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SESSION: 62/2

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**VERBATIM TRANSCRIPT OF
HOUSE COMMITTEE PROCEEDINGS**

COMMITTEE: STANDING COMMITTEE ON PUBLIC ACCOUNTS

DATE: Tuesday, November 1, 2005

SUBJECT(S) BEFORE THE COMMITTEE:

Further Consideration of the 2004 Report of the Auditor General to the Legislative Assembly

NOTE:

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COMMITTEE

MEMBERS PRESENT: Jim Bagnall, Vice-Chair
Wilbur MacDonald
Dr. David McKenna
Cletus Dunn
Wes MacAleer
Hon. Robert Ghiz
Wayne Collins

MEMBERS PRESENT: Richard Brown

COMMITTEE

MEMBERS ABSENT: Ron MacKinley, Chair

GUESTS: Colin Younker, Auditor General
Jane MacAdam, Auditor General's Office
Alan Moore, Auditor General's Office

STAFF: Marian Johnston

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Tuesday, November 1, 2005
9:00 a.m.

Guests: Colin Younker, Auditor General, Jane MacAdam & Alan Moore, Auditor General's Office

Jim Bagnall (PC) (Vice-Chair): Good morning Colin. Welcome again and your staff. This morning I'm Jim Bagnall, I'm filling in for our Chair who's not, for the record, who's not in attendance today, who is digging potatoes and can't be here. So with that we stopped the other day at the end of Technology Centre section and I think we start at the beginning of Government Garages, if I'm correct.

Honourable Robert Ghiz (L): What page was that?

Jim Bagnall (PC) Vice-Chair): That's page 66.

Wes MacAleer (PC): Mr. Chairman, are we dealing with next week's meeting?

Jim Bagnall (PC) (Vice-Chair): No, we'll deal with that under our new business at the end, before we adjourn.

Honourable Robert Ghiz (L): What time are we going to?

Jim Bagnall (PC) (Vice-Chair): 12:00 o'clock, a quarter to 12:00 I think the agreement was.

Marian Johnston (Committee Clerk): 11:30.

Jim Bagnall (PC) (Vice-Chair): 11:30. Somebody had a meeting at a quarter to 12:00. I think Colin, maybe you did.

Honourable Robert Ghiz (L): Could we do that now. I might go to a funeral at 10:30. Could we just decide on our next meeting? It would be next week.

Jim Bagnall (PC) (Vice-Chair): Okay we have a date, yes, we can. If the committee would like to do that we'll do that right first when we start.

Marian Johnston (Committee Clerk): Mr. Chairman, thank you. As you recall at our last meeting we had agreed that we needed some more information on the Atlantic Technology

Centre and I made some phone calls after the meeting. I have a letter in response to those calls from Minister Michael Currie and perhaps I'll just read it into the record and I have a copy for each one of the members.

Dear Mr. MacKinley: (and it will be addressed to each one of you)

This is to inform you that I readily accept your committee's invitation to appear on November 10, 2005 to discuss matters concerning the Atlantic Technology Centre, in particular the 2004 Report by the Auditor General.

I look forward to the opportunity to answer any and all questions your committee might have concerning the construction and operation of the ATC. It has also come to my attention that many of the member on your committee have not had the opportunity to see the ATC in full operation and experience the growth and opportunity generated in the building.

Therefore, I would like to extend an invitation to host the November 10, 2005 committee meeting in the ATC boardroom. I would further extend an invitation for your committee to participate in a guided tour of the facilities and businesses to allow members to gain first hand knowledge of daily operations.

In addition, the boardroom is fully wired with the latest technology and should be compatible with the technology required by Legislative staff, media outlets, etc., for a smooth, cohesive meeting.

I believe it would be beneficial for all members to see the ATC in operation and would serve as a strong reference point for questions and background information.

I look forward to your immediate response.

And it is signed Michael Currie, Minister.

Honourable Robert Ghiz (L): Who are the Board

members?

Marian Johnston (Committee Clerk): I don't have a response from the Board members and I'm just going to go back in my notes and see who they are.

Jim Bagnall (PC) (Vice-Chair): The invitation went to the Board members plus the Minister and we would like for both to be in attendance and if we are going to be doing this we would want both there. That was the committee's request.

Marian Johnston (Committee Clerk): That's right and I did extend the invitation to - it went to Michael O'Brien, Allan Smith, Reagh Hicken and Minister Currie.

Jim Bagnall (PC) (Vice-Chair): I'm going to use names, if that's all right with the members. So Wayne Collins.

Wayne Collins (PC): Alright Mr. Chair or Vice-Chair, we've got a start time on that November 10th date, what will be the start time of that meeting?

Jim Bagnall (PC) (Vice-Chair): It's our choice I guess.

Marian Johnston (Committee Clerk): We had talked about 10:00 o'clock. That was just an initial time.

Wayne Collins (PC): I'm just thinking if there's a tour of the facility, you know, we could get that over with first of all and if we started a little earlier then we can get down to some business in the actual board room.

Jim Bagnall (PC) (Vice-Chair): How about 9:00 o'clock.

Honourable Robert Ghiz (L): I've already toured so I'm not going on the tour.

Jim Bagnall (PC) (Vice-Chair): Well, I think what we'd do is we'd start our committee meeting at 9:00 a.m. and the tour would probably be after we're done and whoever wants to stay can or who doesn't want, doesn't have to.

Marian Johnston (Committee Clerk): Mr. Chairman, when I was speaking to the Minister and Mr. Hicken's office, Mr. Smith's office, Mr.

O'Brien's office, I did tell them 10:00 o'clock because that's the time I was working with. So I can try and back it up an hour.

Jim Bagnall (PC) (Vice-Chair): If you could I would appreciate it because that's going to be a busy day all around.

Wayne Collins (PC): Yes, there's a number of . . .

Jim Bagnall (PC) (Vice-Chair): Other events too for members.

Wayne Collins (PC): . . . other events I want to try to get to as well.

Marian Johnston (Committee Clerk): Yes, I'll try to change that to 9:00 o'clock. And is it agreeable that we'll meet in the ATC board room?

Honourable Robert Ghiz (L): I've got (indistinct) if everybody else wants to tour it. Who here hasn't toured it?

Wayne Collins (PC): I've never seen it, other than I seen . . .

Jim Bagnall (PC) (Vice-Chair): I've been in the board room but that's about it. I think it's a great idea and we're asking him for a report on the ATC Centre, what's happening there, what better way to get a first hand operation with it? I see no reason why.

Marian Johnston (Committee Clerk): And we'll have a tour following the meeting so those who don't want the tour can then disperse. Is that agreeable? Tour to follow meeting.

Jim Bagnall (PC) (Vice-Chair): Can I have a motion to that then?

Marian Johnston (Committee Clerk): Mr. Chair, are we expecting the Auditor to be there too?

Jim Bagnall (PC) (Vice-Chair): Auditor General, yes, we would want probably to attend that meeting but probably we wouldn't need you until later in the day. You wouldn't want to tour?

Marian Johnston (Committee Clerk): Are we going to start at 9:00 with the meeting?

Jim Bagnall (PC) (Vice-Chair): Yes, but first thing we would have the Minister and them in. What would you think? An hour would be long enough for the Minister for questions? I mean, you guys tell me, it's your committee, our committee.

Wes MacAleer (PC): Start it early, 9:00 o'clock.

Jim Bagnall (PC) (Vice-Chair): Well, we start at 9:00. I'm talking for the CEO and the members and the Minister. Do we want to block an hour for their time?

Dr. David McKenna (PC): Are they doing a presentation first?

Jim Bagnall (PC) (Vice-Chair): I don't know. We've asked them to appear. I would assume that they will have a presentation and then questions. That normally happens.

Dr. David McKenna (PC): Give them an hour.

Jim Bagnall (PC) (Vice-Chair): So let's schedule them for an hour. Colin, what about you being there by 10:00 with your staff?

Colin Younker (Provincial Auditor): We could be there by 10:00, yes.

Jim Bagnall (PC) (Vice-Chair): And then we'll have two hours on or an hour, hour and a half with you and then we'll go to the tour after that. That would be suitable with your staff?

Colin Younker (Provincial Auditor): So it's the 2004 report that you want me to go to the meeting for? Will we start on the 2005?

Jim Bagnall (PC) (Vice-Chair): Depends on how we get along today.

Marian Johnston (Committee Clerk): So just to recap so I understand what the committee wants. Our next meeting will be November 10th starting at 9:00 o'clock in the ATC boardroom. We will have our witnesses there and we will meet for about one hour and then we will continue with the Auditor General and his staff for about one hour and then move to the tour of the facility for those who wish to take part in the tour. Is that agreeable? That's what the committee wants.

Dr. David McKenna (PC): Sure.

Colin Younker (Provincial Auditor): So around 10:00 o'clock.

Jim Bagnall (PC) (Vice-Chair): We'll schedule you for 10:00, Colin, if that's okay. Anything else before we move on gentlemen? If not, continue Mr. Auditor.

Colin Younker (Provincial Auditor): Section 6 is Government Garages. The Mechanical Branch of the Highway Maintenance Division services equipment throughout the province. Total costs in 2002-03 were \$11.7 million, including \$8 million for Government Garage operations. The expenditures for Government Garage operations are summarized in Exhibit 6.1 which shows the actual figures for 2001-02 and 2002-03 as well as the budget figures for 2003-04. Total budget of \$7.6 and an actual of \$8 million.

Government Garages are located in Charlottetown, Bridgetown and Summerside. A breakdown of the 2002-03 expenditures by garage is as follows: Charlottetown \$4.5; Bridgetown \$1.4 and Summerside \$2.1. The primary purpose of the garages is to provide repair and maintenance services for the equipment of the Highway Maintenance Division. In addition, they provide service to other divisions of the Department of Transportation and Public Works as well as service to government owned vehicles in other departments.

Honourable Robert Ghiz (L): I've got a quick question.

Jim Bagnall (PC) (Vice-Chair): Okay. Leader of the Opposition.

Honourable Robert Ghiz (L): Just some background information here. The Charlottetown Garage, it's been around forever.

Colin Younker (Provincial Auditor): As long as I can remember. Not sure.

Honourable Robert Ghiz (L): What about Bridgetown? Do you know how long that's been in operation for?

Colin Younker (Provincial Auditor): Do you know, Jim?

Jim Bagnall (PC) (Vice-Chair): The Bridgetown would be about 99-2000. I'm guessing in that vicinity.

Richard Brown (L): Wasn't there amalgamation of a couple of garages?

Wilbur MacDonald (PC): The Bridgetown Garage. I remember it well. I had tools in the back of my truck, when I came out they were gone. It was after 96.

Jim Bagnall (PC) (Vice-Chair): That's what I said, 99-2000.

Wilbur MacDonald (PC): Oh, 99-2000.

Honourable Robert Ghiz (L): Nineteen, not 18. (Laughter)

Cletus Dunn (PC): You're just trying to test his memory, aren't you?

Honourable Robert Ghiz (L): And then the Summerside one's been in existence for a long time.

Jim Bagnall (PC) (Vice-Chair): Summerside, it's been there forever.

Honourable Robert Ghiz (L): Okay.

Colin Younker (Provincial Auditor): In accordance with Section 13 of the Audit Act we conducted an audit of Government Garage operations. Our audit objective was to assess management practices and controls over government garages. The scope of the audit included expenditures of the three garages for the year ended March 31, 2003.

The examination was performed in accordance with the value for money auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. In conducting our work we interviewed staff, reviewed reports, sampled purchases and analysed financial information.

At the time of our audit the Regulations to the *Public Purchasing Act* required goods over \$1500 to be tendered through procurement services unless the goods were only available from a

certain manufacturer or supplier, or an emergency purchase was required to protect life or property. In addition there is an exemption under the Regulations to the *Public Purchasing Act* where car parts for road maintenance vehicles and equipment. The majority of parts purchased by the garages fall in to these categories and therefore the amount of tendering is limited.

In 2002-03 approximately \$2.5 million in parts and other non-fuel supplies were purchased of which approximately \$500,000 was acquired by tender or some form of competitive process.

The ability to plan ahead for parts purchases is sometimes difficult because many repairs require parts to be ordered and delivered as soon as possible to avoid delays in putting the equipment back in service. We noted that most purchase orders are issued after the parts have been received, as confirmation-only purchase orders. This type of purchasing does not ensure parts are acquired economically and the use of confirmation-only purchase orders should be minimized.

And our Recommendation was the Government Garages should monitor the use of purchase orders to ensure the use of confirmation-only purchase orders is minimized.

We reviewed a sample of purchases for each garage. Our objective was to assess purchasing practices and test the accuracy of costs recorded. The sample of tendered purchases indicated some weaknesses in the procedures being followed which are described in the following paragraphs.

Tires - The total value of tires purchased in 2002-03 was \$158,000. Tires are tendered annually, however, our sample indicated differences between invoiced prices and tendered prices.

For the sample of tire purchases, invoiced prices exceeded the tendered prices by \$9600 and in other cases invoiced prices were lower than tendered prices by \$3000. In most cases prices invoiced were not checked against the tendered prices. The tendered prices were not provided to all the garages.

A large portion of the \$9600 difference from tendered prices related to two tire sizes. One tire size was used on heavy trucks-15 were purchased

costing \$640 each although the tendered price was \$445. The other tire size was used on graders-13 were purchased at \$1075 each although the tender price was \$727. The truck tires purchased had a higher rating and were a different product code than those included in the tender.

The tire purchase estimates provided in the tender appeared high. We reviewed the radial tire section of the 2003-04 tender and estimated tire purchases were twice high as the actual usage for 2002-03. Tire usage data is maintained which would assist in planning the tire tender. However inconsistent part code numbering limits the ability to accurately summarize the data.

Recommendations - The Government Garages should compare the invoiced prices for tires against the tendered price.

To assist in monitoring tire usage and planning for future requirements, the Government Garages should consider implementing a consistent part numbering and identification system for tires.

Cletus Dunn (PC): (Indistinct-microphone not on)

Colin Younker (Provincial Auditor): Well, the problem is there's different codes for some of the tires. Summerside was using part numbers beginning with 999 and Charlottetown was using part number the first letter (indistinct)

Cletus Dunn (PC): So it was not consistent.

Colin Younker (Provincial Auditor): It was not consistent. So they've changed that and they've implemented both recommendations in this part of the report.

The garages purchase approximately \$1 million of gas and diesel fuel in 2002-03. Fuel is tendered on a government-wide basis and is awarded based on a discount off the maximum price that is approved by IRAC.

During our audit we noted that Charlottetown purchased unmarked gas, however Summerside purchased marked gas. Marked gas is purchased tax exempt and its usage is restricted. The Charlottetown Garage was charged \$25,000 in taxes. Although this amount would eventually be remitted by the fuel distributor to Provincial

Treasury, it results in increased expenditures for the Department of Transportation and Public Works. Subsequent to our field work department staff advised that marked gas is now being delivered in Charlottetown.

Fuel Usage Monitoring - All vehicles which refuel at the garages are to provide their meter readings at the time. For vehicles which are refuelled in the field operators are to phone in their meter readings on a weekly basis. We reviewed a sample of fuel records for graders and heavy trucks. We found that the vehicle meter readings entered on the computerized FleetAnywhere System were not accurate. Over 400 entries totalling \$19,000 for 81 different vehicles had a zero meter reading indicated. In addition many vehicles have the same meter reading for several deliveries. Staff used the date of manual posting of the entry to the system instead of the actual delivery date. The vehicle meter readings should be properly recorded in order to correctly compile consumption data.

Standard reports are not prepared on fuel usage. Regular reports in a standard format such as fuel usage over distance driven would highlight items requiring followup. Regular reporting and monitoring of fuel is necessary to ensure usage is controlled and records are accurate.

In most cases case credit cards used for vehicles that operate some distance away from the tanks in Charlottetown or Summerside. We found fuel purchases by credit card are not added to the computerized FleetAnywhere data and therefore any reports produced by the system on fuel consumption for light vehicles would be incomplete.

Recommendations - Government Garages should prepare standard fuel usage reports and review for unusual items.

The fuel usage recorded in the FleetAnywhere System for light vehicles should include credit card purchases.

