



AUDITOR GENERAL

Prince Edward Island

Report to the Legislative Assembly
2019

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

In accordance with the requirements of the *Audit Act*, I have the honour of
presenting my 2019 Annual Report to the Legislative Assembly.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "B. Jane MacAdam".

B. Jane MacAdam, FCPA, CA
Auditor General

Charlottetown
Prince Edward Island
March 8, 2019

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INTRODUCTION

REPORT OVERVIEW

The *Audit Act* requires the Auditor General to report annually to the Legislative Assembly. My Office's mission is to conduct independent audits and examinations that provide objective information, advice and assurance to the Legislative Assembly. The Office promotes accountability and best practices in government operations.

This 2019 Annual Report provides findings, recommendations, and information pertaining to audits and examinations conducted by the Office during the year. One performance audit report, Petroleum Product Pricing: Prince Edward Island Regulatory and Appeals Commission was tabled in January 2019 and is not reproduced in this Annual Report. It is available on our Office website at www.assembly.pe.ca/auditorgeneral.

Following is a brief overview of my 2019 Annual Report:

Chapter 1: Introduction to Performance Audits and Examinations

This chapter references the Office mandate to conduct performance audits and examinations. It also provides summary information on the processes for selecting and conducting these audits.

Chapter 2: Early Learning and Child Care Centres: Ministry of Education, Early Learning and Culture

This audit examined the monitoring and licensing of early learning and child care centres. We assessed whether information was available to measure and report on the accessibility of licensed child care services. We also examined two grant programs, Early Years Centres and Special Needs.

Chapter 3: Capital Asset Plan for Provincial Parks: Tourism PEI

This audit examined the adequacy of the long-term capital asset plan for provincial parks.

Introduction

Chapter 4: Procurement of Goods for Government Departments: Department of Finance

This audit examined whether goods were procured for government departments in compliance with key legislative requirements.

Chapter 5: Implementation of 2015 and 2016 Recommendations

Our performance audits result in recommendations to various departments, Crown corporations, and agencies. This chapter includes information on the status of implementation of recommendations reported in our 2015 and 2016 annual reports.

Chapter 6: Introduction to Financial Audits

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

Chapter 7: Indicators of Financial Condition

This chapter provides summary financial information on the province's operating results and financial position from 2014 to 2018. We also provide information on a number of financial indicators based primarily on the province's audited consolidated financial statements.

Chapter 8: Audit of the Consolidated Financial Statements

Each year, we audit the province's consolidated financial statements. This chapter provides summary comments, findings and recommendations arising from our audit.

Chapter 9: Matters Noted in Other Financial Audits

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

Chapter 10: Appropriations and Special Warrants

This chapter provides summary information on appropriations and special warrants for the year ended March 31, 2018.

Chapter 11: Public Accounts Committee

The Public Accounts Committee plays an important role in holding government accountable for the management of public resources. A primary focus of the Committee is the review of the Auditor General's Annual Report to the Legislative Assembly. This chapter includes

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summary information on the Committee and its interactions with our Office.

Chapter 12: Office of the Auditor General

This chapter includes information on the mandate of the Auditor General as well as the Office mission, vision, and values. Summary information is also presented on our assurance engagements, office resources, professional standards and professional affiliations.

ACKNOWLEDGEMENTS

The Office makes a significant contribution to improved management and control of public resources. To fulfil our mandate and responsibilities, it's important to have the cooperation of ministers, deputy ministers, and senior management and staff of departments, agencies, boards, and Crown corporations. My Office continues to receive good cooperation from government.

This Annual Report reflects the hard work and commitment of my staff. I would like to express my appreciation to each of them for their continued professionalism, support, and dedication. Their contributions and commitment are essential to fulfilling the mandate of the Auditor General of Prince Edward Island.

INTRODUCTION

APERÇU DU RAPPORT

L'*Audit Act* (loi sur la vérification des comptes publics) stipule que le vérificateur général doit déposer un rapport devant l'Assemblée générale tous les ans. Mon bureau a pour mission d'effectuer des vérifications et des études indépendantes qui permettent de donner de l'information, une assurance et des avis objectifs à l'Assemblée législative. Le Bureau du vérificateur général promet ainsi la responsabilisation et les pratiques exemplaires en ce qui concerne les activités du gouvernement.

Le présent rapport de 2019 fournit conclusions, recommandations et renseignements découlant des vérifications et des examens menés par le Bureau au cours de l'année. L'un des rapports de vérification de gestion, intitulé *Petroleum Product Pricing: Prince Edward Island Regulatory and Appeals Commission* (Prix des produits pétroliers : Commission de réglementation et d'appels de l'Île-du-Prince-Édouard), a seulement été présenté en janvier 2019, et n'est donc pas reproduit dans le présent rapport. On peut toutefois le consulter sur le site Web du Bureau à www.assembly.pe.ca/auditorgeneral.

Voici un aperçu du contenu du rapport annuel de 2019 :

Chapitre 1 : Introduction aux vérifications et aux examens de gestion

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

Chapitre 2 : Centres d'apprentissage et de garde de jeunes enfants – Ministère de l'Éducation, du Développement préscolaire et de la Culture

La vérification a examiné le processus de suivi et de délivrance de permis dans les centres d'apprentissage et de garde de jeunes enfants. Elle visait à déterminer si on avait accès à de l'information permettant de mesurer l'accessibilité des services de garde accrédités et d'en faire rapport. Nous avons aussi examiné deux programmes de subventions : un destiné aux centres de la petite enfance désignés, et l'autre à l'appui des besoins particuliers.

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Chapitre 3 : Plan d'immobilisations pour les parcs provinciaux – Tourisme Î.-P.-É.

La vérification a examiné le bien-fondé du plan d'immobilisations à long terme des parcs provinciaux.

Chapitre 4 : Approvisionnement en biens dans les ministères – Ministère des Finances

La vérification visait à déterminer si l'approvisionnement en biens au sein des ministères respecte les exigences législatives fondamentales.

Chapitre 5 : Mise en œuvre des recommandations de 2015 et de 2016

À la suite de nos vérifications de gestion, des recommandations sont faites à divers ministères, sociétés de la Couronne et organismes. Ce chapitre fournit de l'information sur l'état de la mise en œuvre des recommandations émises dans nos rapports annuels de 2015 et de 2016.

Chapitre 6 : Introduction aux vérifications financières

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

Chapitre 7 : Indicateurs de l'état des finances

Ce chapitre fournit de l'information financière sommaire sur les résultats d'exploitation et la situation financière de la province entre 2014 et 2018. Il fournit également de l'information sur un certain nombre d'indicateurs financiers, tirée principalement des états financiers consolidés vérifiés de la province.

Chapitre 8 : Vérification des états financiers consolidés

Chaque année, nous vérifions les états financiers consolidés de la province. Ce chapitre présente les commentaires, conclusions et recommandations sommaires découlant de la vérification.

Chapitre 9 : Questions soulevées dans le cadre d'autres vérifications financières

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

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Chapitre 10 : Comptes de crédits et mandats spéciaux

Ce chapitre fournit de l'information sommaire sur le compte de crédits et les mandats spéciaux pour l'exercice qui s'est terminé le 31 mars 2018.

Chapitre 11 : Comité des comptes publics

Le Comité des comptes publics joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. L'une des tâches principales du Comité est d'examiner le rapport annuel du vérificateur général pour l'Assemblée législative. Des renseignements sommaires sur le Comité et ses interactions avec le Bureau sont fournis dans ce chapitre.

Chapitre 12 : Bureau du vérificateur général

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

REMERCIEMENTS

Le Bureau contribue de façon considérable à l'amélioration de la gestion et du contrôle des ressources publiques. Pour que nous puissions nous acquitter de notre mandat et de nos responsabilités, il est important d'avoir la coopération des ministres, des sous-ministres, des hauts dirigeants et du personnel des ministères, des organismes, des conseils et des sociétés de la Couronne. Le Bureau continue de bénéficier d'une bonne collaboration de la part du gouvernement.

Le présent rapport annuel reflète aussi l'ardeur du travail des employés du Bureau. Je tiens à exprimer ma reconnaissance envers chacun d'eux pour leur professionnalisme, leur appui et leur dévouement. Leur contribution et leur engagement sont essentiels à l'accomplissement du mandat du vérificateur général de l'Île-du-Prince-Édouard.

PERFORMANCE AUDITS AND EXAMINATIONS

1. INTRODUCTION TO PERFORMANCE AUDITS AND EXAMINATIONS

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

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

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

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

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

1. Introduction to Performance Audits and Examinations

1.5 These audits assess the broader management issues affecting an organization or program and may examine issues such as accountability relationships, economy, efficiency, compliance with authorities, and procedures to measure effectiveness. There are three distinct phases in conducting performance audits: planning, implementation, and reporting.

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

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

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

1.9 During the reporting phase, a draft audit report is prepared which includes audit conclusions, audit findings, and recommendations. Senior management responsible for the subject matter of the audit is provided with a copy of the draft audit report for review and discussion. At the conclusion of the audit, a final draft report is provided to the department, Crown corporation, or agency. We request a written response to each recommendation. These responses are reflected in the Auditor General's Annual Report to the Legislative Assembly.

2. EARLY LEARNING AND CHILD CARE CENTRES

CHAPTER SUMMARY

Why it's important

In Prince Edward Island, licensed early learning and child care services are delivered by licensed centres which are responsible for the health, safety and wellbeing of over 5,000 young children on a daily basis. The Ministry of Education, Early Learning and Culture is responsible for ensuring these centres operate in compliance with legislative requirements.

What we found

The Ministry of Education, Early Learning and Culture did not adequately monitor and enforce the licensing of early learning and child care centres in compliance with legislation:

- Licensed early learning and child care centres were not always inspected on a timely basis.
- Weaknesses were noted in the inspection process.
- Follow-up action was completed on unsatisfactory inspection reports examined but the process needs to be strengthened.
- Some licenses were approved by the Board without adequate documentation to support staff screening and fire inspections.

The Department collected and maintained information on capacity and demand for licensed child care spaces. However, overall accessibility targets had not been established.

Grant funding to centres under two programs were not always provided in compliance with program criteria and funding contracts:

- Funding contracts were not always appropriately authorized.
- Additional funding was provided to some centres which exceeded the amount authorized in the respective contract.
- Payment calculation errors were noted for a number of centres tested.

2. Early Learning and Child Care Centres

We made six recommendations to the Early Learning and Child Care Board and eight recommendations to the Department of Education, Early Learning and Culture. The recommendations and responses are included in **Appendix A**.

BACKGROUND

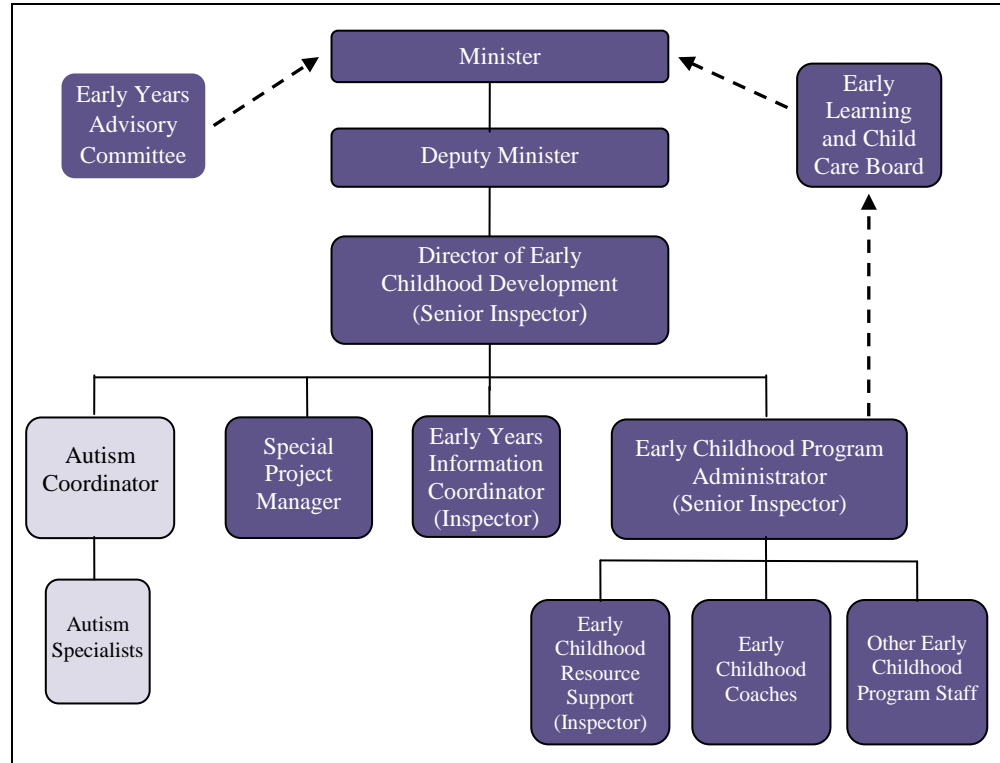
2.1 The Minister of Education, Early Learning and Culture is responsible for the administration of the *Early Learning and Child Care Act* (the Act) and regulations. This legislation outlines the quality and safety requirements for licensed child care centres in Prince Edward Island. This Act, proclaimed in January 2017, replaced the former *Child Care Facilities Act*.

2.2 The Act established the Early Learning and Child Care Board (the Board). The Minister appoints the Board which is the oversight body responsible to monitor the operation of licensed centres in the province. The Board's duties include the issuance and renewal of licenses authorizing the operation of private child care centres. The Minister may also request the Board to provide information respecting any matter related to the administration and provision of early learning and child care in the province.

2.3 The Board provides direction to inspectors and resource staff employed by the Early Childhood Development Division (the Division) of the Department of Education, Early Learning and Culture (the Department). This Division is responsible for early learning and child care programs. The Division provides support to licensed child care operators through policy and curriculum development and a variety of funding programs. The organization structure is outlined in **Exhibit 2.1**.

2. Early Learning and Child Care Centres

EXHIBIT 2.1 ORGANIZATION CHART EARLY CHILDHOOD DEVELOPMENT MARCH 31, 2018



Source: Adapted from Department's organization chart.

2.4 The Early Years Advisory Committee was formed in 2016 and is chaired by the Director of the Division. Committee members include representatives of various provincial organizations and government departments who work on behalf of and/or support early childhood in PEI. The committee is to meet a minimum of two times per year with the aim of providing recommendations to the Minister on strategic planning initiatives.

2.5 The Division expenses, excluding autism services, were \$13.4 million for the year ending March 31, 2018. Of this, approximately \$12.4 million related to early childhood development grants and the remainder was for salaries and other administrative costs. See **Exhibit 2.2** for a summary of expenses for the Division.

2. Early Learning and Child Care Centres

EXHIBIT 2.2 EARLY CHILDHOOD DEVELOPMENT DIVISION EXPENSES YEAR ENDING MARCH 31, 2018

Early Childhood Development*	Actual
Administration	\$ 5,800
Equipment	3,900
Material, Supplies and Services	107,100
Professional Services	63,200
Salaries	775,100
Training	33,700
Grant Programs:	
Quality Enhancement Grant	251,400
Special Needs Grant Program	1,388,300
Chances/Best Start Program	1,281,000
Early Years Center Funding	7,603,400
Miscellaneous	1,897,900
Total	\$13,410,800

Source: Public Accounts Volume II

*Excludes Autism Services

2.6 The Board approves licenses for Early Learning and Child Care Centres. Licensed early learning and child care services are delivered through private child care centres. These centres are required to comply with the standards set out in legislation. These licensed centres are monitored by the Board and Division staff who approve maximum capacity limits, provide mentorship, and perform inspections to ensure compliance.

2.7 An operator may apply for a license to operate a centre in one of four categories. At March 31, 2018, there were 114 centres, several of which had a license in more than one category. **Exhibit 2.3** provides a description of these categories, the number of licenses for each category as well as the total licensed capacity in the province as of March 31, 2018.

2. Early Learning and Child Care Centres

EXHIBIT 2.3 CHILD CARE LICENSES BY CATEGORY MARCH 31, 2018

Type of License	Number of Licenses	Total Capacity
Early Childhood Centres - a licensed centre where the operator is authorized to provide services to infants, pre-school, and school-age children.	73	3,011
Family Home Care Centres - a licensed centre located in a private residence, where the operator is authorized to provide services to not more than a total of six infants, pre-school, and school-age children, including the children of the operator.	2	12
Pre-School Centres - a licensed centre where the operator is authorized to provide services for less than four consecutive hours per day to children who are three years of age or over, but not yet attending school.	8	159
School-Age Child Centres - a licensed centre where the operator is authorized to provide services to school-age children on weekdays, during one or more of the following time periods: before or after regular school hours, the school lunch period, and regular school hours if schools are closed for the day.	56	1,933
Total Child Care Licenses	139	5,115

Source: *The Early Learning and Child Care Regulations* and data provided by the Department of Education, Early Learning and Culture.

2.8 According to Statistics Canada¹, there were approximately 7,500 children in PEI from birth to age four in July 2017. Children requiring placement can be added to the provincial Early Learning and Child Care Registry. Children not receiving services by licensed child care centres are either cared for at home or in unlicensed care.

2.9 Under the Act, a person may operate a centre without a license only if they comply with the capacity limits included within the regulations. These unlicensed care providers are not required to meet other legislative standards in the *Early Learning and Child Care Act* and are not subject to annual inspections or actively monitored by the Division.

¹Statistics Canada Table 17-10-0005-01 Population estimates on July 1st, by age and sex.

2. Early Learning and Child Care Centres

2.10 In 2017-18, the Department entered into a funding agreement with the Federal government. This agreement is linked to a ten year multilateral early learning and child care framework that supports a commitment by governments to work towards increased quality, accessibility, affordability, flexibility, and inclusivity in early learning and child care. This funding agreement provides \$10.5 million over three years (2017-18 to 2019-20) for enhancements to early learning and child care in PEI.

OBJECTIVES AND SCOPE

2.11 The objectives of this audit were to determine whether the Ministry of Education, Early Learning and Culture monitored and enforced licensing compliance with the *Early Learning and Child Care Act*, regulations, and related policies; used current data to assess accessibility of licensed child care in PEI; and provided grant funding to early child care centres in compliance with program criteria and funding agreements. The report sections that follow provide information on the findings and related recommendations from our audit. This report includes 14 recommendations which are listed in **Appendix A**. Details on the audit standards, objectives and scope, and audit criteria are included in **Appendix B** and **Appendix C** of this report.

OBSERVATIONS AND RECOMMENDATIONS

INSPECTIONS

Summary of Findings

2.12 Licensed early learning and child care centres were not inspected on a timely basis. Good practice indicates inspections should be at least annual.

- For over 40 percent of licenses, inspections were not completed until at least 15 months after updated standards were effective.
- In approximately 35 percent of approved license renewals tested, the inspection was over one year old.
- Post-operational inspections of new centres were not timely.
- There was no Board policy on the frequency of inspections.

