operator in the area with experience and a record of success.

**7.19** In December 1995 a lease agreement was signed between the private sector operator and Souris Food Park Development Corporation. The plant was constructed and leased to the operator at \$1 per year for five years with the option to purchase for \$1 at that time. Under this arrangement the Souris Food Park Development Corporation was to approve the design and specifications of the plant. We found no documented approval of the design and specifications by the Corporation although we were informed that staff were familiar with it.

Recommendations
<p><b>7.20</b> For major projects, business proposals should be publicly invited.</p>
<p><b>7.21</b> Staff should ensure that terms and conditions included in funding agreements are followed.</p>

### Dim Sum Processing Plant

**7.22** One of the projects prospected to locate in the Souris Food Park was a food processing plant. The original budget under the Eastern Kings Redevelopment Initiative included a plant, cold storage, and equipment totalling \$5.8 million. In addition, the design fees would be paid as part of the Souris Food Park Infrastructure Project. This project was to be a joint venture between a company based in China and a company owned by three Canadian citizens with strong connections in China. We were advised a consultant provided assurance to government that these investors were legitimate in their intentions and had resources to support their proposal. This consultant was paid \$40,000 for his services, however, no documented report was received.

**7.23** The letter of offer was sent to the potential investors of the food processing plant in June 1995. Preliminary design work was undertaken by the design engineers with more technical work performed between the signing of the letter of offer and the signing of the lease in June 1996. Souris Food Park Development Corporation moved ahead on construction of the infrastructure to support the processing plant, including the waste treatment facility which was

## 7. Souris Food Park Development Projects

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designed specifically for the project with the intention of expanding it, if required, to accommodate new tenants. In the fall of 1996 concerns were raised about the potential investors' commitment to the project, and construction of the building was not started. Costs of the waste treatment facility were \$2.2 million as at March 31, 1997. We were told additional costs for the facility would have to be incurred for commissioning and modifications if it is to be used for a different project.

**7.24** Design, consulting and legal costs associated with the project amounted to approximately \$300,000. Costs of approximately \$200,000 were also incurred for site preparation but staff indicated this work is generic and will benefit the next tenant.

<b>Recommendation</b>
<b>7.25 Consulting service engagements should specify the work to be done and include the requirement for a written report.</b>

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**MANAGEMENT  
RESPONSE**

**7.26** The Corporation has responded to our report and intends to follow our recommendations in future projects.



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## 8. INSPECTION SERVICES

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### INTRODUCTION

**8.1** The Planning and Inspection Services Division of the Department of Community Affairs and Attorney General is responsible for the protection of public health and safety through its inspection and licensing activities.

**8.2** Revenues for inspection related activities during 1996-97 amounted to \$660,000 while expenditures for the same period totalled \$1.3 million. Inspection activities are carried out by four sections of the Inspection Services Branch. These sections include: Boilers, Propane, and Plumbing; Electrical and Elevators; Property Development; and the Fire Marshall.

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### OBJECTIVES AND SCOPE

**8.3** We conducted an audit on the Inspection Services Branch for the 1996-97 fiscal year. Our objective was to assess management practices and controls over inspection activities. We also examined the Branch's compliance with the major provisions of legislation dealing with inspections.

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### OVERALL AUDIT OBSERVATIONS

**8.4** We found no significant problems in the Division's compliance with legislation. However, improvements are required in the database systems used to record and report on the permits and licenses issued. The data accumulated for each type of inspection activity should be reviewed with the objective of enhancing management reporting. To improve control and monitoring of revenues, upgrading of the various manual and computerized systems is needed.

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### DETAILED AUDIT OBSERVATIONS

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#### Management Information

**8.5** Each of the four sections within the Inspection Services Branch maintains its own computerized databases. We expected the sections to use their databases for monitoring of activities, reporting, and, where possible, to assist in implementing their priority inspection strategies. We also expected a comparison to be possible between

## 8. Inspection Services

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revenue collected and the related inspection activity. In general we found limited reporting capabilities and minimal use of the databases to monitor the inspection activities. The following paragraphs contain a brief discussion of the major databases used by each section, the shortcomings noted, and the improvements required.

### Boilers and Pressure Vessels

**8.6** One of this Section's major tasks is inspecting installations containing boilers or pressure vessels. In 1996-97 the Section performed approximately 1,360 inspections. The legislation requires that a certificate of inspection be issued on initial inspection, however, the frequency of subsequent inspections is at the discretion of the chief inspector. We examined the priority strategies employed by the Division in selecting sites for inspection, and found them to be satisfactory.

**8.7** We did note that inspection planning is hampered by deficiencies in the database. Out-of-service installations, which do not require an inspection, are not identified in the database. This obsolete information should be flagged and removed, or be readily identifiable. In addition, the absence of information in the database on the types of facilities makes it difficult to obtain lists which would be useful for planning inspections. This is important because the Section often chooses to inspect similar facilities during the same time period.

### Electrical Permits

**8.8** The Regulations to the Electrical Inspection Act require permits to be obtained by contractors for each job. The Section has discretionary powers on what electrical jobs they inspect. The Section has a strategy that calls for targeting higher risk areas for inspections.

**8.9** We noted the electrical permits database does not provide information which could automatically highlight permits that meet the priority inspection criteria. The inspectors do not have readily accessible information to assist in identifying jobs for inspection. The use of a computer system to automatically identify permits which meet the criteria would help ensure a more consistent application of the priority inspection policies. In addition, the system does not provide for the creation of management reports to monitor the activities of the inspectors.

**8.10** We found weaknesses in the administration of electrical defects. A defect occurs as a result of an inspector noting that corrective action is required on a particular job. All outstanding

## 8. Inspection Services

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defects of the contractors are to be addressed prior to renewing their annual license. We found that 10 contractors had defects indicated on 14 permits and no follow-up was made on these prior to renewing the license. This occurred because lists of defects are manually prepared and updated by staff, with no reference to the database information on permits issued.

**8.11** We also found a lack of regular monitoring, reporting, follow-up, and updating of the outstanding jobs listed on the system. For example, as of April 1997 we found that 540 permits were indicated as unfinished, yet the jobs were submitted more than seven months earlier. Staff acknowledged many of these jobs were probably completed, but the status in the database had not been updated. In order for the permit database to be useful, the database should be kept current and accurate.

Property  
Development

**8.12** The Property Development Section is responsible for issuing permits under the Planning Act, the Environmental Protection Act, and the Roads Act. Staff annually process approximately 1,000 on-site sewage permits and a similar number of building permits.

**8.13** We found that regulatory compliance was adequate however, we noted some inefficiency in permit processing. This was primarily due to the variety of databases maintained for permits. The opportunity for sharing information and minimizing the data recording effort is not being fully realized. Similar data is being accumulated in separate databases for building, sewage, subdivision, and entrance-way permits. The same applicant often requires all of these permits. Data is being accumulated by several staff and maintained in several locations without an overall plan of what should be accumulated and how it is to be integrated and used. The option of maintaining fewer databases, or more cross-referencing of related permit data should be explored.

Fire Marshall

**8.14** The Fire Prevention Act gives the Fire Marshall discretion on which fires to investigate and which buildings to inspect. The Provincial Fire Marshall's office also does safety inspections for license renewal purposes.

**8.15** We were concerned with the limitations of the information system used to document inspection results. Reports for each facility are maintained in separate word processing files. However, there is limited ability to query and summarize the contents of all the files.

## 8. Inspection Services

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This makes it difficult for staff to monitor and follow up on any report recommendations.

### Recommendations

**8.16** The Division should review all existing databases in order to identify the necessary information to be accumulated and how it can be most efficiently obtained.

**8.17** Management reports should be designed to assist in the implementation of priority inspection guidelines and monitoring of the inspection activities.

### Invoicing and Accounts Receivable Systems

**8.18** Revenues of the Branch in 1996-97 totalled \$660,000. A variety of manual and computerized systems are used in the collection process. These systems are cumbersome and require extensive administration. In addition, the systems do not provide timely access to information that is necessary for managing revenues. The following paragraphs contain a brief description of the major subsystems.

#### Electrical Permits

**8.19** Electrical permits produce revenues of approximately \$250,000. The permit/application forms are submitted by contractors. Staff input the data to a computerized system, which records permits issued, produces monthly billing statements, and maintains accounts receivable balances.

**8.20** There are few reports which can be viewed or printed from the system other than the contractor's monthly statement. Controls are not in place to ensure that all permits issued have resulted in an accurate billing to a contractor account.

**8.21** We also noted that payments received could be better controlled. Staff enter payment information to the computerized system, but no balancing is done against the bank deposits to ensure the completeness and accuracy of the records.

#### Boilers and Pressure Vessels

**8.22** In 1996-97, a total of 1,200 invoices were processed generating \$140,000 in revenue. A computerized system produces invoices based on the inspection report data entered.

## 8. Inspection Services

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**8.23** The computer system does not produce any summary reports of the invoices issued, nor does it maintain accounts receivable balances by customer. A manual system is used to keep track of invoices. However, controls are not adequate to ensure all payments are properly reflected in the records. In addition, information is not maintained on customer balances for further follow-up.

### Elevator Inspections

**8.24** Invoices totalling approximately \$24,000 are produced in advance at the beginning of each year and are mailed to clients as inspections are performed. The system for managing these receivables is inefficient, inflexible and prone to errors. For example, some invoices were paid, but were listed as outstanding.

#### **Recommendations**

**8.25** The feasibility of having one system for all invoicing and accounts receivable management should be investigated.

**8.26** The invoicing and accounts receivable systems should provide useful management information such as: balances by customer account; the age of accounts; and details of invoices and payments for balancing purposes.

### Revenue Recording

**8.27** Charlottetown and Summerside offices use cash registers to record, control, and summarize daily cash receipts. The cash register summary is used to record revenue into the Province's Financial Information System. Insufficient information, however, is maintained on the source of the cash receipts which makes it difficult to refer back to the specific permits, licenses or fees.

**8.28** Six types of licenses are issued for the Electrical and Elevators Section and the Boilers, Propane, and Plumbing Section. We found that no comparison can be made between the licenses issued and the revenues recorded in the Financial Information System. This occurs because the revenue categories are too broad to identify each license type. We also noted that records are not maintained in the license database concerning the date and receipt number of payments. As a result, staff cannot check to ensure that revenue has been collected for all licenses issued. In addition, staff have difficulty in following up disputes over license payments.

## 8. Inspection Services

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### Recommendations

**8.29** Data should be accumulated which allows for the integration of information with other databases and the reporting of revenue by type and location.

**8.30** Revenue data for license fees collected should be accumulated and compared to a record of licenses issued.

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### MANAGEMENT RESPONSE

**8.31** The Department of Community Affairs and Attorney General has prepared a detailed written response to our report. Management agrees with our recommendations and some have already been implemented.

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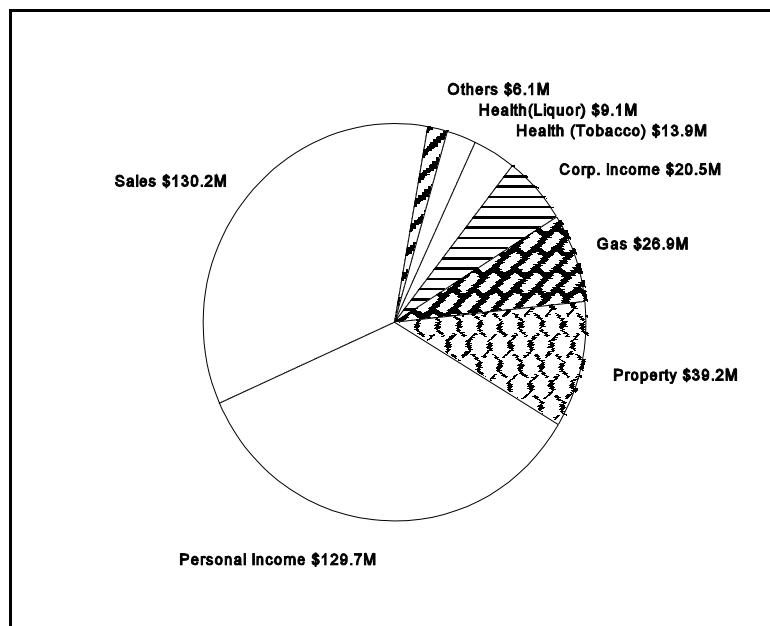
## 9. PROVINCIAL TAX REVENUES

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### INTRODUCTION

**9.1** Provincial tax revenues amounted to \$375.6 million for the year ended March 31, 1997. **Exhibit 9.1** illustrates the sources of provincial tax revenue.

**EXHIBIT 9.1**  
**TAX REVENUES 1996-97**



**9.2** The Taxation and Property Records Division of the Department of the Provincial Treasury has responsibility for the administration of the Province's tax systems. The budgeted expenditures of the Division for the 1996-97 fiscal year are \$4.6 million. The majority of this budget, approximately \$2.9 million, is for payroll.

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### OBJECTIVES AND SCOPE

**9.3** Our audit objective was to assess the management practices and controls associated with the Province's taxation systems, and to follow up on the observations of past audits. The audit covered the 1996-97 fiscal year. Specifically, we examined the following taxation related areas:

## 9. Provincial Tax Revenues

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- Property tax and assessments governed by the Real Property Assessment Act and the Real Property Tax Act;
  - Sales tax governed by the Revenue Tax Act;
  - Gasoline tax governed by the Gasoline Tax Act;
  - Health tax on tobacco governed by the Health Tax Act; and
  - The Division's Tax Audit Section.
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### OVERALL AUDIT OBSERVATIONS

**9.4** Gasoline tax revenue approximates \$27 million annually. The Department receives monthly statements from oil companies to support taxes paid each month. However, the Department does not attempt to verify the completeness and accuracy of the information reported.

**9.5** Property tax revenue totalled approximately \$39 million for the year ended March 31, 1997. The Division needs to review its property assessments in terms of uniformity and relation to market values. Improvements are needed in the management of assessments for farm properties and the monitoring of compliance to policies.

**9.6** Health tax on tobacco totalled approximately \$14 million for the 1996-97 year. We made recommendations for improvements in the monitoring of monthly returns filed by wholesalers.