Wayne Collins (PC): And Mr. Auditor, have those recommendations been acted upon?

Colin Younker (Provincial Auditor): The 6.21 recommendation is under review. Our followup on the 6.22 the Fleet Anywhere System is being

configured to accept the credit card information.

Wayne Collins (PC): It is now accepting that. Good.

Jim Bagnall (PC) (Vice-Chair): Mr. Brown.

Richard Brown (L): What kind of discount would they get on those tenders?

Colin Younker (Provincial Auditor): I think 7.5 cents.

Honourable Robert Ghiz (L): Per litre?

Colin Younker (Provincial Auditor): Per litre, yes.

Cletus Dunn (PC): That's off the maximum price, not the minimum price.

Colin Younker (Provincial Auditor): I'm not sure which.

Cletus Dunn (PC): According to your statement here.

Colin Younker (Provincial Auditor): Maximum price, yes.

Richard Brown (L): So what's its work out on the minimum?

Cletus Dunn (PC): It's about a 2.5 cent different isn't it?

Richard Brown (L): So that's a big saving. Who uses the vehicles, who uses this fuel, gas? Like it's a big savings to taxpayers to go this way.

Colin Younker (Provincial Auditor): This would be all the vehicles at the government garages.

Richard Brown (L): Does the deputy ministers of any government vehicles? Let's say Department of Tourism, do they use it, their half tonnes or cars?

Colin Younker (Provincial Auditor): I'm not sure what the other departments use. I'd have to check on that Richard to see.

Richard Brown (L): Yes, I'd just like to know the policy. What do the ministers do because that's a

good saving to taxpayers and I'm wondering if the ministers use it.

Colin Younker (Provincial Auditor): I'll double check that .

Cletus Dunn (PC): Is that only part of their fleet? Do they all have the same gas cards, ministers and deputies? If they have an Irving or Esso gas card, government gas card they a discount right across.

Honourable Robert Ghiz (L): Yes, but they don't use them.

Richard Brown (L): That's a good point. Does the government gas cards get the same discount?

Jim Bagnall (PC) (Vice-Chair): Yes, they do.

Honourable Robert Ghiz (L): I've got the Irving gas card.

Jim Bagnall (PC) (Vice-Chair): Do you get the 7.5 cent discount?

Honourable Robert Ghiz (L): It's a pretty good discount.

Jim Bagnall (PC) (Vice-Chair): Alright, continue.

Honourable Robert Ghiz (L): I have a quick question. How many government gas credit cards are there out there?

Colin Younker (Provincial Auditor): I'm not sure.

Honourable Robert Ghiz (L): Anybody who's operating a government vehicle though at the Government Garage, would they have a gas card or would there just be a certain amount?

Colin Younker (Provincial Auditor): I think there are certain ones that are away from the depot on an ongoing basis. I can double check that I think that's the ones that use gas credit cards.

Jim Bagnall (PC) (Vice-Chair): Okay, continue, Sir.

Colin Younker (Provincial Auditor):

FleetAnywhere - FleetAnywhere, a fleet management system was introduced during 2000 to track parts, shopfloor activities and fuel usage for the fleet of government owned and leased vehicles.

The department paid over \$64,000 for the system. However there are some system capabilities which are not being fully utilized. These include:

- Interface to Oracle Financials for purchasing;
- Download to spreadsheet applications;
- Parts inventory fully integrated with Oracle Financials;
- Fuel consumption reports;
- Summary reports of work orders; and
- Vehicle cost reports.

Department management indicated that the system is capable of performing these functions; however they are not currently used. We were advised by the Department that the interface to Oracle Financials is not completed because it has not been enabled by the Comptroller's office.

Because the full potential of the system has not been realized, staff at each garage are spending considerable time entering data into the system and a number of useful reports are not being produced for management.

Recommendations - The department should review the fleet management system and determine why the system capabilities are not being used.

The government garages should use the FleetAnywhere System to prepare standard management reports on a regular basis for each location.

The FleetAnywhere System records labour hours and labour costs for work order. Employees are required to indicate the hours worked on each assigned work order. When a work order is completed the labour hours for each employee are entered. The system then calculates labour costs based on the hourly rates set up for each employee. Each garage location uses shop work orders to accumulate time which is not charged directly to equipment. Total hours charged to shop work orders in 2002-03 was 9,150. Shop work orders can include time on assigned tasks such as

welding or machining as well as unassigned time such as vacation and sick leave. There is no breakdown of time charged to shop work orders.

In our opinion time charged to shop work orders should be more precisely allocated to the projects or tasks assigned.

A time card system is used to support the government payroll system. This system records all hours paid including vacation and sick time but does not accumulate any work order data.

We compared the number of hours paid for 2002-03 to those charged to work orders for a sample of employees. As illustrated in Exhibit 6.2 for the sample selected we found that approximately one-third of the hours paid were not charged to work orders.

A system should be put in place to account for employee time, including time charged to work orders, as well as unassigned time such as vacation and sick leave.

Recommendations - The time spent doing work on assigned tasks should be separately identified from other time charged to shop work orders.

The government garages should reconcile the hours of work paid against time entered to FleetAnywhere.

Jim Bagnall (PC) (Vice-Chair): Dr. McKenna.

Dr. David McKenna (PC): Is all the work done on the equipment done at the government garage or is some of the work done in some of the independent garages in the communities?

Colin Younker (Provincial Auditor): I think most of the work is done, as far as I know, at the government garages.

Dr. David McKenna (PC): I'm just thinking if something breaks down out say quite a piece from Charlottetown or Bridgetown and there was a garage nearby would they use that or just kind of tow them?

Jim Bagnall (PC) (Vice-Chair): They send people out.

Colin Younker (Provincial Auditor): They have Mobile Units so they'd send the mobile units to go

out.

Jim Bagnall (PC) (Vice-Chair): Mr. Collins.

Wayne Collins (PC): It seems we're not taking full advantage of the capabilities of this Oracle Financials Program and you mentioned in your report that it has not been enabled by the Comptroller's office. This is in relation to the FleetAnywhere and some of the, I guess, things that can be done with that program. What does it mean when you say it's not been enabled by the Comptroller's office?

Colin Younker (Provincial Auditor): What's happening now is when the part's invoices are being posted into the FleetAnywhere System, which is a system which we did a report showing usage and other information like that, they're also being posted into the Oracle which is the accounting system for government. So they're being posted twice. The FleetAnywhere Program has the capability to interface with Oracle so that when it's posted into FleetAnywhere it automatically be posted into Oracle. So they're working on doing the interface now. They're following the recommendation. They're starting to do some work on that.

Wayne Collins (PC): I mean it is compatible. They can be interfaced. It's just that no one's turned on the switch.

Colin Younker (Provincial Auditor): Yes, it's a matter of getting it done.

Wayne Collins (PC): What is the holdup there? I mean it's so simple. Then they can only do it once and it's in Oracle when it's put FleetAnywhere.

Colin Younker (Provincial Auditor): The system was put in in 2000. It looks like it's taking time to evolve to use its maximum abilities. This report was done in 2003. So they've hired somebody now to look at using all the capabilities of FleetAnywhere.

Wayne Collins (PC): Do you know if today in 2005 if FleetAnywhere is interfaced with Oracle Financials and it's an automatic now?

Colin Younker (Provincial Auditor): I don't know as of today's date, no. I'm not sure.

Wayne Collins (PC): But back then it wasn't. Okay, thank you.

Colin Younker (Provincial Auditor): Staffing - Exhibit 6.3 is a summary of the direct labour staff at each of the three garages.

The Quality Management Plan - Mechanical Branch was developed and approved by senior management in the early 1990s. It was intended to be updated annually although the most recent copy is dated February, 1998. The plan indicates the number of mechanics should be based on the quantity and type of assets serviced. In the plan a mechanic is expected to service 18 light truck vehicle or 12 heavy truck or 6 pieces of heavy equipment or 72 attachments. The plan indicates the mechanic staffing calculation will be performed every three years; however management was unable to provide any recent calculation to support the current staffing complement.

We applied the staffing calculation to each location and found Summerside and Bridgetown to be in line with the staffing formula. Based on the formula, the Charlottetown garage had more than the required number of staff. The reasons provided were that some equipment worked on is from other regions and there were significant repair hours charged to older equipment. We did note in our 2002 audit of Highway Maintenance that a number of heavy equipment pieces were past their useful life.

Recommendation - The government garages should update their mechanic staffing formula. It should consider facility and equipment limitations and the allocation of work to other garage locations. Section 7.

Jim Bagnall (PC) (Vice-Chair): Richard Brown first.

Richard Brown (L): School buses now - the minister has indicated we repair our own school buses now. Have we analysed this equipment, you know, at what point in time do we just throw the thing away? I know situations where we've spent more money on the repairs than it would cost to buy a new one.

Colin Younker (Provincial Auditor): We didn't do anything on school buses but in our 2002 report we did look at some of the heavy equipment which

the question was whether it old enough that it costing enough to repair that it should be replaced with something new that would be cheaper. So we made that recommendation.

Richard Brown (L): So (indistinct - two talking at once). I know the game, I know the game. You think all I have to do is replace this part and I don't need another part. But then a week later it's another part and another part and another part-an engine, transmission, a rear end, you know.

Colin Younker (Provincial Auditor): That's where some of the FleetAnywhere data would be useful because it would show by vehicle what the repairs and cost of operating that vehicle was. So then you could sit down and say, well, this vehicle should be replaced because it's costing too much to repair. This is what it's costing compared to other similar pieces of equipment.

Richard Brown (L): You look at some of the private sector companies, you now, they keep rolling over their stock into new equipment and you ask them why and they just say, look, down time and repair, it's just cheaper to get the new equipment in on a certain time because otherwise you miss jobs or you miss doing things and you're spending all your money on parts.

Colin Younker (Provincial Auditor): That's what the FleetAnywhere System is.

Jim Bagnall (PC) (Vice-Chair): Cletus Dunn.

Cletus Dunn (PC): I can't disagree with your recommendations but my only concern is there's quite an investment in bureaucracy and I'm concerned that there's a limited budget and I guess politicians would love to see the black stuff out there or the ditches and culverts cleaned out and things like that. But I find that sometimes we have so much focus on the accountability side that we're going to have more people sitting in office on computers than we are people out on the road doing the actual work that has to be done. I don't know if there's a balance there or not but most of your recommendations here deal with accountability.

Colin Younker (Provincial Auditor): But if you look at the one as far as the FleetAnywhere System, Cletus, if the invoice is only being posted once we're going to save admin time which is

going to free up money for what you're talking about. That's part of it as well.

Cletus Dunn (PC): There has to be a balance there to be more efficient.

Jim Bagnall (PC) (Vice-Chair): Okay continue.

Colin Younker (Provincial Auditor): Water Management Division - Water Management is a Division of the Department of Environment and Energy. The mandate of the division is established under the *Environmental Protection Act*. The division includes the Drinking Water Management Section, the PEI Analytical Laboratories Section and the Watershed Management Section.

The Water Management Division is responsible for the sustainable management, protection and enhancement of the province's drinking water, groundwater, inland surface water and coastal estuaries. The Division provides water testing services and engineering advisory services to the general public, other provincial departments and agencies, industry and municipalities. In addition the Division monitors and conducts assessments of the province's water resources. The Division also regulates water and sewer infrastructure and assists in the administration of funding that supports this infrastructure.

Expenditures of the division are expected to increase significantly from \$1.8million in 2002-03 to \$2.5 million in 2003-04. The reorganization of the watershed management program accounts for a large portion of this increase. The division is also responsible for collecting revenue. Total revenues were \$507,000 in 2002-03 and are budgeted at \$424,700 in 2003-04.

In accordance with Section 13 of *The Audit Act* we conducted an examination of the Water Management Division of the Department of Environment and Energy. Our objective was to assess the management practices used by the Division.

Our examination was performed in accordance with the value for money auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. In conducting our work we

interviewed staff throughout the Division and examined various reports, documents and files.

Planning - To ensure the water resources goals of the department are achieved the Division should have a well defined planning process. This would normally include a strategic plan with goals and results to be achieved over the next three to five years; an operational plan which indicates what will be done in the next year; a budget which allocates resources to the operational plan and a framework to measure performance in relation to goals and expected results.

In November 1999 the previous Department of Technology and Environment prepared an Environmental Strategic Plan for the period 2000-2005. The strategic plan was for the environmental portion of the mandate of the Department. It included a corporate plan for the department as well as strategic plans for each Division. According to management this plan continues to be used by the Water Management Division.

The Environment Strategic Plan indicates that the goals of the Division are:

- to enhance the quality and sustainability of the province's groundwater and aquatic ecosystems;
- to increase public acceptance of responsibility for the protection and sustainable use of water resources;
- to increase public confidence in the programs, services, advice and assistance provided by the division;
- to increase public knowledge and understanding of groundwater and surface water systems; and
- to improve staff morale and job satisfaction.

The strategic plan identified strategies to address most of these goals and division staff have developed a work plan for their implementation.

Honourable Robert Ghiz (L): I have a quick question.

Jim Bagnall (PC) (Vice-Chair): Leader of the Opposition.

Honourable Robert Ghiz (L): Thank you, Mr.

Chair. In any of your investigations did you discover anything with regards to a study that was done on deep water wells? Because I understand that there was a study commissioned like three or four years ago on deep water wells but then that study now is nowhere to be found.

Colin Younker (Provincial Auditor): I'd have to check. Robert, it doesn't ring a bell.

Honourable Robert Ghiz (L): Doesn't ring a bell. So you didn't come across any studies that they've done on deep water wells.

Colin Younker (Provincial Auditor): No, we did have some water quantity comments here but I don't . . .

Honourable Robert Ghiz (L): There was a study done on deep water wells, I understand.

Cletus Dunn (PC): I'm not sure if government studied it or was it private industry.

Honourable Robert Ghiz (L): No, the government hired a private enterprise to go out and do a study on deep water wells.

Jim Bagnall (PC) (Vice-Chair): Can't answer that, Robert.

Colin Younker (Provincial Auditor): I'll check. I'll check and see and get back to you.

During the year the department was reorganized and watershed management responsibilities were moved to the Water Management Division. The Environment Strategic Plan was not updated to recognize these changes.

The Environment Strategic Plan indicates the department will develop indicators of success for water quality which will be monitored and reported. In addition, the division will conduct public opinion and client satisfaction surveys to determine if public expectations are being met.

During 2003 the Department of Fisheries, Aquaculture and Environment issued a *State of the Environment Report*. As it relates to water, the report indicates the drinking water supply is generally good although nitrate levels in drinking water and surface water are increasing. It also provides indicators related to E. coli in private

wells, water and wastewater central servicing and shellfish closures. While the information is useful for departmental reporting, further information is required to determine whether the goals of the division are being achieved.

The Strategic Plan should be updated and approved by the Department of the Environment and Energy.

Indicators should be developed for each of the division's goals so that results achieved can be measured and reported.

Drinking Water Management Section - The principal responsibility of this section is to ensure sustainable management, protection and enhancement of drinking water.

Prince Edward Island is totally dependent on groundwater for drinking water. Drinking water is provided to approximately 43 per cent of households by centralized systems and the remaining 57 per cent by private wells.

The department announced a drinking water strategy in June 2001 which includes "10 points to purity". Following are the points which were still being addressed at the time of our audit and the status of implementation of each:

- To develop water monitoring and public reporting regulations for central water supply and wastewater treatment systems, updating guidelines established in 1999.

These have been drafted and the intentions to incorporate these changes into broad regulations covering the operation of municipal water and wastewater systems. At the time of our audit these were not approved. But they were put in place in December 18, 2004.

- To develop standards and guidelines for the supply, storage and distribution and maintenance of water systems.

This document is being developed by the four Atlantic Provinces with projected completion in early 2004.

- To enforce mandatory certification for

water supply and wastewater operators upgrading from the current voluntary certification.

Certification of water supply and wastewater operators will become mandatory under the broad regulations being developed. And those were put in place on April 1, 2005.

- To work with municipalities and land owners in the development of a strategy for municipal wellfield protection.

A hydro-geologist has been hired and protection zones for municipal utilities are being developed. The expected completion date of the strategy is the spring of 2004.