2. Early Learning and Child Care Centres

Weaknesses were noted in the inspection process:

- The inspection template did not include some key regulatory requirements.
- Policy guidance is needed to conclude on inspection results.

Follow-up was conducted on unsatisfactory inspection reports examined, but the process needs to be strengthened:

- There were no policies on required follow-up action including reporting to the Board.
-

Inspection Frequency

2.13 The Board inspection process is a key control for the Board and the Department to monitor and enforce compliance with the *Early Learning and Child Care Act* and regulations. The legislation includes requirements related to the quality and safety of child care services provided by private operators.

2.14 *The Early Learning and Child Care Act* states that the Board may issue or renew a license when it is satisfied that the operator, the premises where the licensed centre operates, and the services provided in the licensed centre meet the requirements set out in the Act and regulations. In order to verify that key requirements are met, the Board relies on satisfactory reports generated by inspectors employed by the Department.

2.15 Based on the Act, Division inspectors must conduct periodic inspections of licensed centres. We were advised by the Board and Division management that their intended inspection practice is to inspect each centre on an annual basis. However, the required frequency of inspections was not established in a policy formally approved by the Board. At a minimum, an annual inspection is considered good practice based on the standards in many other provinces.

Inspections not timely

2.16 We tested the licensing of 30 centres and examined the timeliness of Board inspections. Of the 30 centres, 23 were existing centres seeking license renewals. We found no Board inspection had been completed within a year prior to the licensing date in approximately 35 percent of

2. Early Learning and Child Care Centres

these license renewals. It is important that inspections are based on the current operating practices of the centre and are not outdated.

2.17 To observe certain key requirements of the regulations, the Board inspections for newly licensed centres must occur after the centre is operational and children are present. The Board has not documented its expected timeline for the inspection of newly licensed centres. For the seven newly licensed centres examined, four had Board inspections completed within one month of operations, one was two months later and, two were nine months later.

2.18 The new Act and regulations, proclaimed January 2017, included updated standards. For example, the new legislation requires criminal record and vulnerable sector checks for all staff. We expected all licensed child care centres would have a Board inspection to ensure compliance with the updated requirements in the new legislation. We analyzed the inspections completed during the 15 month period from January 1, 2017 to March 31, 2018. We noted that for over 40 percent of licenses, Board inspections were not performed to ensure compliance with the updated legislative standards. Without these inspections, it is difficult for the Board to ensure that the standards meant to protect children under the care of these centres were met.

Recommendation

2.19 The Early Learning and Child Care Board should develop and implement a policy based on established good practice on the required frequency of inspections for licensed child care centres.

Inspection Template

2.20 An updated Board inspection template was developed based on the new legislation. It is used by inspectors to evaluate whether each centre meets the regulatory requirements. The inspection template lists specific requirements organized by subject area consistent with the regulations. They include

- Requirements for Services;
- Number of Children and Staffing;
- Premises and Equipment;
- Health and Safety;

2. Early Learning and Child Care Centres

- Food Services; and
- Records.

Inspection template does not include key regulatory requirements

2.21 We examined the inspection template and compared it to key aspects of the regulations. We noted that the template does not include five key requirements set out in the regulations.

2.22 Operators are expected to maintain sanitation standards. Regulations require that all washrooms, furniture, equipment, and food preparation areas be maintained in sanitary condition. The inspection template only required the verification of conditions of the washrooms and did not include the overall sanitary condition of the centre.

2.23 Centres that offer services to infants must provide a safe, comfortable sleeping arrangement. Regulations require that each child under 12 months of age, be provided with a separate crib or alternative infant bed. Regulations also require that operators provide diapering services including a change table and individual change pads within a reasonable proximity to a washing area, and that staff follow proper washing procedures when diapering children. The inspection template did not include these regulatory requirements.

2.24 Staff may be required to administer medication to children receiving care at the centre. Regulations require that medication provided by parents be clearly labeled in the original container and stored in a locked cabinet which is not accessible to children. Under the Health and Safety section of the inspection template, inspectors were directed to review medication forms and identify potential hazards; however, regulations on the safe storage of medication were not included in the template.

2.25 If a centre's practice is to provide meals, it is important for the children's health and well being that they receive enough healthy food throughout the day. Regulations require that when a licensed centre supplies meals and snacks, they must ensure that the meals and snacks meet the nutritional guidelines set out in *Eating Well with Canada's Food Guide* (Canada's Food Guide). The inspection template requires inspectors to verify that menus are kept on file; however, it does not

2. Early Learning and Child Care Centres

require inspectors to consider whether Canada's Food Guide standards are being met or whether centres are actually providing what is listed on the menu in sufficient quantity.

2.26 It's important that the inspection template includes all key aspects of the regulations in order to help ensure that inspectors are consistently applying regulatory standards. If key aspects of the regulations are not included in the inspection, standards meant to protect the well being of children under a centre's care may not be enforced.

Recommendation

2.27 The Early Learning and Child Care Board should update its inspection template to ensure all key requirements of the *Early Learning and Child Care Act* and regulations are included.

Inspection Process

2.28 Inspectors determine whether each requirement included on the inspection template is satisfactory. Items that are not corrected during the course of the inspection and items requiring further work are marked as unsatisfactory. Inspectors then form an overall conclusion on the inspection. Operators are required to post the completed inspection report at the centre to inform parents of the results.

Lack of policy on overall inspection results

2.29 The Board has not defined its expectations on what non-compliance issues should lead to an unsatisfactory inspection result. There were no written policies or guidelines to assist inspectors on interpreting and applying the legislative requirements. Lack of documented guidelines increases the likelihood of inconsistent interpretation of regulations and inconsistent reporting on results. It can also impact the extent of follow-up action.

2.30 To determine whether the overall inspection results were supported by the details recorded in the inspection reports, we shadowed inspections at eight child care centres. For the inspections that we observed, we expected key aspects of regulatory requirements would be examined and the results appropriately documented.

2.31 We noted inspectors observed each element included on the inspection checklist; however, there were several inspections where the

2. Early Learning and Child Care Centres

overall inspection result could be questioned based on the nature and extent of the non-compliant issues observed.

2.32 Inspectors asked operators for criminal record and vulnerable sector checks for every staff member at the centre as required by legislation. These screening documents are a key control used to verify that staff are not a potential threat to the well being of children within their care. At seven of the eight locations we observed, operators could not provide inspectors with appropriate screening documentation for all staff at the time of inspection. In all seven of these cases, the specific requirement was marked as unsatisfactory; however in four of these, the centre was still issued an overall satisfactory inspection result.

2.33 The regulations include a general requirement for operators to take reasonable steps to protect children from hazards and specifically state that poisonous substances be stored in a locked cabinet. At one of the eight locations, poisonous cleaning supplies were not adequately stored and two containers were within reach of children. The most recent health and safety inspection posted at the centre also identified violations related to the storage of harmful chemicals. The inspector discussed the issue with the operator, the supplies were moved out of reach and the related standard was noted as unsatisfactory on the inspection. There were several other unsatisfactory items listed on the centre's inspection checklist relating to required records for staff and children; however, the centre was granted an overall satisfactory inspection report.

2.34 Without guidance on which significant violations should lead to an overall unsatisfactory inspection, there can be inconsistency between inspectors. Inconsistent application of requirements poses a risk that non-compliant child care centres may continue to operate and the Board may not receive information on key inspection violations.

Recommendation

2.35 The Early Learning and Child Care Board should develop policy guidelines to identify key violations that should result in an overall unsatisfactory inspection result.

2. Early Learning and Child Care Centres

Follow-up Action and Complaints

2.36 It is important that the Board be informed of significant non-compliance issues identified during inspections. We expected appropriate action would be taken for all identified instances of non-compliance.

2.37 Under the Act, if the Board is of the opinion that a centre is not in compliance with legislation, the Board may issue an order to the operator requiring that measures be taken to resolve the non-compliance within a specified period of time. Alternatively, the Board may suspend the license of an operator and issue a probationary license if it is the opinion of the Board that the centre is not being operated or maintained in compliance with the Act and regulations.

No approved policy on follow up

2.38 The Board had not developed a policy on the nature and timing of follow-up action required to address non-compliance with the Act and regulations. In addition, the Board did not have a policy on the reporting it requires from the Division on non-compliance issues.

2.39 We were advised the Division's practice is to follow up with the operator on instances of non-compliance until they are resolved. If the issue is documentation related, such as criminal record and vulnerable sector checks, the documentation is required to be submitted as soon as possible after the inspection. If the issue is operational, the Division's Early Childhood coaches work with the operator to bring the centre into compliance.

Follow-up action on unsatisfactory inspections

2.40 We examined five unsatisfactory inspection reports to determine whether inspectors followed up on the significant non-compliance issues noted in the reports. In each case, documentation was obtained to support that follow-up action took place. For the inspections that we shadowed, we noted that Division staff followed up on criminal record and vulnerable sector checks that were not provided during the inspections. We were advised that these records were subsequently obtained by Division staff.

2.41 As previously noted, however, guidelines need to be developed for interpreting and applying the regulations. These guidelines would help

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ensure key inspection violations are consistently classified as unsatisfactory and followed up by Division staff.

Recommendation

2.42 The Early Learning and Child Care Board should develop a policy on the nature and timing of follow-up action on non-compliance issues, including required reporting to the Board.

Complaints addressed in compliance with policy

2.43 The Board has a policy on the process to address complaints and the related documentation. Complaints may involve licensed and unlicensed centres and must be summarized in writing. A decision is made on the follow up required which may involve an inspection to ensure compliance with the Act or regulations. A report is prepared for the Board which includes relevant background information, action taken, the operator's response to the complaint, and whether the complaint has been resolved. The Board may request further action if required.

2.44 Based on a review of Department records and Board minutes, 59 complaints were received from April 1, 2015 through March 31, 2018. We examined a sample of alleged non-compliance with regulatory requirements to determine if follow-up action was conducted by inspectors. In each case, documentation was provided to demonstrate follow-up action was conducted in accordance with policy.

LICENSING OF CENTRES

Summary of Findings

2.45 Some licenses were approved by the Board without all required information:

- Staff screening documents were not obtained as required in 30 percent of license approvals tested.
- For 30 percent of centres tested, documentation was not available to support that a satisfactory fire inspection was completed within the year prior to license approval.

As previously noted, in approximately 35 percent of license renewals tested, Board inspections were over one year old.

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2.46 The Early Learning and Child Care Board is responsible for granting and renewing licenses to child care operators in accordance with the *Early Learning and Child Care Act* and regulations. This licensing process is important as it requires operators to demonstrate compliance with key legislative requirements related to the quality and safety of each centre. Operators are required to renew their licenses every three years. We expected the Board to approve applications for licenses or renewals only when it was satisfied that all required information was received and that operators met the requirements set out in the regulations.

2.47 We examined the license applications of 30 licensed child care centres operating at March 31, 2018 to determine whether licenses were granted in compliance with legislation. We noted that some licenses and renewals were issued before the Board received sufficient information to be satisfied that the centre met the legislative requirements.

Criminal Records and Vulnerable Sector Checks

2.48 Licensing and renewal applications require operators to submit a staff listing in accordance with regulatory requirements. With the enactment of the new *Early Learning and Child Care Act* and regulations, in January 2017, operators are required to provide the results of criminal record and vulnerable sector checks for each person employed by the centre. For each centre in our sample, we examined a copy of the staff listing to determine whether the required criminal record and vulnerable sector checks were provided for each staff member.

Required criminal record and vulnerable sector checks not obtained

2.49 Effective January 2017, screening documents for new staff should be dated no more than six months prior to the license application and are required at least every three years for long-term staff. We tested 18 license applications that were received subsequent to January 2017 and subject to the new screening requirements. In approximately 30 percent (5 of 18) of these applications, licensing approval was granted even though operators did not provide the required criminal record and vulnerable sector checks for all staff members. These verifications are an important control in the licensing process.

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Recommendation

2.50 The Early Learning and Child Care Board should ensure that all required criminal record and vulnerable sector checks are obtained prior to license approval in accordance with the *Early Learning and Child Care Act* and regulations.

2.51 *The Early Learning and Child Care Act Regulations* require that each licensed child care centre provide satisfactory fire inspections, health and safety inspections, and Board inspections. The satisfactory completion of these inspections is a requirement for both new licenses and renewals. These inspections are an important verification used to demonstrate to the Board that the physical facility and operating practice standards are being met to protect the health and well being of children. For each centre tested, we looked for documentation that each of the three required inspections were conducted within a year prior to license approval.

Required fire inspection documentation not obtained

Fire Inspections

2.52 *The Early Learning and Child Care Act Regulations* require that prior to the commencement of operations and at least annually thereafter, each premise should be subject to an inspection to ensure compliance with the *Fire Prevention Act* and regulations. These inspections are to be completed by the Fire Marshall's Office. In 30 percent of centres tested, documentation was not available to support that a satisfactory fire inspection had been completed within a year of the license approval. In one case the Department could not provide any documentation to support that a fire inspection had been conducted and in three other instances the latest inspections on file were dated more than a year prior to the licensing approval. In the five remaining cases, the fire inspections on file noted violations but there was no documentation to demonstrate that follow-up action was completed prior to the license approval.

Health and safety inspections completed

Health and Safety Inspections

2.53 *The Early Learning and Child Care Act Regulations* require that a copy of documentation supporting compliance with health and safety standards be provided with any licensing or renewal application. For the 30 centres tested, a health and safety inspection had been completed within one year prior to the license renewal.

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Board inspections for new and renewed licenses not timely

Board Inspections

2.54 In addition to the documentation listed, a satisfactory Board inspection is required prior to license approval. As previously stated, we noted that Board inspections for 35 percent of the license renewals tested, were over one year old.

Recommendation

2.55 The Early Learning and Child Care Board should obtain current, satisfactory fire inspections prior to approval of licenses for early learning and child care centres.

ACCESSIBILITY

Summary of Findings

2.56 The Department collected and maintained timely information on available capacity and demand for licensed child care. The Department had not established overall accessibility targets and indicators to measure the accessibility of licensed child care services.

2.57 The Board's licensing decisions impact the availability of licensed services. The availability of licensed spaces also depends on the interest of the private sector in operating these centres. In addition, funding programs offered by the Division have an impact on the creation of new child care spaces, their location, and in some cases the fees charged to parents. Providing access to licensed child care services is one of the primary responsibilities of the Board in conjunction with the Division.

2.58 Many parents rely on the availability of affordable, licensed early child care to provide a safe environment for their children. Access to licensed child care services depends on the availability and affordability of child care spaces within parents' communities. We did not audit affordability of licensed child care but we did examine whether the Department collected and maintained data on capacity and demand for licensed child care.

2.59 We expected the Department to have data relating to the available capacity and demand for licensed child care services in PEI. We requested the information used by Department management to measure

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and monitor the availability of licensed child care services in relation to demand.

Department had information on capacity and demand

2.60 Each centre's available capacity is approved by the Board in conjunction with the licensing process. As new licenses are granted or amendments are made to the capacity of existing licenses, Department staff update these changes in the Division's database. We were provided with a listing of licensed child care centres as of March 31, 2018 which have a total capacity of 5,115 children.

2.61 We were advised that a provincial Early Learning and Child Care Registry is used as the primary source of information to assess the demand for licensed child care services. This registry is a centralized, online waiting list for all licensed child care spaces in the province. It is administered by the Early Childhood Development Association. Reports can be generated from the registry at any time and Division management receives reporting by age and region on a quarterly basis.

2.62 This information is used as a tool to gauge demand for licensed centres in the province. The data is based on registration information provided by parents and licensed operators. We did not audit the data on the registry. As of March 2018, a registry report indicated 745 children were in need of placement within a year, and 370 of these were in immediate need of placement. Based on this report, the largest shortfalls in capacity relative to demand were in the Stratford, Charlottetown, and Cornwall areas.

2.63 The Department also engaged a consultant who completed a report, *Moving Forward: The Early Years in PEI*. Part of the work undertaken was an analysis of demand and availability of licensed child care spaces in PEI. This report provided further information in support of an unfilled demand for licensed child care services.

Accessibility targets not defined

2.64 We expected the Department would set performance indicators and performance targets to measure and monitor the accessibility of licensed child care services. As of the date of our audit report, the Ministry had not defined its overall goals, for the accessibility of licensed child care

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services in PEI. As well, performance measures and targets to assess and evaluate accessibility had not been defined.

2.65 In 2017, the province entered in to an Early Learning and Child Care bilateral agreement with the federal government which resulted in an additional \$10.5 million over a 3 year period. A primary objective of the agreement was for the province to improve access to under-served demographics and for children who are more vulnerable. As part of this agreement, the Ministry was required to establish a three year action plan to outline its intended deliverables, including performance measures. It is also required to report annually on its progress in relation to the funding agreement.

2.66 The Department's action plan established targets and performance indicators to improve access for certain demographic sectors over the three year term of the funding agreement. These included French first language families, newcomer families and families with infants.

2.67 These performance indicators and targets are designed to measure performance and improve accessibility for specific categories of children; however, the Department has not set overall goals for the accessibility of licensed child care services. It is important for the Department to define the performance indicators that are relevant to measuring the overall success of the program. These could include, for example, the establishment of targets for the availability of child care spaces compared to the population of pre-school children, and acceptable wait times for children on the registry with an immediate need for placement.

Recommendations

2.68 The Department of Education, Early Learning and Culture should define overall goals for the accessibility of licensed child care services in Prince Edward Island.

2.69 The Department of Education, Early Learning and Culture should establish performance indicators and targets to evaluate the accessibility of licensed child care services.

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GRANT FUNDING

Summary of Findings

2.70 All centres that received funding met the eligibility criteria.

Funding contracts were not always appropriately authorized:

- In 39 of 49 Early Years Centres, the funding contracts were over \$100,000 and were not submitted for Treasury Board approval.
- Contracts for 2 of 10 Special Needs grants were not signed by the Department.

In 6 of 10 Early Years Centres, funding arrangements were changed without appropriate departmental authorization, and payments exceeded amounts in approved contracts.

Payment calculation errors were noted in 7 of 10 Early Years Centres tested.

Terms, conditions and reporting requirements were not specified in contracts for Special Needs Grant funding.

2.71 The Department offers a number of grant programs in support of licensed child care centres. Two of these grant programs, the Early Years Centre Funding and the Special Needs Grant program make up approximately 75 percent of grants paid by the Division. Our objective was to determine whether the Department provided grant funding under these programs to early learning and child care centres in compliance with program criteria and funding contracts.

2.72 We selected a random sample of 10 contracts from each funding program for the 2017-18 fiscal year, and assessed whether the Department

- ensured applicants met requirements for program eligibility;
- properly authorized grant payments to licensed child care centres;
- accurately calculated grant funding based on program guidelines; and
- completed reviews of information provided by the licensed child care centres to ensure accurate payments based on the use of funds.