**9.7** Sales tax collected during 1996-97 totalled approximately \$130 million. The Department's entire audit effort is devoted to this tax area. The process in place to select accounts for audit appears reasonable.

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### DETAILED AUDIT OBSERVATIONS

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#### Gasoline Tax

**9.8** Gasoline tax is levied at an amount per litre as specified in the Gasoline Tax Act. Total gas tax revenue for the year ended March 31, 1997, was \$26.9 million.

**9.9** The tax is paid by oil companies (agents) based on their sales, transfers or deliveries of gasoline or diesel oil. Gas retailers effectively pay the tax in advance to the agents and subsequently recover the tax upon sale to consumers.

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## 9. Provincial Tax Revenues

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**9.10** Seven oil companies remit tax on a monthly basis, which accounts for 99 percent of the revenue collected. Each oil company submits a monthly statement. These statements are checked by the Division for clerical accuracy but there are no audit procedures employed to verify the information reported on sales and inventory levels. In effect, the Division relies exclusively on the information reported by the agents on the monthly returns.

**9.11** Since fuel is taxed based on distributions by agents, it is important that the Province be assured that all inventory movements are properly accounted for. Because the Division no longer does any audit work on the agents' records there is no way of assuring that all of the agents' fuel inventory and distributions have been properly accounted for. Our review of the monthly statements filed by the agents revealed that in a few instances the agents reported a negative ending inventory. Division staff do not investigate these unusual occurrences.

**9.12** The agents are permitted to transfer product among themselves on a tax-exempt basis. We found that the Division does not reconcile these tax-exempt transfers. Without such a control, the Province is essentially losing track of this taxable product and cannot be assured that the product will eventually be taxed. These tax-exempt transfers are substantial and require closer monitoring.

### **Recommendation**

**9.13 The Division should:**

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

### **Property Tax**

**9.14** Provincial property tax revenue for the year ended March 31, 1997 was \$39.2 million on approximately 88,500 assessed properties.

**9.15** The Real Property Assessment Act currently requires that all properties be appraised at least once every ten years. This appraisal cycle had previously been set at five years. In 1985 our Office noted

## 9. Provincial Tax Revenues

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the Section had difficulty in meeting the five-year cycle. The legislation was changed in 1994 to increase the cycle to ten years. The most recent cycle was completed by the Section in 1995.

**9.16** The Section has decided to wait until 1999 to begin work on the next cycle in order to use a new automated assessment data collection system currently under development. With the existing staff complement it appears as though a ten-year time frame to complete reappraisals on all properties is reasonable. However, the four-year delay in starting work on the next cycle effectively gives the Section only six years to reappraise all properties.

**9.17** The Real Property Assessment Act indicates that uniformity of assessment is one of the objectives in the property assessment process. The Assessment Section translates this into a target of having assessments fall within a range of 90 to 105 percent of market values.

**9.18** We reviewed the most recent information on land values that had been gathered by the Section. This information consisted of a sample of 137 land sales occurring throughout the Province during 1994 and 1995. The data shows that the assessed value of land in Prince County was, on average, 77 percent of the market price while in Queens and Kings Counties, the assessed value was approximately 83 percent of market price. The data suggests that the target range was not being achieved and assessed values compared to market values were inconsistent among counties.

**9.19** We also reviewed the results of a study by the Section which compared assessments to selling prices on over 100 residences which were sold in 1995. It shows that the assessed values on over half of the residences sold were lower than the target range of 90 to 105 percent of the actual selling prices.

### **Recommendation**

**9.20** The Department should:

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

## 9. Provincial Tax Revenues

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**9.21** Policy and procedures manuals exist to assist staff assessors. Assessors often have significant discretion in the application of policy. We found that there is limited monitoring of assessors' work. There is also no regular summary reporting system to highlight areas of policy or procedure that are not being properly and consistently applied.

**9.22** The building depreciation policy is a good example of a policy that is often overridden. The policy manual provides standard depreciation rates based on the age of a building. Assessors frequently adjust depreciation amounts to a figure which they judge to be reasonable. We analysed the depreciation figures of a sample of 307 similarly aged farm buildings. Management has stated that deviations of up to 10 percent from the policy manual depreciation rates would be reasonable. We found that 30 percent of the buildings in our sample exceeded this acceptable range.

### **Recommendation**

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

**9.24** The Real Property Assessment Act provides for a reduced assessment for farm land used by a bona fide farmer. The farm assessment rate is established in policy, where good farm land is assessed at \$150 per acre. The market value of farm land has increased substantially since 1989 when these rates were established and consequently the value of the tax concession on farm properties has increased as well.

**9.25** There are two key aspects to the legislation in the application of a farm assessment. The owner must qualify as a bona fide farmer under the Act, defined as a person who spends more than 50 percent of his working time on the farm and, receives annually more gross cash income from the sale of farm products than from other employment. In addition the farm assessment only applies to the portion of the property used in a farm enterprise.

## 9. Provincial Tax Revenues

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**9.26** A bona fide farmer status declaration is required to be signed if a farmer is requesting bona fide farmer status for the first time or if there is a review required. The declaration is used to establish whether the individual qualifies for bona fide farmer status, primarily in relation to major sources of income. We noted this information is not verified. In addition, there is no information requested in the declaration concerning the use of the land in question.

**9.27** Approximately 25 years ago, when bona fide farmer status was established in the legislation, a list was developed of bona fide farmers from records existing at that time. There is no periodic review of the bona fide farmer status for these properties. However, if there is a change in ownership then the property is flagged for review. We noted, where the purchaser has bona fide farmer status, the practice is to apply the status to the new property without requiring a new declaration. Whether the new property is being used within the farm enterprise is not normally questioned.

**9.28** We reviewed the database of farm assessment properties. Of the 10,357 properties subject to bona fide farmer status we found that 4,900 have not been reviewed since the records were computerized in 1984. There may be properties in this total which no longer qualify for bona fide farmer status. This is a potential loss of revenue for the Province.

**9.29** In addition, we found that the current practice of taxing properties based on farm assessment rates is not supported by the legislation. Section 7 of the Real Property Tax Act states that both the taxes calculated based on a farm assessment and the tax difference between the farm assessment and a real property assessment are payable. In effect this would require payment of taxes based on a full real property assessment. It appears that there may have been some typographical error in the preparation of the legislation.

## 9. Provincial Tax Revenues

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### Recommendation

#### 9.30 The Assessment Section should:

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

### Health Tax on Tobacco

**9.31** In our previous audit of health tax on tobacco we reported that, unlike commissions granted in the sales tax system, there was no upper limit placed on tobacco tax commissions. Subsequent to that audit the Regulations were changed and now tobacco wholesalers are limited to a maximum commission of \$12,000 per annum. Whereas the commissions amounted to \$550,000 in 1992-93, the 20 wholesalers in 1996-97 will be limited to maximum commissions amounting to \$240,000, resulting in savings of approximately \$310,000 per year.

**9.32** Due to reporting deficiencies, monitoring of the monthly returns for reasonableness based on inventory movements is not possible. For example, tobacco manufacturers do report to the Division on their sales of product to wholesalers. However, due to the lack of inventory information supplied by the wholesalers, the Division is not able to ensure they are accounting for all of the taxable product that is received. Although the Division does retain the right to conduct audits of the wholesalers, the practice in recent years has been to focus audit activity on retail sales tax.

### Recommendation

#### 9.33 The Division should:

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

## 9. Provincial Tax Revenues

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### Sales Tax

**9.34** Every retail vendor is an agent of the Minister for the purpose of collecting sales tax. Each month, vendors must submit a return and remit the tax collected less a commission calculated at three percent of the tax collected to a maximum of \$500 per year.

**9.35** We found that in general the controls for processing tax returns were adequate. One weakness noted was that the monthly returns filed by vendors, in a large number of cases, were incomplete. Vendors do not always report the amount of taxable sales or purchases, and instead simply report the tax due. The Division is not attempting to have this situation corrected.

**9.36** We also noted that adjustments entered into the system are not subject to interest and penalties and this can result in a loss of revenue. Also, the method of calculating interest on taxes not collected by the due date can result in lost revenue and needs to be reviewed.

#### Recommendations

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

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

### Tax Audit Section

**9.39** The Audit Section is responsible for carrying out audits of the various businesses involved in the collection and remittance of taxes. The focus of this Audit Section has been on auditing for compliance with the Revenue Tax Act.

**9.40** There are approximately 7,500 vendors registered with the Division for the purposes of revenue tax collection. All vendors cannot be audited, even on a cyclical basis. It is important, therefore, that the Audit Section has a sound strategy for planning the audits that it will undertake each year.

**9.41** Management has decided that the Audit Section will direct its audit resources with the objective of maximizing audit recoveries. We found that this objective is reflected in the manner in which accounts

## 9. Provincial Tax Revenues

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are selected for audit. The selection process targets vendors to obtain maximum recovery of tax. Given the audit objectives established by the Section, we are satisfied that the process used to produce the list of planned audits is reasonable.

**9.42** We expected the Audit Section to utilize a time accounting and budgeting system to assign budgets and monitor staff resources utilized on audit projects. We found that the Section assigns work orders and captures the hours spent on each job. However, the Section does not assign time budgets to the assignments. Without time budgeting it is difficult to identify problem assignments; to highlight poor employee performance; or to set out a reasonable expectation of how many audits can be accomplished in the year.

### **Recommendation**

**9.43 Time budgets should be established for all audit activity assigned, and actual results should be compared to the time budgets. Time budgeting should be utilized in the audit planning process to identify a reasonable objective or target number of audits for the year.**

**9.44** The Audit Section reports annually on the recovery that it has achieved. As part of our audit we attempted to follow up on the reported figures to determine if the amounts reported were actually collected in the long run.

**9.45** We noted audit recovery figures are not adjusted for amounts reduced or adjusted subsequent to the audit assessment. The effect of this is that the audit recovery figures reported are different from the amounts that are ultimately collected. The total amounts involved are not known because the values are not easily extracted from the sales tax system.

**9.46** In order to assess the collectibility of audit assessments we examined the account balances outstanding from the 1993-94 year through to the 1996-97 year and cross referenced those audits against bad debt write-offs of sales tax accounts. Based on this analysis, we found that collection of audit assessments has not been a problem and that the history of write-offs of audit accounts is not significant. We concluded, therefore, that collectibility of audit recoveries is not a major issue.

## 9. Provincial Tax Revenues

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**Recommendation**

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

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**MANAGEMENT  
RESPONSE**

**9.48** Our report was issued to the Department of the Provincial Treasury. We discussed the report with management and a written response will be provided on our observations and recommendations.



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## **10. DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS**

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### **INTRODUCTION**

**10.1** In January 1997, I received a request from the Department of Transportation and Public Works to perform audit work on a number of issues of concern to the Minister regarding the Department's operations. I advised the Minister that my Office does not perform fraud investigations and that our review would be limited to a review of internal controls as well as economy and efficiency issues. I also indicated that if, in the course of this work, we encountered evidence of fraud I would turn the matter over to the RCMP for investigation.

**10.2** I further advised the Minister that the scope and work performed would be determined by my Office and a summary of the results would be reported in my next report to the Legislative Assembly. Based on this understanding a letter was forwarded to me by the Deputy Minister indicating the specific matters the Department wanted to have examined by my Office.

**10.3** On June 10, 1997, I issued a special report arising from this request by the Department. On September 15, 1997 the Department released this report. Management has recently informed me that the issues identified are being addressed. We intend to follow up on the corrective action taken by the Department.

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### **OBJECTIVES AND SCOPE**

**10.4** We did not perform an audit of all programs and activities of the Department of Transportation and Public Works. Our work was limited to an examination of the following matters:

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

## 10. Department of Transportation and Public Works

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### OVERALL AUDIT OBSERVATIONS

**10.5** Our examination found no evidence of criminal activity. However, we did find serious deficiencies in management practices and internal controls in a number of instances.

**10.6** The absence of basic controls in some instances precluded us from establishing whether the Department had suffered losses through wrongful misappropriation of assets by individuals inside or outside the Department. This is a serious problem but not a new one. We have in past audits alerted the Department to the internal control deficiencies raised in this report. In various audits as far back as 1988 we made recommendations to strengthen controls over areas susceptible to loss. Although commitments and efforts were made to correct these deficiencies, the basic problems still persisted.

**10.7** We again made a number of recommendations to establish basic internal controls in a number of areas vulnerable to loss. It is essential that the control deficiencies identified be addressed so that management can be confident that all reasonable steps have been taken to prevent and detect possible losses. Management is now aware of the control deficiencies and is taking steps to correct these problems. We intend to perform whatever follow-up is necessary to determine whether these weaknesses in internal control are being addressed.

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### DETAILED AUDIT OBSERVATIONS

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#### Culverts

**10.8** Culverts purchased during 1996-97 totalled \$1.5 million. Most purchases are publicly tendered each year, with a separate tender for each county.

**10.9** Controls were inadequate over culverts issued to private contractors, who were hired to install culverts. District supervisors assigned jobs to these contractors. Without notification from the district supervisors, Department staff issued shipping orders, which authorized the supplier to release culverts to contractors, and bill the Department.

## 10. Department of Transportation and Public Works

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### Recommendations

**10.10 District supervisors should authorize the release of culverts to private contractors.**

**10.11 District supervisors should submit to Department staff a written summary of culvert installations.**

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

### Recommendation

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

**10.14** Management Board approved an Inventory Management policy to encourage the efficient management of inventories, and to ensure accounting for inventories is carried out in a manner such that all requirements for adequate control and accurate, timely information are met. The policy makes departments responsible for ensuring that physical controls over inventories are adequate to protect against loss, theft, damage and misuse.

**10.15** Culverts were stored in stockpiles located at five sites in Queens County, six sites in Kings County and two sites in Prince County. We estimate that culverts stockpiled at March 31, 1997 had a value of \$300,000. Of these, culverts costing \$200,000 were stored at sites having inadequate physical controls to safeguard against unauthorized removal. Proper controls such as perimeter fencing, locked gates, and “no trespassing” signs are even more important now that the Department charges a fee for culverts.