Public water suppliers are defined as those systems that supply five or more households. Public water suppliers can range from municipal systems servicing 30,000 people to a well serving five cottages. There is no process in place to identify all public water suppliers; therefore there is no way of knowing whether all water supplied to the public is tested on a regular basis. To ensure the public is adequately protected all water suppliers should be identified, have monitoring programs in place and have strategies to protect their wellfields.

And the recommendations follow that section. And all those recommendations I think are in place other than 7.20 which is effective January 1, 2006.

Jim Bagnall (PC) (Vice-Chair): Excuse me, say that again.

Colin Younker (Provincial Auditor): All those recommendations have been followed up on.

Jim Bagnall (PC) (Vice-Chair): Except which one?

Colin Younker (Provincial Auditor): Except No. 7.20 which is effective January 1, 2006.

Jim Bagnall (PC) (Vice-Chair): Mr. McKenna.

Dr. David McKenna (PC): Getting back to when you said some of these systems we don't know if they are tested on a regular basis, what is the

recommendation on how often some of these systems should be tested? Is it once a year? I guess some of them are just probably just private homes as opposed to tourist businesses which are probably more mandatory but is there a recommendation that should be out there?

Colin Younker (Provincial Auditor): I guess the ones that are commercial are tested once a year. I can double check that.

Dr. David McKenna (PC): But you don't have a record of any being done, that's the problem. You're not sure.

Colin Younker (Provincial Auditor): Well, they weren't all identified. Now they've all been identified effective January 1st, 2005.

Jim Bagnall (PC) (Vice-Chair): I know the systems like in Montague and Charlottetown, I think they're tested on a daily basis.

Colin Younker (Provincial Auditor): Yes, your larger ones. Just to make sure they're all right.

Jim Bagnall (PC) (Vice-Chair): They have people that are testing them every day.

Wayne Collins (PC): The new drinking water and waste water regulations, I think is what you were referring to that was passed last Spring and that has outlined very specific program of testing dependent upon, I believe, the number of homes that are being serviced and what level of category of a public supplier you are. For instance I know the Miltonvale Trailer Park has a water system up there that is now under these new regulations and the people who are in charge of that would have to be certified and pass a course and do mandated testing monthly and so on for different types of things in the water. So I think you're right, a lot of these have . . .

Colin Younker (Provincial Auditor): A lot of these recommendations have been put into practice.

Wayne Collins (PC): Indeed they have.

Jim Bagnall (PC) (Vice-Chair): Continue. Mr. MacAleer.

Wes MacAleer (PC): In 7.20 is this the

guidelines or the compliance that we're dealing with here, when you talk about protection? Are you saying that protection plans need guidelines?

Colin Younker (Provincial Auditor): Strategy for municipal wells for protection.

Wes MacAleer (PC): What is it that . . .

Colin Younker (Provincial Auditor): It would be to develop the guidelines for protecting the area around the wellfields.

Wes MacAleer (PC): Okay. So it's both guidelines and ensuring that they're enforced in some way. So you're saying we don't have the guidelines.

Colin Younker (Provincial Auditor): Yes, plans were to be completed and they'll be effective January 1st, 2006.

Wes MacAleer (PC): Okay, it's under way then, you're saying.

Colin Younker (Provincial Auditor): It's almost finished.

Jim Bagnall (PC) (Vice-Chair): Okay, continue.

Colin Younker (Provincial Auditor): Water quality is determined by comparing the test results with the Guidelines for Canadian Drinking Water quality prepared by the Federal-Provincial-Territorial Committee on Drinking Water and published by Health Canada.

The PEI Analytical Laboratories Section operates microbiology and chemistry laboratories to analyse water samples. The Section uses a computer system to facilitate the notification of clients if water problems need to be addressed in particular high coliform and E. coli results identified by the microbiology lab.

The department considers that water samples containing coliform counts less than 10 organisms per 100 ml indicate the water is fit to drink. Coliform counts in samples are an indicator of the vulnerability of a water supply to contamination. If coliform bacterial are present, it may be possible for E. coli or other harmful bacteria to enter the system. The presence of any E. coli in a water sample indicates the well has been contaminated

by sewage or manure and is unsafe to drink.

Division procedure for bad water results related to coliform and E. coli is to telephone clients and if contact is made, it is indicated in the computer system that the client has been notified. If contact is not made within three days, the report that is sent by mail to all clients is relied upon as the contact.

Additional procedures are to be followed when E. coli is detected in a water sample. The homeowner is to be immediately notified and advised to boil their water and adjacent homes in the immediately affected are to be sampled. In addition, staff are to advise residents within 500 feet of the contaminated well and suggest that they have their water tested.

We examined the procedures used to track a water sample from receipt through the lab to communication of bad water results. For the sample we examined, staff attempted to contact clients by phone and the cases where telephone contact was not made within three days, staff relied on the client receiving the test report that is mailed to all clients. Incases where bad water was detected in the water samples, there was insufficient documentation on file to demonstrate that the required procedures were followed. We expected that complete documentation would be maintained on file to indicate the nature, times and dates of contact with homeowners as well as a copy of the correspondence sent to the client.

Overall the incidence of coliform above 10/100 ml in well samples has increased significantly in recent years from 8.4 per cent to 15.8 per cent in 2002. The incidence of E. coli has increased from 2.5 per cent to 3.7 per cent of wells tested. Subsequent to our audit work, we were advised that for 2003 the incidence of coliform over 10/100 ml in wells sampled was 15.8 per cent and the incidence of E. coli in wells tested was 2.5 per cent.

And our Recommendation - To demonstrate that the department has taken action to notify clients of bad water results, the department should maintain documentation of telephone contacts, correspondence with the client and follow up action including notification of adjacent homeowners.

And in our followup report this is being done now.

Watershed Management Section - The Watershed Management Section is responsible for the management of the groundwater, inland surface waters and coastal estuaries. A watershed is all the land draining its rain, snow melt and groundwater into a stream or river.

A recent reorganization transferred the Wildlife Habitat Improvement Program to the Section and changed the watershed coordinators from seasonal to full-time positions.

The Section has held strategic planning sessions to establish direction on their broader role in watershed management. Strategies that are being discussed expand on the previous strategic plan and include encouraging community groups to become more involved, continuing to target watersheds where there is a community interests and establishing demonstration watersheds. These strategies were not finalized or approved at the time of our audit.

In order to manage watersheds more effectively it would be useful for the Section to establish a watershed management strategy.

A watershed management strategy should be completed which includes an assessment for each watershed and a plan to ensure the watersheds are protected.

Water Quality Monitoring - Monitoring water quantity is important to ensure both adequate ground water reserves and stream flow. The department has 12 observation wells across the province that automatically monitor water levels daily. The results are made available to the public through the department's web site. We noted that the posted results on the web site were out of date and contained some data on water levels that was incomplete.

All high capacity wells (greater than 50 gallons per minute) and wells to be used for a central water system require a groundwater exploration permit. Test information is collected to determine whether the groundwater extraction will have any significant effects on other groundwater users or the environment. In 2002 the province announced that it would not issue new groundwater irrigation permits until further study of the impacts is

complete.

Monitoring Ground and Surface Water Quality - Ground and surface water quality has an important impact on drinking water, aquatic habitat, the fishery and recreation.

The Federal/Provincial Water Agreement covers monitoring of the a number of sites dating back, in some cases over 30 years. The results were reported in the Water Quality Interpretive Report in 1999 which followed up on a report produced in 1978. In general, surface and groundwater quality was reported to be excellent but key areas of concern in the report were soil erosion, nitrate levels, bacterial contamination of shellfish harvesting areas and the occurrence of pesticide residues. Given the importance of the resource, reporting should be more frequent than every 20 years.

The State of the Environment Report 2003 provides two indicators for surface water, nitrate concentration in surface water and shellfish closures. The report indicates that nitrate concentration has more than doubled in the past 20 years. From 1995 to 2000 the percentage of area closed to shellfish harvest remained relatively constant.

The department is involved in monitoring water quality. However, the State of the Environment Report only reports on two indicators for surface water and three for drinking water and the Water Quality Interpretive Report, which is more comprehensive, is not issued frequently enough.

The Division should report on water quality and quantity on a more frequent basis.

Jim Bagnall (PC) (Vice-Chair): How often do they report them now? Just once a year.

Colin Younker (Provincial Auditor): They're currently working on updating quarterly the groundwater monitoring and they're working on a realtime groundwater quality reporting which should be more frequent. So they are working on the reporting process.

The PEI Analytical Laboratories Section is responsible for the management of the province's water microbiological and water chemistry laboratories.

During 2003 the laboratories were accredited by the Standards Council of Canada. This provides formal recognition that the laboratories are competent to perform specific tests. Accreditation is only given to those laboratories that demonstrated competence in their field and conform to international standards. To gain accreditation laboratories must develop a full technical assessment and maintain that accreditation by having proficiency tests and a complete technical assessment every two years.

Revenue - During 2002-03 the Water Management Division generated approximately \$500,000 in revenue. Almost 70 per cent of revenue was for water testing with smaller amounts for monitoring shellfish water quality, water utilities and other programs.

The Division does not have a documented policy which provides a rationale for the fees charged for water testing. Fees for water testing are \$12 for microbiology, \$25 for chemistry, \$100 for water quality certification plus specific fees for various other tests. The client is not subject to further charges if retesting is necessary.

In 2002 the laboratories tested 9,523 private wells for microbiology and 3,111 for chemistry. Revenues for the labs for 2002-2003 were \$344,300 compared to direct expenditures of \$601,600.

One area of concern was the lack of follow-up on delinquent accounts. The client receives a first invoice, a second invoice and then a delinquent invoice if they leave their account unpaid. No further action is taken except that the client cannot receive further services. As of August, 2003, the delinquent list exceeded \$15,000.

Water management operates three water utilities in the province with total revenues of \$55,000 in 2002-03. The utility in Georgetown is regulated by the Island Regulatory and Appeals Commission which last set the rates in 1997. The Northport system services six houses and two fish plants and is billed based on rates established by the department. According to staff, the plan is to request regulated rates. The Alberton system was established in December 2002 and serves four customers. As of August 2003 no rate has been set or bills issued.

Our Recommendation - The Division should establish a policy for setting laboratory fees.

Procedures for reviewing and collecting delinquent accounts should be established and followed.

Water utility rates for Georgetown, Northport and Alberton should be regulated, updated on a regular basis and customers should be billed accordingly.

Jim Bagnall (PC) (Vice-Chair): Cletus Dunn and then David McKenna.

Cletus Dunn (PC): On No. 7.51 are you suggesting that should be on a volume usage? I don't think that's the system right now. I think they just sort of come out with a figure and you pay this much per year.

Colin Younker (Provincial Auditor): There should be some rationale for having the charge.

Cletus Dunn (PC): Like metered.

Colin Younker (Provincial Auditor): They've transferred that to the environmental, the Industrial Service Inc. Company and they're going to look after that. So there is some action being taken on that as well.

Cletus Dunn (PC): What's on Charlottetown? Is the water metered in Charlottetown.

Colin Younker (Provincial Auditor): Charlottetown is metered and I think Cornwall has meters.

Wayne Collins (PC): Well, part of Charlottetown, old Sherwood used to have metering prior to amalgamation in 95 but since amalgamation it's just a flat fee for water in Charlottetown.

Colin Younker (Provincial Auditor): Cornwall is metered. I'm not sure in Stratford.

Cletus Dunn (PC): Is Stratford metered?

Dr. David McKenna (PC): Stratford has all kinds of monitoring, it's kind of all over the map. I think it's a flat rate, not by volume.

Colin Younker (Provincial Auditor): So it varies.

Jim Bagnall (PC) (Vice-Chair): Dr. McKenna, you have a question.

Dr. David McKenna (PC): Yes, my question is on those delinquent accounts that you recommended. Is there any followup on those accounts since your recommendations?

Colin Younker (Provincial Auditor): What they've done is they've developed some new procedures for collecting funds including upfront payment to the PEI Access Centres. So they've done some work on it.

Dr. David McKenna (PC): So if they came in with a new sample are we saying they're not going to be able to sample them if they didn't pay their account? Is that the impression I got?

Jim Bagnall (PC) (Vice-Chair): Have to pay for it before they do it.

Colin Younker (Provincial Auditor): Yes, they'd have to pay for it.

Wayne Collins (PC): Yes, I did some water testing I know last summer and I had to pay upfront before they gave me the little bottles to go and get my samples.

Colin Younker (Provincial Auditor): So they're being more aggressive.

Cletus Dunn (PC): Mr. Chair.

Jim Bagnall (PC) (Vice-Chair): Another question for Mr. Dunn.

Cletus Dunn (PC): A lot of the water related issues are to do with sewage disposal. I have a number of people that came to me in the last couple of weeks that had a sewer system and wanted to replace it and I guess regulation standards have changed. Now, they're being asked-if they've been turned down by Community and Cultural Affairs Inspection Division-they appeal it to the Environment. The Environment comes out and pretty well they have a lot higher standard than the Inspection Division has and a lot of these people are asked to put an engineered sewer system in. So an ordinary sewer system costs \$3000; an engineered one costs anywhere from \$15 to \$25,000 and a lot of these people are - like one guy came to me and he's retired now and

he's just trying to get things updated so he can enjoy his retirement and he had a system for 40 years and he just wants to upgrade it a bit and they told him he has to put an engineered system in now. So he was planning to spend a couple of thousand dollars. Now they're saying it's going to cost you \$15,000. But I guess my question is-is there any relationship between the inspection services, the sewage inspection and environmental services in regards to water treatment, water quality?

Colin Younker (Provincial Auditor): I'd have to check that.

Cletus Dunn (PC): You didn't come across that in any of your . . .

Colin Younker (Provincial Auditor): No, we didn't run across that.

Cletus Dunn (PC): Okay.

Colin Younker (Provincial Auditor): Federal Claims - Revenues from the federal government provide approximately 35 per cent of the total revenues of the province and in 2002-03 totalled \$345 million. Of this amount \$1.5 million is capital revenue. Federal revenues dropped in 2002-03 after an increasing trend since 1997-98 as illustrated in Exhibit 8.1. The decrease was due primarily to a reduction in transfer payments resulting from revisions to the province's population as a result of the 2001 census.

Federal revenue is categorized into transfer payments, contribution agreements and other agreements. Federal transfer payments refer to direct transfers which are made by formula to all or most provinces and territories. They are not associated with specific spending by the province. Contribution agreements support program or project costs funded by the province. Exhibit 8.2 summarizes the major federal revenue sources in 2002-03 - equalization, CHST and other contributions.

Equalization is the largest transfer at \$222.4 million and makes up approximately 65 per cent of federal revenues. Equalization payments are covered by Part II of the Federal/Provincial Fiscal Arrangements Act and are determined by a defined formula. Payments are received every two weeks by electronic transfer.

The Canada Health and Social Transfer (CHST) provides support for health care, post-secondary education and social services. The payment to Prince Edward Island of \$89.5 million equals approximately 26 per cent of federal revenues. Part V of the Federal/Provincial Fiscal Arrangements Act covers the CHST which is also received by electronic transfer every two weeks.

Revenue from contribution agreements totalled \$32.2 million in 2002-03. The majority of this revenue, \$27.7 million comes from ten programs.

In accordance with Section 13 of the *Audit Act* we conducted an examination of Federal Claims. Our objective was to assess the management practices related to the preparation, monitoring and accounting for Federal Claims. Our audit included federal/provincial contribution agreements and did not include payments received related to Equalization and the Canada Health and Social Transfer (CHST).

We examined all agreements with claims over \$.5 million in 2002-03 as well as a sample of the smaller claims. Our examination included a review of agreements, communication with the staff responsible for claims processing and an analysis of claims and supporting financial information.

Jim Bagnall (PC) (Vice-Chair): Mr. Dunn.

Cletus Dunn (PC): Can you identify some of those programs?

Dr. David McKenna (PC): Next page.

Honourable Robert Ghiz (L): I have a quick question.

Jim Bagnall (PC) (Vice-Chair): Leader of the Opposition.