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Early Years Centres Grant Funding

2.73 Some early learning and child care centres are designated by the Minister as Early Years Centres. To receive the designation of Early Years Centre, operators must be in operation and in good standing with the Board for a minimum of one year. The operator must also maintain certain criteria, including staff certification standards, curriculum standards as well as provincially regulated wages and parent fees. Each Early Years Centre receives subsidization advanced in quarterly payments. The amount of each payment is calculated using a funding formula based on the centres' projected enrollment and staffing requirements. At March 31, 2018, there were 49 designated Early Years Centres. The Department paid \$7.6 million to these centres during 2017-18 through this program.

Eligibility criteria met

2.74 The Early Years Centres grant funding is provided to all centres which hold the designation. Each of the ten centres tested was a designated Early Years Centre.

Payments in excess of contracts

2.75 Each year, designated centres enter into a funding contract with the Department. We expected that payments under each contract would be in accordance with the program funding guidelines. In several cases, we noted payments were made in excess of the approved funding guidelines and the total of the applicable authorized contract.

2.76 In 6 of 10 Early Years Centre funding contracts examined, changes were made to the funding calculation resulting in increased funding. Based on discussion with Division management, exceptions were made with several operators at the time of their designation allowing them to maintain existing wage rates and/or staffing hours in excess of the funding guidelines. These exceptions totalled almost \$140,000 in 2017-18 for our sampled items.

2.77 In each case, the contract authorized by the Minister referred only to the funding formula used under the program and any additional funding was not included in the contract.

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Funding for employee benefits not clear in contracts

2.78 The funding formula in the contract references employee benefits; however, the contract does not outline the specific employee benefits that are to be funded. Based on our testing, the amounts funded included employers' costs of EI, CPP, workers compensation and vacation pay. Additional amounts were paid to operators for the purpose of providing additional benefits such as sick leave and related staff replacement costs. It is important that the contract outline the specific employee benefits funded under the contract. The Department can then monitor to ensure the funds were used as intended.

Contracts not properly authorized

2.79 Treasury Board Policy requires that all contracts and agreements in excess of \$100,000 be approved by Treasury Board prior to execution by the Minister or Deputy Minister. We noted that the Early Years Centre funding contracts with values in excess of \$100,000 were not submitted for Treasury Board authorization prior to execution. During the 2017-18 fiscal period, there were 39 centres with contracts valued greater than \$100,000 that did not receive appropriate authorization from Treasury Board.

2.80 Specific authorization requirements are established because additional screening is warranted for large financial commitments. It is important that Treasury Board authorization policies are followed. We noted that funding contracts over \$100,000 for 2018-19 were submitted and approved by Treasury Board.

Payment calculation errors and lack of documentation

2.81 Payments under the Early Years Centres grant program are to be advanced based on a funding formula. The Division is provided quarterly information on each centre indicating actual staffing and enrollment for the period. This information is used to estimate required funding for the following quarter. Operators are subsidized based on a predetermined portion of projected wages for program staff less a portion of parent fees. Adjustments are made by Division staff in the subsequent quarter for any variances in projected wages or parent fees.

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2.82 The payments calculated by department staff for each Early Years Center are reviewed and authorized by management. We recalculated funding payments made in 2017-18 to ten Early Years Centres.

2.83 We noted calculation errors and lack of supporting documentation. In three cases, centres were underfunded by approximately \$6,400 in total with one error resulting in an underpayment of \$5,500. The four remaining instances resulted in the over-funding of centres by approximately \$7,700. Errors relating to two centres accounted for \$6,900 of these overpayments. In addition, in several cases there was insufficient documentation on file to support funding adjustments. In these cases, we could not confirm that the funding adjustments were accurate.

2.84 In many cases, the child care centres depend on the contracted funding to meet operational needs. Errors in payment calculations can negatively impact operations. The Department needs to strengthen its procedures to reduce the incidence of payment errors.

Recommendations

2.85 The Department of Education, Early Learning and Culture should ensure that funding arrangements with Early Years Centres are documented in the contract and appropriately authorized. Payments should not exceed amounts authorized in the contracts.

2.86 The Department of Education, Early Learning and Culture should include the terms and conditions for employee benefits in the authorized contracts for Early Years Centres grant funding.

2.87 The Department of Education, Early Learning and Culture should ensure that funding contracts for Early Years Centres are authorized in accordance with Treasury Board Policy.

2.88 The Department of Education, Early Learning and Culture should strengthen review procedures for payments to Early Years Centres.

Special Needs Grant Funding

2.89 The Special Needs Grant program was developed to provide support funding for children with special needs. The funding enables child care centres to hire staff to provide additional assistance to eligible children. Quarterly advances are based on contracts with each eligible child care centre. Payments are calculated based on wages required to hire additional staff for the child or children with special needs. As of

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March 31, 2018, there were 46 centres that were provided funding. During 2017-18, \$1.4 million was paid to these centres under the Special Needs Grant Program.

Eligibility criteria met

2.90 Applications include the names of children who require additional assistance, the staff hours requested for funding, and the number of days for which the centres are requesting funding. All 10 approved applications tested included the relevant information required to support the center's eligibility. However, we noted that the eligibility requirements on the Department's website were inconsistent with the program guidelines and the funding application. The Department's website information indicates that the child receiving assistance must have a formal diagnosis in order for the centre to be eligible for funding. The funding guidelines and the funding contracts do not require a specific diagnosis for funding eligibility. If eligibility requirements are not clear and consistently communicated, centres may not apply for funding under the program.

Contracts not properly authorized

2.91 Each year, operators approved for subsidization under the Special Needs Grant program must sign a contract with the Department to receive funding. We expected that each contract would be executed by the Minister, Deputy Minister, or an authorized delegate in accordance with Treasury Board policy. We noted that 2 of 10 funding contracts examined were not appropriately authorized. In each case, the child care operator had signed the Special Needs Grant funding contract but there was no authorized signature from the Department.

Terms, conditions, and reporting requirements not specified

2.92 We also noted that contracts did not include the total staff hours or total funding approved for each centre under the program. This information should be included in contracts to ensure that those approving the contracts are aware of the commitment being made, and that the amounts are consistent with funding objectives. It is also important for the centres to be aware of the approved amounts and expected funding, so they are able to plan for operating costs.

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2.93 The Special Needs Grant contracts did not require funded centres to report on actual attendance and staff wages. This information is important to support that funding was used as intended. Obtaining this information would assist the Department to assess whether the centre had provided services to the special needs children who were approved for funding and the individuals hired to care for the children were actively employed at the centre. We noted a revised contract template was developed by the Department for use in the 2018-19 fiscal year.

Recommendations

2.94 The Department of Education, Early Learning and Culture should ensure publicly available information on eligibility for the Special Needs Grant program is consistent with the approved funding guidelines.

2.95 The Department of Education, Early Learning and Culture should ensure funding agreements for the Special Needs Grant program are authorized by the Department and include:

- the amount, terms and timing of payments; and
- required reporting on the use of funds.

CONCLUSION

2.96 The Ministry of Education, Early Learning and Culture did not adequately monitor and enforce the licensing of early learning and child care centres in compliance with the *Early Learning and Child Care Act* and regulations:

- The Board granted licenses in some cases without all required licensing information.
- Board inspections were generally not completed on a timely basis.
- The inspection template used did not cover all relevant legislative standards.
- Policies or guidelines were not developed to assist staff in determining an overall inspection result.

2.97 Further, we found that the Department had access to current data related to available capacity and demand for licensed child care. However, it had not established overall accessibility targets and indicators

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required to measure and monitor the accessibility of licensed child care services.

2.98 Finally, we concluded that grant funding for early learning and child care centres was not always provided in compliance with program criteria and funding contracts. All funding recipients tested met program eligibility criteria. However, many funding contracts were not appropriately authorized in compliance with Treasury Board requirements. In some cases, payments exceeded funding contracts and program guidelines. We also noted several uncorrected errors in payment calculations.

RECOMMENDATIONS TO THE
EARLY LEARNING AND CHILD CARE BOARD*

RECOMMENDATIONS	BOARD RESPONSE
<p>Recommendation 2.19 The Early Learning and Child Care Board should develop and implement a policy based on established good practice on the required frequency of inspections for licensed child care centres.</p>	<p>The Board agrees with the recommendation. The Board's current practice is that licensed child care centres are to be inspected annually. A policy for this practice will be developed. The policy will be established on best practice and include the required frequency of inspections.</p> <p>Timeline for completion: 2019-2020 fiscal year</p>
<p>Recommendation 2.27 The Early Learning and Child Care Board should update its inspection template to ensure all key requirements of the <i>Early Learning and Child Care Act</i> and regulations are included.</p>	<p>The Board agrees with the recommendation. The inspection template is currently being updated to include all key requirements of the <i>Early Learning and Child Care Act</i> and regulations.</p> <p>Timeline for completion: in process</p>
<p>Recommendation 2.35 The Early Learning and Child Care Board should develop policy guidelines to identify key violations that should result in an overall unsatisfactory inspection result.</p>	<p>The Board agrees with the recommendation. Current practice involves the inspection team meeting regularly to identify key violations that result in overall unsatisfactory inspection results. A policy formalizing the process to determine unsatisfactory inspection results will be developed.</p> <p>Timeline for completion: 2019-2020 fiscal year</p>
<p>Recommendation 2.42 The Early Learning and Child Care Board should develop a policy on the nature and timing of follow-up action on non-compliance issues, including required reporting to the Board.</p>	<p>The Board agrees with the recommendation. Current practice involves all non-compliance issues being investigated and addressed. A policy formalizing this practice will be developed.</p> <p>Timeline for completion: 2019-2020 fiscal year</p>

*Note: Recommendation numbers refer to the paragraph number in the body of the report.

**RECOMMENDATIONS TO THE
EARLY LEARNING AND CHILD CARE BOARD***

RECOMMENDATIONS	BOARD RESPONSE
<p>Recommendation 2.50 The Early Learning and Child Care Board should ensure that all required criminal record and vulnerable sector checks are obtained prior to license approval in accordance with the <i>Early Learning and Child Care Act</i> and regulations.</p>	<p>The Board agrees with the recommendation. Current practice is that criminal record and vulnerable sector checks are requested prior to license approval. A policy will be developed to ensure that criminal record and vulnerable sector checks are obtained prior to license approval in accordance with the <i>Early Learning and Child Care Act</i> and regulations.</p> <p>Timeline for completion: 2019-2020 fiscal year</p>
<p>Recommendation 2.55 The Early Learning and Child Care Board should obtain current, satisfactory fire inspections prior to approval of licenses for early learning and child care centres.</p>	<p>The Board agrees with the recommendation. Currently, the Board's practice is to request and obtain fire inspections prior to the mailing of licenses to applicants. We will maintain documentation of this practice. A policy that formalizes this process, and includes a process for re-inspections, will be developed.</p> <p>Timeline for completion: 2019-2020 fiscal year</p>

*Note: Recommendation numbers refer to the paragraph number in the body of the report.

**RECOMMENDATIONS TO THE DEPARTMENT OF
EDUCATION, EARLY LEARNING AND CULTURE***

RECOMMENDATIONS	DEPARTMENT RESPONSE
<p>Recommendation 2.68 The Department of Education, Early Learning and Culture should define overall goals for the accessibility of licensed child care services in Prince Edward Island.</p>	<p>The Department of Education, Early Learning and Culture will define overall goals for accessibility of licensed child care services.</p> <p>Timeline for completion: 2019-2020 fiscal year</p>
<p>Recommendation 2.69 The Department of Education, Early Learning and Culture should establish performance indicators and targets to evaluate the accessibility of licensed child care services.</p>	<p>The Department of Education, Early Learning and Culture will establish performance indicators and targets to evaluate the accessibility of licensed child care services.</p> <p>Timeline for completion: 2019-2020 fiscal year</p>
<p>Recommendation 2.85 The Department of Education, Early Learning and Culture should ensure that funding arrangements with Early Years Centres are documented in the contract and appropriately authorized. Payments should not exceed amounts authorized in the contracts.</p>	<p>The staffing complements are currently being reviewed with the Early Years Centres. The Department will ensure contracts reflect the funding arrangements and have the appropriate approval structures in place.</p> <p>Timeline for completion: April 2019</p>
<p>Recommendation 2.86 The Department of Education, Early Learning and Culture should include the terms and conditions for employee benefits in the authorized contracts for Early Years Centres grant funding.</p>	<p>The funding model allows for benefits to be provided. In the 2019-2020 fiscal year, the Early Years Centre contract will include the terms and conditions for employee benefits.</p> <p>Timeline for completion: April 2019</p>
<p>Recommendation 2.87 The Department of Education, Early Learning and Culture should ensure that funding contracts for Early Years Centres are authorized in accordance with Treasury Board Policy.</p>	<p>In the 2018-2019 fiscal year, the Department obtained Treasury Board approval for all Early Years Centre contracts over \$100,000, as outlined in the Treasury Board Policy and Procedures Manual.</p> <p>Timeline for completion: Implemented for 2018-2019 fiscal year.</p>

*Note: Recommendation numbers refer to the paragraph number in the body of the report.

**RECOMMENDATIONS TO THE DEPARTMENT OF
EDUCATION, EARLY LEARNING AND CULTURE***

RECOMMENDATIONS	DEPARTMENT RESPONSE
<p>Recommendation 2.88 The Department of Education, Early Learning and Culture should strengthen review procedures for payments to Early Years Centres.</p>	<p>Department staff work closely with Early Years Centres to interpret their quarterly installments. Consultations occur with Early Years Centres on a quarterly basis to ensure the calculations are complete and accurate, and detailed payment calculations are provided to Early Years Centres upon request. Department staff review the quarterly staffing and enrolment information provided by Early Years Centres and calculate quarterly payments. There are two separate reviews of the payment calculation to mitigate the risk of inaccuracies. The Department will continue to monitor its processes related to Early Years Centre funding payments.</p> <p>Timeline for completion: April 2019</p>
<p>Recommendation 2.94 The Department of Education, Early Learning and Culture should ensure publicly available information on eligibility for the Special Needs Grant program is consistent with the approved funding guidelines.</p>	<p>The Department will ensure all information on the Special Needs Grant program is consistent.</p> <p>Timeline for completion: March 2019</p>
<p>Recommendation 2.95 The Department of Education, Early Learning and Culture should ensure funding agreements for the Special Needs Grant program are authorized by the Department and include:</p> <ul style="list-style-type: none"> • the amount, terms and timing of payments; and • required reporting on the use of funds. 	<p>Special Needs Grant contracts currently contain a schedule outlining the amount, terms, timing of payments and reporting requirements. This recommendation was fully implemented in the 2018-2019 fiscal year.</p> <p>Timeline for completion: Implemented for 2018-2019 fiscal year.</p>

*Note: Recommendation numbers refer to the paragraph number in the body of the report.

AUDIT STANDARDS, OBJECTIVES AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island. Our role is to conclude on whether the Ministry of Education, Early Learning and Culture complies in all significant respects with the applicable criteria. Management at the Ministry of Education, Early Learning and Culture accepted responsibility for the subject matter under audit.

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

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

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

OBJECTIVES

The objectives of this audit were to determine whether the Ministry of Education, Early Learning and Culture

- adequately monitored and enforced licensing in compliance with the *Early Learning and Child Care Act*, regulations and related policies;
- utilized current data to assess accessibility of licensed child care in Prince Edward Island; and
- provided grant funding for early child care centres in compliance with program criteria and funding agreements.

SCOPE AND APPROACH

We developed a number of criteria to assess whether the Ministry of Education, Early Learning and Culture had met the objectives. These criteria are listed in Appendix C.

Criteria were developed from legislation, policies and relevant guidelines. Management accepted the relevance and suitability of the criteria used in the audit.

The scope of our audit included analysis and testing of records for the period of April 1, 2015 to March 31, 2018 as well as shadowing of selected inspections in July, August and September 2018.

Our approach included:

- interviews with management and staff of the Early Childhood Development Division;
- interviews with the Early Learning and Child Care Board Chair;
- review of relevant legislation, policies, procedures, and reports;
- walkthroughs and physical observation of controls;
- analysis and detailed testing of Board inspections within the scope period;
- shadowing of current Board inspection practices;
- analysis and detailed testing of grant funding for licensed early learning and child care centres within the scope period;
- analysis of departmental data on the accessibility of licensed child care in Prince Edward Island; and
- interviews with the Early Learning Child Care Association.

It is important to note that our observations and conclusions relate only to the management and control practices of the Ministry of Education, Early Learning and Culture. Consequently, our comments and conclusions do not reflect on the professional competencies or care provided by early learning and child care center operators and staff or the performance of any third parties.

DATE OF REPORT

We obtained sufficient and appropriate audit evidence on which to base our conclusions on February 25, 2019, in Charlottetown Prince Edward Island.

AUDIT CRITERIA
<p><u>Audit Objective 1:</u></p>
<p>To determine whether the Ministry of Education, Early Learning and Culture adequately monitored and enforced licensing in compliance with the <i>Early Learning and Child Care Act</i>, regulations and related policies.</p>
<p>1. Inspections were conducted for all licensed facilities.</p>
<p>2. Inspections for licensed facilities included all relevant aspects of the <i>Early Learning and Child Care Act</i>, regulations and related standards.</p>
<p>3. Appropriate action was taken for all instances of non-compliance identified as a result of regular inspections, complaints and/or self reported incidents.</p>
<p>4. Licensing decisions were based on compliance with legislation and policies.</p>
<p><u>Audit Objective 2:</u></p>
<p>To determine whether the Ministry of Education, Early Learning and Culture utilized current data to assess accessibility of licensed child care in Prince Edward Island.</p>
<p>1. Timely information was collected and maintained relating to capacity and demand for licensed child care services.</p>
<p>2. Performance indicators and performance targets were established to measure and monitor the accessibility of licensed child care services.</p>
<p><u>Audit Objective 3:</u></p>
<p>To determine whether the Ministry of Education, Early Learning and Culture provided grant funding for early child care centres in compliance with program criteria and funding agreements.</p>
<p>1. Approved applicants met qualification requirements for program eligibility.</p>
<p>2. Grant funding was accurately calculated and advanced based on program guidelines.</p>
<p>3. Grant payments to early child care centers were properly authorized.</p>
<p>4. Relevant information from early child care centers was reviewed to ensure that grant funding provided was used for its intended purpose.</p>

3. CAPITAL ASSET PLAN FOR PROVINCIAL PARKS

CHAPTER SUMMARY

Why it's important

Provincial parks are a key component of Prince Edward Island's tourism product. Parks help to promote active and healthy lifestyles among Islanders and visitors. Capital assets at the provincial parks are significant, and the long-term sustainability of the parks requires an adequate capital plan to support the management of these assets.

What we found

Tourism PEI has not developed a strategic vision for the provincial parks. Strategic objectives would guide the identification of long-term capital needs for provincial parks.

Tourism PEI prepared a five year capital plan but the plan does not reasonably reflect the capital improvements and replacements required to sustain the provincial parks.