### Recommendation

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

## 10. Department of Transportation and Public Works

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**10.17** A system to record all movement of inventory is a basic inventory control. In our 1987 and 1994 audits of Inventory Management and our 1991 audit of Highway Maintenance, we reported inadequate record-keeping and a lack of accountability for the use of culverts. That situation remained unchanged and the Department was not complying with the Management Board policy on Inventory Management. Inventories on hand were not periodically reconciled to records of purchases and transfers out of stock. As a result management did not know if all culverts were accounted for.

### **Recommendation**

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

**10.19** We were told that staff were instructed to return to stock any used culverts suitable for reuse, but few culverts were reused because in most cases they were extensively rusted or became damaged while being removed. A few used culverts were sold at a price equal to 25 percent of replacement value. During 1996-97, sales of new and used culverts totalling \$15,000 were reported in Prince County. There were no similar sales reported in either Queens or Kings Counties.

**10.20** Customers were invoiced for purchases, but invoices were not sent on a timely basis. There was no accounts receivable listing of amounts owed to the Department, and no follow-up of unpaid invoices. We estimated that accounts receivable for culvert sales totalled \$11,000 as at April 30, 1997, of which \$10,000 was outstanding for more than a year.

**10.21** In addition to culverts, the Department sold small quantities of sand and salt. These sales totalled approximately \$130,000 annually. Administrative staff invoice customers for their purchases, based on various information slips completed by loader operators. There was no follow-up to account for slips, only some of which were prenumbered. This made it difficult to ensure that all sales revenue was recorded.

## 10. Department of Transportation and Public Works

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### Recommendation

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

### Asphalt Chips

**10.23** Asphalt chips are planed from road surfaces as part of highway construction projects. During 1995, the Department started recycling these chips for various jobs such as shoulder repairs, culvert installations, and road repairs. The Department has also experimented with pavement resurfacing, whereby chips are spread and compacted to provide a new paved surface at a cost substantially lower than paving with new asphalt. Based on management's information, we estimated that the value of asphalt chips used in 1996-97 was over \$400,000.

**10.24** In Prince County, most asphalt chips are reused as they are planed, and were stockpiled for the first time in 1996. Records were not kept of the number of loads removed from the highway construction project or delivered to the stockpile, so there was no way of knowing if all asphalt chips were actually delivered. Prenumbered tickets were used to record the loads removed from storage, and these were agreed to the number of loads delivered for reuse and to an estimate of inventory on hand at year end.

**10.25** In Queens County, asphalt chips were stockpiled in 1995 but in 1996 they were reused as soon as they were planed. Controls over the inventory were weak. Prenumbered tickets issued at the construction site in 1995 were not signed by a checker at the storage compound, which made it difficult to determine if all of the chips were actually delivered. Adequate controls were in place to record chips removed from construction projects during 1996. However, although tickets were used to record chips removed from storage, the Department did not attempt to reconcile these to the quantities used or in inventory at year end.

**10.26** Asphalt chips were not stockpiled in Kings County, but were hauled from construction projects directly to other locations for reuse. Construction personnel recorded the number of loads leaving the construction site and maintenance personnel recorded the number of loads delivered to the maintenance site, but these records were not reconciled.

## 10. Department of Transportation and Public Works

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### Recommendation

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

### Truck and Equipment Rentals

**10.28** The Department meets a significant portion of its travel and equipment needs by renting from its employees and the private sector. Rentals totalled \$4.4 million in 1996-97. The various types of rentals included trucks, loaders, backhoes, rollers, chainsaws and power plants. We identified truck rentals totalling \$600,000 from 135 employees during the first ten months of 1996-97.

**10.29** Our 1991 audit report on Highway Maintenance commented that truck and equipment rentals during 1990-91 totalled over \$3 million, and that the management information system did not provide further details such as rental cost by rental type, frequency, and seasonal needs. We recommended that information be available to allow management to make informed sourcing decisions. We also recommended a study of the benefits of acquiring rather than renting 3 ton trucks and rollers, and suggested that the two alternatives might be compared on a pilot basis by replacing some of the rentals with purchased equipment. We were told in January 1993 that the Department was reviewing its rental practices, but we recently learned that the recommended pilot project did not get off the ground. Some smaller items such as grass trimmers and chainsaws were purchased, and results demonstrated that purchasing is more cost effective than renting. However, the Department had not looked into purchasing replacements for some of the larger rented items such as 3 ton trucks, rollers, and backhoes.

### Recommendation

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

**10.31** Our 1991 audit report on Highway Maintenance also noted that the practice of renting light duty trucks from employees on an hourly basis did not comply with the Province's travel policy. This policy provided for reimbursement based on the number of kilometers and

## 10. Department of Transportation and Public Works

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there was an additional per diem allowance for transporting work crews or heavy equipment. In February 1993, Treasury Board exempted the Department from the travel policy, to allow for establishment of a schedule of hourly rates for truck and equipment rentals. At the same time, the Board expressed concern about the overall cost of renting trucks for crews, and directed the Department to forward for review and approval its internal policy for truck rentals, and to provide its proposed strategy for determining rates for fiscal year 1993-94 and beyond. The Department did not comply with this directive, and continued to rent ¼ ton and ½ ton trucks from employees on an hourly basis. We identified truck rentals totalling \$300,000 during 1996-97 from 88 employees, 14 of whom were paid a total of \$117,000.

### **Recommendation**

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

### **Mechanical Branch Vehicle Purchases**

**10.33** There are nine Management Board policies related to government vehicles, having the overall objective and intent to assist departments to meet their vehicle transportation requirements at the lowest possible cost concurrent with safety requirements and maximum efficiency. One requirement is for each department to include with its annual budget submission, a fleet plan showing planned vehicle acquisitions and deletions for the year.

**10.34** During 1996-97, the Mechanical Branch purchased six trucks costing \$168,000, none of which were included in its vehicle fleet plan. Management could not explain why two of these were not included. Staff said that four larger trucks did not need to be included because such vehicles are not subject to government's Fleet Management System (FMS). This explanation was not valid because, notwithstanding their exclusion from the FMS, larger vehicles were not similarly excluded from the Management Board policy on vehicle acquisitions.

### **Recommendation**

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

## 10. Department of Transportation and Public Works

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**10.36** A ½ ton 4x4 pickup was purchased in April 1996 at a cost of \$30,900 less trade in of \$3,300. Several of the specifications exceeded operational requirements. Also, the employee for whom this truck was purchased was ineligible for assignment of a government vehicle because the annual government travel was less than the amount required.

### **Recommendation**

**10.37 Government vehicles should be assigned to employees in accordance with Management Board policy.**

### **North River Bridge Project**

**10.38** A number of unresolved issues concerning the North River Bridge existed at the completion of our 1995 audit of Highway Construction. These were of an engineering and technical nature and included: the quality of the concrete in the bridge deck; the quality of the pavement in the approaches; the length of time to complete the project; and contract completion by the consultant hired to test the asphalt. Management provided us with information on the action taken to address these problems.

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### **MANAGEMENT RESPONSE**

**10.39** Management advised that a number of the recommendations have already been implemented and work is continuing on the remainder.



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## 11. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

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### INTRODUCTION

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

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

**11.3** The auditor's responsibility is to provide an opinion on the financial statements based on an examination carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The auditor is independent of management and can objectively assess the accounting principles used, and the estimates and other decisions made by management as reflected in the financial statements. The result is an Auditor's Report which adds credibility to the assertions of management.

**11.4** A substantial part of the Office's resources are used to perform financial audits required by legislation. The objective of this type of audit is to express an opinion on the financial position and operating results of an entity. Therefore, the main output is often limited to a standard Auditor's Report on the financial statements.

**11.5** In addition to issuing an Auditor's Report on the financial statements, the auditor may observe problems in the quality of records and financial controls. Problems may also be noted in other areas. In these cases audit findings and recommendations are reported in a management letter addressed to the department or agency.

## 11. Introduction to Financial Statement Audits

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### FINANCIAL STATEMENT AUDITS

**11.6** Following is a list of financial statement audits performed during the year.

#### **Public Accounts**

Consolidated (Summary) Financial Statements  
Operating Fund

#### **Crown Agencies**

Health and Community Services Agency  
Liquor Control Commission  
Lotteries Commission  
Housing Corporation  
Grain Elevators Corporation  
Agricultural Insurance Corporation  
Charlottetown Veterinary Clinic  
Museum and Heritage Foundation  
Crown Building Corporation  
Aquaculture and Fisheries Research Initiative Inc.  
Agricultural Research Investment Fund Inc.

#### **Pension Funds**

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

#### **Trust Funds and Other Audits**

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

**11.7** In addition to a standard Auditor's Report, we issued a management letter for the majority of the financial audits listed above. In these letters we brought to management's attention any problems identified as a result of our audit work. We made recommendations on required improvements and the recommendations are at various stages of implementation.

**11.8** In the following sections we provide summary information on our audits of Public Accounts and Appropriations.

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## 12. PUBLIC ACCOUNTS AND RELATED AUDITS

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### BACKGROUND

**12.1** In accordance with the Financial Administration Act, the Comptroller prepares the Public Accounts of the Province and the Provincial Treasurer tables them in the Legislature.

**12.2** The Public Accounts contains two sets of financial statements; the Operating Fund and the Consolidated (Summary) Financial Statements. The Operating Fund financial statements provide the financial position and results of operations for government departments. The Consolidated (Summary) Financial Statements disclose the financial position of government as a whole by including the Operating Fund plus Crown corporations and agencies.

**12.3** The Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants makes recommendations to improve and harmonize public sector financial reporting, and auditing practices. Currently, the Consolidated (Summary) Financial Statements are in compliance with most of the recommendations of PSAAB.

### Financial Highlights

**12.4** Following is a comparison of revenue and expenditures for March 31, 1997 and March 31, 1996 from the **Consolidated (Summary) Financial Statements**.

	Year Ended March 31		Change
	(millions)		
	<u>1997</u>	<u>1996</u>	
Revenue	\$801.1	\$802.6	\$ (1.5)
Expenditures	818.9	803.4	15.5
Surplus (Deficit) before Adjustments	(17.8)	(.8)	(17.0)
Accounting Adjustments	<u>6.8</u>	<u>9.3</u>	<u>(2.5)</u>
Surplus (Deficit)	<u>\$(11.0)</u>	<u>\$ 8.5</u>	<u>\$(19.5)</u>

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### OBJECTIVES AND SCOPE

**12.5** In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 1997. Our audit was performed in accordance with generally accepted

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## 12. Public Accounts and Related Audits

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auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

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### DETAILED AUDIT OBSERVATIONS

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#### **Contractual Obligations**

**12.6** During 1996-97 the Province entered into a contract with Hillsborough Bridge Development Inc., (HBDI), a subsidiary of Strait Crossing Inc. (SCI) for the Hillsborough Bridge project. The project has been arranged so that HBDI will finance, construct, own and operate the bridge and the Province has entered into a five-year lease with HBDI for the use of the bridge. The total cost of the project is expected to exceed \$20 million. Subsequent to year end, it was decided that HBDI expenditures of \$4.9 million incurred to March 31, 1997 would be recorded by the Province as an expenditure and an account payable. The remaining cost of the project will be recorded over the next two fiscal years. We will conduct an audit of the project when it is completed.

#### **Public Sector Accounting and Auditing Board (PSAAB)**

**12.7** Several important changes have been made to the Province's financial reporting practices in recent years. We continue to work with the Comptroller's Office on outstanding financial presentation issues and will hold further discussions on new PSAAB accounting recommendations. A number of current topics are of interest.

#### Tangible Capital Assets

**12.8** The Public Sector Accounting and Auditing Board has just released a new section on Tangible Capital Assets which came into effect in September 1997. This section recommends that a new Statement of Tangible Capital Assets be prepared providing information on the Province's capital assets. Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs and include roads, buildings, vehicles, equipment, land, and bridges. Providing information about tangible capital assets held and the cost of using those assets to deliver programs will improve financial statement presentation. Such information is useful for assessing performance and for making resource allocation decisions. It would also provide managers with more complete information to manage the tangible capital assets for which they are responsible, to plan for asset

## 12. Public Accounts and Related Audits

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maintenance and replacement, and to monitor total program costs. Additional information will have to be obtained and recorded in the Public Accounts to implement this recommendation.

### Government Reporting Entity

**12.9** The Public Sector Accounting and Auditing Board recommends what to include in the government reporting entity and defines the parameters for determining how each government entity should be accounted for. Some smaller agencies are still not properly classified or are excluded from the government reporting entity entirely.

### Consolidated Budget Estimates

**12.10** In prior years we have commented on the need for Consolidated (Summary) Budget Estimates. The current Budget Estimates relate to the Operating Financial Statements making it difficult for comparison to the Consolidated (Summary) Financial Statements. Given the importance of the Consolidated (Summary) Financial Statements in providing a comprehensive picture of all government activities, users should be provided with a Consolidated (Summary) Budget so actual results can be compared to budget.

### Timely Financial Statements

**12.11** We continue to support the Department's intention to have the Public Accounts released on a more timely basis. Previously, in accordance with the Financial Administration Act, the audited Public Accounts were usually tabled in the Legislative Assembly approximately one year after the fiscal year end. Releasing the Public Accounts this long after the end of a reporting period greatly reduces the usefulness of the financial information. The 1997 amendment to the Financial Administration Act now allows for the Public Accounts to be formally released upon completion. Again this year, delays were encountered in completing the Public Accounts for audit. The Comptroller's Office agrees that earlier release is desirable and is working to achieve this.

## 12. Public Accounts and Related Audits

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### Recommendations

**12.12 The Comptroller's Office should work toward the preparation and disclosure of information on capital assets in accordance with the PSAAB recommendation.**

**12.13 The Department of Provincial Treasury should prepare consolidated budget estimates for approval by the Legislative Assembly.**

**12.14 The Public Accounts should be prepared and released on a more timely basis.**

### Financial Statement Presentation

**12.15** As a result of our audit we commented on several aspects of the financial statement presentation. Although the comments do not affect the bottom line, additional disclosure and clearer presentation would make the financial statements more informative to the reader. In our opinion further improvements to the overall presentation should be made. Following are some of the examples relating to the Consolidated (Summary) Financial Statements of the Province for the year ended March 31, 1997.