Honourable Robert Ghiz (L): Thank you. I noticed the equalization and CHST are paid on a two week basis. Now I can understand, you know, there was a couple of years when we were getting a lot more revenue and other years when we weren't getting as much as we thought we should get. Would that be all calculated at the end of the year? Like for example there was years when we got an extra, let's say \$40 or \$50 million from the federal government. Would they be overpaying us every two weeks or at the end of the year would

they say you have an extra \$50 million? And for example, I guess this year here where they got less revenue than they anticipated, would they have been overpaid each of the two weeks and then at the end of the fiscal year they'd have to write a cheque back?

Colin Younker (Provincial Auditor): It's calculated four times a year and then the payments are adjusted to reflect that.

Honourable Robert Ghiz (L): Okay. So government should then have a good idea of how much they're going to get. So when they say that at the end of the year we got hit with an unexpected bill they really would know every quarter how much they were taking in, would they not?

Colin Younker (Provincial Auditor): Depends on the calculation date. I think there was a major change when the census was done in 2002.

Contribution agreements provided \$32.2 million in revenue in 2002-03. These agreements are negotiated with the federal government and allow the province to recover a portion of the cost of programs. The ten largest agreements are listed in Exhibit 8.3. Some of these agreements provide a fixed contribution while others provide cost sharing on a percentage basis. And the programs are listed there with the amounts for 2002-03.

Most federal/provincial agreements require that claims be prepared, audited and submitted to the federal government to receive payment. Many agreements also provide for advanced payments to be supported by a final annual claim.

When we last reviewed Federal Claims in 1992 the Claims section of the Department of Finance was involved in the preparation and audit of claims. The objective of the Claims Section was to ensure that every shareable expenditure was claimed on a timely basis. While the Claims Section was responsible for most claims, some remained with various departments.

At the time of our audit all claims were prepared by the department responsible and a few were audited by the Office of the Comptroller. The audited claims include the Infrastructure Program, Promotion of Official Languages and a few small programs depending on the agreements in place

each year. There was no centralized monitoring by the Office of the Comptroller except to the extent that the amount of revenue receivable at year end is obtained for the preparation of the Public Accounts.

As we have reported in the past there are no policies or guidelines for use by departments in preparing federal claims. Many of the agreements outline a claiming process but it is not always followed. In our view, there should be a clear direction on claims preparation, monitoring and followup of outstanding claims.

And the recommendation is Provincial Treasury should provide direction to departments regarding their role and responsibility related to the preparation, monitoring and accounting for the federal/provincial claims.

Wilbur MacDonald (PC): I have a question.

Jim Bagnall (PC) (Vice-Chair): Wilbur MacDonald.

Wilbur MacDonald (PC): Could you explain to me what the Provincial Comptroller, what's his role and how broad is that role?

Colin Younker (Provincial Auditor): He's responsible for the financial records of the province and the accounting systems and processing the bills and payments and collecting the money. That would be his overall responsibility.

Wilbur MacDonald (PC): Does he have big staff?

Colin Younker (Provincial Auditor): Sorry?

Wilbur MacDonald (PC): Does he have a big staff?

Colin Younker (Provincial Auditor): I'm not sure of his exact staff now. I know he's down one staff in current time but I'm not sure of his total staff.

Wilbur MacDonald (PC): The other thing I think that is significant is that I can quite remember when the federal government contributed 55 per cent of the budget of the province. So now we're down to 35 per cent and that must be an indication

of how far, how quick the province has moved, you know, in being able to raise its own funds. It shows that the economy of the province has increased that much. That, I think, is significant. There was a lot of concern back in the 80s and perhaps even in the 70s and so on, that the province couldn't, you know, couldn't raise enough money to support and that's why the federal . . . the budget I suppose was a lot lower, there's no question about that. But it's an indication overall that the province has been able to expand its economic base and we don't rely so much on the federal government. If the province continues to expand I suspect that 35 per cent will continue to lower. There's nothing wrong with either way but as long as the economic base of the province can continue to expand that it's an added benefit for our province.

Jim Bagnall (PC) (Vice-Chair): Dr. McKenna.

Dr. David McKenna (PC): Yes, getting back to the claims part, do you think it would be better if Treasury took over all the claims for all the departments or just direct policy of departments? Which would be the best way to get the biggest bang for the buck and get better control because right now it's sort of . . .

Colin Younker (Provincial Auditor): I think either policy would work if it worked. And I think what we found and what this report shows and what we still found in 2005 is that there is a delay in the claims being processed. So the claims can be made anywhere as long as they're being made. Now the direction could come from the Comptroller's office and the followup basis to make sure that each department's doing the claims and following up on them or they could be staffed to do them themselves. The important thing is that they're done. There was a decentralization between 1992 and the current time.

Dr. David McKenna (PC): How long a delay is it in a lot of cases? Are we talking like sometimes six months or a year?

Colin Younker (Provincial Auditor): We have some examples here in the next part.

Dr. David McKenna (PC): Okay, sorry.

Jim Bagnall (PC) (Vice-Chair): Continue.

Colin Younker (Provincial Auditor): The timing of cash receipts from the federal government affects the amount of money the province needs to borrow the short-term and therefore impacts on interest costs. We reviewed the major agreements that provided for advances or interim payments. The most common provisions allowed for quarterly advances but terms vary from monthly to an advance at the beginning of the year.

We found many agreements that allowed for advances or payments on a certain basis that were not being followed by the departments. To evaluate the impact of the delay in receipts we compared actual receipts to potential receipts for the most recent three fiscal years. In total the delay in claiming was estimated to cost the province approximately \$700,000 in interest charges from April 1st, 2000 to December 31, 2003 for claims related to the three previous fiscal years.

The Agreement on Minority and Second Language Education provides for three advances and a final claim each year for the main agreement and an advance at the start of the year and final claims for supplementary agreements. The department typically makes one claim which has been getting later each year and was not complete as of December 31st, 2003 for the March 31, 2003 year end. We estimate that the cost to the province in interest charges from April 1, 2000 to December 31, 2003 was approximately \$365,000. A significant portion of this results from the supplementary agreement on the Summerside French School. Advances and claims recoverable as far back as June 2000 were not received until April 2003.

Under the Youth Justice Agreement, Section 23 (1) provides for Canada to make quarterly payments during the year. The department historically makes one claim late in the following year. As of December 31, 2003 the March 31, 2003 claim had not been finalized. We estimate that for the past three fiscal years the delayed receipts cost the province over \$235,000 interest from April 1, 2000 to December 31, 2003. For the year ended March 31, 2002 payment was not received until March 2003.

The Promotion of Official Languages Agreement allows for an initial and a final payment but has

historically been claimed after the year end. As of December 31, 2003 final claims had been prepared for 2001-02 and 2002-03 but had not been submitted. Interest costs were estimated at approximately \$125,000 from April 1, 2000 to December 31, 2003.

The other agreements we reviewed also had claims that were late but the impact was not significant in relation to those discussed in the previous paragraphs. In our view administration of federal claims should be improved to ensure claims are submitted on a timely basis.

And our recommendation is all claims under federal/provincial contribution agreements should be submitted and collected on a timely basis.

Jim Bagnall (PC) (Vice-Chair): Wayne Collins.

Wayne Collins (PC): Thank you. Mr. Younker, have indeed these been acted upon and are we claiming faster now to save ourselves some interest dollars?

Colin Younker (Provincial Auditor): No.

Wayne Collins (PC): We're not. What's involved in staying on top of this as a claim? I mean is it just a matter of, you know, putting it on your calendar and saying that at each quarter make sure you get this claim in? Is it as simple as that?

Colin Younker (Provincial Auditor): Yes. Each claim has a process to it and they can just be marked, timed and followed up on. There should be a follow-up procedure to make sure the claim is being made.

Wayne Collins (PC): Wouldn't necessarily be from an administrative point of view overly strenuous to do that four times a year instead of once a year?

Colin Younker (Provincial Auditor): No. Not that I'm aware of, no.

Wayne Collins (PC): So we could save hundreds of thousands of dollars here if we just mark it on the calendar to get it done by a certain date.

Jim Bagnall (PC) (Vice-Chair): Colin, a question for you. Is it all on-I realize we are definitely slow

in submitting claims-but also is part of that calculation slow on receiving our payments after? Because I notice that once claims went in on some of the issues it was over a year before we got payment.

Colin Younker (Provincial Auditor): Yes, could be the case too. That also could be the case.

Jim Bagnall (PC) (Vice-Chair): So we're not paying all that interest based on-part of it is and we all know that part of it is-but also the other part of it is that we're waiting up to a year to receive our payment after our claim goes in.

Colin Younker (Provincial Auditor): Yes, that could be so. But still we'll be looking for followup on the claim. Phone them up, say where's the money.

Jim Bagnall (PC) (Vice-Chair): Okay. Richard Brown.

Richard Brown (L): There used to be a person down there, Stu Dennis, wasn't it? Yes. That was his job just to keep the federal money coming in as quick as we could get it and he was let go under the retirement package 2000. So is it a recommendation maybe we should get somebody like him back to ensure . . . like it is a lot of money. I know the federal transfers are just a computerized cheque every week we get from Ottawa. How much is that running every week-a couple million, 10, 20 million every two weeks?

Wayne Collins (PC): Not enough.

Richard Brown (L): Never enough. Anyway do you recommend that we hire, bring someone back? Would it justify that?

Cletus Dunn (PC): Who's responsible for that right now?

Richard Brown (L): No one.

Colin Younker (Provincial Auditor): Should be the Comptroller's office would be responsible for collecting the money for the province so they should be providing the direction and doing the followup to make sure the departments are making these claims and getting the money in.

Richard Brown (L): Stu left.

Cletus Dunn (PC): He was an employee of the government.

Richard Brown (L): Yes, the Comptroller's office. He'd be on the phone all the time trying to get the cash.

Jim Bagnall (PC) (Vice-Chair): Leader of the Opposition.

Honourable Robert Ghiz (L): I just want to ask another question back on the payments received on equalization and CHST. So they are received every two weeks and at the end of every quarter they're readjusted based on what they anticipate will be the contribution. So if the government is taking in, let's say \$240 million a year in equalization. So that's \$10 million every two weeks. They'll know at the start of a new quarter that revenue is in fact going down. Shouldn't they?

Colin Younker (Provincial Auditor): Yes. Payments should state that the quarterly . . .

Honourable Robert Ghiz (L): So if a government is really doing its job it should in effect make adjustments after a quarter for their spending. So instead of, let's say, building it all up and then making one large round of cuts they should say, okay, I've got \$10 million coming in, I'm down to \$9.5 million every two weeks. Shouldn't I try and save \$500,000 now instead of a whole lot of hurt coming later on?

Colin Younker (Provincial Auditor): If they're going to operate within their revenue they would make the adjustments as they go along.

Honourable Robert Ghiz (L): They should do that.

Jim Bagnall (PC) (Vice-Chair): Wayne Collins.

Wayne Collins (PC): I just want to expand on that little bit by asking a further question. Are these adjustments quarterly for the current year or are these adjustments that actually go back to previous years?

Colin Younker (Provincial Auditor): They involve a number of years.

Wayne Collins (PC): Yes, it isn't just that year alone you're talking about. These adjustments-if I

remember our little primer we were given one time on equalization-that this is like going back several years. So it isn't quite as simple matter of saying we're dealing only with the current year.

Colin Younker (Provincial Auditor): It takes four years for each year.

Wayne Collins (PC): Thank you. Four years to try to stay on top of it.

Honourable Robert Ghiz (L): Yes, you know how much revenue that's coming in.

Colin Younker (Provincial Auditor): You still would know your amount.

Honourable Robert Ghiz (L): Yes.

Richard Brown (L): On equalization . . .

Jim Bagnall (PC) (Vice-Chair): Richard Brown.

Richard Brown (L): Thank you, Sir. The Leader of the Opposition is right. They'd know on the Monday when the cheque is deposited electronically in the bank that, hey, we're supposed to get \$10 million this cheque. We're only getting \$9 million. There's been a major adjustment here. They know right away. For the Treasurer to get up at the end of the year and say, geez, we never knew anything about this. We just all of a sudden were told this massive adjustment was made and he's told every second week what adjustments are being done. Now other provinces . . .

Jim Bagnall (PC) (Vice-Chair): Mr. Brown, are you asking a question to the Auditor General?

Richard Brown (L): Yes.

Jim Bagnall (PC) (Vice-Chair): Okay.

Richard Brown (L): Auditor, what other provinces do too is in their budgets they have equalization for current and then they have prior year adjustments in their budgets so you can see okay, we're guaranteed this money for this year or that's the formula for this year and here's the adjustments they've got calculated. Do you think we should present equalization as other provinces do, current year and prior year?

Colin Younker (Provincial Auditor): I'd like to

have a look at how the other provinces do it first.

Richard Brown (L): Because that way, in New Brunswick you can see, okay. There there's prior year adjustments and you can see that, okay, equalization is affected for prior years. But for the Treasurer to say-I didn't know about this. Like the Leader of the Opposition says every second week. Now, one other question. Do we do an audit on the equalization formula? Like we depend on Ottawa to say okay, you're getting \$250 million. Has there ever been an audit done from your end to say according to the formula, according to the calculations that's what we should have received?

Colin Younker (Provincial Auditor): No.

Richard Brown (L): So shouldn't we doing that? Like, if somebody sends me a cheque I'd be saying okay, did I get the proper amount? You know, is that done. I want to make sure that . . . somebody in Ottawa could say, oh, missed a number. Like it's 20 formulas, it's 20 indicators or 25 indicators. If somebody put a wrong indicator in there one way or the other that could mean millions to us. So each quarter are we checking out what their numbers are against our numbers? Or do we just take their formula?

Colin Younker (Provincial Auditor): We rely on the federal.

Richard Brown (L): So the federal claim guy, if we had the federal claim guy back, person I should say, who's after the road agreements and child care agreements and the CHST agreements and the Equalization agreements he or she could be looking at that all the time and making sure we're getting our proper amount.

Colin Younker (Provincial Auditor): Could be part of his job, yes.

Honourable Robert Ghiz (L): I've got another quick question.

Richard Brown (L): I think you should recommend that.

Jim Bagnall (PC) (Vice-Chair): Leader of the Opposition.

Honourable Robert Ghiz (L): Thank you. I'm not sure if you've reviewed the new equalization

agreement but we really don't have to worry about this any more. Equalization's guaranteed now at a certain rate and it has to grow every year I guess for the next five years.

Wayne Collins (PC): Is the agreement.

Honourable Robert Ghiz (L): Yes, is the agreement. Well, that's the most recent deal signed.

Cletus Dunn (PC): Depends on your partners. BC could get out of the agreement which would allow more money to be shared among the rest. The pot stays the same, or grows to the same amount. But if BC drops out of the agreement then it's divided among lesser amounts. It could improve our situation.

Jim Bagnall (PC) (Vice-Chair): Continue Mr. Auditor.

Colin Younker (Auditor General): The next section is the Financial Statement Audits and there's an Introduction on page 93 and then we move into the Public Accounts on page 94. This would be for the Public Accounts for the year ended 2003 in this report.

The Public Accounts include the annual financial statements of government and are the primary source of information on government's stewardship of public funds both to Islanders and to the Legislative Assembly.

The Public Accounts are prepared by the Comptroller and tabled by the Provincial Treasurer in the Legislature as required by the *Financial Administration Act*. According to the Act, the Public Accounts must contain the Financial Statements of the Operating Fund and the Consolidated Financial Statements of the province, along with any other statement required by the Act to be presented. The Consolidated Financial Statements provide the most complete information about the operating results and financial position of the province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies.

The Public Accounts for the year ended March 31, 2003 consist of two volumes:

- Volume I contains the Consolidated and

the Operating Fund audited financial statements.

- Volume II contains the audited financial statements of the Crown corporations and agencies.

In accordance with the *Audit Act*, we performed an audit of the Public Accounts of the Province for the year ended March 31, 2003. The objective of our audit was to express an opinion on the financial position and operating results of the government. Our audit reports on the Consolidated Financial Statements and the Operating Fund Financial Statements for the year ended March 31, 2003 did not contain any qualifications or reservations.

Under Section 17 of the *Audit Act*, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the Auditor's Report for each of these entities when performing the audit of the Public Accounts.

This report contains comments and observations arising from our audit of the Public Accounts for the fiscal year ended March 31, 2003.