Tourism PEI does not have sufficient information on the capacity of its existing assets:

- There was no complete listing of assets including infrastructure, playgrounds, roadways, and parking lots.
- There was inadequate documentation on the condition of capital assets.

The funding for provincial parks capital assets has not kept pace with the capital asset plan.

We made six recommendations to Tourism PEI. **Appendix A** lists the recommendations and responses from Tourism PEI.

3. Capital Asset Plan for Provincial Parks

BACKGROUND

3.1 Tourism makes a significant contribution to Prince Edward Island's economy. The tourism industry is a critical driver of economic activity, employment and tax revenue. Tourism PEI's 2017-18 Annual Report states that the industry provided 7,700 full time equivalent jobs for Islanders, accounting for over 6 percent of PEI's total GDP, and \$447 million in economic activity.

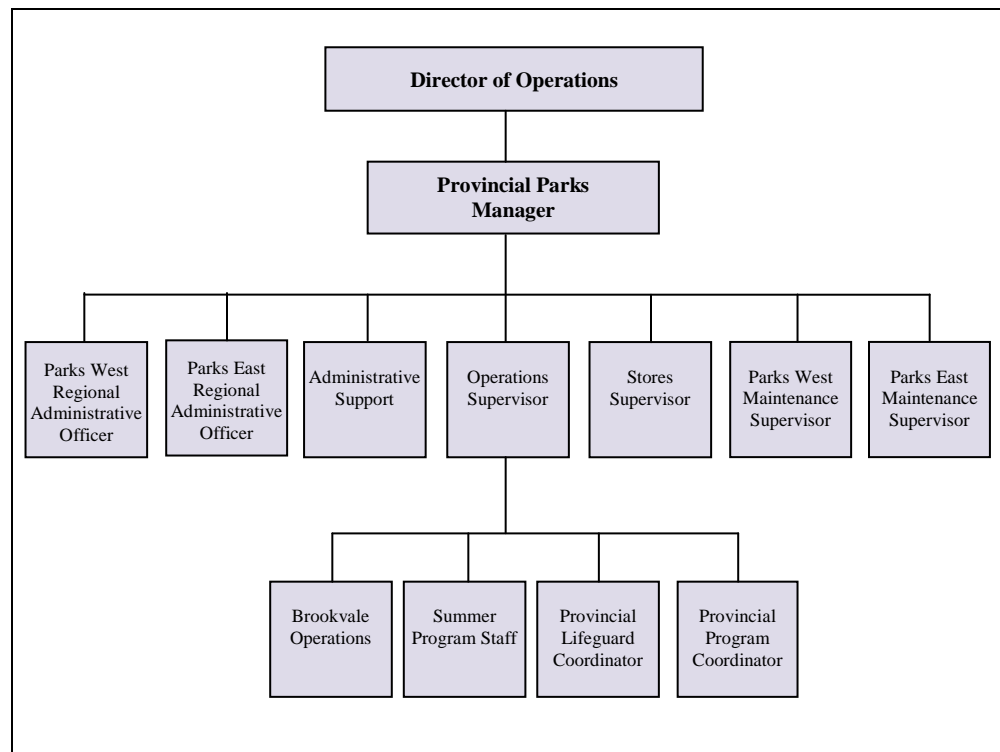
3.2 The *Recreation Development Act* authorizes Tourism PEI, a Crown corporation, to "...plan, develop, promote, supervise, maintain and administer provincial parks...". This legislation provides the authority for Tourism PEI to manage the capital assets for all aspects of the parks.

3.3 Tourism PEI is established pursuant to the *Tourism PEI Act*. During our audit scope period, this Act required a five member Board of Directors with at least two members from the private sector and the Minister of the Department of Economic Development and Tourism as Chair. The Act was amended in November 2018. The new Board is to include seven to nine members, all from the private sector, with the Chair appointed by the Lieutenant Governor in Council from the members of the Board.

3.4 In 2017-18, Tourism PEI incurred operating expenditures of approximately \$20 million funded by grants from the provincial government and revenues from golf and park operations. The Corporation has three divisions. The Marketing Communications Division is responsible for promoting the province as a premier vacation destination and other related activities. The Strategic Initiatives Division has a variety of responsibilities including tourism research and statistical reporting. The Corporate Services Division is responsible for financial management and general administration activities of Tourism PEI such as budgeting, forecasting, and expenditure monitoring. This division is also responsible for the management of provincial golf courses and parks. **Exhibit 3.1** shows the organization structure for provincial parks under the Corporate Services Division and highlights the primary positions involved.

3. Capital Asset Plan for Provincial Parks

EXHIBIT 3.1
TOURISM PEI
CORPORATE SERVICES DIVISION
PROVINCIAL PARKS
ORGANIZATION STRUCTURE
MARCH 31, 2018

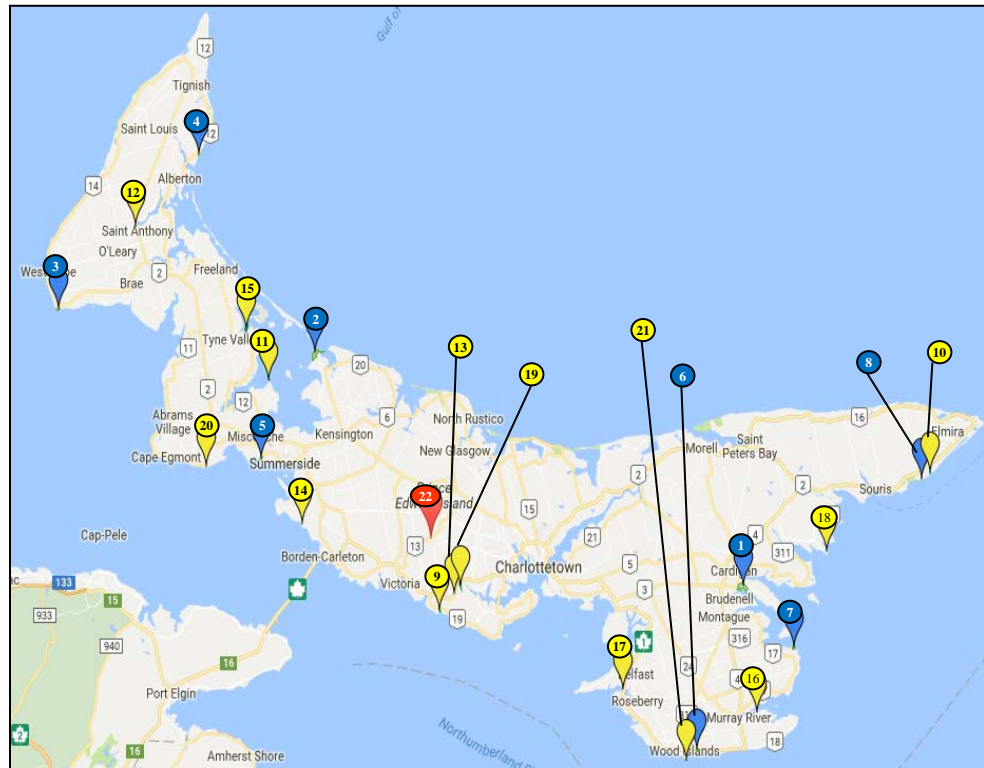


Source: Tourism PEI

3.5 There are currently 23 provincial parks in Prince Edward Island. These parks are located across the province and showcase Prince Edward Island’s coastlines and natural beauty. The provincial parks are a key component of Prince Edward Island’s tourism product, attracting visitors to the Island and helping to promote active and healthy lifestyles among Islanders and visitors. **Exhibit 3.2** identifies the general location of all provincial parks throughout the province, by type of park.

3. Capital Asset Plan for Provincial Parks

EXHIBIT 3.2 TOURISM PEI PROVINCIAL PARKS MARCH 31, 2018



Campground Parks (Blue Pins)
1. Brudenell River Provincial Park
2. Cabot Beach Provincial Park
3. Cedar Dunes Provincial Park
4. Jacques Cartier Provincial Park
5. Linkletter Provincial Park
6. Northumberland Provincial Park
7. Panmure Island Provincial Park
8. Red Point Provincial Park

Day Use Parks (Yellow Pins)
9. Argyle Shore Provincial Park
10. Basin Head Provincial Park
11. Belmont Provincial Park
12. Bloomfield Provincial Park
13. Bonshaw Hills Provincial Park
14. Chelton Beach Provincial Park
15. Green Park Provincial Park
16. Kings Castle Provincial Park
17. Pinette Park Provincial Park
18. Sally's Beach Provincial Park
19. Strathgartney Provincial Park
20. Union Corner Provincial Park
21. Wood Islands Provincial Park

Provincial Ski Park (Red Pin)
22. Mark Arendz Provincial Ski Park at Brookvale (seasonal and all-season activity park)

Other (Not Shown)
23. Confederation Trail (linear park: part of the Trans Canada Trail Network)

Source: Government of Prince Edward Island website

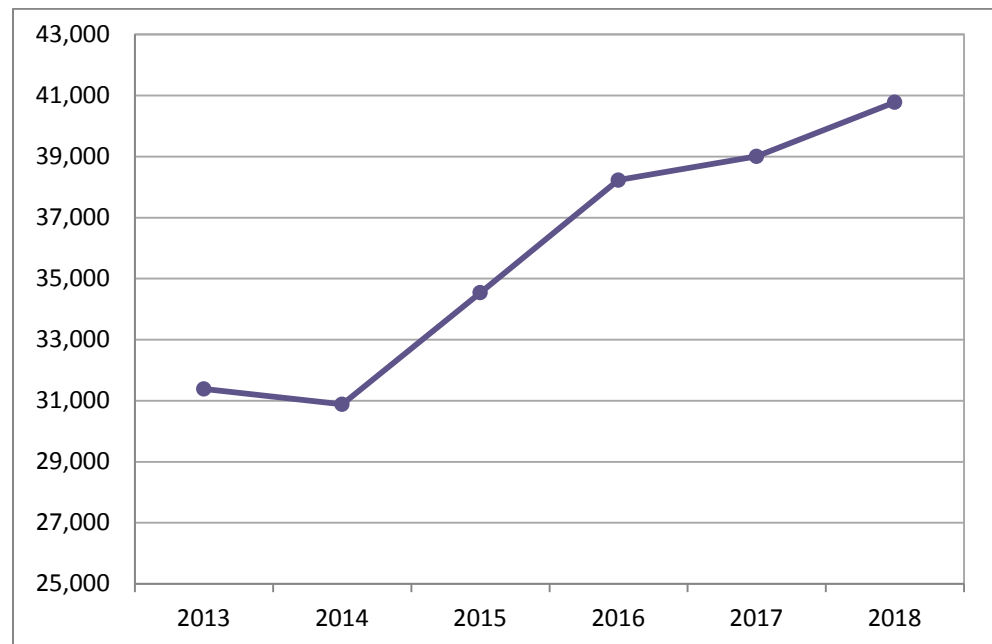
3. Capital Asset Plan for Provincial Parks

Provincial Campgrounds

3.6 At March 31, 2018, there were 57 campgrounds in the province: eight of these were provincially owned and managed, two were owned and operated by the federal government, and the remaining 47 were privately owned. Of the 7,300 campground sites within the province, approximately ten percent are located in provincially owned campgrounds.

3.7 Over one-third of all overnight stays sold in PEI in both 2017 and 2018 were in campgrounds. In 2018, the site nights sold for provincially owned campgrounds increased by five percent over 2017 and 30 percent since 2013. **Exhibit 3.3** shows the total site nights sold for all provincial campgrounds for the 2013 to 2018 camping seasons. Revenue from operations for provincial parks, excluding the provincial ski park, was just over \$1.0 million in 2017-18.

EXHIBIT 3.3
SITE NIGHTS SOLD
PROVINCIAL CAMPGROUNDS
CAMPING SEASONS (MAY - OCTOBER)
2013 - 2018



Source: Annual Tourism Indicator report prepared by Tourism PEI's Strategic Initiatives Division.
Note: Mill River Provincial Park sold and not included in 2017 and 2018 site nights sold.

3. Capital Asset Plan for Provincial Parks

Day Use Parks

3.8 There are 13 provincial day use parks across the province which operate during daylight hours from mid June to mid September. These parks vary in size and generally offer beach access. The day parks offer recreational opportunities for visitors and Islanders and access to these parks is free.

Mark Arendz Provincial Ski Park at Brookvale

3.9 The Mark Arendz Provincial Ski Park at Brookvale (Brookvale) is centrally located within the province and offers a wide variety of winter activities including cross country and alpine skiing, snowboarding and snowshoeing. During the summer months, the nordic centre offers mountain biking, hiking trails and a summer biathlon program. The park offers a wide range of skiing and snowboarding lessons. Brookvale generated approximately \$470,000 in revenue during the 2017-18 ski season through lessons offered at the ski school as well as trail and lift passes and equipment rentals.

Confederation Trail

3.10 The Confederation Trail is a linear provincial park and spans over 435 km, enabling users to travel tip-to-tip on the Island. It provides signage directing visitors to nearby amenities and communities. The costs to maintain the trail are covered under the Department of Transportation, Infrastructure and Energy operating budget, while specific improvements such as signage, trail heads and shelters are covered under Tourism PEI's capital budget. Our audit included the provincial campgrounds, provincial day use parks and Brookvale but did not include the Confederation Trail.

Capital Assets

3.11 Tourism PEI manages a wide variety of capital assets to operate the provincial parks. The capital assets for campgrounds and day use parks include water and sewer infrastructure, electricity hookups for campers, access roads and parking lots, playground equipment, offices, shelters, storage and maintenance buildings, maintenance equipment, as well as comfort stations housing washroom and laundry facilities. In addition, Brudenell Campground has a swimming pool and all campgrounds have electronic point of sale equipment.

3.12 The capital assets at Brookvale include assets similar to those at other provincial parks but also include ski lodges, ski lifts, snow groomers, snowmobiles and other winter motorized vehicles used for park operations.

3. Capital Asset Plan for Provincial Parks

3.13 Tourism PEI management estimates the replacement cost of buildings and equipment at \$12.5 million, not including assets such as playground equipment, water and sewer infrastructure, parking lots and access roads. Based on Treasury Board Policy, generally assets with a cost of \$10,000 or more are to be recorded as capital assets. Excluding land, the historical cost of provincial parks capital assets reflected in the consolidated financial statements of the province was approximately \$13.4 million at March 31, 2018. At that time, these assets were approximately 80 percent depreciated.

AUDIT OBJECTIVES AND SCOPE

3.14 For purposes of this audit, capital assets are defined as the infrastructure, buildings and equipment managed by Tourism PEI for the provincial parks which are required to be capitalized by Treasury Board Policy. This audit does not include lands designated as provincial parks or the provincial golf courses. The objectives of this audit were to determine whether

- Tourism PEI has an adequate long-term capital asset plan for provincial parks; and
- Tourism PEI's capital expenditures for provincial parks are based on priorities established in its capital asset plan.

3.15 This report includes six recommendations which are listed in **Appendix A**. Details on the audit standards, objectives, scope, and audit criteria are included in **Appendix B**, and **Appendix C** of this report. The following report sections provide information on the findings, related recommendations, and conclusions from our audit.

OBSERVATIONS AND RECOMMENDATIONS

LONG-TERM CAPITAL NEEDS

Summary of Findings

3.16 Tourism PEI does not have a strategic vision for its provincial parks. A capital asset plan was developed for provincial parks in September 2017 for fiscal years 2018-19 to 2022-23.

3. Capital Asset Plan for Provincial Parks

3.17 Capital asset planning assists government to provide its programs in an efficient and sustainable manner by ensuring that assets function as expected and the risk of unexpected failure is minimized. Planning for asset replacement and major capital repairs can reduce costs and impacts on taxpayers. Planning for new assets is important to support growth.

3.18 A capital plan should include the capital assets needed to fulfill the strategic objectives of the organization as well as the estimated costs. Based on the value and the importance of the provincial parks to the province's tourism industry and Islanders, we expected at a minimum Tourism PEI would have a five year capital plan that reflected the strategic objectives for provincial parks.

3.19 Tourism PEI has not developed a strategic plan to guide the direction of the Corporation. In late 2016, a five year strategic plan was completed for the tourism industry. It was commissioned by the Tourism Industry Association of Prince Edward Island. Tourism PEI provided input to assist in the development of the industry plan. However, the goals, strategies and recommendations in the plan relate to the entire tourism industry.

No strategic objectives for provincial parks

3.20 The *Tourism PEI Act* includes overall objectives related to growing tourism in the province, but strategic objectives have not been developed to guide the Corporation's vision for provincial parks. As the vision is not defined, it is difficult to determine the nature and extent of assets that may be required.

3.21 Tourism PEI management has identified the priorities for provincial parks as protecting the safety of users, sustaining the condition of all park facilities, and responding to changes in demand for campground sites. These priorities were not formally approved by the Board of Directors or the Minister of Economic Development and Tourism.

3. Capital Asset Plan for Provincial Parks

Recommendations

3.22 Tourism PEI should develop a strategic plan and seek endorsement from government.

3.23 Tourism PEI should establish strategic objectives for provincial parks.

3.24 During 2017 an infrastructure committee established by the Department of Transportation, Infrastructure and Energy undertook a review of capital asset planning for a number of departments, agencies, boards and commissions across government. Tourism PEI was asked to submit information to the committee on its infrastructure needs.

Five year capital plan prepared

3.25 The Corporation responded to the committee's request and developed a five year capital plan. In establishing its capital plan, Tourism PEI identified specific initiatives linked to priorities set by management. The capital assets required for each initiative were identified and in most cases the total estimated cost was averaged over the five year period. We also noted that the capital plan included estimated costs for playground equipment at Gateway Village Business Park.

3.26 **Exhibit 3.4** provides a summary of Tourism PEI's five year capital plan for provincial parks.

3. Capital Asset Plan for Provincial Parks

EXHIBIT 3.4
TOURISM PEI
CAPITAL PLAN PROVINCIAL PARKS
2018-19 to 2022-23
(\$000)

Priority Area	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Washrooms	\$136	\$136	\$136	\$136	\$136	\$680
Upgrading campground sites to serviced sites	131	131	131	131	131	655
Playgrounds	55	55	55	55	55	275
Equipment	35	35	35	35	35	175
Building replacement/renovations	57	57	57	57	57	285
Access road Improvements	12	12	12	12	12	60
Alpine groomer for ski park	-	450	-	-	-	450
Snow making system for ski park	-	-	300	225	225	750
Total	\$426	\$876	\$726	\$651	\$651	\$3,330

Source: Adapted from Tourism PEI Capital Plan, September 2017

Note - This does not include vehicles used for provincial parks operations which are part of a centralized fleet for Tourism PEI.

Capital Budget

3.27 Each year, the Legislative Assembly approves the *Appropriation Act (Capital Expenditures)* which authorizes the capital budget for government for the upcoming fiscal year. In its capital budget submission to Treasury Board, Tourism PEI documents the upcoming capital needs it has identified and requests the funding to meet those needs.