- The Statement of Net Debt contains a \$23.5 million figure for the net increase from consolidated operations yet there is no explanation of what the number represents and no breakdown of the total.
- Note 3(d) of the Operating Fund financial statements contains a list of larger provincial commitments at March 31, 1997. This note is not included under the Consolidated (Summary) Financial Statements even though the commitments are still applicable.
- Note 2(f) of the Operating Fund financial statements describes activities within the Sinking Fund and other significant changes. Again this information is not included in the notes to the Consolidated (Summary) Financial Statements.
- The financial statement notes on the various pension funds contain information on how the unfunded pension obligation was calculated at the time of the most recent actuarial studies in 1996. A more recent estimate was prepared at March 31, 1997 resulting in a \$29 million decrease from the previous net unfunded liability. However, the note to the Public Accounts was not updated to explain the changes causing the decrease.

## 12. Public Accounts and Related Audits

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**12.16** Other similar items necessary for consistent and accurate financial statement disclosure were brought to the attention of the Department of the Provincial Treasury.

### Recommendation

**12.17 Note disclosure in the Public Accounts should be complete, and consistent between the Operating Fund and the Consolidated (Summary) Financial Statements.**

### Sinking Fund/Funded Debt

**12.18** The largest single liability of the Province is its outstanding debentures which account for \$1 billion of the Province's \$1.7 billion total liabilities. This debt is funded by annual contributions to a Sinking Fund. These contributions, along with the investment income earned, will be used to repay long-term debt upon maturity. At March 31, 1997, Sinking Fund assets amounted to \$405 million. The Sinking Fund includes \$134 million in funds that have accumulated over and above the legal requirement needed for the principal redemption of individual debentures. This \$134 million amount is known as the Market Contingency Fund.

**12.19** The Market Contingency Fund balance increased significantly during the period 1985 to 1995 partly because it was not used for its original intended purpose of repaying underfunded issues upon maturity. In previous audits we suggested a strategy be prepared on how these funds would be used. Beginning in 1995 government took actions that will result in significant reductions in the Market Contingency Fund.

**12.20** The special transfers to the Civil Service and Teachers' pension funds, which will total \$193 million over a ten year period, will come from the Market Contingency Fund. Overall this transfer will have no effect on the Province's total net debt as it is applying existing assets against the unfunded pension liabilities. Also a debenture that was underfunded by \$11 million was retired in April 1996 and for the first time the shortfall was covered from the Market Contingency Fund.

**12.21** In addition, the Province discontinued making the discretionary Sinking Fund contributions on Canada Pension Plan loans in April 1996. The Sinking Fund for Canada Pension Plan loans has accumulated \$103 million in assets which, combined with future earnings, is

## 12. Public Accounts and Related Audits

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expected to be sufficient to retire the \$155 million outstanding at March 31, 1997.

**12.22** The Sinking Fund investments include large amounts of Province of PEI debentures. Essentially this means the Province has bought back its own debt issues and continues to record both an asset and liability of the same amount. In 1997-98, \$88 million of these holdings will be "defeased" or cancelled resulting in offsetting reductions to both assets and liabilities with no effect on the net debt. This will also reduce Sinking Fund earnings and interest charges on debt by about \$9.2 million.

**12.23** The Sinking Fund Investment Policy should be reviewed and updated. Following are some observations from our audit of the Fund:

- The Sinking Fund Investment Policy indicates 1/12 of the annual Sinking Fund provision is to be credited each month to the Sinking Fund. However since this policy has been prepared, a change has been made and installments are now made on the anniversary dates of the debentures. The Sinking Fund Investment Policy has not been updated to reflect this change.
- In 1996-97, approval was given to discontinue making Sinking Fund contributions to the Canada Pension Plan debentures. The Sinking Fund Investment Policy should be updated to reflect this approved change.
- The Investment Officer's limits for authorizing sales and purchases need to be clarified.
- The Sinking Fund Investment Policy indicates a passive trading approach will be followed. During 1996-97 there was a significant increase in trading activity from previous years, which does not reflect the passive approach indicated in the current policy.
- The Sinking Fund Investment Policy is not clear on requirements for preparing reports on investing and trading activities.

### **Recommendation**

**12.24 The Sinking Fund Investment Policy should be reviewed, updated, and approved by Treasury Board.**

### **Pension Funds**

**12.25** Public servants and teachers are entitled to receive pension benefits pursuant to provisions of the Civil Service Superannuation Act and the Teachers' Superannuation Act. The Civil Service



## 12. Public Accounts and Related Audits

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Superannuation Fund paid pensions to 1,180 pensioners and received contributions from approximately 2,460 public servants for the year ended March 31, 1997. The Teachers' Superannuation Fund paid pensions to 870 pensioners and received contributions from approximately 1,600 teachers employed in full-time, part-time and contract service positions for the year ended June 30, 1997.

**12.26** There are two separate and distinct pension plans for Members of the Legislative Assembly. The MLA Pension Fund (the Old Fund) was discontinued effective June 30, 1994 but benefits accrued to that date continue to be paid out of that plan. The MLAs holding office after June 30, 1994 are participants in the Pension Plan for Members of the Legislative Assembly of Prince Edward Island (the New Plan). Benefits payable under the New Plan are significantly less than those under the previous pension plan.

**12.27** As a result of our audits of the pension funds, we made observations and recommendations on a number of administrative issues. The administrators responded positively to our management letters and indicated action would be taken on the points raised.

**12.28** The following information summarizes the gross unfunded pension liabilities of the various pension plans for 1996 and 1997.

	<u>(millions)</u>	
	<u>1997</u>	<u>1996</u>
Civil Service Superannuation Fund	\$ 50.0	\$ 65.3
Teachers' Superannuation Fund	139.0	177.6
MLA Pension Fund (Old)	(3.2)	-
MLA Pension Fund (New)	-----	-----
Gross obligations per		
Public Accounts Statement 1	<u>\$185.8</u>	<u>\$242.9</u>

**12.29** Over a ten year period from 1995-96 to 2004-05, the Province is committed to making special payments to the Teachers' and Civil Service Superannuation Funds. The gross unfunded liabilities noted above do not reflect the present values of the remaining special payments.

### Master Trust Investments

**12.30** The PEI Master Trust contains the investments of the Teachers' Superannuation, Civil Service Superannuation and the two

## 12. Public Accounts and Related Audits

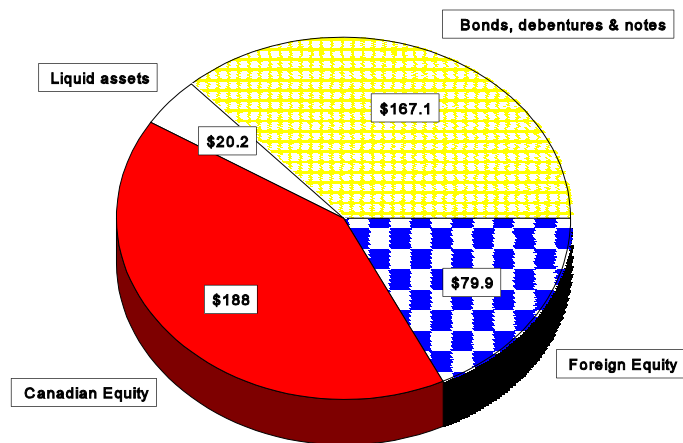
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pension funds for MLAs. The individual funds receive units in the Master Trust based on their net contributions and allocated share of income.

**12.31** Until June 1997 the investments were managed by four external investment managers. Since then, the services of one investment manager were discontinued due to unsatisfactory performance. An external custodian is responsible for the accounting and record keeping of the Master Trust while the Fiscal Management Division of the Department of the Provincial Treasury is responsible for overseeing the Master Trust.

**12.32** At March 31, 1997 the Master Trust assets had a market value of \$455.2 million. **Exhibit 12.1** shows a breakdown of these assets.

**EXHIBIT 12.1**  
**MASTER TRUST INVESTMENTS**  
**MARCH 31, 1998**  
**(Millions)**



**12.33** We noted that a \$150,000 withdrawal in December 1996 and deposits in February 1997 of \$40,000 and \$550,000 were allocated to all of the funds rather than to the individual funds to which they related.

## 12. Public Accounts and Related Audits

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**12.34** In August 1997 there was a change in the trusteeship of the Master Trust. We reviewed the trustee reports during the changeover period and noted the following errors:

- A \$1.3 million withdrawal by one fund was charged to the account of another fund. This had the effect of reducing the units held by the Civil Service Superannuation Fund although the monies were withdrawn by Teachers' Superannuation Fund. This error has been corrected and the valuation schedules were revised.
- An error in the calculation of the income to be allocated to the funds for the month of August resulted in an overallocation of more than \$3 million. A revised valuation schedule was issued after this error was reported to the trustee.
- A \$145,000 investment shown as transferred to the new trustee was not recorded as received on the report of the new trustee.
- A \$2.3 million investment in the Confederation Life Real Estate Fund which is owned by the Civil Service Superannuation Fund was not recorded in the new trustee's report.

**12.35** An invoice for investment counsel fees included GST of approximately \$5,800. Since GST on investment management fees is not payable by the Master Trust, these charges should not have been included on the invoice.

**12.36** We noted that the market value of one investment in the Master Trust was overstated by approximately \$495,000 at June 30, 1997. This happened because cash received on a redemption of investment units was recorded as income by the Master Trust.

**12.37** A portion of the brokerage fees may be refunded by the brokerage firms and are referred to as soft dollar payments. Currently these funds are used to pay evaluation and other expenses such as seminars attended by staff. The soft dollar receipts and the expenses paid are not included in the Master Trust records and are not reflected in the revenue and expenses on the participating pension fund financial statements.

**12.38** We raised a number of issues relating to the monitoring of participants' investment accounts. We recommended that appropriate corrections be made for errors in the changeover period; more careful monitoring of billings and investment activities be carried out; and all financial activity relating to the fund be recorded.

## 12. Public Accounts and Related Audits

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### Bank Reconciliations

**12.39** We conducted a separate audit of the Province's bank reconciliation procedures for the year ended March 31, 1997. A bank reconciliation is a control procedure put in place to ensure that all cash receipts and disbursements of the Province are recorded. We found that bank reconciliation procedures were not carried out properly and were not conducted on a timely basis.

**12.40** Unreconciled differences were not followed up on a timely basis. For example, a panic cheque of \$117,478 dated in April 1997 and a deposit of \$18,420 made in March 1997 were not recorded in the books of account as of December 1997. In the process of completing the March 31 reconciliation in December, the Comptroller's Office staff discovered a Department of Education expenditure of \$773,334 which had been posted twice in the books of account. This error went undetected for nine months.

#### **Recommendation**

**12.41 Monthly bank reconciliations should be completed properly and on a timely basis.**

### Payroll

**12.42** The Province's payroll system is used to process pay for employees in all government departments. During 1996-97 the average number of casual and salary employees on the payroll system was 2,400 and the total payroll was approximately \$73 million.

**12.43** In July 1993 the Province implemented a decentralized payroll system. The primary objective of decentralization was to move responsibility and accountability for payroll operations to government departments and agencies. Overall responsibility for the payroll system rests with the central payroll office in the Department of the Provincial Treasury. User departments are responsible for entering and verifying authorized payroll data and maintaining documentation of the pay and leave entitlements of employees. The Human Resources Section of the Department of the Provincial Treasury is responsible for checking all reclassifications and pay increases. In addition, they oversee the compilation of information on employee leave and maintain records of employee benefits.

**12.44** We conducted an audit of the Province's payroll system for the year ended March 31, 1997. Recommendations were made to improve

## 12. Public Accounts and Related Audits

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controls, including access to the payroll system, verification of payroll changes, and processing of employee leave.

### Charlottetown Veterinary Clinic

**12.45** In October 1987, the Crown Building Corporation purchased the shares of the Charlottetown Veterinary Clinic to provide a caseload for the Atlantic Veterinary College. The four Atlantic Provinces agreed to fund \$541,000 of the original cost of \$1,063,000 for the Veterinary Clinic as part of the four-party agreement for the operation of the college. PEI's share of the four-party agreement is 38 percent. In 1993, Crown Building Corporation wrote off the remaining balance of \$522,000 which it previously disclosed as an investment. The Clinic's \$1.6 million cumulative operating losses from October 1987 to March 31, 1996 have been covered by appropriations from the Province. Management estimates that the losses since March 31, 1996, including the costs relating to the sale of the Clinic, will total approximately \$520,000.

**12.46** In July 1997, the business was acquired by four former employees through the purchase of the accounts receivable, inventory, and equipment. The assets were sold at net book value. The effective date of the sale was May 30, 1997. Subsequent to May 30, 1997, outstanding financial and legal matters were resolved, including settlement of employment contracts due to expire in October 1997 and severance packages for employees not retained by the new owners. The Veterinary Clinic is in the process of finalizing their records. When this process is complete, we will conduct our audit.

### Surplus (Deficit) of Crown Agencies and Corporations

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

	ANNUAL SURPLUS (DEFICIT) FOR THE YEAR
<b>CROWN CORPORATIONS</b>	
Workers Compensation Board	\$4,445,045
PEI Self Insurance Fund	435,239
PEI Aquaculture & Fisheries Research Initiative Inc.	106,142
PEI Agricultural Research Investment Fund Inc.	153,844

## 12. Public Accounts and Related Audits

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PEI Agricultural Insurance Corporation	785,612
Island Investment Development Inc.	87,066
PEI Grain Elevator Corporation	2,581
PEI Energy Corporation	4,149
Enterprise PEI	(73,501)
Human Resource Management Services Inc.	(1,109)

**12.48** At the date of this report an Order-in-Council had not been issued, as required by the Financial Administration Act, for the Charlottetown Area Development Corporation and the PEI Museum and Heritage Foundation to retain their 1996-97 surpluses of \$597,557 and \$12,033 respectively. As well an Order-in-Council had not been issued for the Summerside Regional Development Corporation to recoup its 1996-97 deficit of \$183,986.

### **Cancellation or Discharge of Debt**

**12.49** Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, debts or monies due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. The amount cancelled or discharged under this section during 1996-97 was \$1,290,282.