Honourable Robert Ghiz (L): I have a question.

Jim Bagnall (PC) (Vice-Chair): On what?

Honourable Robert Ghiz (L): Or you were just about to read through this, then? Okay, you go ahead and read through the numbers.

Jim Bagnall (PC) (Vice-Chair): Let him finish that and then. . .

Honourable Robert Ghiz (L): Thank you, Mr. Chair.

Colin Younker (Auditor General): Financial Highlights - Following is a comparison of revenue and expenditure for the past five years from the Consolidated Financial Statements.

Provincial Revenue ranged from 515. in 1999 to 632. in 2003.

Federal Revenue from 359.7 to 344.8 between 99 and 2003.

Expenditures from 846.6 to 1,060.8; and the Surplus (Deficit) from 28.1 to 83.8 deficit.

Financial Statement Presentation - For the year ended March 31, 2003, the Consolidated Financial Statements reported. . .

Honourable Robert Ghiz (L): Now I've got a question. . .

Jim Bagnall (PC) (Vice-Chair): The Leader of the Opposition, go ahead.

Honourable Robert Ghiz (L): So this now goes back to some of the points I want to make, the 2003 year, 83.8, that's the \$125 million year now? Or is that the \$83 million year?

Colin Younker (Auditor General): In 2004, it was 125.

Honourable Robert Ghiz (L): In 2004, it was 125. What was the original one on the 2003 year?

Colin Younker (Auditor General): That was the original one, it's now 54. It was 54 in comparative to the 2004 year. This was printed before the. . .

Honourable Robert Ghiz (L): Before the 2004. . .

Colin Younker (Auditor General): . . . 2004 statements were done.

Honourable Robert Ghiz (L): Exactly. So here's just where I have a quick question. Let's pretend I'm the Provincial Treasurer for a second and I'm sitting in my office and in 2002, I see cheques coming in every two weeks. So basically those cheques are going to equal as close as you can get to \$410 million coming in. Am I correct? So it would be 20 million; it would be like \$28 million coming in every two weeks just off the top of my head.

Colin Younker (Auditor General): In 2002.

Honourable Robert Ghiz (L): Yes, in 2002; so in 2003, when revenues are going down, they would know that revenues are going down from the federal government because the cheques coming in every two weeks would be smaller than the year before, would they not?

Colin Younker (Auditor General): Well in the 2003 year, in November 03 there was an adjustment of approximately \$42 million at that

time based on the Census.

Honourable Robert Ghiz (L): So did they just take it all right back at once?

Colin Younker (Auditor General): We reflected that adjustment in to calculate the \$344.8 million number because we knew that it was going to be made. The adjustment was made so it was based on 03 and prior years.

Honourable Robert Ghiz (L): So when would they know that?

Colin Younker (Auditor General): They knew that, it came, the adjustment was made in November 03. We reflected it in the March 03 statements because they weren't complete at that time.

Honourable Robert Ghiz (L): Okay, but the cheques coming in, would they be smaller than the year before?

Colin Younker (Auditor General): The cheques would start to be smaller after the adjustment.

Jim Bagnall (PC) (Vice-Chair): After November.

Colin Younker (Auditor General): After November 03.

Wilbur MacDonald (PC): Mr. Chairman.

Jim Bagnall (PC) (Vice-Chair): Mr. MacDonald.

Wilbur MacDonald (PC): Was that adjustment not based on statistics on—they had overestimated the population?

Colin Younker (Auditor General): Yes, it was based on the census.

Wilbur MacDonald (PC): So all the four years previous to that, all the adjustments or all what they considered was the amount owed to the province was based on the population. They overestimated the population all way through those four years, did they not or three years? Statistics Canada only does the population every four years. So we're going to have at least three years based on an estimate of population and that's where part of the problem comes in. If you estimate the population to be low or above what it is, then

you're in for a real shock. If it's the other way around, you would have a bonus. You would get an adjustment.

I sometimes question how come the statistics were so far out because it seems to me the province is increasing its population if you look at all the housing and all the apartments and everything that's going up. It's hard to understand how they overestimated so much the population. And of course, that's no fault of anybody if you're estimating. You can be out. But that is why there was such an adjustment in that year. Is that not true?

Colin Younker (Auditor General): Yes, in that census there was four years where they were revised downward, the population.

Jim Bagnall (PC) (Vice-Chair): Richard Brown.

Richard Brown (L): Thank you, and that brings me back to my original point. If we had a person monitoring these indicators in the formula, we would have recognized that earlier than the federal government because let's admit, they'd be just taking their statistics in Ottawa off the websites or that but somebody here would know that okay, our population is not 140,000 people because we know the birth rate and migration and immigration. We'd know that. That comes back to my point.

We should be monitoring the indicators much more closely and make sure that these indicators are correct and that they're being followed instead of just taking some bureaucrat in Ottawa's plugging a number in the computer and we should be able to say—no, hold it now. These are wrong numbers. But hey, we had a good time. I could just picture down at the provincial building. Geez, they're overestimating the population. We're getting a lot of money. Let's enjoy it while it's here. There will be an adjustment come later but hey. .

Jim Bagnall (PC) (Vice-Chair): Mr. Brown, do you have a question for the auditor, please?

Richard Brown (L): Okay, when will we be getting the Public Accounts this year? We're the last province. We're the smallest province in the country and we're the last to get it. Is there a correlation there that the last is the smallest or have you received the statements yet?

Colin Younger (Auditor General): We haven't received the statements yet, no.

Richard Brown (L): How long will it take you to do the statements when you receive them?

Colin Younger (Auditor General): That's what condition they're in.

Richard Brown (L): Is this later? Is this, yes, yes. They may try to get her over the next election.

Colin Younger (Auditor General): It depends on the amount of audit work we have to do. It depends on the number of adjustments.

Honourable Robert Ghiz (L): Most likely a lot.

Richard Brown (L): So when should you receive them in order to get them in like, let's say Ontario, they'll have theirs out in October. We'll have ours when? October of next year?

Colin Younger (Auditor General): We recommended that they should be out by the first of November. I think we've recommended that in the past.

Honourable Robert Ghiz (L): You should be getting them tomorrow or today. Today's November 1st.

Richard Brown (L): So we're getting the Public Accounts tomorrow then.

Colin Younger (Auditor General): We've recommended that you should get them by the first of November. That would be a reasonable period of time.

Richard Brown (L): So what's the problem?

Colin Younger (Auditor General): It's the information not getting to us in order to do our audit, that's the problem. It's just not getting to us.

Richard Brown (L): So, do you get the Crown corps? The law says the Crown corps are supposed to be in, in June. Do you get those when they come in?

Colin Younger (Auditor General): We get them

as they are . . .

Richard Brown (L): You've indicated in the previous reports that the Crown corps send them in when they want to send them in.

Colin Younger (Auditor General): We don't have them all by June, no.

Richard Brown (L): You don't?

Colin Younger (Auditor General): No.

Richard Brown (L): But that's breaking the law then?

Colin Younger (Auditor General): It's breaking the Act.

Richard Brown (L): The Financial Administration but we don't care about the law.

Honourable Robert Ghiz (L): We proved that in Polar.

Colin Younger (Auditor General): I'm not sure of the number.

Richard Brown (L): So when do you recommend you should get the Public Accounts from the Comptroller's Office in order for you to get them out November 1st? When should you get them? General Motors can have theirs out in six months. I don't know why we can't but. . .

Colin Younger (Auditor General): If we have them by the first of September, we could. . .

Richard Brown (L): So you're two months behind already.

Colin Younger (Auditor General): . . . we can do our job.

Richard Brown (L): So we're assuming now that we could be in January. Like January, February, before we get the next set of reports.

Colin Younger (Auditor General): Possibly, yes.

Richard Brown (L): So we'll not get Volume I this year then, the way things are going right now?

Colin Younker (Auditor General): At the current rate, unless - it depends how they come. I can't comment on this.

Richard Brown (L): So we were promised in the Legislature, Mr. Chairman, that we'd be receiving this stuff. We haven't even received our first quarterly layout yet, you know, Mr. Chairman, and I recommend to you that. . .

Jim Bagnall (PC) (Vice-Chair): Don't refer any questions to me. I can't answer them. We have the Auditor General here for any financial questions. Direct your questions to him.

Richard Brown (L): Yes, but my point to the committee is, my point to the committee is, Mr. Chairman, that we should be insisting as a committee, a Public Accounts committee that this information be made available as soon and as quick as possible in order for things to be adjusted. Like to be now, the Auditor not even to have the Public Accounts information from the Comptroller's Office, you know, and for us not to be receiving the Public Accounts until well into the next year. Like we, as a committee, should be demanding this and I would make a recommendation to this committee that we call the Comptroller in and I'll be moving a motion onto that. Call the Comptroller in and seeing why the Comptroller cannot have the books over to the Auditor in order for us to get our audited financial statements in time. That's a recommendation I'll be making in new business.

Jim Bagnall (PC) (Vice-Chair): Okay, honourable Auditor General, continue please.

Richard Brown (L): Thank you, Mr. Chairman.

Unidentified: Honourable?

Jim Bagnall (PC) (Vice-Chair): To put up with this, he has to be. Continue.

Colin Younker (Auditor General): For the year ended March 31, 2003, the Consolidated Financial Statements reported a deficit of \$83.8 million compared to a \$65.1 million deficit reported by the Operating Fund. The Operating Fund results are generally significantly different from those contained in the Consolidated Financial Statements. Of the \$18.7 million difference in 2002-03, \$12.9 million pertains to the operating results of the PEI Special Projects Fund and the

remaining \$5.8 million relates to the operating results of Crown corporations and agencies within the reporting entity which are included in the calculation of the consolidated surplus or deficit.

Following is a breakdown of the major components of the surplus (deficit) as recorded on the Consolidated Financial Statements for the past five years. There's a schedule there showing the breakdown between the Operating Fund, Special Projects Fund, the Agencies, Boards and Crown Corps.

Deficits of Crown agencies decreased in 2003 from 2002 largely due to decreased acquisitions of capital assets. The consolidation process requires that accounting policies of Crown agencies be adjusted to conform to the policies of government. Since the province records the full cost of capital assets as an expenditure in the year of purchase, adjustments are required to the operating results of those agencies which are capitalizing assets.

Honourable Robert Ghiz (L): I have a question, Mr. Chair.

Jim Bagnall (PC) (Vice-Chair): Leader of the Opposition.

Honourable Robert Ghiz (L): Thank you. Just back on the Consolidated Surplus (Deficit) there. Back in 1999, I guess they set up a Special Projects Fund so that's where the surplus was going, is that what went on there?

Colin Younker (Auditor General): Yes, they were just put into Special Projects Fund but in a consolidated basis, it's been reported as if it was all one so it's in the \$28.1 million surplus there.

Honourable Robert Ghiz (L): Okay.

Colin Younker (Auditor General): Reconsolidated back in as if it was still part of the entity.

Honourable Robert Ghiz (L): So what happened to that money? They just spent it?

Colin Younker (Auditor General): The moneys been spent over the last. . .

Richard Brown (L): (Indistinct)

Colin Younger (Auditor General): . . .since that time and on page 98, there's a breakdown on where that money has been spent.

Honourable Robert Ghiz (L): Okay, what about, did any of the money - I'll just ask you without taking a look at the thing - how much went to pay down the debt back in 1999?

Colin Younger (Auditor General): Those funds weren't used to pay down the debt.

Honourable Robert Ghiz (L): So we had surpluses but they didn't pay down the debt?

Richard Brown (L): They put them aside.

Colin Younger (Auditor General): They were put aside at that time and put into these funds.

Honourable Robert Ghiz (L): Would you - considering we've got now about a \$1.3 billion deficit, two billion, I guess without counting our assets, wouldn't it be a good idea perhaps, like does the legislation just read that it goes into Special Project Funds? Like wouldn't it be better if it said—half should go towards Special Project Funds and half should go towards paying down our debt?

Colin Younger (Auditor General): There's no legislation in effect but a prudent management would be to pay down some debt in the years that you have surpluses. The federal government has been doing some of that in the last number of years.

Honourable Robert Ghiz (L): Yes, so don't you think it would be a good idea if perhaps we maybe adjusted that legislation so it said—in the event of future surpluses, a certain amount should go to pay down the debt. So you just don't have them. . .

Colin Younger (Auditor General): I think some of the provinces have legislation in place. The feds have legislation saying that.

Honourable Robert Ghiz (L): So would you recommend something like that? Like I think we should do something like that. You're the Auditor General. You look at the finances of the provinces. You know a lot more than I do on finances.

Colin Younger (Auditor General): Over time, it would be nice to have the debt paid down.

Honourable Robert Ghiz (L): So it would be a good idea perhaps to put in some legislation.

Colin Younger (Auditor General): You could put in some legislation. That would be one way to help ensure that it was done.

Honourable Robert Ghiz (L): Okay.

Cletus Dunn (PC): So that would present a surplus (Indistinct) contingency fund so then it's part of the operational cost? Any surplus has to go against the debt.

Richard Brown (L): No, that's why they set up this special fund.

Cletus Dunn (PC): Well I'm saying, that's part of the operational costs. So it wasn't taken out of surplus. If it had of been just designated a surplus, then it has to go against the debt.

Honourable Robert Ghiz (L): So this was so they wouldn't do the responsible thing and pay down our debt.

Cletus Dunn (PC): (Indistinct) the same way.

Jim Bagnall (PC) (Vice-Chair): Okay, one at a time, please.

Colin Younger (Auditor General): Well if you have a surplus, it's automatically going to reduce your net debt.

Cletus Dunn (PC): That's right.

Colin Younger (Auditor General): But if you have a policy of taking some of your surplus and retiring some of your debentures, then you maybe retiring some of your long-term debt which maybe prudent to do.

Jim Bagnall (PC) (Vice-Chair): Richard Brown.

Richard Brown (L): Mr. Chairman, I was there in 1999 when the *Financial Administration Act* was changed in order to set up these Special Projects Funds and we have to understand these Special Projects Funds are administered by the Premier,

the Provincial Treasurer and one other minister. They are not administered through the House. So we have no say in how the money is spent. So what happened in 1999. . .

Jim Bagnall (PC) (Vice-Chair): The minister through Special Warrants through the House.

Richard Brown (L): . . . yes, but that's after the fact.

Jim Bagnall (PC) (Vice-Chair): They were administered through the House though. Don't make false statements.

Richard Brown (L): But they're after the fact. We have no budgetary role in it. In 1999, they knew they were getting a bunch of more money coming in from Ottawa and prudence would have said—look, let's drop her to the bottom line and let's pay some debt. No, what happened was—no, no, let's change the *Financial Administration Act*. Tuck all that money aside that we're getting in from Ottawa and by the way, never heard a complaint when we got the extra 46 million from Ottawa in 1999 and 2000. Never heard a complaint about that big windfall we got, you know. Four years later, we get to pay it back and we're blaming everything on that but we never said a word about it in 2000.

So Mr. Chairman, I would recommend that this committee would disallow Special Projects Funds from now on and do it.

Cletus Dunn (PC): (Indistinct)

Wayne Collins (PC): All the good things that were accomplished.

Richard Brown (L): But all the good things that were accomplished and look, what's happening today. We're having layoffs. People are getting early retirement. That's the result of it, Mr. Collins.

Jim Bagnall (PC) (Vice-Chair): Mr. Brown.

Richard Brown (L): You partied, you had a good time.

Jim Bagnall (PC) (Vice-Chair): Mr. Brown.

Richard Brown (L): Thank you, Mr. Chairman.

Jim Bagnall (PC) (Vice-Chair): Thank you, continue Auditor General.

Honourable Robert Ghiz (L): (Indistinct) wasn't there yet.

Richard Brown (L): Yeah, you came in at the bad time.

Colin Younger (Auditor General): The Consolidated Financial Statements provide a complete picture of government operations by including the activities of Crown corporations and government agencies. Volume I of the Public Accounts contains the audited financial statements of the Operating Fund and the Consolidated Financial Statements. To avoid confusion and to ensure the Consolidated Financial Statements receive their proper attention, Volume I of the Public Accounts should only contain the Consolidated Financial Statements.