3.28 The capital submission from Tourism PEI for 2018-19 and 2019-20 for provincial parks was consistent with Tourism PEI's capital plan as presented in **Exhibit 3.4**. It included \$426,000 for 2018-19, \$876,000 for 2019-20 and totaled \$3.33 million for the five year period 2018-19 to 2022-23. The approved capital funding for provincial parks in each of 2018-19 and 2019-20 was \$300,000.

3. Capital Asset Plan for Provincial Parks

3.29 Government tables a five year capital budget that is updated annually. The province's five-year capital budget released in November 2018, included a capital funding estimate of \$300,000 per year for provincial parks up to 2023-24.

3.30 In January 2019, subsequent to our audit scope period, Tourism PEI received approval from Treasury Board for additional capital funds to purchase an alpine ski groomer at a projected cost of \$400,000. This ski groomer was included in Tourism PEI's capital plan.

EXISTING CAPITAL ASSET CAPACITY

Summary of Findings

3.31 Tourism PEI did not have a complete and accurate listing of capital assets used for provincial parks operations. The age, useful life, and condition of major capital assets was not documented and maintained for capital asset planning. Several parks did not have chemical water analyses completed in compliance with legislation and playground inspections were not always completed and documented.

3.32 For Tourism PEI to adequately plan for capital asset additions, replacements, and capital repairs for provincial parks, it is important to assess the capacity of its existing assets. It is also important to consider how its capital asset capacity will affect its current and future ability to meet existing priorities. Tourism PEI should have complete and accurate information on all of the capital assets it is responsible to manage including the condition, age and useful life of these assets. This information will assist to identify any risks that these assets may not function as expected.

No complete and accurate listing of capital assets

3.33 We expected Tourism PEI to have a complete and accurate listing of all capital assets for provincial parks to aid in assessing capacity. Tourism PEI maintains a list of buildings and equipment needed for provincial parks for insurance purposes. This listing was not a complete listing of provincial parks assets as it did not include other key asset categories such as water and sewer infrastructure, roadways and parking lots, playground equipment, and major electronics.

3. Capital Asset Plan for Provincial Parks

3.34 The listing of buildings and equipment maintained by Tourism PEI included items that were below the \$10,000 capitalization threshold defined in Treasury Board Policy. In addition, we noted a building had been demolished but had not been removed from the listing. The replacement value of this building totaled over \$84,000.

3.35 We were advised that Tourism PEI has started a process to develop a detailed listing of its capital assets at day parks and campgrounds.

Age and useful life of major capital assets not maintained

3.36 The age and expected useful life of assets is important information for capital asset planning. This information assists management in anticipating future capital expenditures related to these assets. The useful life of an asset indicates the amount of time an asset can be expected to benefit an organization. It is determined by many factors including the age of the asset.

3.37 Tourism PEI maintains information on the age of buildings. We noted 50 percent of the buildings used for provincial parks are over 35 years old. The estimated useful life of buildings varies based on government's accounting policy, but the maximum is 40 years. This means many buildings at provincial parks will soon require major upgrades or replacement.

3.38 Tourism PEI does not track the age and useful life of equipment or other capital asset categories such as sewer and water infrastructure, roadways and playground equipment. Information used for the province's financial reporting does not provide the level of detail required for capital asset planning.

Recommendation

3.39 **Tourism PEI should maintain a complete and accurate listing of all capital assets for provincial parks. This listing should include the age and estimated useful life of the capital assets.**

3.40 While age and useful life provide important information to management, an assessment of the condition of an asset will inform management whether asset wear and deterioration is as expected or there are other issues that will impact asset performance. Condition

3. Capital Asset Plan for Provincial Parks

assessments can provide information about which assets present safety concerns and can assist management in prioritizing capital needs.

Need for policy and documentation on condition of assets

3.41 Tourism PEI does not regularly evaluate and document the condition of all major capital assets at provincial parks.

3.42 We noted Tourism PEI does not have documented policies on assessing the condition of its capital assets. Policies would help to ensure staff know when and how to conduct or obtain these assessments. Policies would also provide consistency in the supporting documentation maintained.

3.43 Tourism PEI has a policy for staff to conduct and document pre-season and mid-season inspections at each park. These inspections were primarily designed to identify required general maintenance and were not intended to provide a condition assessment of capital assets. However, in some cases they may also identify issues that require major capital repairs or replacement.

3.44 We requested all available inspection forms completed during the 2017-18 fiscal year. Fifteen of the provincial parks did not have documented inspections during our scope period. **Exhibit 3.5** provides a summary of the inspection forms provided by Tourism PEI.

EXHIBIT 3.5
TOURISM PEI
PROVINCIAL PARKS
INSPECTIONS FORMS PROVIDED
APRIL 1, 2017 - MARCH 31, 2018

	Number of Parks	Parks with Inspection Forms	Percentage Provided
Provincial Campgrounds	8	4	50%
Provincial Day-use Parks	13	3	23%
Mark Arendz Provincial Ski Park at Brookvale	1	0	0%
Totals	22	7	32%

Source: Compiled from information received from Tourism PEI.

3. Capital Asset Plan for Provincial Parks

3.45 Without a process to periodically assess and document the condition of significant capital assets, there is a risk that management will not have the information to adequately plan for future capital needs.

Recommendation

3.46 Tourism PEI should develop and implement a policy for the regular assessment of capital assets at provincial parks.

Legislated Inspections

3.47 Based on legislative requirements, certain capital assets are required to be inspected by external parties. The results of these inspections can provide useful information on the condition of the related capital assets.

Legislated capital asset inspections completed

3.48 Based on a detailed legislative review and interviews with Tourism PEI management, we compiled a list of required inspections related to provincial parks. These inspections are documented in **Exhibit 3.6**.

EXHIBIT 3.6
TOURISM PEI
PROVINCIAL PARKS
LEGISLATED CAPITAL ASSET INSPECTIONS
APRIL 1, 2017 - MARCH 31, 2018

Inspection	Location	Act	Inspecting Department
Boilers	Various	<i>Boilers and Pressure Vessels Act</i>	Communities, Land and Environment
Ski Lift	Brookvale	<i>Elevator and Lifts Act</i>	Communities, Land and Environment
Swimming Pool	Brudenell	<i>Public Health Act</i>	Health and Wellness

3.49 We examined inspection reports to determine whether Tourism PEI complied with all of the noted legislated inspections. We noted that all inspections had been completed as required by legislation.

3. Capital Asset Plan for Provincial Parks

Chemical water analyses not completed

3.50 In addition to the legislated inspections of capital assets, we also examined water testing. Under *The Environmental Protection Act* the water supply at provincial parks is to be tested quarterly for bacteria and once every three years a general chemical analysis is required. The bacteria testing was completed as required for the parks in our sample. However, we noted that five of the ten parks examined did not have the required general chemical analysis completed in compliance with legislation.

Playground inspections not always completed and documented

3.51 The Canadian Standards Association (CSA) has standards for playground equipment that involve all aspects of the equipment including installation, materials, inspection and maintenance. The standards are nationally recognized for children's play spaces and equipment.

3.52 To comply with CSA standards, there are many requirements which the owner of public-use playground equipment must meet. The standards require that playground installations be certified as meeting the standard and a maintenance program be developed for each playground. An annual comprehensive written report on each playground is also required. The maintenance program and inspections must be documented to ensure compliance with the standards.

3.53 Although there is no legislative requirement, it is Tourism PEI's policy to comply with CSA standards. Tourism PEI had a staff member certified as a Canadian Certified Playground Inspector in May 2017, but the individual left the position in October 2017.

3.54 We requested inspection reports for playgrounds at the provincial parks for the year April 1, 2017 to March 31, 2018. We were informed that some inspections were completed; however, Tourism PEI could not provide documented inspection reports.

3. Capital Asset Plan for Provincial Parks

3.55 The lack of documentation on playground inspections means there is insufficient evidence to demonstrate that inspections were actually completed. There is also a risk that potential issues with playgrounds may not be reported to senior management. The 2017 capital plan included \$275,000 for playground equipment and installation. Without documented inspections, Tourism PEI may not have complete and up-to-date information on the condition of playgrounds to determine its capital asset needs.

Recommendations

3.56 Tourism PEI should ensure that water testing at provincial parks is completed in accordance with the *Environmental Protection Act*.

3.57 Tourism PEI should ensure that playgrounds at provincial parks are regularly inspected by qualified persons and these inspections are documented.

CAPITAL EXPENDITURES

Summary of Findings

3.58 Capital expenditures examined for 2018-19 related to the priorities established in the capital plan. Unplanned capital expenditures were supported with a rationale.

3.59 Planned and actual capital expenditures may vary. Unforeseen issues can arise and budget constraints may mean that items in a capital plan do not get completed as priorities change.

3.60 We examined whether Tourism PEI's capital expenditures were used for initiatives identified in its capital asset plan. We assessed whether there was a rationale for significant expenditures not included in the capital plan.

3.61 Based on our review of expenditures from April 1, 2018 to September 30, 2018, we noted two significant asset acquisitions which were not included in the capital plan. The first expenditure related to a septic lift station at a provincial campground that totaled \$23,000. This expenditure was necessary for the continued operation of the campground.

3. Capital Asset Plan for Provincial Parks

3.62 The other significant expenditure was an \$80,000 replacement of a playground structure which was not part of the playground upgrades included in the capital plan. We were not provided with playground inspection reports during our scope period but we were advised that the equipment deteriorated and posed a safety issue.

3.63 The total of these unplanned expenditures represented approximately one-third of Tourism PEI's approved annual capital funding for 2018-19. Unplanned expenditures have a significant impact on Tourism PEI's ability to implement its capital plan and further support the need for complete and accurate information on the condition of capital assets.

GAP BETWEEN CAPITAL NEEDS AND EXISTING ASSETS

Summary of Findings

3.64 Tourism PEI has not fully assessed relevant information to identify the gap between its existing capital asset capacity and its long term capital needs.

3.65 A long term capital plan should reflect the gap between the existing capital asset capacity and long-term capital needs.

3.66 Tourism PEI prepared a five-year capital plan, but this capital plan does not reasonably reflect the capital improvements and replacements required to sustain the provincial parks at their current level of visitation and occupancy. Several issues raised in this report point to the need for improvements in the assessment of information to identify the capacity of existing capital assets. For example, there was no complete listing of assets including infrastructure, playgrounds, roadways, and parking lots. The information on the condition of assets was also not sufficient for Tourism PEI to determine the capacity of its existing assets and resulting needs.

3.67 Buildings are a major asset category at provincial parks and the Corporation estimated the replacement value to be \$7.6 million at March 31, 2018. Over 50 percent of the buildings at provincial parks were over 35 years old at March 31, 2018 and had an estimated useful life up to 40 years. Tourism PEI's five year capital plan for 2018-19 to 2022-23 includes approximately \$1.0 million for replacement and upgrades to buildings (building replacement/renovations and washrooms). This

3. Capital Asset Plan for Provincial Parks

represents only 13 percent of the estimated replacement value of these assets. Based on this information, it is likely that the estimated costs included in the capital plan for buildings will not be sufficient to adequately maintain these assets over the long-term.

3.68 The capital plan identified capital needs of \$426,000 for 2018-19. The approved funding was \$300,000, a difference of \$126,000. Based on the funding required to complete all initiatives in the plan and the amount budgeted for parks in the province's most recent five year capital budget, the funding shortfall will be \$1.83 million over the five years. This does not include any special warrants that may be approved for 2018-19. With this level of funding, it will take over ten years for Tourism PEI to complete the initiatives identified.

3.69 Approximately one third of total capital funding received for 2018-19 was required to meet unplanned capital expenditures. Where there are significant unplanned capital requirements, there is less funding available to address the planned initiatives.

3.70 In addition to improvements in identifying the capital asset needs based on current priorities, government needs to establish strategic objectives for provincial parks. Strategic objectives would guide decisions that will further impact the capital asset planning for parks, for example, whether government should alter the number of parks, and/or the capacity and services available at the parks.

3.71 Implementation of the recommendations in this report will assist Tourism PEI in identifying its long-term capital needs. The funding for capital assets has not kept pace with the capital asset plan established by Tourism PEI. Deferring capital asset investments in the provincial parks poses increased risk to safe and sustained operation of the parks.

CONCLUSION

3.72 Tourism PEI does not have an adequate long-term capital asset plan for provincial parks. Strategic objectives have not been developed for provincial parks and endorsed by the Board of Directors and government, therefore the future long term capital asset requirements are difficult to determine.

3. Capital Asset Plan for Provincial Parks

3.73 Tourism PEI does not have a complete and accurate listing of all capital assets managed by the Corporation. It did not maintain sufficient information on the age, useful life, and condition of existing assets to support its capital plan.

3.74 Capital budget requests were based on Tourism PEI's five year capital plan. Tourism PEI has based its capital expenditures for provincial parks on the priorities established in its capital asset plan. When expenditures were made outside of the plan they were supported with a rationale.

3. Capital Asset Plan for Provincial Parks

APPENDIX A

RECOMMENDATIONS*	MANAGEMENT'S RESPONSE
<p>Recommendation 3.22 Tourism PEI should develop a strategic plan and seek endorsement from government.</p>	<p>Tourism PEI agrees with this recommendation. We will develop a strategic plan to be endorsed by our new Board and government. Timeline for completion: Spring 2020</p>
<p>Recommendation 3.23 Tourism PEI should establish strategic objectives for provincial parks.</p>	<p>Tourism PEI agrees with this recommendation and will take direction from the main strategic plan and in discussion with the new Board, develop strategic objectives for provincial parks. Timeline for completion: Summer/Fall 2020</p>
<p>Recommendation 3.39 Tourism PEI should maintain a complete and accurate listing of all capital assets for provincial parks. This listing should include the age and estimated useful life of the capital assets.</p>	<p>Tourism PEI agrees with this recommendation and will continue to build on the list currently in place to add roadways and parking lots, estimated remaining useful life, and age where it is known along with the last condition assessment report date. Tourism PEI will work with Environmental Industrial Services Inc. (EISI) to obtain a listing of sewer infrastructure to add to this asset listing. Timeline for completion: Spring 2020</p>
<p>Recommendation 3.46 Tourism PEI should develop and implement a policy for the regular assessment of capital assets at provincial parks.</p>	<p>Tourism PEI agrees with this recommendation and a policy will be developed as noted. Timeline for completion: Summer 2019</p>
<p>Recommendation 3.56 Tourism PEI should ensure that water testing at provincial parks is completed in accordance with the <i>Environmental Protection Act</i>.</p>	<p>Tourism PEI agrees with this recommendation. While we were compliant with the Tourism Industry Act regulations surrounding bacteria water testing quarterly, there were a few parks that missed their chemical analysis testing under the <i>Environmental Protection Act</i>. Timeline for completion: June 30, 2019</p>
<p>Recommendation 3.57 Tourism PEI should ensure that playgrounds at provincial parks are regularly inspected by qualified persons and these inspections are documented.</p>	<p>Tourism PEI agrees with this recommendation. While there is no legislative requirement, provincial parks has, in recent years, strived to reach CSA standards. We will immediately explore options with securing the qualified resources needed to carry out these CSA inspections. Provincial parks staff will continue to monitor the safety and condition of all playground equipment in between inspections. Timeline for completion: October 2019</p>

*Recommendation numbers refer to the paragraph numbers in this report.

AUDIT STANDARDS, OBJECTIVES AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island. The purpose of this audit is to independently conclude on whether Tourism PEI complies in all significant respects with the applicable criteria. Tourism PEI accepted responsibility for the subject matter under audit.

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

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

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

OBJECTIVES

The objectives of this audit were to determine whether Tourism PEI

- has an adequate long-term capital asset plan for provincial parks; and
- capital expenditures for provincial parks are based on priorities established in its capital asset plan.

3. Capital Asset Plan for Provincial Parks

APPENDIX B
Page 2 of 2

SCOPE AND APPROACH

We developed a number of criteria to assess whether Tourism PEI had met the objectives. These criteria are listed in Appendix C.

Criteria were primarily based on literature review of widely used practices and criteria used by other legislative audit offices. Management accepted the relevance and suitability of the criteria used in the audit.

The scope of our audit included the Tourism PEI capital plan for the five year period 2018-19 to 2022-23. For testing of capital expenditures, we examined the period April 1, 2018 to September 30, 2018. We examined documentation outside that period as necessary.

Our approach included

- interviewing management and staff of Tourism PEI and the Department of Transportation, Infrastructure and Energy;
- analyzing financial information;
- conducting site visits;
- examining a sample of maintenance inspections and inspections required by legislation and standards; and
- reviewing relevant reports and documents.

Our focus was on capital assets for provincial parks, excluding land. We did not audit capital assets for provincial golf courses.

We did not audit capital asset planning for the Confederation Trail.

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

DATE OF REPORT

We obtained sufficient and appropriate audit evidence on which to base our conclusions on February 15, 2019, in Charlottetown, Prince Edward Island.

3. Capital Asset Plan for Provincial Parks

APPENDIX C

AUDIT CRITERIA
<u>Audit Objective 1:</u> To determine whether Tourism PEI has an adequate long-term capital asset plan for provincial parks.
1. Tourism PEI has identified its long-term capital asset needs.
2. Tourism PEI has assessed the capacity of existing capital assets.
3. Tourism PEI has identified and costed the gap between existing capital asset capacity and long-term needs.
<u>Audit Objective 2:</u> To determine whether Tourism PEI's capital expenditures for provincial parks are based on priorities established in its capital asset plan.
1. Tourism PEI's capital expenditures for provincial parks are based on priorities established in its capital asset plan.

4. PROCUREMENT OF GOODS FOR GOVERNMENT DEPARTMENTS

CHAPTER SUMMARY

Why it's important

Government's procurement of goods is significant to the provincial economy. Suppliers expect equal access to opportunities through a fair and open competitive process. Government departments rely on the procurement process to satisfy their requirements for goods in a timely manner at the lowest practicable cost. Given the volume of expenditures, it is important that the process for procuring goods is adequately controlled and complies with relevant legislation.

What we found

Overall, we concluded goods for government departments were not always procured in compliance with key components of the *Public Purchasing Act* and regulations and the *Financial Administration Act*.

Competitive processes were not consistently followed and some exemptions under the regulations were broadly applied.

Certain key legislative requirements for the procurement of goods were not followed:

- Goods were purchased by departments without the required prior approval of Procurement Services.
- The Comptroller's Office did not ensure that the person confirming the receipt of goods for the department had designated signing authority.

We made eight recommendations to the Department of Finance.

Appendix A lists the recommendations and the Department's response.

4. Procurement of Goods for Government Departments

BACKGROUND

4.1 Under the *Financial Administration Act*, the Minister of Finance is responsible for the management, supervision, and control of all matters relating to the expenditures of the province which are not assigned to Treasury Board or other Ministers. The Comptroller's Office, a Division within the Department of Finance, is responsible for ensuring the proper disposition of public money.