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### **MANAGEMENT RESPONSE**

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

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## 13. APPROPRIATIONS

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### INTRODUCTION

**13.1** Our audit of Appropriations for the year ended March 31, 1997 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature, and special warrants approved by Executive Council on the recommendation of Management Board.

**13.2** The Appropriations Act provides the spending authority for government and is approved by the Legislative Assembly annually. Appropriations for 1996-97 were approved in the Appropriation Act 1996. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor-in-Council.

**13.3** In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the 1996 Appropriation Act.

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### APPROPRIATION TRANSFERS ON REORGANIZATION

**13.4** In past years, when government departments were reorganized, special warrants for the expenditures of the new departments would be issued. In 1996, an amendment to the Financial Administration Act was passed to allow the Lieutenant Governor-in-Council to approve the transfer of monies between the new departments.

**13.5** On November 27, 1996 an Order-in-Council approved changes to government departments including the amalgamation of two departments, change of department names, as well as the transfer of functions between departments. However, approval was not obtained by Order-in-Council for the transfer of funds to the departments resulting from the reorganization. In our opinion it is the intent under Section 37 of the Financial Administration Act that this be done. Funds were spent in each of these new departments without the transfer of appropriations provided for under Section 37.

### SPECIAL WARRANTS

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

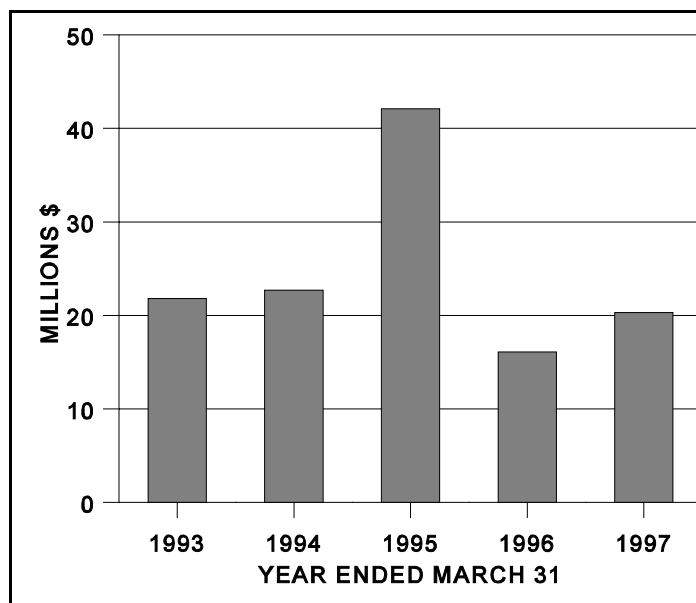
### 13. Appropriations

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**13.7** For the 1996-97 fiscal year, special warrants totalled \$21.6 million compared to \$19.8 million in 1995-96. Of the special warrants issued for 1996-97, \$.5 million was offset by revenue and \$.8 million was offset by sequestered funds. The result was a net increase in provincial appropriations of \$20.3 million.

**13.8 Exhibit 13.1** indicates the special warrants net of any offsets for the last five years.

**EXHIBIT 13.1  
SPECIAL WARRANTS LESS OFFSETS**





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## 14. UPDATE ON PREVIOUS RECOMMENDATIONS

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### INTRODUCTION

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

**14.2** Each year we request information from departments and agencies on the status of any outstanding audit recommendations. It has been our practice to obtain this follow-up information until we are satisfied that the issues are being addressed. Normally the information is limited to correspondence from the Deputy Minister or CEO of the organization and we do not always do further verification or checking of the information received. In most cases it is more cost-effective to do detailed verification during the next scheduled audit.

**14.3** Following is information on the outstanding recommendations from a number of special audits and examinations and the current status of implementation.

### PEI LOTTERIES COMMISSION

### BACKGROUND

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

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

**14.6** This year, we requested the Department of the Provincial Treasury to provide us with a report on its progress in implementing our recommendations. The Department's response and our comments follow.

## 14. Update on Previous Recommendations

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### CURRENT STATUS OF RECOMMENDATIONS

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#### Allocation of Atlantic Lottery Corporation Profit

*Last year we had noted:*

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

*We had recommended:*

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

*Current Status:*

**14.9** The Department indicated that the requested information has been included in the ALC financial statements and the 1997 ALC Annual Report. The PEI Lotteries Commission also intends to include this information in their Annual Report.

#### Video Lottery Program

*Last year we had noted:*

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

*We had recommended:*

**14.11** The PEI Lotteries Commission should prepare a complete cost analysis of alternate methods of operating the Video Lottery Program.

## 14. Update on Previous Recommendations

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### *Current Status:*

**14.12** The Department is concerned that the potential savings identified in our report did not take into account the upfront cost of buying the VLT machines. However, there would be no upfront cost to the Province if the Atlantic Lottery Corporation operated the VLTs. The Atlantic Lottery Corporation would purchase the machines and there would be an annual depreciation charge deducted from PEI's share of the VLT revenue. We included this charge in determining the potential savings to the Province in our report last year.

**14.13** Another concern expressed by the Department was that the coin operators would have to be compensated with a reasonable market value for the coin operator's business. The Province does not have a formal contact with the coin operators and provision for such compensation was not part of the initial arrangement with the coin operators. However, reasonable notice of termination of the arrangement would be expected.

**14.14** The PEI Lotteries Commission has not prepared a complete analysis of alternate methods of operating the Video Lottery Program. The Commission does agree that a cost analysis of alternative methods of operating the Video Lottery Program would be useful and is one aspect in the consideration of possible changes. The Commission has decided to monitor and learn from the work being carried out by New Brunswick. In the meantime, the coin operators' commission has been reduced from 25 percent to 20 percent effective May 1, 1997.

**14.15** The potential savings to the Province are significant and the Commission should strive to have this cost analysis completed as early as possible.

## CAPITAL PROJECTS

### BACKGROUND

**14.16** The Department of Transportation and Public Works is responsible for the construction of capital projects for the Province. The Buildings and Properties Division of the Department performs the project management function with the assistance of consultants.

**14.17** In our 1997 Annual Report we reported the results of our audit. We assessed whether the Capital Projects Management Policy was followed, contracts were properly awarded, contract terms were

## 14. Update on Previous Recommendations

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adhered to, payments were made in accordance with contracts, and systems used to control projects functioned effectively. The audit focused on projects constructed during the previous two fiscal years and included: Wood Islands Relocation; East Prince Waste Management Facility Construction; St. Eleanor's Landfill Closure; and PEINET Connections.

**14.18** This year we requested the Department to provide a report on its progress in implementing our recommendations. The Department's response is noted in the following paragraphs.

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### CURRENT STATUS OF RECOMMENDATIONS

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#### Wood Islands Relocation Project

*In the original audit report we had noted:*

**14.19** Properties were purchased and charged to the Wood Islands Relocation Project that were not utilized as part of the project. Management Board approval was not obtained for these transactions. The cost of extra land purchased was \$420,000.

*We had recommended:*

**14.20** In accordance with the Capital Projects Management Policy, Management Board approval should be obtained prior to purchasing land and charging expenses on capital projects.

*Current Status:*

**14.21** The Department indicated that land acquisition for capital projects will be submitted to Management Board for approval.

*In the original audit report we had noted:*

**14.22** The price paid for a number of the properties charged to the Wood Islands Relocation Project was in excess of fair market value.

*We had recommended:*

**14.23** Land for government projects should be obtained at fair market value.

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## 14. Update on Previous Recommendations

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*Current Status:*

**14.24** The Department will make every attempt to purchase land at the best possible price and hopefully at or below fair market value in future negotiations.

*In the original audit report we had noted:*

**14.25** A number of properties were purchased for a highway construction project and charged to the relocation project.

*We had recommended:*

**14.26** Land purchases should be charged to and recorded in the proper accounts.

*Current Status:*

**14.27** The Department will ensure that land purchased is recorded in the proper account.

*In the original audit report we had noted:*

**14.28** A property was purchased without adequate documentation to support the purchase price and no reason was provided for the purchase.

*We had recommended:*

**14.29** The reason for acquiring land or incurring expenditures on capital projects should be documented in Department files.

*Current Status:*

**14.30** The Department indicated that it is endeavouring to document more carefully the reasons for land purchases and will allocate costs to the appropriate project.

## 14. Update on Previous Recommendations

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*In the original audit report we had noted:*

**14.31** The consultant for the Wood Islands Relocation Project was hired by the Department without a competitive process.

*We had recommended:*

**14.32** All consultant contracts should be competitively obtained.

*Current Status:*

**14.33** For clearly defined projects, the Department is using a request for proposals approach to obtain consultants on a competitive basis.

### East Prince Waste Management Facility

*In the original audit report we had noted:*

**14.34** Tenders were called for the East Prince Waste Management Facility before detailed cost estimates were prepared.

*We had recommended:*

**14.35** Cost estimates should be complete and based on a detailed design before obtaining Management Board approval to call tenders.

*Current Status:*

**14.36** The Department advised that submissions to Management Board will include an estimate based on a design available at the time of the submission.

*In the original audit report we had noted:*

**14.37** The Department negotiated a \$1.2 million reduction in the East Prince Waste Management Facility with a contractor without re-tendering the project.

*We had recommended:*

**14.38** Projects should be re-tendered if substantial changes are required to the approved project.

## 14. Update on Previous Recommendations

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*Current Status:*

**14.39** The Department will consider retendering projects that require substantial changes if circumstances warrant.

*In the original audit report we had noted:*

**14.40** All of the requirements of the consultant contract for a project were not fulfilled.

*We had recommended:*

**14.41** All provisions of consultant contracts should be fulfilled.

*Current Status:*

**14.42** The Department will ensure that requirements of future consultant contracts are followed.

### PROVINCIAL GOVERNMENT LAND

#### BACKGROUND

**14.43** The Province's public sector collectively owns real property assessed at approximately \$450 million including buildings and 122,000 acres of land. In addition to government departments, this includes real property of Crown corporations and agencies, hospitals, and educational facilities. Each organization has specific legislation giving it authority to own real property. The Public Works Act gives the Minister of Transportation and Public Works exclusive rights to acquire and dispose of real property for all government departments.

**14.44** In our 1997 Annual Report to the Legislative Assembly we reported the results of our audit on the management of Provincial government land. The purpose of our audit was to assess the management practices in place for identifying, acquiring, transferring, disposing and leasing of real property for government departments. In addition we determined the real property holdings of all public sector entities.

**14.45** This year we requested the Department to provide us with an update on its progress in implementing recommendations arising from

## 14. Update on Previous Recommendations

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the audit. The Department's response, indicating the status of implementation of our recommendations, is noted in the following paragraphs.

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### CURRENT STATUS OF RECOMMENDATIONS

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#### Land Inventory

*In the original audit report we had noted:*

**14.46** The Land Inventory Management System was developed in 1995, however, the system was not providing the necessary information to develop management plans and keep track of the acquisition, utilization and disposal of land.

*We had recommended:*

**14.47** The Properties and Surveys Section should establish and meet a reasonable target date for the full implementation of the Land Inventory Management System.

*Current Status:*

**14.48** The system was reviewed and changes to the system were expected to be completed by the end of 1997.

*In the original audit report we had noted:*

**14.49** The procedures for recording acquisitions and disposals of real property were not fully implemented.

*We had recommended:*

**14.50** The procedures for recording and reconciling acquisitions, disposals, and transfers of real property contained in the Land Inventory Management System should be implemented.

*Current Status:*

**14.51** The Department reported that procedures for recording and reconciling acquisitions, disposals, transfers, and leases of real property contained in the Land Inventory Management System are now in place.



## 14. Update on Previous Recommendations

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### Management Information

*In the original audit report we had noted:*

**14.52** Provincial government lands have been assigned to various departments, however, the departments have not formally accepted management responsibility for them. Formal acceptance would require them to develop a management plan for each property.

*We had recommended:*

**14.53** Management responsibility for Provincial government land should be finalized with the relevant departments, and management plans should be prepared.

*Current Status:*

**14.54** The Properties and Surveys Section has developed a Managing Department Agreement which is designed to provide the designated managing department with a clear definition of their roles and responsibilities as it relates to their long-term management of the Provincial government lands assigned to them. The Department expects the Agreement to be in effect in 1998.

*In the original audit report we had noted:*

**14.55** The reporting capabilities of the inventory system were not adequate to highlight the status and utilization of properties.

*We had recommended:*

**14.56** The reporting capabilities of the Land Inventory Management System should be implemented. The status of surplus properties should be reported showing the quantity of surplus land, the type of property, and its current use.

*Current Status:*

**14.57** The Section recognizes the need to enhance the reporting capabilities of the Land Inventory Management System and staff are in the process of redeveloping the reporting system.

## 14. Update on Previous Recommendations

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### Acquisitions and Disposals

*In the original audit report we had noted:*

**14.58** There were a number of properties acquired and disposed of without an adequate determination of fair market value which is required under the Comprehensive Provincial Land Policy.

*We had recommended:*

**14.59** Acquisitions and disposals of Provincial government land should be made at fair market value and an adequate assessment of fair market value should be documented in the property files.

*Current Status:*

**14.60** The Department advised fair market valuations are being completed for all acquisitions, disposals, or land exchanges. Copies of the reports are retained in the Department property files.

*In the original audit report we had noted:*

**14.61** A land transaction involving the sale of land as part of a land exchange was not recorded in the Province's accounts as required by the Financial Administration Act.

*We had recommended:*

**14.62** Sales of Crown lands should be recorded in accordance with the Financial Administration Act.

*Current Status:*

**14.63** The Department advised that all revenue and expenditures are now recorded for each transaction.

### Acquisition of Leased Land

*In the original audit report we had noted:*

**14.64** We found a number of problems with the administration of leases. Procedures were lacking for; determining the total revenue that should be received, billing lessees, determining if land is being utilized, following up on non-payment of accounts, and ensuring lease rates are set at fair market value.

## 14. Update on Previous Recommendations

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*We had recommended:*

**14.65** Procedures should be established to ensure all lease revenues are recorded, bills are sent on a timely basis, and past due accounts are followed up with collection activity.