Recommendation - Volume I should contain the Consolidated Financial Statements. The Operating Fund Financial Statements only relate to part of government operations and therefore should be included in Volume 2 of the Public Accounts with Crown agencies. That was done for 2004.

Special Projects Fund - The Prince Edward Island Special Projects Fund was established under the *Financial Administration Act* effective March 31, 1999. Pursuant to the Act, the Lieutenant Governor in Council made regulations for the Fund. These Regulations established programs through which money can be disbursed, outlined the purpose of each program, determined eligibility criteria, and the approval and disbursement process.

The Province's Operating Fund provided total grants of \$48 million to the Special Projects Fund; \$1 million in 2000-01 and \$23.5 million in each of the previous two years. When expenditures are approved by the Special Projects Fund for designated programs a transfer is made back to the Operating Fund. When expenditures are made on each project, they are appropriated through the Operating Fund. Following are the balance sheet and statement of revenue and expenditures for the Special Projects Fund for the past five years.

There is also included a Statement of Revenue, Expenditures and Fund Balance and the Fund Balance has gone from 23.5 in 1999 to 3.4 at the end of 2003.

Expenditures were made by the following Funds within the Special Projects Fund in the past five years: The Health Care Stabilization Fund, Development Fund, Health Research Fund, Sustainable Resource Support Fund, Community Development Fund, Education Stabilization Fund for a total for each year.

The balance in the Special Projects Fund was \$3.4 million at March 31, 2003. Fund withdrawals of \$2 million were approved for 2003-04 in the Budget Estimates.

Richard Brown (L): Mr. Chairman.

Jim Bagnall (PC) (Vice-Chair): Mr. Brown.

Richard Brown (L): Thank you, Mr. Chairman. The current status of that fund - is it negative? Can the fund go in the negative?

Colin Younker (Auditor General): It can't go into negative, no.

Richard Brown (L): So once they spend that 1.4 million, the funds are. . .

Colin Younker (Auditor General): The funds are basically done.

Richard Brown (L): . . . that legislation so it's your opinion. . .

Colin Younker (Auditor General): I'm not sure of the legislation but the funds were (Indistinct) at that time.

Richard Brown (L): But it's your opinion we cannot budget a negative Special Projects Fund.

Colin Younker (Auditor General): Not to (Indistinct) I'd have to go back and check the legislation but I. . .

Richard Brown (L): As I understand it, it's in negative now.

Alan Moore: No, I think at the end of March 05, there was a balance of approximately a million

dollars left in that fund.

Richard Brown (L): 05?

Alan Moore: March of 05.

Richard Brown (L): Well we budgeted a bunch of money this year to. . .

Alan Moore: That was for Health Research, I think was the fund that it was put into.

Richard Brown (L): So once they spend all that windfall that they got from Ottawa in 1999 and 2000, 23.5 million each year, once that's gone.

Jim Bagnall (PC) (Vice-Chair): Okay, continue Auditor General.

Honourable Robert Ghiz (L): You think they're prudent managers (Indistinct)

Jim Bagnall (PC) (Vice-Chair): Honourable Members, the Auditor General is talking. Allow the Auditor General to continue.

Colin Younker (Auditor General): The largest single liability on the province's financial statements is its outstanding debentures, which account for \$1.09 billion of the province's \$1.9 billion liabilities. All of these debentures have been issued in Canadian dollars. The outstanding debentures can be broken down into public and private issues of \$948.9 million and Canada Pension Plan issues of \$140.3 million. The public and private issues either have a sinking fund requirement or the balance is repaid over the term of the debenture. The Canada Pension Plan issues are issued for a 20-year period and do not contain sinking fund requirements.

In September 2002, the province issued a 25-year, \$100 million public debenture. The debenture carries an interest rate of 6.1 per cent and will mature in 2027. The contributions to the sinking fund for this issue are 1.25 per cent per annum.

At March 31, 2003, the Sinking Fund for debentures (\$171.5 million) and the Debt Reduction Fund (\$57 million) held combined net assets of \$228.5.

The Debt Reduction Fund was established in June 2001 for the purpose of retiring debt and reducing

interest costs. The activity of the Debt Reduction Fund for the year is as follows: The Balance, April 1, 2002 - 85.9; Investment Income 5.5; Payment of Debentures 34.4; Balance, March 31st, 57 million.

Honourable Robert Ghiz (L): I have a question, Mr. Chair.

Jim Bagnall (PC) (Vice-Chair): Leader of the Opposition.

Honourable Robert Ghiz (L): Thank you. Back in 10.17 - the province has 1.9 billion in liabilities - what's that at now? Do you know?

Colin Younger (Auditor General): I don't have the current number.

Honourable Robert Ghiz (L): What's your most current number?

Colin Younger (Auditor General): 2004, I think is the last number, 2004.

Richard Brown (L): It's 2004, you see, if we would have had the statements, it would be right up to date.

Colin Younger (Auditor General): 1.95.

Honourable Robert Ghiz (L): 1.95 - so hopefully, that's how much money we have to pay back, right?

Colin Younger (Auditor General): That's the debt at the end of March 2004.

Honourable Robert Ghiz (L): So we have to pay that much back. Like when you say we've got a \$1.3 billion debt, really we have to pay back though \$2 billion?

Colin Younger (Auditor General): Yes, 1.95.

Jim Bagnall (PC) (Vice-Chair): Richard Brown.

Honourable Robert Ghiz (L): That will take a while.

Richard Brown (L): Thank you, Mr. Chairman. When this administration took power in 1996. . .

Honourable Robert Ghiz (L): Good governing.

Richard Brown (L): . . .there was \$146 million Market Contingency Fund in the Sinking Fund so there was an extra \$146 million there. There was a Market Contingency Fund there. So that was money - we had \$145 million more than what the funds required to be set aside, correct? So how much is left in that money? Like the Liberals set up a big bank account. There was \$145 million sitting there over and above what was required to pay down some of the debt. So what happened to the 145 million?

Colin Younger (Auditor General): It went into the Debt Reduction Fund and has been used to pay down debentures. The balance is 57.

Richard Brown (L): So we gave them 145 million starting out. We gave them lots of money.

Cletus Dunn (PC): Plus a billion dollar debt.

Richard Brown (L): No, no, gave \$145 million to pay down the debt and you run with it. You took the

Dr. David McKenna (PC): Okay, Mr. Auditor, continue, in the absence of the chair.

Honourable Robert Ghiz (L): You're the only one over on that side of the House with any fiscal responsibility anyway.

Richard Brown (L): I don't know. When it comes to (Indistinct)

Colin Younger (Auditor General): In previous years, we noted that a number of policy changes had occurred since the release of the Sinking fund Investment Policy several years ago. We recommended that the Sinking Fund Investment Policy be updated and approved by Treasury Board to reflect all changes to policies that have occurred since the Policy was released. Management has completed a revised Sinking Fund Policy draft but it has not been reviewed and approved by Treasury Board. That has been approved now.

PEI Master Trust - Investments of the Civil Service Superannuation, Teachers' Superannuation and MLA Pension Funds are consolidated into the Province of PEI Master Trust. Individual funds receive units in the Master Trust based on the net contributions and allocated shares of income and

expense. The investments are managed by investment managers external to government and an external custodian is responsible for accounting and record keeping. An Investment Advisory Committee, with representation from government and plan members, provides assistance to Provincial Treasury with the investment of the Fund assets. The Fiscal Management Division of Provincial Treasury is responsible for overseeing the Master Trust.

A new framework for investment of fund assets was developed and approved by Executive Council for implementation as of April 1, 2002. The new asset mix is based on a targeted 65/35 split between equities and fixed income investments while the previous asset mix had a target 60/40 split between equities and fixed income investments. The new investment framework provides for an increased percentage of investment in non-Canadian equities. The financial markets have improved since March 31, 2003, and at December 31, 2003, the pension fund assets balance as reported by the custodian was \$761 million. The following table provides a breakdown of the Master Trust Investments as of March 31, 2003 with comparative information at March 31, 2002. The balances combine balances invested with the Investment Managers and balances held in individual accounts of the participants.

The PEI Master Trust Investments - they are listed there, the investments and total 626 in 2003.

The investments totalling \$626 million include amounts which four of the five Master Trust fund managers have invested in their own pooled funds. The March 31, 2003 market values of these investments total \$227 million.

The market value of the pension plan assets held by the Master Trust was \$626 million at March 31, 2003 compared to a market value of \$744 million at March 31, 2002. The following table illustrates the components giving rise to the decrease as well as the rate of return on trust assets. The summary there shows the plan assets negative rate of return at 15.4 per cent in 2003 compared to 7.3 per cent rate of return in 2002.

Cletus Dunn (PC): (Indistinct)

Colin Younker (Auditor General): It was the

market itself.

Cletus Dunn (PC): The market itself. Did that change in 2004?

Jim Bagnall (PC) (Vice-Chair): Mr. Dunn, a question?

Colin Younker (Auditor General): By 2003, December 31, 2003, the assets had gone back up to 61. There was (Indistinct)

Wilbur MacDonald (PC): Interesting, I talked to (Indistinct)

Colin Younker (Auditor General): What was that?

Wilbur MacDonald (PC): The latest I heard was 888 million.

Jim Bagnall (PC) (Vice-Chair): Honourable Members, you should be recognized because the mike is not on for half of what you're saying because you're not recognized so until he can catch up. So if you want to speak and we'll keep it going. Wes MacAleer and then Richard Brown. Do you want a question?

Wes MacAleer (PC): No, I was just going to make a comment.

Jim Bagnall (PC) (Vice-Chair): Go ahead.

Wes MacAleer (PC): And ask the question - if we return to the Debt Reduction Fund, et cetera and I just comment that anytime we measure the liabilities of a financial entity, you have to make that in comparison to its capacity to pay. In other words, as the size of the economy of the province grows, its capacity to pay increases.

So measurements like debt per capita or debt to equity ratio is important and I was just wondering if the Auditor had any statistics with respect to that in terms of how we measure up relevant to other governments, et cetera or has the debt capacity of the province increased and therefore, or I should say the debt capability of the province to pay on that increased. Because I agree that two billion dollars is a lot of money and I guess our concern should be is that out of line with the province's capacity to repay it?

Colin Younker (Auditor General): Yes, page 7 of this report and page 6, there's two numbers there. There's the net debt as a per cent of GDP where in 1999 it was a high of 33 and it leveled off to be 31 per cent as of 2003 so it wasn't weakened at that time but it wasn't improving. And then our net debt per capita, there's a chart on the next page which shows our net debt per capita for 2003 and for 1999 and I think we made the comment here that our, over those four years, ours increased the second highest in the country behind Nova Scotia. So our increase has been at a more rapid rate of our net debt per capita.

Wes MacAleer (PC): So we should be worried about it but we shouldn't be too concerned.

Colin Younker (Auditor General): It's the trend.

Jim Bagnall (PC) (Vice-Chair): Mr. Brown.

Richard Brown (L): Thank you, Mr. Chairman. Just to followup on the previous speaker. That's why previous governments have always discounted our ability to pay because unlike Alberta and unlike some of the other provinces, we don't have a huge amount of natural resources in order to tap into and that's why previous governments have always discounted our ability to pay because our GDP is contingent on federal transfers and a lot of federal things happening and a lot of that is out of our own control which I think, Mr. Chairman, it would be prudent for government to discount some of our indicators here because we don't have the natural resources as the other areas have.

Just one quick question there on the early retirements, when the government does early retirement packages and all that. I know when I was with the city, every time we wanted to do something with the pension plan or that, we'd always have our actuaries and do an analysis of what we were attempting to do. Before we made the decision of an early retirement or some sort of a package, there was always an analysis in front of us to say—okay, how will this effect the pension plan and how are we going to pay for it. Is that done before, when the 2000 early retirement package was done? Was there an analysis done or did they just go out and do an early retirement?

Colin Younker (Auditor General): I'm not sure, Richard, I'd have to check.

Richard Brown (L): Do you know under the current early retirement package, was that analysis done?

Colin Younker (Auditor General): I'd have to check and see.

Richard Brown (L): Okay, because you would agree that that would be prudent to be able to have your actuaries in and say—well here's what we're planning to do. How is this going to effect our pension plans?

Colin Younker (Auditor General): It's what effects the early retirement pension plan. Actuary evaluations are being done as of April 2005, the most current round.

Richard Brown (L): And will that take into effect the package that's available now or that will be delayed until 2006/2007?

Colin Younker (Auditor General): It should reflect what happens since they know about it. I don't think they've completed them. I don't even know if they're working on them yet but they will be done for the April 2005 point in time.

Richard Brown (L): And will you be able to come back the next time and tell us if there was an analysis done?

Colin Younker (Auditor General): Once you'll look at what the actuary does, you'll see if he did an analysis of that. I would assume that he would take that into account because it's done now. He would know that when he's looking at his numbers.

Richard Brown (L): But would you recommend that should be done before the package is done? You know, it's no good after saying oh, we had this wonderful package.

Colin Younker (Auditor General): It could be part of good planning to look at—that's part of your overall plan to look at how it's going to effect the pension plan.

Richard Brown (L): Because I know in the 2000 budget there was an early retirement package going to save 3.5 million or something and at the end of the day, it didn't save a nickel. It was there and then when your blue books came out, your Public Accounts, it just showed where there was

no savings. Okay.

Jim Bagnall (PC) (Vice-Chair): Continue Mr. Auditor.

Colin Younker (Auditor General): The Public Sector Accounting Board (PSAB)

PSAB is responsible for developing generally accepted accounting principles for the public sector. PSAB issues recommendations and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending, and gaining acceptance of accounting and financial reporting practices.

There have been significant changes to the province's financial statements over the years as a result of changes to address recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The 2002-03 fiscal year financial statements have for the most part been prepared in accordance with these recommendations. However, issues still remain to be addressed. The following comments summarize these issues.

Tangible Capital Assets - In January 2003, PSAB approved a new reporting model for senior governments in Canada. This new PSAB Section is applicable for years beginning on or after April 1, 2005, although, earlier implementation is encouraged. The most significant change to the province's financial statements is that tangible capital assets will be set up on the statement of financial position and amortized over their useful life on the statement of revenue and expenditure. This is a significant departure from the current accounting treatment where capital expenditures are expensed in their entirety on the Statement of Revenue and Expenditure in the year they are acquired and no value is recorded on the Statement of Financial Position. The proposed model will still highlight net debt but will include a value for tangible capital assets. The province has indicated its intention to set up tangible capital assets on the statement of financial position as of March 31, 2005 and they were actually set up on the March 31, 2004 statement.

Tangible capital assets are a significant economic resource managed by government and a key component in the delivery of many government programs. Providing complete information about

tangible capital assets and the related amortization in the summary financial statements demonstrates stewardship and shows the cost of using those assets to deliver programs.

The Public Accounts currently includes an unaudited schedule of tangible capital assets. The province has indicated its intention to set up tangible capital assets on the statement of financial position as of March 31, 2005. In the past, we identified a number of issues regarding the tangible capital asset schedule which need further examination. We have been advised that a number of adjustments have been made to costs in relation to the issues we identified and that work on the capital asset schedules is ongoing. We plan on completing our work on capital assets when the province finalizes their work. Following are areas previously identified as requiring additional attention:

- Presently values provided for land are incomplete. Historical cost information or best estimates need to be gathered and reported for land.
- Differences were noted in the historical cost assigned to buildings in the Schedule of Tangible Capital Assets compared to costs recorded in the Public Accounts for the related buildings.
- Capital Expenditures for roads were being amortized at 10 per cent on the declining balance basis. This area needs to be reviewed as some expenditures each year would be for repairs and maintenance to existing roads and not for the creation of new roads.
- The Draft Tangible Capital Asset Policy indicates that cost shall be net of any recoveries from other sources. We noted several instances where federal funding received for the purchase of various assets was not deducted from the total asset cost.

Richard Brown (L): Mr. Chairman.

Jim Bagnall (PC) (Vice-Chair): Just let him finish, oh it is finished, okay go ahead. Richard Brown.

Richard Brown (L): For those on the committee that don't think this committee can do anything and we're just here to listen, this is a thing

that this committee has recommended for a number of years, Mr. Chairman, and I got to say by going with the tangible capital assets accounting procedures that was pushed by this committee to government over a number of years has made an improvement in the presentation of the book so for those who just sit back and think we can't do anything. That's one of the things we did as a committee but the government will take the credit for it now. Thank you.