4.2 Procurement Services is a section of the Office of the Comptroller. Its objective is to satisfy government's requirement for the purchase of goods in a timely manner at the lowest practicable cost. Procurement Services staff include a manager and two procurement officers. Staff work with each department to promote compliance with the *Public Purchasing Act* and regulations, the *Financial Administration Act*, and applicable trade agreements.

4.3 In PEI, the purchase of goods is governed by the *Public Purchasing Act* (the Act) and regulations. The objective of this legislation is to provide government with the best quality and price for goods while ensuring that suppliers have equal access to opportunities through a fair and open competitive process. The Act requires that each department purchase its goods through Procurement Services which has responsibility for the administration of the procurement process. Procurement Services has provided departments with further policy guidance to promote compliance with the Act and applicable trade agreements.

4.4 The province has also entered into trade agreements which require the competitive process to be extended to suppliers at both a regional and national level. Based on the *Atlantic Procurement Agreement*, purchases of goods exceeding \$10,000 must be open to vendors in New Brunswick, Nova Scotia, and Newfoundland. For purchases of goods exceeding \$25,000 (\$25,300 at January 2018), the *Canadian Free Trade Agreement* requires the competitive process to be open to all Canadian provinces and territories. Under both agreements the process cannot be structured or used to discriminate between provinces.

4. Procurement of Goods for Government Departments

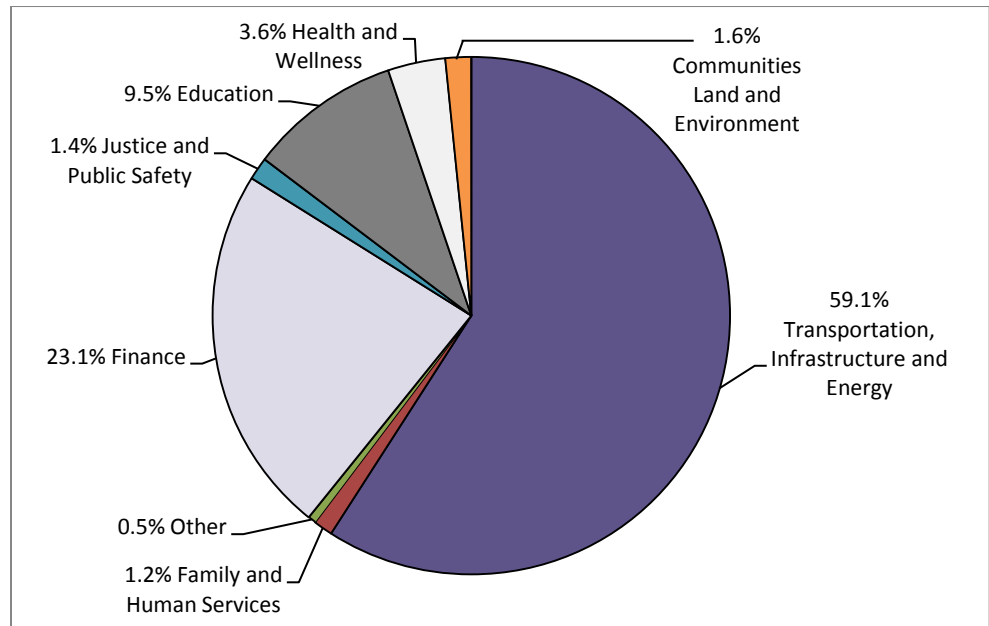
4.5 Each year, government departments are granted an appropriation of public funds used to fulfill their mandate. The majority of spending by government departments is related to salaries, grants and operating transfers to Crown corporations and agencies. Much of the remaining expenditures are for purchases from vendors which can be classified into three basic categories:

- Goods;
- Services; and
- Construction.

4.6 Our audit focused on purchases of goods by government departments and does not include purchases by Crown corporations and agencies. Government's financial information system does not segregate the total goods purchased. Purchases of goods are recorded in several account codes including Administration; Materials, Supplies and Services; as well as capital purchases of vehicles and equipment. Based on our analysis, purchases of goods were estimated at approximately \$38 million for the fiscal year ending March 31, 2018. **Exhibit 4.1** shows a breakdown of these expenditures by department.

4. Procurement of Goods for Government Departments

EXHIBIT 4.1 EXPENDITURES FOR GOODS BREAKDOWN BY DEPARTMENT 2017-18



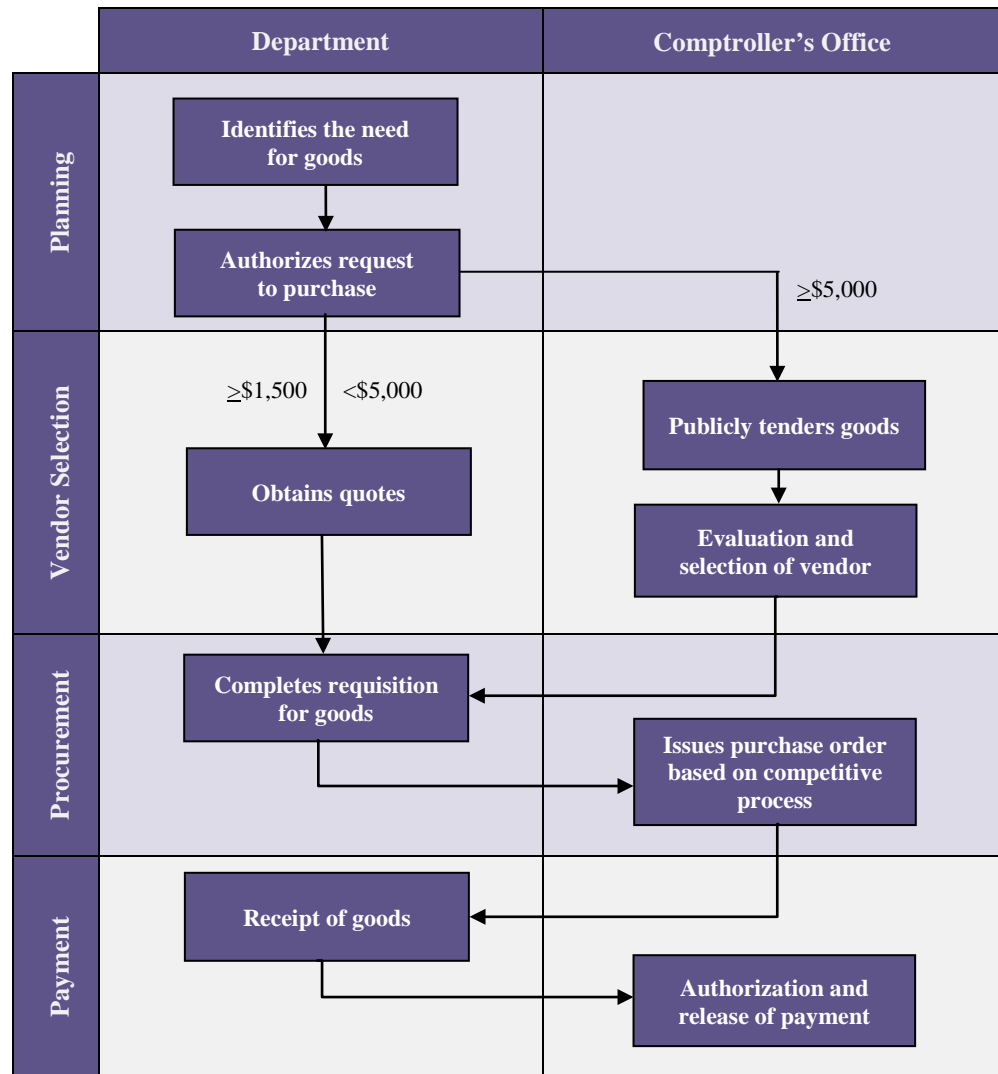
Source: Financial Information System Department of Finance

Procurement Process

4.7 The *Public Purchasing Act* and regulations provide a procurement process that all government departments must follow for vendor selection, vendor authorization, and payment. **Exhibit 4.2** shows an overview of the procurement cycle for the purchase of goods by government departments. This does not reflect the process for purchases below \$1,500 or purchases made by procurement cards.

4. Procurement of Goods for Government Departments

**EXHIBIT 4.2
PROCUREMENT PROCESS SUMMARY**



4.8 When seeking vendors to supply goods, the *Public Purchasing Act* and regulations require that a competitive process be followed. The regulations establish thresholds that dictate the extent of the competitive process required. They are as follows:

- Between \$1,500 and \$5,000 - two written or telephone quotes; and
- \$5,000 and above - publicly advertised tender.

4.9 When a department identifies the need for goods, it is required by legislation to notify Procurement Services. If the purchase is between \$1,500 and \$5,000, the department obtains the required quotes and

4. Procurement of Goods for Government Departments

authorizes a requisition. Procurement Services is notified of the requisition and approves a purchase order. Procurement Services expects departments to maintain documentation on the quotes obtained.

4.10 If the purchase is equal to or greater than \$5,000, the department requests the purchase and Procurement Services provides authorization to initiate the vendor selection process and go to tender. If goods require a publicly advertised tender, Procurement Services must invite all interested vendors to submit their bid based on specifications included within a request for tender. The vendor who provides the lowest price while still meeting tender specifications should be awarded a contract for the goods.

4.11 In some cases, if cumulative spending on a particular good across government is significant, a standing offer may be established through the publicly advertised competitive process. A standing offer is a contractual agreement where the supplier agrees to provide certain goods at a predetermined price or discount, on an as needed basis, for a particular period of time. Examples of goods included in existing government standing offers include office supplies, fuel, timber, and cleaning supplies. If a standing offer exists, departments must order directly from the pre-approved vendor for the term of the contract.

4.12 After a vendor has been selected to supply the goods at an approved price, whether through a specific tender or through a standing offer, a requisition for goods must be submitted from the department to Procurement Services. Based on this requisition, a purchase order may be authorized by Procurement Services showing all information relevant to the purchase. Purchase orders are important to ensure that the goods are required and appropriately authorized prior to purchase.

4.13 When the goods are received by the department, an individual with designated signing authority must certify that the goods have been received as ordered. The *Financial Administration Act* requires that, prior to authorizing payment, the Comptroller's Office confirm that the department has appropriately authorized the receipt of goods. In addition, the Comptroller's Office should match the invoice to the original purchase order to ensure that quantities and pricing agree. This helps to ensure government is only paying for goods that it has ordered and received.

4. Procurement of Goods for Government Departments

4.14 The *Public Purchasing Act Regulations* provide a listing of circumstances when it is appropriate for a department to sole source goods. For these exemptions, written documentation from the Deputy Minister of the Department must be provided to and approved by Procurement Services prior to the purchase. Following are examples of instances in legislation where sole sourcing can be authorized:

- to ensure compatibility with existing supplies;
- goods purchased for exceptionally low prices such as in a bankruptcy situation;
- purchase of a prototype; and
- goods required as a result of an emergency.

4.15 In addition, the regulations allow for circumstances where goods are exempt from the *Public Purchasing Act* and are not required to be purchased through Procurement Services. Following are examples of general exemptions:

- goods that are unique and/or creative in nature such as books, newspapers, artifacts;
- goods intended for resale;
- repair parts for road maintenance vehicles and equipment; and
- construction materials that are used for highway construction and maintenance.

Procurement Cards

4.16 Procurement cards (PCards) are another tool used by government departments to purchase goods. In accordance with Treasury Board policy, Procurement Services can issue procurement cards to authorized employees consistent with the employee's delegated signing authority. PCards are generally used for purchases of lower dollar value and do not require authorized purchase orders. However, cardholders are still required to follow the purchasing thresholds outlined in the *Public Purchasing Act*, regulations, and applicable trade agreements.

AUDIT OBJECTIVES AND SCOPE

4.17 The objective of this audit was to determine whether goods were procured for government departments in compliance with key components of the *Public Purchasing Act* and regulations, the *Financial Administration Act*, and applicable trade agreements. This report contains

4. Procurement of Goods for Government Departments

eight recommendations which are included in **Appendix A**. Details on the audit standards, objectives and scope, and audit criteria are included in **Appendix B** and **Appendix C** of this report. The report sections that follow provide information on the findings and related recommendations from our audit.

OBSERVATIONS AND RECOMMENDATIONS

VENDOR SELECTION

Summary of Findings

4.18 Competitive processes established by the *Public Purchasing Act* and regulations were not consistently followed.

Exemptions under the regulations were broadly applied:

- construction materials were not defined; and
 - exemptions for repair parts were not limited to road maintenance vehicles and equipment.
-

4.19 The *Public Purchasing Act* requires that a competitive process be followed when purchasing goods. These processes are important to maintain transparency and fairness for suppliers and to ensure that government is receiving the best available price. We examined 90 transactions for the purchase of goods by departments to determine whether the procurement practices followed the competitive process required by the Act, regulations, and applicable trade agreements.

Requirement for quotes not followed

4.20 Of the 90 transactions tested, six were purchases between \$1,500 and \$5,000 and required the department to obtain quotes prior to initiating the purchase. We noted that three of these six purchases were not made in compliance with legislative requirements. In each case, neither Procurement Services nor the respective department could provide documented quotes or sole source authorization.

Public tendering process not consistently followed

4.21 Of the 90 transactions tested, 33 required a public tender or an appropriately authorized sole source memo. For each of these sample

4. Procurement of Goods for Government Departments

items, we requested documentation from Procurement Services to determine whether the competitive process required by legislation was followed prior to ordering the goods from the vendor. We noted that the competitive processes established by the *Public Purchasing Act* and regulations were not consistently followed.

4.22 Of these 33 transactions, 11 totaling \$250,000 did not follow the competitive process outlined in the *Public Purchasing Act*. In two cases, a sole source memo was provided but there was insufficient documentation to explain how the purchases met the exemptions of the *Public Purchasing Act*. In three cases, the rationale for sole sourcing was compatibility of supplies; however, appropriate authorization from the Deputy Minister was not obtained as required. In the remaining six transactions, the purchases were not publicly tendered nor did Procurement Services have authorized sole source documentation. In one of these six instances, the amount was over \$10,000 which was also a contravention of the *Atlantic Procurement Agreement*.

4.23 Of the 90 transactions tested, 25 related to goods on a standing offer. In each case, a competitive process was used to establish the standing offer. However, in one instance a purchase was made from one vendor while a standing offer was in place with another vendor.

4.24 The competitive process requirements of the *Public Purchasing Act Regulations* are important to ensure that vendors are provided an equal opportunity to compete for business and government receives a competitive price through an open and transparent process.

Recommendations

4.25 The Office of the Comptroller should ensure that all purchases of goods follow a competitive process as required by the *Public Purchasing Act* and applicable trade agreements.

4.26 The Office of the Comptroller should ensure that all sole sourced purchases are supported with departmental authorization referencing the applicable exemption under the *Public Purchasing Act Regulations*.

4. Procurement of Goods for Government Departments

4.27 The *Public Purchasing Act Regulations* provide for various exemptions. Two specific exemptions included are:

- Construction materials used for highway construction and maintenance, and
- Repair parts for road maintenance vehicles and equipment.

Purchases made under these two exemptions are significant government purchases and do not require approval by Procurement Services.

4.28 Of the 90 transactions tested, 26 were purchases by the Department of Transportation, Infrastructure and Energy (TIE) made under these two exemptions. These purchases totaled \$876,000. Exempt purchases are not required to follow a competitive process or be purchased through Procurement Services.

Lack of guidance over exempt purchases

4.29 Under the *Public Purchasing Act*, the Comptroller's Office has authority over departmental purchases of goods. The Office of the Comptroller has not defined the types of goods that qualify under the exemption of construction materials used for highway construction and maintenance. This exemption has been broadly applied by TIE, in particular for the purchase of sand and salt. Purchases of sand and salt totaled \$5.4 million in 2017-18.

4.30 Three of the 26 exempt purchases tested were for sand and salt totaling approximately \$692,000. TIE followed a competitive process; however, the goods were not procured through Procurement Services. In these instances, the decision to follow a competitive process was at the discretion of TIE.

4.31 Construction materials are generally defined as materials that become part of the structure. Materials used for snow and ice control do not become part of the highway. The Minister of Finance is responsible for the administration of the *Public Purchasing Act*. The Office of the Comptroller needs to define and communicate the types of goods that fall under the exemption and ensure regulatory exemptions are consistently and appropriately applied.

4. Procurement of Goods for Government Departments

4.32 Application of this exemption also impacts other aspects of the procurement process such as authorization requirements for awarding tenders. We noted, for example, a tender award for sand in excess of \$400,000 did not receive Treasury Board approval. The tender award was not submitted to Treasury Board because it was treated by TIE as an exempt transaction.

Exemption broadly applied

4.33 Repair parts for vehicles and equipment totaled over \$5.5 million in 2017-18. The process for purchasing repair parts was not adequate to ensure the exemption was applied only to road maintenance vehicles and equipment as outlined in the *Public Purchasing Act Regulations*.

4.34 Under the current process, repair parts for all vehicles and equipment are coded to the government garage. There is no segregation of repair parts for highway maintenance vehicles and equipment. One of the exempt purchases tested was for a bus engine totaling over \$5,000. As this was not a road maintenance vehicle, the purchase should have been tendered. Without an effective process, there is an increased risk that competitive processes are not applied in accordance with the regulations.

Recommendations

4.35 The Office of the Comptroller should define and communicate to departments the types of goods that qualify as construction materials under exemptions to the *Public Purchasing Act Regulations*.

4.36 The Office of the Comptroller should implement controls to ensure exemptions related to road maintenance vehicles and equipment are appropriately applied.

4.37 For purchases that were subject to a competitive process, we requested Procurement Services to provide the evaluation of vendors, and documented support of appropriate authorization. We noted that when a competitive process was followed, vendors were selected in accordance with the *Public Purchasing Act Regulations*.

4. Procurement of Goods for Government Departments

PURCHASE ORDERS

Summary of Findings

4.38 Purchase order controls were not followed:

- For 20 percent of transactions tested, departments purchased goods without prior approval of Procurement Services.
 - Purchase orders did not always include adequate pricing information prior to approval by Procurement Services.
-

4.39 The Comptroller's Office has responsibility for procurement under the Act. The *Public Purchasing Act* requires that, unless otherwise provided by the Act or regulations, each department purchases its goods through Procurement Services. Purchase orders are not required when procurement cards are used. Authorized purchase orders should be based on the terms and prices established by the competitive process and issued prior to each purchase. Purchase orders are also a key control in the payment process as the pricing on the purchase order is checked to the invoice prior to payment.

4.40 We examined a sample of 90 transactions for compliance with controls over purchase orders. Each purchase order was examined to determine whether it was issued prior to the purchase of goods, agreed to the terms and prices established in the competitive process, and was approved by Procurement Services.