*Current Status:*

**14.66** Executive Council approval was obtained to implement a new Provincial government land leasing policy.

### Lease Rate Policy

*In the original audit report we had noted:*

**14.67** The current lease rates were well below market rates and were not based on an analysis of current rates.

*We had recommended:*

**14.68** The Department should determine an appropriate method for setting lease rates which is based on fair market value.

*Current Status:*

**14.69** Executive Council approval was obtained to implement a new Provincial government land leasing policy.

### Land Court Case

*In the original audit report we had noted:*

**14.70** A former employee was convicted of fraud for falsifying documents and pretending to sell several parcels of land for over \$70,000. The Department settled with the victims and recovered \$20,000 from the former employee. At the time of our audit no attempt was made to recover the balance of the loss.

*We had recommended:*

**14.71** The Department should seek legal advice on the options available to recover the balance of the loss resulting from this case of employee fraud.

*Current Status:*

**14.72** No response was received on this recommendation.

## 14. Update on Previous Recommendations

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### DEVELOPMENT INCENTIVES AND LENDING ACTIVITIES

#### BACKGROUND

**14.73** The Ministry of Economic Development and Tourism promotes economic development, wealth and employment creation on PEI through the provision of high quality information, advice, infrastructure, services to business and government, and support. During 1995-96 the Ministry issued \$32.5 million in grants and had outstanding loans and leases amounting to \$137 million at March 31, 1996.

**14.74** In our 1997 Annual Report we reported the results of our audit of Development Incentives and Lending Activities. Our examination focused on grants, loans and guarantees. We assessed whether appropriate approvals were obtained and if the controls in place functioned effectively.

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

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#### CURRENT STATUS OF RECOMMENDATIONS

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##### Governance Issues

*In the original audit report we had noted:*

**14.76** Unlike similar Crown corporations in the public sector, Enterprise PEI, the primary organization for delivery of economic development initiatives, operates without an advisory council or a board of directors.

*We had recommended:*

**14.77** The governance structure for Enterprise PEI be revised and brought in line with similar Crown corporations in the public sector.

## 14. Update on Previous Recommendations

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### *Current Status*

**14.78** A review of Enterprise PEI structure is underway with respect to introducing an advisory/consultative process with private sector business leaders. It is contemplated this issue will be addressed in a manner which captures the spirit of the recommendation.

### **Management Direction**

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

**14.79** There were plans in place to set direction for economic development which were congruent with the Economic Development Strategy for PEI. We found that performance targets were not established in the plans although the main direction was evident. Performance targets are important to ensure an organization is moving in the required direction and a comparison with actual activities should enable an appropriate assessment of the performance level.

#### *We had recommended:*

**14.80** Performance targets for key areas of the organization should be established and actual achievements monitored and reported.

### *Current Status*

**14.81** Action is being contemplated on this issue.

### **Development Assistance**

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

**14.82** Development assistance was increased for two major projects and the projects were not reassessed and approved based on changed circumstances. The increased assistance was \$800,000 for one project and \$1 million for the other.

#### *We had recommended:*

**14.83** Projects initially approved by Cabinet which are substantially changed should be submitted for additional approval.

### *Current Status*

**14.84** Any projects approved initially by Cabinet will be returned to Cabinet for approval of any substantive changes.

## 14. Update on Previous Recommendations

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*In the original audit report we had noted:*

**14.85** A project received a grant of \$500,000 to offset the costs of waste treatment. There were no criteria in place to determine when waste treatment costs will be paid by Enterprise PEI.

*We had recommended:*

**14.86** Eligibility criteria should be developed for expenditures on waste treatment facilities.

*Current Status*

**14.87** The Department considers these projects are unique and can be best dealt with on an individual basis. Emphasis will be on maintaining consistency with successful past practice.

*In the original audit report we had noted:*

**14.88** The payment of grant monies for a large project constructed as part of the Eastern Kings Redevelopment Initiative was not handled in the normal fashion. In this case the grant was disbursed “in trust” to the client’s accountant. Grant recipients usually submit vouchers and expenditure statements to staff monitoring the project, prior to the disbursement of grant monies.

*We had recommended:*

**14.89** Development officers should be responsible for monitoring and authorizing reimbursement of expenditures for development projects.

*Current Status*

**14.90** Normally development officers will monitor and authorize project reimbursements, however, there will be transactions from time to time where disbursement may be made “in trust” to legal counsel.

*In the original audit report we had noted:*

**14.91** A preferred share investment of \$280,000 was not approved by the Minister as required under the signing authority policy.

*We had recommended:*

## 14. Update on Previous Recommendations

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**14.92** Preferred share investments should be approved in accordance with signing authority policies.

*Current Status*

**14.93** Preferred share investments will be approved in accordance with the signing authority policy.

### Loan Approvals

*In the original audit report we had noted:*

**14.94** Procedures followed in assessing applications, credit risk, and loan approvals were not documented as operating policies of the Lending Division.

*We had recommended:*

**14.95** The Lending Division should establish documented policies related to application and approval processes, assessment of credit risk, and loan conditions.

*Current Status*

**14.96** The Department is considering general overall policies.

*In the original audit report we had noted:*

**14.97** There were a number of instances where the interest rate charged was not in accordance with the approved policy. In those cases exceptions were made as a result of negotiations with the clients to obtain projects of economic benefit to Prince Edward Island.

*We had recommended:*

**14.98** Where interest rates are varied for development purposes, the financial impact should be included in the project analysis.

*Current Status*

**14.99** The Department accepted this recommendation.

### Loan Collections and Write-Offs

*In the original audit report we had noted:*

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## 14. Update on Previous Recommendations

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**14.100** The standard practice of obtaining formal Executive Council approval for accounts written off by Enterprise PEI was not followed for one write-off of \$5 million.

*We had recommended:*

**14.101** Executive Council approval should be required for the write-off of debts to Enterprise PEI.

*Current Status*

**14.102** This recommendation was accepted subject to agreement by government.

### Monitoring and Reporting

*In the original audit report we had noted:*

**14.103** A client data base is not currently available to accumulate information on the amounts and sources of development assistance provided over time.

*We had recommended:*

**14.104** Enterprise PEI should develop a client data base which would accumulate the marketing, development and lending assistance for each client. This system would provide crucial information as input for project evaluation, performance measurement, and effective monitoring of the client portfolio.

*Current Status*

**14.105** This will be a priority for 1997-98.

*In the original audit report we had noted:*

**14.106** There was a recently designed reporting package with the capability of providing monthly financial information for Enterprise PEI, however, monthly reports were not prepared on a timely basis.



## 14. Update on Previous Recommendations

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*We had recommended:*

**14.107** There should be up-to-date financial reporting of budget and actual expenditures by division. Year-to-date project expenditures should be produced on a regular basis.

*Current Status*

**14.108** The Department indicated this has been done since October 1996.

*In the original audit report we had noted:*

**14.109** Actual job creation as a result of economic development assistance was not consistently determined and reported for each project.

*We had recommended:*

**14.110** Actual job creation should be determined and compared to projected job creation. The results should be reported to senior management.

*Current Status*

**14.111** The Department indicated that this will be implemented subject to available resources.

### EMPLOYMENT DEVELOPMENT AGENCY

#### BACKGROUND

**14.112** The mandate of the Employment Development Agency (EDA) is to address the problems of individuals who are hindered from gaining permanent employment by providing access to training and identifying and developing meaningful work projects. The Agency provides a wage subsidy for special work projects carried out by project sponsors. In addition, the Agency administers the Jobs for Youth Program, a wage subsidy program for youth.

**14.113** In our 1997 Annual Report we reported the results of our audit of EDA. The audit examined activities taking place in the 1995-96 fiscal year. We conducted this audit to determine how EDA functions

## 14. Update on Previous Recommendations

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in comparison to its legislated mandate, and to assess the management and administrative practices in place.

**14.114** This year we requested the Department of Economic Development and Tourism to provide us with an update on its progress in implementing the recommendations arising from the audit. The Department's response is summarized in the paragraphs that follow.

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### CURRENT STATUS OF RECOMMENDATIONS

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#### Legislative Mandate

*In the original audit report we had noted:*

**14.115** The Agency's mandate had not been sufficiently analysed and developed into a strategic and operational plan for the Agency. Programs that were in place were not clearly linked to the objects outlined in the Employment Development Agency Act.

*We had recommended:*

**14.116** The Agency's legislative mandate should be translated into a strategic plan and an operational plan, which clearly outlines the programs and activities of the Agency necessary to implement its legislative mandate.

*Current Status:*

**14.117** The Department reports that EDA will be preparing a strategic and operational plan for management's review.

#### Organization and Governance

*In the original audit report we had noted:*

**14.118** The organizational structure of the Agency was not in accordance with the legislation, and the lines of accountability were not clear. The legislation calls for a Board of Directors with an Executive Director responsible for day to day administration. We found that a Board had not been appointed and the appointed Executive Director was not actively involved in the operations of the Agency.

## 14. Update on Previous Recommendations

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*We had recommended:*

**14.119** The governance structure for the Agency should be changed to comply with the Employment Development Agency Act.

*Current Status:*

**14.120** The Department reports that a review of the structure of the Agency is underway and appropriate changes will be made.

### Resource Allocation

*In the original audit report we had noted:*

**14.121** The financial resources of the Agency were not distributed throughout the Province based on an objective evaluation of requirements such as differences in demographics, employment rates, or the availability of worthwhile projects.

*We had recommended:*

**14.122** The allocation of financial resources of the Agency should be based on an objective assessment of all factors necessary to meet the requirements of the Employment Development Agency Act.

*Current Status:*

**14.123** The Department reports that EDA will be undertaking, in conjunction with Human Resources Development Canada, a comprehensive review of the Province's unemployment demographics. These results and other factors will be utilized in allocation decisions.

### Special Project Approval and Evaluation

*In the original audit report we had noted:*

**14.124** The evaluation process for project proposals was weak and the focus tended to be on finding enough work weeks rather than the quality of the projects. Some of the projects were approved based on very limited information in the proposals. We also noted there was no attempt to monitor or evaluate project achievements.

*We had recommended:*

**14.125** The Agency should prepare specific criteria for approving projects and funding levels. As a minimum the criteria should consider

## 14. Update on Previous Recommendations

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clarity of project description, dependence on other funding sources, previous funding to the sponsor, an assessment of the labour required and input from other departments where appropriate. Additions to approved funding should be supported by the same assessment as the initial application. Projects should also be required to submit an accounting of the results achieved.

### *Current Status*

**14.126** The Department expects many of these issues to be addressed as a result of the strategic and operational planning exercise that they will be conducting.

### **Compliance Issues**

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

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

#### *We had recommended:*

**14.128** The Agency should ensure compliance with all established policies and program guidelines. The Agency should coordinate efforts with other provincial government departments who are involved in common projects to eliminate duplication of effort in project monitoring.

**14.129** Basic audit procedures should be performed to ensure project sponsors use funds received from the Agency in accordance with the project contract.

### *Current Status:*

**14.130** The Department indicates that basic audit procedures will be performed in the future. The Agency will continue to monitor all projects that are funded.

### **Management Information System**

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

**14.131** The management information systems in place had a number of limitations. Plans were underway to introduce a new computer system, however, the Agency was unable to provide us with the needs

## 14. Update on Previous Recommendations

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assessment material for the system. We had concerns system development would proceed without an adequate assessment.

*We had recommended:*

**14.132** The Agency should ensure that a full needs assessment is performed in support of their management information system requirements.

*Current Status:*

**14.133** The Department is satisfied that sufficient dialogue had occurred with the system developer regarding their needs for the system.

### HIGHWAY CONSTRUCTION

#### BACKGROUND

**14.134** Highway construction is the responsibility of the Department of Transportation and Public Works. The Highway Operations Division carries out highway construction under contracts with local construction companies. The Division provides project design, project management, and quality control through laboratory testing.

**14.135** In our 1996 Annual Report to the Legislative Assembly we reported the results of our audit. The audit included a detailed review of the process used to plan and administer highway construction projects. We reviewed a sample of highway construction projects to ensure the Department's policies were followed, contracts were properly awarded, contract specifications were enforced, and the systems used to control projects functioned properly.

**14.136** This year we requested the Department to provide us with an update on their progress in implementing recommendations arising from the audit. The Department's response, indicating the status of implementation of our recommendations, is noted in the following paragraphs.

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#### CURRENT STATUS OF RECOMMENDATIONS

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##### Strategic Planning

*In the original audit report we had noted:*

## 14. Update on Previous Recommendations

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**14.137** The Department had identified a number of strategies to ensure the highway network was maintained. These included focusing efforts on the primary highways while maintaining the secondary system in a passable condition, developing a transportation plan, establishing measurable targets for highway system performance, implementing more efficient maintenance approaches and improving personnel qualifications. The strategies were not integrated and documented in a formal plan.

*We had recommended:*

**14.138** The Department's intended initiatives and the strategies for attaining them should be integrated and documented in a strategic plan.

*Current Status:*

**14.139** The Department advised that it has not made any significant progress on the development of a comprehensive strategic plan.

### Highway Systems Planning

*In the original audit report we had noted:*

**14.140** The Road Program Committee was successful in presenting a plan for the highway construction program, however, it was not completed sufficiently in advance of the construction season to maximize the effectiveness of the construction effort.

*We had recommended:*

**14.141** The Road Program Committee should identify, schedule, and obtain approval for construction projects sufficiently in advance of the construction season so that tenders can be issued earlier.

*Current Status:*

**14.142** The Department was successful in having its first tender call for 16 projects prior to the end of March 1997, compared to 12 in the previous year.

## 14. Update on Previous Recommendations

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*In the original audit report we had noted:*

**14.143** Construction priorities were developed on a district basis in consultation with MLAs. This method did not necessarily provide the best allocation of resources on a provincial basis.

*We had recommended:*

**14.144** The Department should establish priorities on a provincial basis.

*Current Status:*

**14.145** The Department continues to rely on the Pavement Management System to identify highway reconstruction projects on a provincial basis. The output of the Pavement Management System, combined with the social and economic needs of the various regions of the Province, continue to be the major factors that are considered in the development of the highway construction program.