Jim Bagnall (PC) (Vice-Chair): David McKenna.

Dr. David McKenna (PC): My question is though at the next Public Accounts we're going to see a table or a list of all tangible assets the province owns and the value of each one?

Colin Younker (Auditor General): They were in the 2004 Public Accounts. They're grouped by totals.

Dr. David McKenna (PC): They're grouped by totals, okay.

Colin Younker (Auditor General): So the 2004 did have the tangible capital assets.

Jim Bagnall (PC) (Vice-Chair): Okay, continue.

Colin Younker (Auditor General): Consolidated Budget Estimates - For many years, we have recommended that government prepare Consolidated Budget Estimates rather than budgeting for the Operating Fund only. Since the province's annual surplus or deficit is the main measure of financial performance, financial statement users should be given sufficient information to compare actual results to budget. The Consolidated Financial Statements with corresponding consolidated estimates would be a more complete document for understanding and assessing trends in government financial operations and would demonstrate public accountability for government's financial performance. Consolidated Budget Estimates were prepared for the first time for the 2003-04 year.

PSAB Standards set as a basic requirement the inclusion of a consolidated budget with the Public Accounts. To facilitate meaningful comparisons, consolidated budgets need to be prepared and reported on the same basis as that used to

prepare the Consolidated Financial Statements. The 2003-04 Budget Estimates were prepared on a consolidated basis but we noted differences between the format used in the Budget and the basis used in the 2002-03 Consolidated Financial Statements. This will create difficulties in providing budget to actual comparison in the Public Accounts. It is our understanding that an alternative presentation will be followed in future years. To facilitate comparability, it is important the budget figures be prepared on the same basis as the actual results.

Timely Financial Statements - We continue to stress the importance of releasing the Public Accounts on a timely basis. Financial statements are an important source of information for decision makers. Their usefulness diminishes as time elapses and increased efforts are needed to have financial statements available on a more timely basis. The following schedule provides the dates that the Consolidated (Summary) Financial Statements for the years ended March 31, 2001, 2002, and 2003 were released for each jurisdiction in Canada.

Honourable Robert Ghiz (L): I have a question.

Jim Bagnall (PC) (Vice-Chair): Okay, can we just finish that and then once we finish that, I'll go back to your question.

Colin Younker (Auditor General): The *Financial Administration Act* requires each reporting entity to have audited financial statements completed within three months of year end and an annual report available to the public within six months of year end. Some entities, such as the Civil Service Pension Fund and the MLA Pension Funds, are not completing their financial statements on a timely basis.

Recommendation - The Public Sector Accounting Board recommendations related to tangible capital assets, consolidated budget estimates, and timely financial statements, should be followed.

Jim Bagnall (PC) (Vice-Chair): Leader of the Opposition.

Honourable Robert Ghiz (L): Thank you, Mr. Chair. You must ask each year why are you so late? What do they tell you?

Colin Younker (Auditor General): Well for this year part of it is they lost one staff member through the work for renewal so it's put them behind. It's put them behind in that area this year, that's the comments this year we've received.

Honourable Robert Ghiz (L): But we've been consistently late, except for 2003, I will admit we weren't dead last.

Jim Bagnall (PC) (Vice-Chair): When you ask the Auditor General, let him answer then before you go onto the next question, please?

Honourable Robert Ghiz (L): Okay, thank you.

Jim Bagnall (PC) (Vice-Chair): Thank you.

Colin Younker (Auditor General): On the 2004 statement, there was considerable time spent putting the tangible capital assets into the statements and getting that information done and getting the audit work done on that. It took quite a bit of time. Those are the last two years 05 and 04 years.

Jim Bagnall (PC) (Vice-Chair): Mr. Brown.

Richard Brown (L): Thank you Mr. Chairman. The *Financial Administration Act* requires each reporting entity to have audited financial statements completed within three months of the year end and an annual report available to the public within six months of year end. We didn't get Waste Watch report until last December, well a year over when they were supposed to report. What can we do in order to make sure that we get this stuff? They're not following the act. Legislation means nothing to them. What would other provinces do in this case?

Colin Younker (Auditor General): I'm not sure what the other provinces do or if there's any—what their problems are.

Richard Brown (L): Well maybe Mr. Chairman, through you this committee could probably say—the CEOs of these Crown corporations will not get paid until their financial statements are in. I have no problem in having that. You're giving a \$100,000 a year salary to run Waste Watch or to run one of our Crown corporations and you think you can sit back and just produce a set of reports when you want to or feel like it, well we won't pay

you.

Colin Younker (Auditor General): Honourable Member, are you directing the question to the Auditor General?

Richard Brown (L): No, I'm directing to the committee.

Jim Bagnall (PC) (Vice-Chair): Okay.

Richard Brown (L): We can do work here. We're just not here to listen to him. We're here to help government get things out a lot quicker and maybe that should be a recommendation of this committee is that we don't pay them until their financial statements are in on time. I bet they'll get it in then or we'll take pay off them or we'll deduct a little off. I bet we'll get them. But this is a serious matter here. Like the Auditor says, what's the use of getting financial statements a year or two years in advance, not in advance, two years late. It's no good and then we run off to IRAC saying, well IRAC will handle it.

Consolidated budget estimates - there was consolidated budget estimates but all it was, was the totals in last year's budget. Here is going to be the net result of this Crown corporation. Here is going to be the net result of this Crown corporation. I notice the other provinces have full details in their budget.

Colin Younker (Auditor General): They're doing some work on the budget process. It's ongoing, I'm not sure. . .

Richard Brown (L): So your recommendation is that there should be a schedule of each Crown corporation comparing budget to actual and the new budget.

Colin Younker (Auditor General): We haven't got there yet, have we, Allan? There's some other—we haven't got there yet. It would be good to see a budget for each Crown corporation, I guess.

Richard Brown (L): Like I notice New Brunswick or Nova Scotia, I think they have a committee just for Crown corporations. The Crown corporations go before the committee. The CEOs go before the committees and say—here's our Crown corporations. Here's how much money

we need. Here's how our organization - we don't do that here on PEI. Would you recommend that?

Colin Younker (Auditor General): We did recommend that back in the Crown corporation section of this report.

Richard Brown (L): And that hasn't been implemented because I asked some of the ministers the last time around, you know, are we going to do Crown corporations? No, there's one page. We're going to vote on it and that's it. So we haven't followed your recommendations.

Cletus Dunn (PC): (Indistinct)

Richard Brown (L): No, but this year's budget. This year's budget is a year old.

Honourable Robert Ghiz (L): This year's budget is a year old.

Richard Brown (L): This year - remember we wanted Kent Scales in and you couldn't find him for six months.

(Unidentified): (Indistinct).

Richard Brown (L): No, but he runs a big Crown corporation.

Jim Bagnall (PC) (Vice-Chair): Honourable Member - we're not into a back and forth here. I mean, if you have a question, you ask it. If you don't, we'll move on.

Richard Brown (L): Okay, my question is so this year's budget should include your recommendation is we should include all Crown corporations in more detail than just one line item.

Colin Younker (Auditor General): Each Crown corporation should have a budget and it should be up for review when the actual year is done. It can be part of the report or it can be somewhere but there should be a budget for each Crown corp.

Richard Brown (L): What do you think of a recommendation for the Crown corporations, the CEOs of these Crown corporations, if they don't have their financial statements in on time to deduct a little money from them or take their car away or take some of the perks away. Do you think that would get it in a little quicker?

Colin Younker (Auditor General): You'd have to put it in your legislation.

Richard Brown (L): To me, it's serious.

Colin Younker (Auditor General): You'd have to put it in the legislation, well it is serious because the stuff is not getting in on time.

Richard Brown (L): Yes, to me it's serious. You got the department, you got CCRA and you got the GST and claims and everything and people are given big fines when they're not in on time or they're getting penalties and everything but yet we let our Crown corporations get away. We'll give you a set of statements when we feel we want a set of statements.

Colin Younker (Auditor General): I agree, there should be a . . .

Jim Bagnall (PC) (Vice-Chair): Mr. Collins.

Richard Brown (L): Thank you, Mr. Chairman.

Wayne Collins (PC): Yes, Mr. Younker, just for the record regarding 10.29, are all the senior governments now as of April 1st, 05 - are they all on board with the new PSAB standards and reporting?

Colin Younker (Auditor General): By April, March 2006 will be the full first year. As far as I know, they are all going to be on board, as far as I know.

Wayne Collins (PC): So everyone is moving. They're all on the same page. Good.

Jim Bagnall (PC) (Vice-Chair): Continue, Auditor General.

Cletus Dunn (PC): I have a question.

Jim Bagnall (PC) (Vice-Chair): Oh Mr. Dunn, go ahead.

Cletus Dunn (PC): Going back to Mr. Brown's comment, I think you have to put more teeth in the *Financial Administration Act*. I'm not sure we have to cut salaries but I think there has to be more teeth in that Act to enforce what they set out to do. I guess I ask the Auditor, how do we put more

teeth in the act?

Colin Younker (Auditor General): That will be up to you fellows, as Legislators, what you want to put in to make sure it's done. It's there to be done now, so it's what you want to do to . . .

Cletus Dunn (PC): To enforce it.

Colin Younker (Auditor General): . . . to enforce it.

Jim Bagnall (PC) (Vice-Chair): Continue.

Colin Younker (Auditor General): The Pension Obligation - this is the pension obligations, the pension obligation arises when the pension entitlements owed to employees for services rendered exceed pension fund assets. The province recorded this obligation in the Public Accounts for the first time on March 31, 1994. The amount of the obligation at that time was \$345 million. To address this problem in 1995-96, the province made the first payment on the \$197 million in additional funding to be provided over 10 years to the Teachers' and Civil Service Superannuation funds. The last additional payments to the Teachers' and Civil Service Superannuation Funds of \$12.1 million and \$5.9 million respectively will be made on April 1, 2004. The additional payments, along with high rates of return on pension fund investments and increased contribution rates, helped reduce the obligation \$126.4 million at March 31, 1998. However, pension plan amendments and declining investment returns have caused this trend to be reversed.

The Public Accounts have reported the following total pension obligations during the past five years: In 1999, the net liability was \$157.8; and in 2003, it was \$329 million.

Decreases in pension assets of \$118.2 million have resulted in a significant increase in the unfunded pension liability at March 31, 2003. The pension fund assets decreased from \$744.8 million at March 31, 2002 to \$626.6 million at March 31, 2003. The financial markets have improved since March 31, 2003, and at December 31, 2003, the pension fund assets are reported by the custodian at 761.9 million.

Pension obligations are calculated on an actuarial

basis every three years. During the interim period, liabilities are estimated by the province by extrapolating the data from the most recent valuation. Projections were used in calculating the liabilities at March 31, 2003. Actuarial valuations were carried out for the Teachers' Superannuation Fund and the Civil Service Superannuation Fund as of April 1, 2002 and for the MLA Pension Funds as of April 1, 2003. The following values were reported by the actuary as of the valuation dates:

The date of valuation was April 1, 02. The TSF and the CSSF and they'll be updated as of April 1, 05 and show the obligation at 153.6 for the Teacher's Fund; 6.1 for the Civil Service Fund; and the two balances are the MLA Funds.

The Public Accounts report the following pension obligations for the Teachers' Superannuation Fund; Civil Service Superannuation Fund; MLA Pension Funds; and other Pension Plans at March 31, 2003, and the total net obligation is 329 million.

The Teachers' Superannuation Fund accounts for approximately 68 per cent of the province's total pension obligation. Given the magnitude of the 223.8 million unfunded liability of the Teachers' Superannuation Fund, and the fact that government will be making its last additional required payment of 12.1 million on April 1, 2004, a long term plan to address this liability is required. Provincial Treasury is currently reviewing this issue.

Our Recommendation is a long term plan to address the unfunded liability of the Teachers' Superannuation Fund is required. Federal Revenue

Jim Bagnall (PC) (Vice-Chair): Richard Brown.

Richard Brown (L): Thank you, Mr. Chairman. I just have a quick question. This is two years old, this report. Has the government did a long-term plan here and what is it?

Colin Younker (Auditor General): They're proposing to do additional funding for \$16 million a year over a 10-year period. That's the current proposal. It's not fully in place yet.

Richard Brown (L): Sixty million a year?

Colin Younker (Auditor General): Sixteen.

Richard Brown (L): Sixteen. The last budget we saw there was a cheque written for 160 million.

Colin Younker (Auditor General): It hasn't been written yet.

Richard Brown (L): Okay.

Colin Younker (Auditor General): That's the 160 would be paid over 10 years.

Richard Brown (L): Okay, and that's only for the teachers?

Colin Younker (Auditor General): That's only for the teachers.

Richard Brown (L): What about the Civil Service?

Colin Younker (Auditor General): The Teachers is the biggest one. I think they'll wait till the actuarial evaluations for April 05 are done before they look at the Civil Service one.

Jim Bagnall (PC) (Vice-Chair): Mr. Dunn.

Cletus Dunn (PC): The second 10-year program, will that alleviate the concern with the Teachers' Federation?

Richard Brown (L): The first one was supposed to.

Cletus Dunn (PC): The first one was supposed to, I know.

Richard Brown (L): I know.

Cletus Dunn (PC): And now we're into more - 12.1 before, now it's 16.

Colin Younker (Auditor General): There is some discussion going on now with the Teachers' Federation and part of that relates to the money being put in over that period of time and some other parts of the plan itself which will effect the long-term liability of the plan.

Cletus Dunn (PC): Going back to an earlier question asked about this program new and early retirements - is that going to tap into the fund for a longer period of time?

Colin Younker (Auditor General): If somebody retires at 55 rather than 60, if they live long, they'll tap into the fund longer.

Wayne Collins (PC): But then again, people replacing them will be paying into the fund longer too.

Richard Brown (L): But at a lower salary and see, that's my recommendation is before you run off and make these big announcements, you get your actuary in and say-look. . .

Wayne Collins (PC): How do you know it wasn't done? You're just speculating.

Richard Brown (L): Well, okay, so I . . .

Jim Bagnall (PC) (Vice-Chair): Honourable Members, we're not getting into - do you have a question for the Auditor General, please?

Richard Brown (L): No, Mr. Collins brings up an excellent point.

Cletus Dunn (PC): He's bringing it back.

Richard Brown (L): If the Auditor is bringing back the report at the next meeting that the government did and how much the plan is going to be effected by the current packages, that's great.

Jim Bagnall (PC) (Vice-Chair): Thank you.

Richard Brown (L): So we're going to pay out \$16 million a year into the Teachers' Pension Plan over 10 years. Is it right now that they're at the maximum contributions federally? Like you're only allowed to pay in 90 per cent, aren't you? I'm told they're maxed out that they cannot pay anymore according to the federal rules.

Colin Younker (Auditor General): We think a little bit more, Richard, but I'm not sure. . .

Richard Brown (L): But even if they paid a little bit more, they wouldn't even pick up the deficits that are there.

Colin Younker (Auditor General): Well there's more things that effects the deficit than what's paid in, also the amount of the pension and the terms of

the pension plan itself also effect the amount of pension liability. All that goes into the. . .

Richard Brown (L): Like a lot of people talk about pension plans, like you look at UPEI and Holland College. I understand like they had holidays. They had pension holidays that they didn't have to contribute to their employees. I know the City of Charlottetown, it was five or six years, employees didn't have to - under the pension plan, can the province make special arrangements for people going on pension? Can they say, okay, you've got 30 years in now but you're a deputy minister, we'll give you an extra five years. Have you seen that?

Colin Younker (Auditor General): Under the pension plans?

Richard Brown (L): Yes, have they ever gone and said—we want you to leave now. You've got three years to go but we'll let you start your pension?

Colin Younker (Auditor General): I'm not aware where they've changed the terms of the plan to offer retirement to somebody, the pension plan right at that point in time.

Richard Brown (L): But no employer, like the government administers the plan cannot adjust for individuals?

Colin Younker (Auditor General): The government could negotiate changes to the plan. I'm not aware of any. . .

Alan Moore: Government would have to follow the plan but I guess they could do something outside of the plan.