Goods purchased by departments without prior approval of Procurement Services

4.41 Prior approval by Procurement Services is required for the purchase of goods. In 20 percent (18 of 90) of transactions tested, there was no purchase order authorized by Procurement Services prior to the purchase of goods. In 11 of these transactions amounting to \$204,000, purchase orders were never prepared and in seven additional transactions amounting to \$150,000, the purchase order was generated after the goods were purchased by the departments. In these instances, the Comptroller's Office authorized payment based on departmental sign off indicated on the invoice. When goods are purchased without a properly authorized purchase order, purchase order controls are not applied.

4. Procurement of Goods for Government Departments

Terms and conditions not verified

4.42 At the time of our audit, a standing offer was in place with a vendor which included a discount to the manufacturer's suggested retail price for computer hardware purchases. We noted that five of the transactions tested, totaling \$144,000, were purchased under this standing offer. In each case a purchase order was authorized by Procurement Services prior to the purchase. However, Procurement Services did not verify that the discount established through the competitive process was applied to the purchase.

Recommendations

4.43 When required by the *Public Purchasing Act*, the Office of the Comptroller should ensure departments obtain a purchase order authorized by Procurement Services prior to the purchase of goods.

4.44 The Office of the Comptroller should verify that the terms and conditions of the purchase are in accordance with the competitive process prior to approval of the purchase order.

PAYMENT AUTHORIZATION

Summary of Findings

4.45 The Comptroller's Office did not adequately confirm the receipt of goods prior to authorizing payment in accordance with the *Financial Administration Act*.

4.46 The *Financial Administration Act* requires that the Comptroller authorize payment for goods when the Minister, or a person with appropriate designated authority, confirms that the goods have been supplied, and the price charged is in accordance with contract terms.

Receipt of goods not confirmed by an authorized individual

4.47 At the time of our audit, the practice for confirming the receipt of goods and authorizing payment did not comply with the *Financial Administration Act*. This is because the Comptroller's Office does not require that the employee confirming the receipt of goods for the Department has designated signing authority.

4. Procurement of Goods for Government Departments

4.48 In 97 percent of transactions tested, although a departmental employee signed for the goods, the employee who confirmed the receipt of goods did not have designated signing authority as required under the *Financial Administration Act*.

4.49 This issue was previously identified by our Office in the 2017 audit of the Province's consolidated financial statements and was brought to management's attention.

Recommendation

4.50 Prior to payment authorization, the Office of the Comptroller should ensure an authorized employee of the department confirms the receipt of goods.

4.51 The *Financial Administration Act* also requires the Comptroller to ensure the price charged for goods is in accordance with the contract terms prior to authorization of the payment. This means that the invoice should be agreed to the purchase order. As previously noted, purchase orders were not always issued as required. Based on our testing, when a purchase order was properly issued, the Comptroller's Office matched the purchase order details to the invoice prior to authorizing payment to the vendor.

PROCUREMENT CARDS

Summary of Findings

4.52 In 60 percent of the transactions tested, procurement card purchases did not follow the competitive process required in the *Public Purchasing Act*.

4.53 The *Public Purchasing Act* allows for goods to be purchased through the use of procurement cards. PCards are issued by Procurement Services to individuals within departments authorized by the respective Deputy Minister. Cardholders are authorized to spend up to their approved limits, without requiring an authorized purchase order from Procurement Services. For these purchases the requirement to comply with the *Public Purchasing Act* is delegated to both the cardholder and the department staff responsible for subsequent approval of the cardholder's expense reports.

4. Procurement of Goods for Government Departments

Competitive process not followed

4.54 We tested 20 PCard transactions to determine if quotes were obtained for all purchases exceeding \$1,500. We noted that 60 percent of sampled transactions did not follow the competitive process established in the *Public Purchasing Act*. In nine cases, no quotes or sole source documentation were obtained. In one case, an outdated sole source memo was used as supporting documentation for the purchase. In two other cases, a purchase was made from one vendor while a standing offer was in place with another vendor.

Recommendation

4.55 The Office of the Comptroller should ensure the competitive process requirements in the *Public Purchasing Act* are followed by PCard users.

CONCLUSION

4.56 We concluded that goods for government departments were not always procured in compliance with key components of the *Public Purchasing Act* and regulations and the *Financial Administration Act*.

4.57 Competitive processes established by the *Public Purchasing Act* and regulations, were not consistently followed. In some cases, goods were being purchased by departments without an authorized purchase order as required by legislation. The Comptroller's Office did not have adequate controls to ensure that the person signing for the receipt of goods had signing authority in accordance with the *Financial Administration Act*.

4. Procurement of Goods for Government Departments

RECOMMENDATIONS*	MANAGEMENT'S RESPONSE
<p>Recommendation 4.25 The Office of the Comptroller should ensure that all purchases of goods follow a competitive process as required by the <i>Public Purchasing Act</i> and applicable trade agreements.</p>	<p>The Office of the Comptroller works closely with Departments to carry out the requirements of the <i>Public Purchasing Act</i> and applicable trade agreements. Some additional education will be provided to Departmental staff to assist when planning their procurement activities. The education will reinforce when a competitive procurement process is required and ensure that sufficient and appropriate documentation is maintained. Timeline for completion: December 31, 2019</p>
<p>Recommendation 4.26 The Office of the Comptroller should ensure that all sole sourced purchases are supported with departmental authorization referencing the applicable exemption under the <i>Public Purchasing Act Regulations</i>.</p>	<p>The Office of the Comptroller has implemented a process whereby all exempt purchases recommended by Departments are reviewed by the Division and forwarded to the Minister and/or Treasury board for approval. A further process for identifying and reviewing transactions greater than \$5,000 and where no purchase order has been obtained will be implemented. This process will allow the Office of the Comptroller to monitor compliance. Timeline for completion: December 31, 2019</p>
<p>Recommendation 4.35 The Office of the Comptroller should define and communicate to departments the types of goods that qualify as construction materials under exemptions to the <i>Public Purchasing Act Regulations</i>.</p>	<p>Staff of the Office of the Comptroller and the Department of Transportation, Infrastructure and Energy have conducted preliminary discussions regarding the commodities that should qualify for an exemption to the <i>Public Purchasing Act Regulations</i>. A decision will be reached and a list developed. Timeline for completion: December 31, 2019</p>
<p>Recommendation 4.36 The Office of the Comptroller should implement controls to ensure exemptions related to road maintenance vehicles and equipment are appropriately applied.</p>	<p>The Office of the Comptroller has implemented a process whereby all exempt purchases recommended by Departments are reviewed by the Division and forwarded to the Minister and/or Treasury Board for approval. A further process for identifying and reviewing transactions greater than \$5,000 and where no purchase order has been obtained will be implemented. This process will allow the Office of the Comptroller to monitor compliance. Timeline for completion: December 31, 2019</p>

*Note: Recommendation numbers refer to the paragraph number in the body of the report.

4. Procurement of Goods for Government Departments

RECOMMENDATIONS*	MANAGEMENT'S RESPONSE
<p>Recommendation 4.43 When required by the <i>Public Purchasing Act</i>, the Office of the Comptroller should ensure departments obtain a purchase order authorized by Procurement Services prior to the purchase of goods.</p>	<p>The Office of the Comptroller will work with Departments to ensure the requirements of the <i>Public Purchasing Act</i> and applicable trade agreements are met.</p> <p>Timeline for completion: December 31, 2019</p>
<p>Recommendation 4.44 The Office of the Comptroller should verify that the terms and conditions of the purchase are in accordance with the competitive process prior to approval of the purchase order.</p>	<p>The Office of the Comptroller will work with the Department in question to ensure that the purchasing agreement contains verifiable terms and conditions.</p> <p>Timeline for completion: December 31, 2019</p>
<p>Recommendation 4.50 Prior to payment authorization, the Office of the Comptroller should ensure an authorized employee of the department confirms the receipt of goods.</p>	<p>Prior to payment being released to a vendor, the department responsible for the purchase must electronically acknowledge that the goods have been received. The Office of the Comptroller is working with Departments to establish a process whereby receiving documentation will be signed by an authorized departmental staff member and retained to support the receipt of the goods.</p> <p>Timeline for completion: December 31, 2019</p>
<p>Recommendation 4.55 The Office of the Comptroller should ensure the competitive process requirements in the <i>Public Purchasing Act</i> are followed by PCard users.</p>	<p>The Office of the Comptroller is reviewing the PCard policy and the thresholds available to cardholders for individual transactions. The updated policy will reference the need to obtain pricing for high dollar transactions.</p> <p>Timeline for completion: December 31, 2019</p>

*Note: Recommendation numbers refer to the paragraph number in the body of the report.

AUDIT STANDARDS, OBJECTIVES AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island. Our role is to conclude on whether the procurement of goods for government departments, complies in all significant respects with the applicable criteria. Management at the Office of the Comptroller accepted responsibility for the subject under audit.

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

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

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

OBJECTIVE

The objective of this audit was to determine whether goods are procured for government departments in compliance with key components of the *Public Purchasing Act* and regulations, the *Financial Administration Act* and applicable trade agreements.

4. Procurement of Goods for Government Departments

APPENDIX B
Page 2 of 2

We developed a number of criteria to assess whether the Office of the Comptroller, operating under the Department of Finance, had met the objective. These criteria are listed in Appendix C.

Criteria were developed from legislation, policies and relevant guidelines. Management accepted the relevance and suitability of the criteria used in the audit.

SCOPE AND APPROACH

The scope of our audit included analysis and testing of records for the period of April 1, 2017 to March 31, 2018.

Our approach included:

- interviews with management and staff of the Office of the Comptroller and various departments;
- review of relevant legislation, policies and procedures;
- walkthroughs and physical observation of controls; and
- analysis and detailed testing of transactions relating to the procurement of goods.

It is important to note that our observations and conclusions relate only to the management of the procurement of goods for government departments. We did not audit procurement of goods by Crown corporations and agencies. Our comments and conclusions do not reflect on the management or actions of any third parties.

DATE OF REPORT

We obtained sufficient and appropriate audit evidence on which to base our conclusions on February 15, 2019, in Charlottetown Prince Edward Island.

4. Procurement of Goods for Government Departments

APPENDIX C

AUDIT CRITERIA

1. A competitive process is used in accordance with the Public Purchasing Act and Regulations and applicable trade agreements.
 - For all purchases of goods between \$1,500 and \$5,000 the department shall obtain quotes from at least two vendors.
 - Purchases of goods exceeding \$5,000 shall be advertised publicly.
 - For all purchases made without a competitive process, the goods are sole sourced in compliance with the exemptions established in regulation and authorized by the Deputy Minister.
2. Vendors are selected and authorized in accordance with the *Public Purchasing Act Regulations*.
3. An appropriately authorized purchase order is completed for each purchase based on the terms and prices established through the competitive process.
4. Payment is made in accordance with the *Financial Administration Act* ensuring that goods are received and the price agrees with the purchase order.

PREVIOUS RECOMMENDATIONS

5. IMPLEMENTATION OF 2015 AND 2016 RECOMMENDATIONS

CHAPTER SUMMARY

Why it's important

Our performance audits and examinations include recommendations to improve government processes and protect the interests of taxpayers. It is important that MLAs and Islanders receive a regular update on the progress government is making in implementing our recommendations.

What we found

The 2015 and 2016 annual reports of the Auditor General included 55 recommendations from 7 performance audits and examinations.

At October 31, 2018:

- 33 percent of 2015 recommendations were implemented; and
- 64 percent of 2016 recommendations were implemented.

Management of the audited department, Crown corporation or agency has had a number of years to implement these recommendations. Action has been taken on some of the outstanding recommendations, but they are not fully implemented. In some cases management advised that delays were due to IT upgrades or new IT systems. However, many non-IT recommendations are outstanding as well. The lengthy delay in implementing these recommendations is very concerning.

5. Implementation of 2015 and 2016 Recommendations

BACKGROUND

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

5.2 We report on the implementation of recommendations three years after the audit was initially reported. We follow up again on any outstanding recommendations for one additional year.

5.3 This year, we are providing information on the status of implementation of recommendations made in our 2015 and 2016 annual reports. We requested management to indicate whether the recommendations were complete or not complete as of October 31, 2018. For each recommendation that management reported as complete, we requested details on the action taken and we conducted follow-up work to determine if the recommendation was implemented. We did not do any follow-up work on any recommendations reported by management as not complete.

5.4 The objective of our follow-up work was to provide limited assurance on the implementation of the recommendations. We did not conduct a follow-up audit, but we conducted sufficient procedures to obtain limited assurance to support our conclusion.

5.5 The following section provides information on the results of our work. **Appendix A** and **Appendix B** list all recommendations from performance audits and examinations included in our 2015 and 2016 annual reports and the status of implementation as of October 31, 2018. Further details on our objectives and scope are included in **Appendix C** of this chapter.

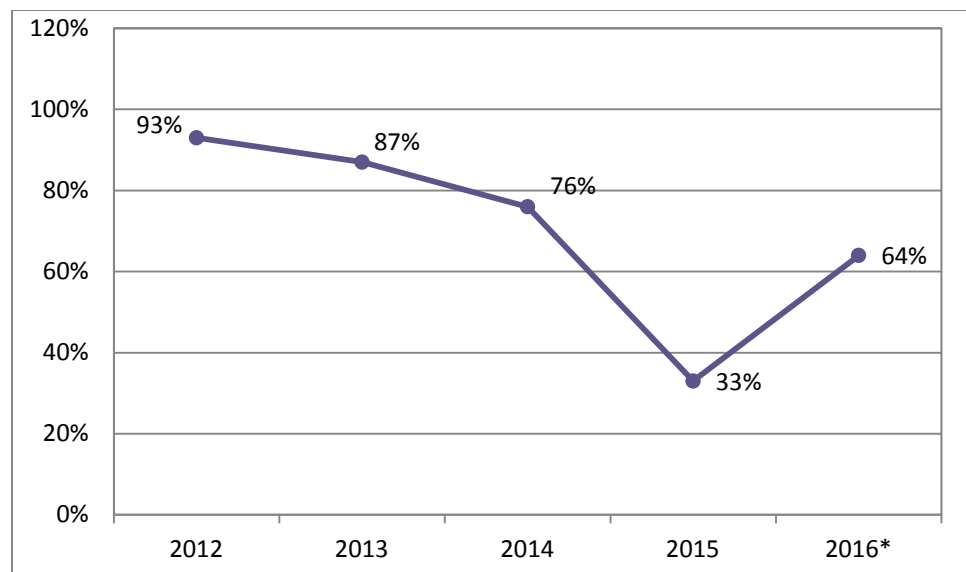
5. Implementation of 2015 and 2016 Recommendations

OBSERVATIONS

IMPLEMENTATION RATES

5.6 For several years we have been reporting, based on limited assurance, the status of implementation of recommendations included in previous annual reports. **Exhibit 5.1** shows the implementation rates of our 2012 to 2016 recommendations. These rates are based on the information in our annual report at the time the assurance work was completed. As indicated in the exhibit, the rates of implementation have decreased significantly.

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



*2016 to be updated in 2020

5.7 **Exhibit 5.2** shows a breakdown of the implementation rates by entity.

5. Implementation of 2015 and 2016 Recommendations

EXHIBIT 5.2 IMPLEMENTATION OF 2012 TO 2016 RECOMMENDATIONS BY ENTITY

Entity*	Year	Total	Outstanding	No Longer Applicable	Implemented**	
					#	Percent
Communities, Land and Environment		8	7	-	1	13%
Management of Contaminated Sites	2015	8	7	-	1	13%
Family and Human Services		16	4	-	12	75%
Child Protection - Internal Controls	2014	16	4	-	12	75%
Department of Finance		21	2	4	15	88%
Grants and Loans - Office of Energy Efficiency	2012	6	-	4	2	100%
Information Technology - Governance and IT Contracting	2014	14	2	-	12	86%
Write-offs and Cancellations	2015	1	-	-	1	100%
Department of Health and Wellness		24	7	-	17	71%
Long Term Planning and Access - Community Mental Health	2012	2	1	-	1	50%
Management of Ground Ambulance Services	2013	22	6	-	16	73%
Department of Justice and Public Safety		8	4	-	4	50%
Maintenance Enforcement Program	2016	8	4	-	4	50%
Department of Transportation, Infrastructure and Energy		35	9	-	26	74%
Highway Construction	2012	21	-	-	21	100%
Access PEI	2015	13	8	-	5	38%
Management of Contaminated Sites	2015	1	1	-	-	0%
Department of Workforce and Advanced Learning		21	-	3	18	100%
Skills PEI	2013	21	-	3	18	100%
Finance PEI/Island Investment Development Inc.		13	-	-	13	100%
PNP: Follow-up on the use of proceeds agreement	2013	3	-	-	3	100%
Developmental Lending	2016	10	-	-	10	100%
Health PEI		33	13	-	20	61%
Long Term Planning and Access - Community Mental Health	2012	10	1	-	9	90%
Management of Ground Ambulance Services	2013	2	-	-	2	100%
Diabetes - Strategy and Organization of Care	2014	7	3	-	4	57%
Out-of-Province Health Services	2015	7	4	-	3	43%
Payments to Private Nursing Homes	2016	7	5	-	2	29%
Tourism PEI		10	1	-	9	90%
Contract Management of Professional Services	2012	10	1	-	9	90%
Rural and Regional Development		2	-	2	-	N/A
Island Community Fund Grant program	2014	2	-	2	-	N/A
Grand Total		191	47	9	135	74%

*Reflects current entity responsible

**Percent implemented excludes recommendations that are no longer applicable. Rates are based on results reported at the time the follow-up work was completed.

5. Implementation of 2015 and 2016 Recommendations

2015 ANNUAL REPORT

5.8 Exhibit 5.3 presents the rate of implementation of recommendations by each specific audit included in our 2015 annual report.

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

Audit	Total	Outstanding	Implemented	
			#	Percent
Access PEI	13	8	5	38%
Out-of-Province Health Services	7	4	3	43%
Management of Contaminated Sites	9	8	1	11%
Write-Offs and Cancellations	1	0	1	100%
Total*	30	20	10	33%

*As of October 31, 2018

5.9 This is the second year of follow-up on the recommendations reported in our 2015 Annual Report. The implementation rate increased to 33 percent from 17 percent last year. The paragraphs that follow provide additional information on the outstanding recommendations.

Access PEI

What our original audit examined

5.10 Access PEI provides centralized service delivery to Islanders for many provincial government programs. The objectives of our audit were to determine whether Access PEI

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

5. Implementation of 2015 and 2016 Recommendations

Status of recommendations

5.11 Management reported that 6 of the 13 recommendations were not complete and 7 were complete as of October 31, 2018. We determined that 5 recommendations were implemented.

Status Date	Implemented	Outstanding	Total
October 31, 2018	5	8	13

5.12 Sixty-two percent of the recommendations have not been implemented. These recommendations were made to provide clarity over roles and responsibilities, improve IT controls, and implement performance reporting.

5.13 For two outstanding recommendations, we determined some action had been taken although they were not completed. Access PEI developed a process for adding and removing users to the Single Window Access Technology System (SWAT) and the Driver Vehicle System (DVS), however this had not been formally approved. Reports were developed to monitor user activity in both SWAT and DVS; however, user activity was not actively monitored.