### Pavement Management System

*In the original audit report we had noted:*

**14.146** The information provided by the Pavement Management System was not as useful for planning purposes as it could be. The project size used in the Pavement Management System to define road sections was different from the typical project actually constructed.

*We had recommended:*

**14.147** Appropriate project sizes should be determined and used in both the Pavement Management System and the actual selection process.

*Current Status:*

**14.148** The Department has concluded that it is not feasible to introduce significant changes to the Pavement Management System. Staff input will be used for those sections of highway where it is felt the Pavement Management System data does not accurately reflect the condition of a smaller portion of that section.

## 14. Update on Previous Recommendations

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### Quality Control

*In the original audit report we had noted:*

**14.149** There were a number of problems with the specifications for highway construction projects not being met. The effect of failing to meet the contract specifications is the premature deterioration of the highway.

*We had recommended:*

**14.150** The Department should take the necessary steps to ensure road construction specifications are met.

*Current Status:*

**14.151** The Department advised that staff continue to monitor and enforce contract specifications which are in effect on any given project. The Department continues to use incentives and disincentives to encourage greater compliance with specifications.

*In the original audit report we had noted:*

**14.152** Our analysis of the compaction data indicated that only 45 percent of the lots tested met the specifications. A system of bonuses and penalties was introduced, however it was not applied to all projects.

*We had recommended:*

**14.153** All highway construction contracts should contain penalties for not meeting asphalt compaction specifications.

*Current Status:*

**14.154** The Department indicated that under normal circumstances asphalt compaction specifications should be applied to all reconstruction projects.

### Consultant Services

*In the original audit report we had noted:*

**14.155** Consultants are acquired for both engineering design and management of complex highway construction projects. The decision



## 14. Update on Previous Recommendations

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to use consultants rather than acquiring expertise within the Department was not supported by a cost/benefit analysis.

*We had recommended:*

**14.156** The decision to acquire services from consultants rather than through the Department should be supported by objective analysis.

*Current Status:*

**14.157** The Department indicated that through better planning the reliance on outside consultants can be minimized.

### Contract Awarding

*In the original audit report we had noted:*

**14.158** The process used to negotiate fees did not necessarily result in the most economic contract. The Department usually obtained competitive proposals for the design aspect of the work but not the services required during construction.

*We had recommended:*

**14.159** The request for proposals should include all services the Department intends to purchase from the consultant for the construction project.

*Current Status:*

**14.160** The Department agrees that when it is clear that project implementation will follow detailed project design, and existing staff are unable to provide management services, it is logical to combine project design and management functions under a single tender call.

*In the original audit report we had noted:*

**14.161** Authorization of consultant contracts was not always obtained in accordance with the Management Board signing authority policy.

*We had recommended:*

## 14. Update on Previous Recommendations

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**14.162** Contracts for consultant services that exceed \$100,000 should be authorized by Management Board in accordance with the established signing authority policy.

## 14. Update on Previous Recommendations

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*Current Status:*

**14.163** The Department will be bringing consultant service contracts which exceed \$100,000 to Management Board for approval.

### Contract Monitoring

*In the original audit report we had noted:*

**14.164** There were a number of instances in the site administration contracts where the Department did not adequately monitor the fees paid against the original bids. Fees were paid in excess of the amount quoted and billing rates on one project were increased without adequate explanation.

*We had recommended:*

**14.165** Payments to consultants should be monitored to ensure they are in accordance with fees agreed to in the contract.

*Current Status:*

**14.166** Staff are monitoring contracts to ensure that fees paid to consultants conform to the agreed upon fees set out in the contract.

*In the original audit report we had noted:*

**14.167** When site administration was provided by consultants, the responsibility of department staff to reconcile material quantities used to the construction management system was not always clear.

*We had recommended:*

**14.168** Where consultants are contracted to provide site administration, the responsibility to reconcile material quantities should be specified in the contract.

*Current Status:*

**14.169** Consultant contracts have been amended to ensure that this requirement is more clearly specified.

## 14. Update on Previous Recommendations

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### Contract Evaluation

*In the original audit report we had noted:*

**14.170** The Department does not formally evaluate the performance of the consultants for each project.

*We had recommended:*

**14.171** The performance of consultants should be formally evaluated at the conclusion of each project.

*Current Status:*

**14.172** The Department plans to develop a formal evaluation procedure over the upcoming months.

### Contract Management

*In the original audit report we had noted:*

**14.173** Actual hours for flagging and survey services exceeded estimates on some projects and contractors were paid without adequate documentation of the additional amounts.

*We had recommended:*

**14.174** The Department should obtain documentation to support all expenditures for flagging and survey services.

*Current Status:*

**14.175** Staff are providing more comprehensive documentation to support all job expenditures including flagging and survey services.

*In the original audit report we had noted:*

**14.176** There was no policy governing the utilization of survey services. There were different methods in practice. These included survey crews hired and paid by the contractor, hired by the consultant and paid by the contractor, or supplied by the Department.

*We had recommended:*

**14.177** A policy should be established on the use of survey services.

## 14. Update on Previous Recommendations

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*Current Status:*

**14.178** The policy of the Department is to utilize Department surveyors whenever possible. On jobs where the continuous presence of surveyors is required or desirable, independent surveyors are hired by the contractors or consultants.

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## 15. PUBLIC ACCOUNTS COMMITTEE

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**15.1** The Standing Committee on Public Accounts consists of ten members and is chaired by a member of the Official Opposition. The Committee meets with the Auditor General and is briefed on the major issues raised in his Annual Report to the Legislative Assembly. The Committee can also request officials from selected departments and agencies to appear before the Committee.

**15.2** The Committee reviews and reports to the Legislature its observations, opinions and recommendations on selected matters arising from the Annual Report of the Auditor General. In its December 1997 report to the Legislative Assembly, the Committee included a resolution to have the Auditor General conduct a value-for-money audit on the University of Prince Edward Island and Holland College. The resolution states:

*In considering the issue of fiscal accountability, the Committee unanimously passed the following Resolution as moved by Jamie Ballem, MLA, seconded by Ronald MacKinley, MLA;*

***WHEREAS** there are competing demands on government's financial resources and;*

***WHEREAS** Islanders expect and demand accountability for their tax dollars and;*

***WHEREAS** the annual grant from the Government of Prince Edward Island to post secondary institutions is greater than the budgets for five government departments and;*

***WHEREAS** the Auditor General has never conducted an audit of the University of Prince Edward Island or Holland College;*

***THEREFORE BE IT RESOLVED** the Public Accounts Committee request that the Auditor General do a value for money audit of UPEI first and, at a later time, a similar audit of Holland College;*

## 15. Public Accounts Committee

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*AND BE IT FURTHER RESOLVED if additional resources are required by the Auditor General to complete this audit that the government make every effort to accommodate this need.*

*Accordingly, your Committee recommends that the Legislative Assembly, through the adoption of this report, direct the Auditor General of Prince Edward Island to conduct a value for money audit of UPEI followed by a value for money audit of Holland College and, further, that government make every effort to accommodate any requirement for additional resources to conduct this work as may be identified by the Office of the Auditor General.*

**15.3** The report of the Public Accounts Committee including the Resolution was adopted unanimously by the Members of the Legislative Assembly.

**15.4** The Public Accounts Committee has an important role in the accountability process and makes a significant contribution to improved administration and effectiveness in government. I look forward to working with the Committee again this year.

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## 16. OFFICE OF THE AUDITOR GENERAL

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### **Mission and Mandate**

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

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

### **Responsibilities and Functions**

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

**16.4** In order to carry out these responsibilities and fulfill the Office's mandate, the Auditor General carries out two types of assignments - financial audits, and special audits and examinations.

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

**16.6** The authority for the Office's special audits and examinations is contained in the Audit Act. The Act provides 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.



## 16. Office of the Auditor General

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### OPERATING PHILOSOPHY

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#### Independence

**16.7** In order for the Office to be able to fulfill its mandate in a credible fashion, it is essential that we maintain our independence from government. The Audit Act establishes the groundwork for an independent audit office. Some of the key components in building that independence include: the existence of a Legislative Audit Committee which ensures the Office's resources and operations are determined independent of government; the authority to carry out the audits and examinations that the Auditor General deems necessary; the right of access to records and information necessary to perform audit functions; the power to request and receive any information or explanations required; the power to question people under oath; and the requirement to report annually to the Legislative Assembly.

**16.8** In addition to these important components, other precautions are taken to preserve our independence. This includes an office code of conduct which includes, among other things, policy and guidance on integrity, impartiality, and potential conflict of interest situations.

#### Reporting Approach

**16.9** Two reporting approaches can be taken in fulfilling our mandate. The first approach, known as **attest reporting**, involves expressing an audit opinion on the fairness of management's assertions about its performance. Examples of this approach include audit opinions on the financial statements prepared by management. In such examples the financial statements are management's assertions about the organization's financial position and results, and the audit report consists of an opinion on those statements. In a similar fashion, management could produce comprehensive reports, or assertions, about organizational performance and the auditor could attest to the fairness of those assertions. While this would, in our opinion, be the best way for management to fulfil its accountability responsibilities, the reality is that this type of performance reporting will not be in place for some time.

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

## 16. Office of the Auditor General

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### Planning Our Work

**16.11** Audit priorities are established through an audit plan that includes a number of financial statement audits and special audits and examinations. Financial statement audits are completed annually.

**16.12** Special audits and examinations of government departments are carried out on a cyclical basis. These audits are mainly value-for-money in nature and can focus on a department, a division, or a program. Occasionally a particular area may be the focus of a government-wide audit, such as our past audit work on government purchasing. Crown agencies are also subject to special audits and investigations.

**16.13** Various factors are considered in establishing priorities for the special audits and examinations. These include: materiality, results of previous audits, the date of the last audit, and the impact on the public. The audit mandate, expected resources required, duration of the audit, quality of financial and management controls in place, complexity of operations, and possible matters of significance that may arise from the audit, are also considered in planning each audit.

### Professional Standards

**16.14** Our audits are conducted in accordance with generally accepted auditing standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities.

**16.15** The principal source of generally accepted accounting principles and auditing standards for government are the recommendations issued by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants (CICA). The recommendations are directed at the public sector and deal with a number of accounting and auditing issues. We also rely on other recommendations of the CICA contained in the CICA Handbook.

**16.16** On a periodic basis the Office is subject to a practice inspection by the Institute of Chartered Accountants of Prince Edward Island. The inspection process is designed to protect the public interest by ensuring the Office meets the standards required by the profession. A practice inspection of the Office was carried out in 1997.

## 16. Office of the Auditor General

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### PERSONNEL, ADMINISTRATION AND AFFILIATIONS

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**16.17** The Office organization consists of the Auditor General, three audit directors, ten auditors, and two administrative staff. The restraint measures by government in recent years have resulted in a reduced workforce for the Office. We now have four positions that are vacant due to budgetary restraint. Although these staff reductions result in reduced audit coverage, we continue to strive to cover significant areas of government on a cyclical basis.

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

**16.19** The Office maintains a number of professional affiliations. These affiliations are essential for maintaining our level of competence and are useful in our efforts to continually improve the efficiency and effectiveness of the Office. Some of the key affiliations include the following:

- The Canadian Conference of Legislative Auditors - This Conference is held annually. The 1997 Conference was hosted by Alberta. This event brings together legislative auditors from the federal government and the provinces. It provides an opportunity for a sharing and exchange of information on legislative auditing issues.
- The Office has been a member and supporter of the CCAF since it was established in 1980. The CCAF is a Canadian research and education Foundation dedicated to building knowledge for meaningful accountability and effective governance management and audit. I currently serve as a member of the CCAF Research Committee.
- The Public Sector Accounting and Auditing Board - the Board's objective is to improve and harmonize financial reporting, accounting policies, and auditing practices in the public sector. The Board conducts research and issues recommendations on

## 16. Office of the Auditor General

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public sector accounting and auditing issues. The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting and auditing practices.

- The Office also maintains an important professional relationship with the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island. The Office provides input and keeps informed of important developments in the profession through membership on various provincial and national committees.
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## OBJECTIVES AND ACCOMPLISHMENTS

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**16.20** The following paragraphs highlight our performance for the past year and are structured around the goals set out in the three-year business plan presented to the Legislative Audit Committee.

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

**16.21** The presentation of the Annual Report to the Legislative Assembly is the pinnacle of our work year. The Report is the culmination of all that we do during the year. The Report quality, therefore, is determined by the quality and performance achieved in the audits carried out throughout the year.

**16.22** We continue to strive to have our Report act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts are key components in bringing about the improvements envisioned in our Report.

**16.23** Our 1997 Annual Report was presented to the Legislative Assembly in March 1997. After my Report was tabled, I had the opportunity to discuss the Report with the Public Accounts Committee, highlighting key areas for the Committee to consider.

## 16. Office of the Auditor General

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

**16.24** The Public Accounts is the largest financial statement audit that we carry out during the course of the year. This past year's audit was particularly challenging as it took in the Province's first full year of operations under its new financial information system. We continued to receive excellent cooperation from the Department of the Provincial Treasury and the Office of the Comptroller in carrying out this audit. I am pleased to report that we were able to issue an unqualified audit opinion on the Public Accounts this past year.

**16.25** In addition to the Public Accounts audit we conduct a number of other financial audits on Crown Corporations, Pension and Trust Funds, and other Agencies.

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

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

**Objectives:**

- **To perform selective special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.**
- **To prepare reports for departments and agencies including observations and recommendations as a result of special audits and examinations.**

**16.27** The amount of special audit and examination work that we are able to carry out is a function of the amount of staff resources we have available after having carried out the financial statement audits that we are required by legislation to complete. While the quantity of special audits has suffered as a result of budgetary cutbacks we have

## 16. Office of the Auditor General

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endeavoured to maintain and improve the quality of our work in this area. In the past year we have completed and reported the results of five special audits and examinations.

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

**16.28** During the past year we were asked by the Minister of Transportation and Public Works to investigate potential inventory control weaknesses within the Department. Our report was issued to the Department in June 1997.