Richard Brown (L): Okay.

Jim Bagnall (PC) (Vice-Chair): Continue.

Colin Younker (Auditor General): Federal Revenue - During the course of our audit of the Public Accounts for the year ended March 31, 2003, the province received notice of reduced entitlements to Equalization and Canada Health and Social Transfer (CHST) revenues. These adjustments included reduced Equalization entitlements totalling \$16.8 million and reduced CHST entitlements totalling \$4.2 million for fiscal

years ended March 31, 2003 and prior years. These amounts were recorded as reductions of 2002-03 revenues.

We have commented in past years on problems with timely receipt of amounts due from the federal government. During 2002-03, receivables from the federal government, excluding transfer payments, increased from \$22.8 million as at March 31, 2002 to \$26.7 million as at March 31, 2003. Of the \$26.7 million receivable as at March 31, 2003, \$9.9 million remained outstanding as at December 31, 2003. The following table summarizes six individual balances greater than \$1.0 million which account for \$21.6 million, or 81 per cent of the \$26.7 million outstanding as at March 31, 2003.

During the year, we conducted an examination of Federal claims related to Federal/Provincial Contribution Agreements. Additional comments and recommendations related to Federal Claims are in the Special Audits and Examinations Section of this report.

We recommend steps should be taken to ensure all revenues from the federal government are claimed and received on a timely basis.

Guaranteed Debt - Over the past five years, the province has reported the following guaranteed debt balances on the guaranteed debt schedule. The Guaranteed Debt has gone from 24.5 in 1999 to 83.1 at the end of 2003.

Guarantees have increased by 58.6 million since 1999. Of this, 39.6 million relates to guarantees to Crown Corporations. Guarantees were provided to Island Waste Management Corporation on financing relating to implementation of the Island Waste Watch program and facilities (\$29.7) and to PEI Energy Corporation on financing relating to the Wind Farm Project of \$8.3.

Guarantees to business organizations at March 31, 2003 accounted for \$21.1 of the total guarantees and have increased by \$9.4 since 1999. These guarantees include a \$12 million guarantee to Polar Foods.

In 2001, as a result of changes in the student loan program, the province began guaranteeing all student loans issued through the PEI Student Loans Program. Guarantees under the new

Student Loans program were \$8.3 million at March 31, 2003.

Over the five-year period, guarantees have been provided on financing of a number of Community based projects. The guaranteed balances for Community based programs are \$1.3 million at March 31, 2003.

The province has included provisions for losses of \$7.8 million on the guarantees. Schedule 21 of the Public Accounts shows a continuity schedule for the Provision for Doubtful Accounts. The Provision for Doubtful Accounts for Loan Guarantees has increased from \$1.9 million at March 31, 2002 to \$7.8 million at March 31, 2003. With the rising dollar value of guarantees being issued, it is important that the province perform a detailed review of all guarantees each year and ensure a reasonable provision for losses is established at year end.

In addition to the balances noted above, note 6(b) to the Consolidated financial Statements provides information on the guarantee to the Credit Union Deposit Insurance Corporation and note 6 (d) provides information on the guarantee to the Minister of Citizenship and Immigration. These guarantees have been disclosed in the Public Accounts notes but have not been included on the guaranteed debt schedule in the Public Accounts.

Cancellation or Discharge of Debt - 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*. In 2002-03, the amount cancelled or discharged under Section 26 totalled 7.4 and the amount written off under Section 26.1 was 7. as follows and its summarized there between the different acts.

The net amount discharged, cancelled and released or written off owed by third parties to the province was 9.4. The amounts relating to the PEI Business Development Inc. include a write-off of debts owed by various businesses to the PEI Business Development Inc. in the amount of \$5.7 and a corresponding cancellation of amounts owed by BDI to the province in the amount of \$5.1.

Surplus (Deficit) of Crown Agencies and Corporations - Section 16 of the *Audit Act* requires

the Auditor General to include information in the Annual Report on deficits of 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 are earned. For information purposes we have also included the cumulative surplus or deficit for each entity and they are outlined in the schedule there which are the annual surplus (deficits) of the Crown Corporations and Cumulative Surplus (Deficit) for each.

Jim Bagnall (PC) (Vice-Chair): Okay, Richard Brown.

Richard Brown (L): Thank you, Mr. Chairman. Write-offs, you have here. First of all, the \$12 million guarantee to Polar Foods is gone. We had to pay that, didn't we? Okay. PEI Business Development Inc. 5.1 million and 5.7 million, so those are write-offs, actual write-offs?

Colin Younker (Auditor General): I think they were in Order-In-Council, No. 181.

Richard Brown (L): So like under the *Welfare Act*, we post the names of people that are, that we write off stuff for them. We say the Estate of such-and-such is written off and that. What kind of due diligence does the PEI Business Development do in order to get some of that money back? How far do we go? Do we take it to court? Like I have the PEI Credit Bureau here and you can see all different kinds of places taking each other to court trying to get their money back. Do we do that much due diligence in order to try to get our money back in Business Development Inc.?

Colin Younker (Auditor General): I'd have to get that, Richard, and summarize it for you, I think, as to what their policy is. I don't have that.

Richard Brown (L): Like really, like the PEI Lending Agency or the Business Development, if somebody comes through the front door, like I can lend you a lot of money and a year later, write it off and no one would ever know that basically, that becomes a grant and not a loan. I'm wondering is that going on? Like we'll lend you the money. We know we're going to write it off in a year or two, and see that's why. . .

Colin Younker (Auditor General): I'm not aware. I'd have to go through their policies of what they

are, each of them, the Lending Agency and BDI would each have their policies of what they do on a loan that's in arrears or a loan that's in default.

Richard Brown (L): So instead of the two of these running off and doing it themselves, like do we have some sort of secret registry down at government, bad debtors or something. At one time when Ronnie was in opposition, is there some sort of secret registry that says these are bad people?

Colin Younker (Auditor General): There's a central registry.

Richard Brown (L): Of bad debtors.

Colin Younker (Auditor General): Yes.

Richard Brown (L): Shouldn't that be made public? Like if a government has a secret registry of people that don't pay their bills and I'm a businessman and I'm doing business with these guys, isn't it kind of unfair for the next person coming down the line knowing well that guy didn't pay government. Like that's why the PEI Credit Bureau puts out their stuff to say—these guys aren't paying the bills and then a little company goes in and does all kinds of work for them and has two or three employees. They haven't paid government. Wouldn't that be good to say, all your little companies out there?

Colin Younker (Auditor General): I'd have to check and see if there's access to that which I'm not. . .

Richard Brown (L): Like I was kind of disappointed, like Polar Foods, a lot of little companies lost money. And I think if those little companies would have known on July 31st, we were giving them a \$14 million guarantee, then they would have said—whoa, I'm going to do some more due diligence here. I'm not going to run in and do 20 or \$30,000 worth of work and not get paid for it. Let them go into receivership.

I know we criticized, I know we get criticized for wanting this information and I know we get criticized for it. But I think we have to understand that there's other companies out there that are saying—well this company looks pretty good. I'll go in and do all kinds of work for it and then it goes bankrupt and then they find out later that well,

government was just propping it up. Who's the loser at the end of the day? The little guy on the street, the little guy that owns the little company. What happens to him? He can't run to government and say—I lost money. Could you give me some? You know, you propped up the company. I didn't know and if I would have known you were propping up the company, I wouldn't of done the work for them or I would have demanded more. I think to our critics to the opposition that says—it's terrible what you want to do here. I know they tell us this all the time, it's terrible. I'm just looking out for the other people too, that are involved here, like a small company. A \$20,000 loss to a small company can bankrupt it or the family obviously. But hey, we don't want to. . . Thank you, Mr. Chair.

Jim Bagnall (PC) (Vice-Chair): David McKenna.

Dr. David McKenna (PC): I have a question, just to follow up on Mr. Brown's comments, are you saying that these people, these companies are never listed as defaulted?

Richard Brown (L): Some of them are and some are not.

Dr. David McKenna (PC): Just a few weeks (Indistinct) none of them were released. I think it's after either the Lending Agency or BDI has exhausted all means of getting the money back, I mean it takes awhile to find out, selling assets off, you name it. It takes a number of years to do all that and finally, when there's no other means of money coming in, I think they are announced.

Richard Brown (L): So you recommend any write-offs. . .

Jim Bagnall (PC) (Vice-Chair): We're not getting back into an argument, are we?

Richard Brown (L): No, no, it's a good suggestion. I'll support his motion. Are you recommending?

Dr. David McKenna (PC): I'm just saying, aren't they announced already? That's what I'm asking.

Richard Brown (L): No, we ask in the House and you guys criticize us.

Dr. David McKenna (PC): But only until all

means are exhausted to get the money back.

Richard Brown (L): When you write off \$5.1 million, I hope all means have been exhausted. Is that correct? So we should have a list at that point.

Jim Bagnall (PC) (Vice-Chair): You have one more question.

Dr. David McKenna (PC): My question to you is on these Community based projects, the guarantees that you indicated here. I think in most of these cases, are these always guarantees that are paid back? I'm looking . . .

Colin Younker (Auditor General): There's not (Indistinct)

Dr. David McKenna (PC): I know the rinks are in there like the new rink in Cornwall and maybe the new rink in Pownal got guarantees but that was based on the money they were going to get from the infrastructure program's internal financing, so I think that's the project we're talking about there, is it, some of those projects?

Colin Younker (Auditor General): Some of those projects.

Dr. David McKenna (PC): They're normally always paid back, I guess, over time.

Colin Younker (Auditor General): There hasn't been any problem.

Dr. David McKenna (PC): There's no problem.

Jim Bagnall (PC): Auditor General, thank you very much for coming.

Richard Brown (L): Just one more quick question.

Jim Bagnall (PC) (Vice-Chair): Okay.

Richard Brown (L): You talk about the guarantee of \$8.3 million to the PEI Energy Corporation. That was for the wind mills up west?

Colin Younker (Auditor General): Yes.

Richard Brown (L): Okay, so Mr. Dream, I have

a dream, Jamie Ballem or the Minister of Energy has just issued another \$50 million guarantee for the dream in east Prince Edward Island. So where will that show up on our books? Or is that just a dream?

Colin Younker (Auditor General): If the province guarantees it, it will show up on that schedule.

Richard Brown (L): Okay.

Colin Younker (Auditor General): If it's not guaranteed, it will only show up in the Energy Corporation's financial statements.

Richard Brown (L): Okay, so if they're guaranteeing the \$50 million to the PEI Energy Corporation which is a Crown Corporation, that will be part of our net debt?

Colin Younker (Auditor General): No.

Richard Brown (L): Why not?

Colin Younker (Auditor General): It's not, the PEI Energy Corporation is not consolidated fully because it's considered a business entity. It's considered they can operate on its own. So what happens there is they only show their net equity as part of the consolidated financial statement. And there's a line on the balance sheet which shows Investment in Business Entities, that would include the Energy Corporation.

Richard Brown (L): So the 50 million was given to the Energy Corporation?

Colin Younker (Auditor General): If it's guaranteed by the province, it will be shown on the Schedule of Guarantees, the same as the 8.3. It depends on whether it's guaranteed or not.

Richard Brown (L): So what's the difference between Island Waste Corporations? Are they considered the same as . . .?

Colin Younker (Auditor General): They're considered the same. They're not fully consolidated.

Richard Brown (L): So what are the rules behind just an equity statement as opposed to the debt?

Colin Younker (Auditor General): You look to see if a company is making a profit or if it looks like they can make a profit over a period of time and they have the right to bill for their services which the Energy Corp does, bill back through and Waste Watch does as well. We review them on an ongoing basis to make sure that that's continuing and if it's not, then they would be fully consolidated back into Public Accounts.

Richard Brown (L): Thank you.

Dr. David McKenna (PC): At some point in time (Indistinct) into Consolidated statements?

Colin Younker (Auditor General): If they continue to show a loss or may state (Indistinct), they should be fully consolidated with the financial statements.

Cletus Dunn (PC): Mr. Chair, just to follow up on David McKenna's comments. . .

Jim Bagnall (PC) (Vice-Chair): Mr. Dunn.

Cletus Dunn (PC): Are they being audited as far as revenue generated? If they just break even, nobody bothers them. But there's some probably companies that could generate an amount of revenue that would offset other expenditures. Like the Energy Corp or the PEI Liquor Commission.

Colin Younker (Auditor General): The PEI Liquor Commissions is accounted for the same way as the Energy Corp and the Island Waste as a business entity. It shows the net equity of that operation as opposed to the full consolidation.

Cletus Dunn (PC): Okay.

Jim Bagnall (PC) (Vice-Chair): Thank you, Mr. Auditor General for today. You must be getting kind of hoarse. You've been reading now for 2.5 hours. We have confirmed that the meeting can start at 9:00 o'clock on November 10th with the minister. We've also, so you're scheduled at 10:00 o'clock is fine?

Colin Younker (Auditor General): Is this to finish the 2004?

Jim Bagnall (PC) (Vice-Chair): Yes, this is to try to finish this book. I think a lot of it will go pretty. .

Colin Younker (Auditor General): I think it will, yes.

Jim Bagnall (PC) (Vice-Chair): Pretty quickly. There's only a little bit left so what we'll do is we'll go in and we'll meet with the. . .

Honourable Robert Ghiz (L): I've got some more questions for the Auditor.

Jim Bagnall (PC) (Vice-Chair): Yes, well you can get him the next time he comes in. He's through for today and we're moving on to New Business now. You want to. . .? Fine.

Honourable Robert Ghiz (L): I was just wondering any idea on when the forensic audit will be prepared?

Colin Younker (Auditor General): I spoke to KPMG this morning before I came because I knew the question would come up and they've made the changes and they've completed the report. So it's basically done. Their legal counsel is looking at it today. So I will know this afternoon. I'll be talking to them this afternoon. They're going to call me this afternoon, I'll have a better idea.

Honourable Robert Ghiz (L): Okay, and just for people's information because there was a lot of controversy around the last—not controversy, I created a little bit of controversy around the last release of the Polar report. This report goes to a committee of the Legislature, right?

Colin Younker (Auditor General): I've received a letter back in February from the Legislative Audit Committee requesting that I give the report to them.

Honourable Robert Ghiz (L): Okay, the briefing that will take place, are you planning on doing a briefing after you give the report to the Legislative Audit Committee?

Colin Younker (Auditor General): I have no plans. It depends on what the committee directs at that time.

Honourable Robert Ghiz (L): Okay, so that will be up to the committee then. Okay.

Jim Bagnall (PC) (Vice-Chair): Thank you, Auditor General. It was a pleasure as always.

Richard Brown (L): You did a good job, a good chairman.

Dr. David McKenna (PC): A good chairman for a change.

Jim Bagnall (PC) (Vice-Chair): Okay, the next thing on the agenda was New Business. Although Robert, you said you had to leave at 11:30. It is 11:30, do you want to. . .?

Honourable Robert Ghiz (L): I decided that I wasn't going to make it.

Jim Bagnall (PC) (Vice-Chair): Okay, fine. Under New Business. Is there - any items under New Business that want to be brought up?

Cletus Dunn (PC): Are we confirmed for the 10th?

Wayne Collins (PC): At 9:00 o'clock.

Marian Johnston (Committee Clerk): Yes, I will confirm with the board members specifically but I understand that the minister has committed to starting at 9:00 o'clock and I expect to be able to schedule everybody between 9:00 and 10:00. At 10:00, we'll go back to the Auditor General to perhaps finish this 2004 report. Eleven or shortly afterwards, we will have a tour of the ATC facility.

Wilbur MacDonald (PC): Can you tell me how much is left of this report that we have to go through?

Jim Bagnall (PC) (Vice-Chair): Just about two pages.

Wilbur MacDonald (PC): Just two pages.

Marian Johnston (Committee Clerk): It might be a good opportunity to talk about recommendations for the draft report because we have to table that in the House as you know, within the first 10 sitting days.

Cletus Dunn (PC): We should be able to (Indistinct)

Jim Bagnall (PC) (Vice-Chair): If I stay here, yes.

Richard Brown (L): I move the adjournment.

Jim Bagnall (PC) (Vice-Chair): So moved.

Marian Johnston (Committee Clerk): Thank you, chairman.