**Objectives:**

- **To remain technically competent in an evolving accounting and auditing environment.**
- **To remain aware of and provide input to the development of auditing and accounting standards for government.**
- **To provide training opportunities for staff.**
- **To retain professionally qualified staff.**

**16.29** Our ongoing affiliations with the Canadian Institute of Chartered Accountants assists in our efforts to keep abreast of evolving accounting and auditing issues. In addition, we regularly participate in the discussion stages of government accounting and auditing standards. These standards are promulgated by the Public Sector Accounting and Auditing Board. In the past year the Office provided comments to the Board on several exposure drafts dealing with government accounting standards.

**16.30** All of the Office's audit staff have professional accounting designations. In order to ensure staff remain technically competent we attempt to provide a range of in-house and external training and professional development opportunities. In the past year the Office has held in-house sessions on financial audit and value-for-money auditing matters. In addition, we arranged to have experts in the field of computer auditing present a session for the staff on computer system audit issues and the effective use of information technology in

## 16. Office of the Auditor General

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conducting audits. In addition, a number of professional development sessions have been attended by individual staff.

**16.31** This past year we had to recruit to fill one new professional position which became vacant when one of our staff members took another position within government.

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

**16.32** Aside from the assistance that we provide through our audit reports, we are periodically asked for assistance in various matters. In the past year the Office has participated in a number of initiatives aimed at improving government administration. A member of the staff sat on the Roles and Responsibilities Committee which was mandated to identify the roles and responsibilities that should be in place to support information technology across government. We have also participated in an ongoing initiative within government to develop information technology security standards.





OPERATING FUND

APPROPRIATIONS

<u>ORDINARY</u>	<u>ORIGINAL APPROPRIATION ACT 1996/97</u>	<u>SPECIAL WARRANTS</u>	<u>TRANSFERS</u>	<u>TOTAL BUDGET</u>	<u>EXPENDITURES 1996/97</u>	<u>UNDER EXPENDITURES</u>	<u>EXPENDITURES 1995/96</u>
AGRICULTURE, FISHERIES AND FORESTRY	\$ 23,085,500	\$ -	\$ 563,800	\$ 23,649,300	\$ 22,049,547	\$ 1,599,753	\$ 21,921,740
PEI GRAIN ELEVATORS CORPORATION	197,700	-	-	197,700	197,700	-	271,700
EDUCATION	126,755,300	-	705,500	127,460,800	126,021,184	1,439,616	119,723,401
HIGHER EDUCATION, TRAINING AND ADULT LEARNING	40,413,900	22,800	1,643,900	42,080,600	41,840,665	239,935	39,507,142
EMPLOYMENT DEVELOPMENT AGENCY	4,179,200	697,800	52,400	4,929,400	4,783,382	146,018	4,201,258
ENVIRONMENTAL RESOURCES	7,420,000	242,400	207,400	7,869,800	7,861,782	8,018	7,977,797
EXECUTIVE COUNCIL	1,898,900	-	102,800	2,001,700	1,920,524	81,176	1,810,795
PROVINCIAL TREASURY	15,470,100	-	632,700	16,102,800	16,038,469	64,331	15,673,505
EMPLOYEE BENEFITS	8,386,400	2,586,000	120,800	11,093,200	11,093,200	-	8,819,814
ECONOMIC DEVELOPMENT AND TOURISM	19,063,900	265,900	245,200	19,575,000	19,550,439	24,561	18,111,161
ENTERPRISE PEI	25,540,100	-	448,700	25,988,800	25,388,033	600,767	27,669,033
PEI ENERGY CORPORATION	131,200	-	-	131,200	78,954	52,246	444,148
PROVINCIAL AFFAIRS AND ATTORNEY GENERAL	21,048,800	775,000	449,100	22,272,900	22,270,885	2,015	29,951,914
ISLAND REGULATORY AND APPEALS COMMISSION	850,000	-	-	850,000	850,000	-	850,000
LEGISLATIVE ASSEMBLY	2,632,800	734,000	3,000	3,369,800	3,283,360	86,440	2,442,725

OPERATING FUND

APPROPRIATIONS

<u>ORDINARY</u>	<u>ORIGINAL APPROPRIATION ACT 1996/97</u>	<u>SPECIAL WARRANTS</u>	<u>TRANSFERS</u>	<u>TOTAL BUDGET</u>	<u>EXPENDITURES 1996/97</u>	<u>UNDER EXPENDITURES</u>	<u>EXPENDITURES 1995/96</u>
HEALTH AND SOCIAL SERVICES	\$ 2,507,200	\$ -	\$ 97,900	\$ 2,605,100	\$ 2,261,959	\$ 343,141	\$ 2,049,348
HEALTH AND COMMUNITY SERVICES AGENCY	272,221,200	15,036,700	5,278,900	292,536,800	292,536,800	-	278,472,253
TRANSPORTATION AND PUBLIC WORKS	44,688,700	97,700	820,100	45,606,500	44,425,020	1,181,480	42,524,730
PEI CROWN BUILDING CORPORATION	200,000	10,000	-	210,000	210,000	-	209,359
AUDITOR GENERAL	1,070,400	-	61,000	1,131,400	1,060,141	71,259	961,010
GENERAL GOVERNMENT	15,005,300	-	(11,677,100)	3,328,200	3,001,870	326,330	3,507,916
COUNCIL OF MARITIME PREMIERS	213,900	-	-	213,900	176,731	37,169	200,414
INTEREST CHARGES ON DEBT	120,602,700	-	-	120,602,700	118,234,677	2,368,023	119,944,926
STAFFING AND CLASSIFICATION BOARD	<u>902,400</u>	<u>18,800</u>	<u>75,800</u>	<u>997,000</u>	<u>984,777</u>	<u>12,223</u>	<u>855,942</u>
<b>TOTAL ORDINARY</b>	\$754,485,600	\$20,487,100	\$ (168,100)	\$774,804,600	\$766,120,099	\$ 8,684,501	\$748,102,031
<b><u>CAPITAL</u></b>							
TRANSPORTATION AND PUBLIC WORKS - NOTE 2	<u>\$ 42,865,200</u>	<u>\$ 1,070,500</u>	<u>\$ 168,100</u>	<u>\$ 44,103,800</u>	<u>\$ 44,103,692</u>	<u>\$ 108</u>	<u>\$ 40,568,876</u>
<b>GRAND TOTAL</b>	<u><u>\$797,350,800</u></u>	<u><u>\$21,557,600</u></u>	<u><u>\$ -</u></u>	<u><u>\$818,908,400</u></u>	<u><u>\$810,223,791</u></u>	<u><u>\$8,684,609</u></u>	<u><u>\$788,670,907</u></u>

Note 1: Appropriations and expenditures are presented in accordance with the classifications in the 1996 Appropriation Act. During the year, expenditures were recorded on the same basis as the 1996 Appropriation Act. This differs from the format used in the Public Accounts (Statement 2) in which expenditures were reclassified at year end based on the departmental reorganization approved in November 1996.

Note 2: At the date of our report the special warrant covering capital expenditures of \$1,070,500 had not received formal approval.

**ORDER-IN  
COUNCIL**

**LIST OF SPECIAL WARRANTS**

**OFFICE OF HIGHER EDUCATION, TRAINING & ADULT LEARNING**

**TRAINING AND ADULT LEARNING**

EC 88/97	Adult and Continuing Education Grants		<u>\$ 22,800</u>
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College de L'Acadie Project fully offset by revenue from the Federal Government under the terms of the General Agreement on Official Languages.

**EMPLOYMENT DEVELOPMENT AGENCY**

**FORESTRY PROJECTS**

EC 527/96	Salaries (Forestry East)	\$ 15,100	
	Salaries (Forestry Central)	49,600	
	Salaries (Forestry West)	<u>33,100</u>	\$ 97,800

Cost of additional forestry employees fully offset by sequestration of funds originally budgeted for Forestry Branch Management in the Department of Agriculture, Fisheries and Forestry.

**JOB CREATION AND PLACEMENT**

EC 625/96	Special Projects Grants	350,000	
EC 806/96	Grants	<u>250,000</u>	<u>600,000</u>

Special Warrants EC 625/96 and EC 806/96 are for funds required to meet employment demands across the Province fully offset by sequestration of funds originally allocated to Enterprise PEI.

	Total		<u>\$ 697,800</u>
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**ORDER-IN-  
COUNCIL**

**LIST OF SPECIAL WARRANTS**

**DEPARTMENT OF ENVIRONMENTAL RESOURCES**

**WATER RESOURCES**

EC 528/96	Pesticide Monitoring Professional & Contract Services		\$ 30,000
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Special Warrant EC 528/96 is offset by \$15,000 from Agriculture Canada and by sequestration of \$15,000 originally budgeted in the Department of Agriculture, Fisheries and Forestry.

**FISH AND WILDLIFE**

EC 618/96	Wetland Management Professional & Contract Services		\$ 25,800
	Salaries		8,700
EC 115/97	Salaries	<u>3,400</u>	37,900

To cover cost of increased activities within the Wetlands Management program fully offset by revenue from Ducks Unlimited Canada, Canadian Wildlife Service, and Wildlife Habitat Canada.

**ENVIRONMENTAL PROTECTION**

EC 115/97	Provincial Waste Management Materials, Supplies & Services		30,000
	Professional & Contract Services	<u>144,500</u>	<u>174,500</u>

Additional funds required for the Kings County Landfill Site, processing waste at the Energy from Waste Plant, and repairs and improvements at the East Prince Waste Management Facility.

Total	<u><u>\$ 242,400</u></u>
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**EMPLOYEE BENEFITS**

EC 87/97	Retirement Benefits Salaries		<u><u>\$ 2,586,000</u></u>
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To cover expenditures for the 1997 Workforce Adjustment Program as well as Severance Allowances for former MLAs and Senior Compensation Members.

**ORDER-IN-COUNCIL**

**LIST OF SPECIAL WARRANTS**

**DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM**

DEPARTMENTAL MANAGEMENT

EC 114/97	Community Development Grants - Strategic Opportunities		\$ 124,000
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TOURISM DEVELOPMENT

EC 114/97	Links at Crowbush Cove Materials, Supplies & Services	\$ 16,700	
	Salaries	<u>45,000</u>	\$ 61,700
EC 114/97	Parks East Materials, Supplies & Services		23,500
EC 114/97	Parks West Materials, Supplies & Services	<u>56,700</u>	<u>141,900</u>
	Total		<u>\$ 265,900</u>

Special Warrant EC 114/97 above in the total amount of \$141,900 will be fully offset by increased revenue in the golf & parks operations.

**DEPARTMENT OF PROVINCIAL AFFAIRS AND ATTORNEY GENERAL**

POLICY AND ADMINISTRATION

EC 90/97	Administration Salaries		\$ 24,200
EC 89/97	Francophone Affairs Secretariat Grants	<u>75,000</u>	\$ 99,200

Special Warrant EC 89/97 provides additional assistance for La Voix Acadienne newspaper and is fully offset by federal revenue under the terms of the General Agreement on Official Languages.

EMERGENCY MEASURES

EC 805/96	Joint Emergency Preparedness Projects Grants		89,800
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Special Warrant EC 805/96 is offset 100% by funding from the Federal Government.

**ORDER-IN-  
COUNCIL**

**LIST OF SPECIAL WARRANTS**

**LEGAL AND JUDICIAL SERVICES**

	Administration		
EC 86/97	Administration	\$ 1,000	
	Materials, Supplies & Services	3,000	
EC 90/97	Professional & Contract Services	145,700	
	Salaries	26,600	
EC 86/97	Salaries	40,000	
	Travel & Training	<u>6,000</u>	\$ 222,300
	Special Warrant EC 86/97 in the total amount of \$50,000 is fully offset by revenue from the federal government under the terms of the Memorandum of Agreement - PEI Child Support and Enforcement Reforms Project.		
	Judicial Services		
EC 90/97	Professional & Contract Services	94,900	
	Salaries	<u>22,200</u>	117,100
	Sheriff's Office		
EC 90/97	Salaries		50,800
	Coroners' Inquests		
EC 90/97	Professional & Contract Services		28,700
	RCMP		
EC 422/97	Professional & Contract Services		86,000
	Labour and Industrial Relations		
EC 90/97	Professional & Contract Services	<u>81,100</u>	<u>\$ 586,000</u>
	Total		<u><u>\$ 775,000</u></u>

**LEGISLATIVE ASSEMBLY**

**ELECTIONS**

EC 57/97	Administration	\$ 23,000	
	Materials, Supplies & Services	25,000	
	Professional & Contract Services	538,000	
	Travel & Training	<u>4,000</u>	\$ 590,000

**ORDER-IN-  
COUNCIL**

**LIST OF SPECIAL WARRANTS**

EC 57/97	Election Expense Professional & Contract Services	\$ <u>144,000</u>
	Total	\$ <u><u>734,000</u></u>

To cover costs incurred for the general election held on November 18, 1996 with a partial offset of \$63,000 by transfers from within allocations of the Legislative Assembly.

**HEALTH AND COMMUNITY SERVICES AGENCY**

EC 116/97	General Grants	\$11,511,200	
EC 486/97	Grants	<u>3,525,500</u>	<u>\$15,036,700</u>

To cover operating deficits of the Health & Community Services Agency and the five Regional Health Authorities.

**DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS**

**SANDING & SALTING**

EC 807/96	Central Region Materials, Supplies & Services	\$ 50,000
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**MECHANICAL BRANCH**

EC 807/96	Charlottetown Garage Materials, Supplies & Services	\$ 31,700
EC 807/96	Operators - Queens County Salaries	<u>16,000</u> <u>47,700</u>
	Total	<u><u>\$ 97,700</u></u>

To cover cost of increased services in the Winter Services Agreement fully offset by revenue from the City of Charlottetown.

**ORDER-IN-  
COUNCIL**

**LIST OF SPECIAL WARRANTS**

**PEI CROWN BUILDING CORPORATION**

**ADMINISTRATION**

EC 113/97	Debt	<u>\$ 10,000</u>
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To cover operating losses of the Charlottetown  
Veterinary Clinic.

**STAFFING AND CLASSIFICATION BOARD**

EC 692/96	General Salaries	<u>\$ 18,800</u>
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Increased salary costs offset 100% by revenue  
from the Federal Government under the terms of  
the Canada-Prince Edward Island Agreement on  
the Promotion of Official Languages.