5.14 At the time of our audit, Access PEI collected approximately \$34 million annually in revenues on behalf of the Government of PEI. This is a significant amount of revenue and it is important that appropriate amounts are collected, recorded and safeguarded. By not implementing these recommendations, outstanding risks remain. There are risks that internal controls may not be operating as intended, unauthorized access to SWAT and DVS may occur, and management may not have adequate information to measure and report on performance.

Out-of-Province Health Services

What our original audit examined

5.15 Out-of-province health costs arise either when an Island resident is out of province at the time a health issue occurs or when an Island resident is directed out of province because the services required are not available in PEI. At the time of our audit, out-of-province health services cost the

5. Implementation of 2015 and 2016 Recommendations

province approximately \$46 million annually. The objectives of the audit were to determine whether Health PEI

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

Status of recommendations

5.16 Management indicated that three recommendations were completed and our work confirmed this.

Status Date	Implemented	Outstanding	Total
October 31, 2018	3	4	7

5.17 The outstanding recommendations relate to

- clarifying policies for out-of-province health services;
- formalizing agreements with out-of-province service providers and ensuring that key requirements of billing arrangements are met; and
- receiving out-of-province billing information electronically.

5.18 Implementing these recommendations is important because

- as more sub-specialties and alternatives for non-hospital care emerge, clarification of policies is needed to help ensure that decisions for these services are fair and consistently applied;
- formalizing agreements ensures payments made to out-of-province service providers are accurate and supported; and
- electronic billing reduces human error and administrative time.

Management of Contaminated Sites

What our original audit examined

5.19 A contaminated site is one where a substance occurs in a concentration that exceeds the maximum acceptable amount under an environmental standard and, therefore could have an adverse effect on human health and the environment.

5. Implementation of 2015 and 2016 Recommendations

5.20 The objectives of the audit were to determine whether

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

Status of recommendations

5.21 Our 2015 report included nine recommendations. Management responded one recommendation was implemented as of October 31, 2018, and our work confirmed this.

Status Date	Implemented	Outstanding	Total
October 31, 2018	1	8	9

5.22 The outstanding recommendations relate to

- identifying and adding contaminated sites to the Contaminated Sites Registry;
- identifying and ensuring government owned contaminated or suspected contaminated sites are assessed, and the costs of monitoring and remediating these sites are recorded;
- establishing policies and procedures to address complaints; and
- ensuring that required environmental reports are received and reviewed on a timely basis.

5.23 The fact that these recommendations continue to be outstanding means that the associated risks remain:

- The Division may be not aware of all contaminated sites and the costs associated with remediating and/or managing these sites.
- Complaints may not be addressed in accordance with applicable legislation on a timely basis.
- Potentially contaminated sites may not be identified and included in the registry on a timely basis.

5. Implementation of 2015 and 2016 Recommendations

2016 ANNUAL REPORT

5.24 This is the first year we assessed the implementation of our 2016 recommendations. Overall, we concluded that 64 percent of these recommendations were implemented. **Exhibit 5.4** provides a breakdown of the results.

EXHIBIT 5.4 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS* BASED ON LIMITED ASSURANCE 2016 ANNUAL REPORT

Audit	Total	Outstanding	Implemented	
			#	Percent
Maintenance Enforcement Program	8	4	4	50%
Developmental Lending	10	0	10	100%
Payments to Private Nursing Homes	7	5	2	29%
Total*	25	9	16	64%

*As of October 31, 2018.

Maintenance Enforcement Program

What our original audit examined

5.25 At the time of our audit, the Maintenance Enforcement Program was processing over \$7 million in court ordered payments each year. These payments impact the well-being of Island families. We examined the processes for managing enforcement actions on maintenance orders in arrears, and the controls at the Maintenance Enforcement Office over the receipt and disbursement of funds.

Status of recommendations

5.26 As a result of our audit work, we made eight recommendations. Management indicated that all recommendations were complete. We determined that four recommendations were complete as of October 31, 2018.

5. Implementation of 2015 and 2016 Recommendations

Status Date	Implemented	Outstanding	Total
October 31, 2018	4	4	8

5.27 The outstanding recommendations relate to

- supporting key decisions in case files with appropriate documentation;
- management review of files and monitoring of the maintenance enforcement program; and
- ensuring that there are internal controls in place to safeguard assets and maintain complete and accurate financial records.

5.28 Maintenance Enforcement Office has developed a policy manual to address several of the outstanding recommendations. These new policies became effective July 1, 2018. As of October 31, 2018, staff were still working on implementing these policies. Some action was taken to improve internal controls, however more work is required.

5.29 Because these recommendations are still outstanding, the risks they were intended to address remain:

- The interests of the beneficiary, the payor, and the enforcement officer may not be protected.
- There are potential errors, inconsistencies, and inadequate enforcement action in case files.
- Unauthorized transactions and payment adjustment errors may not be detected.

Developmental Lending

What our original audit examined

5.30 Our audit on Developmental Lending examined whether sufficient and appropriate due diligence was exercised when approving and monitoring developmental loans. We also assessed whether impaired loans were identified, actively managed, and reported.

5. Implementation of 2015 and 2016 Recommendations

Status of recommendations

5.31 Management indicated that all 10 recommendations were complete. Based on our work, we agreed that all recommendations were implemented.

Payments to Private Nursing Homes

What our original audit examined

5.32 Health PEI is responsible for administering payments to private nursing homes. These homes provide accommodation, personal care, and medical services to residents on a 24 hour basis. Payments to private nursing homes were approximately \$20 million per year at the time of our audit.

5.33 We examined Health PEI's processes for reviewing and approving claims from private nursing homes, assessing eligibility for accommodation subsidies, and monitoring and reporting on long-term care subsidies.

Status of recommendations

5.34 Our original audit included seven recommendations. Management indicated that three of the seven recommendations were outstanding and four recommendations were complete. Based on our work, we have determined that two recommendations were complete.

Status Date	Implemented	Outstanding	Total
October 31, 2018	2	5	7

5.35 The outstanding recommendations relate to

- maintaining adequate documentation to support payments;
- completing annual file reviews and case audits on subsidized residents at private nursing homes;
- reviewing trust accounts of subsidized residents; and
- paying transportation expenses in accordance with policy.

5. Implementation of 2015 and 2016 Recommendations

5.36 As a result of the follow-up work conducted, we determined processes have been developed for case audits and review of trust accounts. As of October 31, 2018, some case audits had been completed, but the results had not been reviewed by management. As well, trust accounts have been reviewed at one of the 10 private nursing homes as of October 31, 2018.

5.37 Because these recommendations have not been implemented, the following risks remain:

- inaccurate payments to private nursing homes;
- trust accounts not being used for their intended purposes; and
- transportation costs not approved based on policy.

5.38 We will follow up again on the outstanding 2016 recommendations in our 2020 Annual Report.

**2015 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS**

Audit	Para.	Recommendation	Status of Implementation as at Oct 31, 2018
Access PEI			
Department of Transportation, Infrastructure and Energy	2.19	Access PEI should ensure service level agreements are signed with each department for which services are provided.	Not Complete
	2.34	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure outstanding registration validation stickers are reconciled on a regular basis.	Complete
	2.40	Access PEI, Highway Safety Division, and ITSS should develop an agreement which defines the accountability and responsibility of each party in relation to the Single Window Access Technology System and the Driver Vehicle System.	Not Complete
	2.43	Access PEI should ensure transactions recorded in the Single Window Access Technology System and the Driver Vehicle System are reconciled on a regular basis. Action should be taken to investigate and correct any errors.	Complete
	2.45	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure numbers assigned to transactions are issued in sequence. The data in the Single Window Access Technology System and the Driver Vehicle System should be periodically reviewed for completeness.	Not Complete
	2.51	Highway Safety Division, in conjunction with ITSS, should modify the Driver Vehicle System to allow for efficient investigation and review of management overrides.	Complete
	2.52	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure management overrides cannot be requested and approved by the same user.	Complete
	2.59	Access PEI, Highway Safety Division, and ITSS should ensure a standard password expiry of 90 days is implemented for the Single Window Access Technology System and the Driver Vehicle System. Adherence to password protocols should be monitored periodically.	Not Complete
	2.60	Access PEI, Highway Safety Division, and ITSS should ensure that all users within the Single Window Access Technology System and the Driver Vehicle System have individual usernames and passwords.	Complete
	2.63	Access PEI and Highway Safety Division should establish policies and procedures for granting and removing user access to the Single Window Access Technology System and the Driver Vehicle System.	Not Complete

**2015 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS**

Audit	Para.	Recommendation	Status of Implementation as at Oct 31, 2018
Access PEI (cont'd)			
Department of Transportation, Infrastructure and Energy	2.64	Access PEI and Highway Safety Division should monitor user activity in the Single Window Access Technology System and the Driver Vehicle System and remove or disable dormant user accounts in a timely manner.	Not Complete
	2.71	Access PEI should establish service level standards for the services it provides to Islanders.	Not Complete
	2.72	Access PEI should monitor and report performance against established service level standards.	Not Complete
Out-of-Province Health Services			
Health PEI	3.23	Health PEI should actively seek opportunities for cost savings in relation to out-of-province health services.	Complete
	3.28	Health PEI should amend the renewal forms for PEI health cards to state the basic criteria a person must meet to be eligible for medicare coverage in PEI, and applicants should be required to confirm that they meet these criteria at the time of renewal.	Complete
	3.36	Health PEI should: <ul style="list-style-type: none"> • monitor whether physicians are submitting referrals for out-of-province health services; and • take appropriate action to ensure policies are followed. 	Complete
	3.43	Health PEI should clarify policies for out-of-province health services.	Not Complete
	3.52	Health PEI should identify arrangements for out-of-province health services that warrant formal documentation of terms and conditions. Where warranted, arrangements should be formalized.	Not Complete
	3.53	Health PEI should establish internal control procedures to ensure claims for out-of-province hospital services meet the key requirements of the interprovincial billing arrangements.	Not Complete
	3.55	Health PEI should work to obtain out-of-province billing information electronically, especially from the two provinces that provide the majority of the out-of-province health services accessed by Island residents.	Not Complete

2015 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Oct 31, 2018
Management of Contaminated Sites			
Department of Communities, Land and Environment	4.19	The Department of Environment, Labour and Justice (now the Department of Communities, Land and Environment) should ensure that all contaminated sites are added to the Contaminated Sites Registry in accordance with the <i>Environmental Protection Act</i> and regulations.	Not Complete
	4.29	Management of the Environment Division should develop an internal policy to guide staff in addressing complaints and notifications. This policy should include at a minimum: <ul style="list-style-type: none"> • a process for prioritization of complaints; and • key data to be recorded in the Complaints Management System. 	Not Complete
	4.33	Management of the Environment Division should implement procedures to ensure required reports from site professionals are obtained and reviewed on a timely basis.	Not Complete
	4.39	Management of the Environment Division should review the backlog of open complaints and notification files and ensure appropriate action is taken on each file.	Not Complete
	4.40	Management of the Environment Division should regularly monitor open complaint and notification files and ensure they are addressed in a timely manner.	Not Complete
	4.43	Management of the Environment Division should implement a process to review action taken by staff in addressing complaints and notifications.	Not Complete
	4.56	The Department of Environment, Labour and Justice (now the Department of Communities, Land and Environment) should ensure that contaminated and suspected contaminated sites owned by government are identified. This should also include sites for which government has accepted responsibility.	Complete
	4.57	The Department of Environment, Labour and Justice (now the Department of Communities, Land and Environment) should ensure that all government owned contaminated or suspected contaminated sites <ul style="list-style-type: none"> • have required risk assessments completed; • are prioritized based on risk; and • have any required remediation work identified. 	Not Complete

2015 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Oct 31, 2018
Management of Contaminated Sites			
Department of Transportation, Infrastructure and Energy	4.58	The Department of Transportation and Infrastructure Renewal (now the Department of Transportation, Infrastructure and Energy) should determine, where required, the cost to close, monitor, and complete remediation work on sites owned by government and sites for which government has accepted responsibility.	Not Complete
Write-Offs and Cancellations			
Department of Finance	5.29	The Minister of Finance and Energy (now the Minister of Finance) should clarify the authorization requirements for write-offs and cancellations of amounts owing to the province.	Complete

5. Implementation of 2015 and 2016 Recommendations

APPENDIX B
Page 1 of 3

2016 ANNUAL REPORT PERFORMANCE AUDITS AND EXAMINATIONS RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Oct 31, 2018
Maintenance Enforcement Program			
Department of Justice and Public Safety	2.29	The Maintenance Enforcement Office should develop and document policies and procedures to guide enforcement officers in administering and enforcing court orders and agreements.	Complete
	2.34	The Maintenance Enforcement Office should support key decisions in the case files with appropriate documentation.	Not Complete
	2.35	The Maintenance Enforcement Office should obtain documented consent from beneficiaries before arrears balances are reduced and no longer enforced.	Complete
	2.38	The Maintenance Enforcement Office should perform and document an independent review of ledger adjustments.	Complete
	2.42	The Maintenance Enforcement Office should implement a risk-based quality control review process on case files.	Not Complete
	2.47	The Maintenance Enforcement Office should define and obtain the necessary reports for effective management and oversight of the Maintenance Enforcement Program.	Not Complete
	2.58	The Maintenance Enforcement Office should determine the appropriate distribution of the unassigned balance in the trust account at March 31, 2015, and complete the required adjustments.	Complete
	2.59	The Maintenance Enforcement Office should develop and implement internal controls to safeguard assets and maintain complete and accurate financial records. This at a minimum should include <ul style="list-style-type: none"> • regular bank reconciliations; • periodic review of unallocated amounts in the trust account; • appropriate segregation of duties; and • review and approval of significant adjustments to client ledgers. 	Not Complete

**2016 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS**

Audit	Para.	Recommendation	Status of Implementation as at Oct 31, 2018
Developmental Lending			
Finance PEI and IIDI	3.25	Finance PEI and Island Investment Development Inc. should identify key economic development indicators for the developmental loan programs and report on performance in relation to these indicators.	Complete
	3.32	Finance PEI Developmental Lending Division and Island Investment Development Inc. should prepare and provide additional policy guidance to staff on lending processes regarding risk assessments at the application stage, security requirements, and problem accounts.	Complete
	3.37	When placing reliance on guarantees as part of the loan security, Island Investment Development Inc. should obtain sufficient financial information to support the guarantee.	Complete
	3.54	For significant projects, Island Investment Development Inc. should obtain detailed cost estimates prior to approving financing.	Complete
	3.55	Island Investment Development Inc. should monitor actual project costs against original cost estimates and obtain explanations for significant variances.	Complete
	3.70	Finance PEI and Island Investment Development Inc. should update their loan policies to define problem loans. This definition should differentiate between performing and non-performing loans.	Complete
	3.71	Finance PEI should enhance reporting to its board of directors to include reporting on non-performing loans.	Complete
	3.72	Island Investment Development Inc. should provide its board of directors with regular reporting on its loan portfolio including non-performing loans.	Complete
	3.77	Finance PEI and Island Investment Development Inc. should strengthen their loan reporting process to comply with Treasury Board requirements.	Complete
	3.78	Finance PEI and Island Investment Development Inc. should highlight in their loan reporting to Treasury Board any problem loans which have been refinanced.	Complete

2016 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Oct 31, 2018
Payments to Private Nursing Homes			
Health PEI	4.31	Health PEI should <ul style="list-style-type: none"> • establish clearly defined review procedures for monthly claims submitted by private nursing homes; • take appropriate action to ensure the review procedures are consistently applied; and • obtain sufficient documentation to support the amounts claimed. 	Complete
	4.34	Health PEI should pay transportation expenses for subsidized residents in accordance with policy.	Not Complete
	4.39	Health PEI should periodically review the trust accounts of subsidized residents at private nursing homes and maintain documentation supporting the review.	Not Complete
	4.46	Health PEI should maintain adequate documentation to support that each applicant's income was verified in accordance with the <i>Long-Term Care Subsidization Act Regulations</i> .	Not Complete
	4.49	Health PEI should conduct annual file reviews on all subsidized residents to comply with the <i>Long-Term Care Subsidization Act Regulations</i> .	Not Complete
	4.53	Health PEI should conduct, document, and report on case audits in accordance with the <i>Long-Term Care Subsidization Act Regulations</i> .	Not Complete
	4.59	Health PEI should report annually on the administration of the Long Term Care Subsidization Program in accordance with the <i>Long Term Care Subsidization Act</i> .	Complete

OBJECTIVE, SCOPE AND CONCLUSION

STANDARDS

This independent limited assurance attestation engagement report was prepared by the Office of the Auditor General of Prince Edward Island on the status of the implementation of recommendations made in our 2015 and 2016 Annual Reports. Work conducted for this review was performed to a limited level of assurance in accordance with the Canadian Standards for Assurance Engagements (CSAE) 3000 - Attestation Engagements Other Than Audits or Reviews of Historical Financial Information set out by the Chartered Professional Accountants of Canada (CPA Canada).

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

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

OBJECTIVE

Our objective was to provide limited assurance on those recommendations assessed as implemented, do not intend to implement, or action no longer required, to determine if government's assessment was free from material misstatement. We did not perform any procedures, and provide no assurance on recommendations reported by management as not complete.

SCOPE AND APPROACH

The scope of our work included only recommendations from performance audits and examinations included in the 2015 and 2016 annual reports. We provide limited assurance on those recommendations assessed by management as complete as at October 31, 2018.

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

Our approach included

- obtaining assertions from management on the status of implementation of each recommendation;
- interviewing management and staff;
- examining documents; and
- reviewing specific controls and processes.

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

CONCLUSION

We concluded that as of October 31, 2018

- 33 percent of 2015 recommendations were implemented; and
- 64 percent of 2016 recommendations were implemented.

Based on the limited assurance procedures performed and evidence obtained on completed recommendations, no matters have come to our attention that cause us to believe that the status of the recommendations reported as implemented has been materially misstated. Additional information provided in this report is not intended to take away from our overall conclusion.

DATE OF REPORT

We obtained sufficient evidence on which to base our limited assurance conclusion on February 19, 2019, in Charlottetown, Prince Edward Island.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT COMPLETE AT OCTOBER 31, 2018
2015 AND 2016 AUDITS**

We requested a written assessment from management on whether recommendations from our 2015 and 2016 performance audits and examinations were complete or not complete at October 31, 2018. This appendix lists all recommendations reported by management as not complete. We have not conducted any work and provide no assurance on these management responses. They are presented for information purposes only.

Rec. #	Recommendation	Management Response
Access PEI		
2.19	Access PEI should ensure service level agreements are signed with each department for which services are provided.	An agreement will be drafted that will include agreed upon roles and responsibilities for each party and signed on a yearly basis.
2.40	Access PEI, Highway Safety Division, and ITSS should develop an agreement which defines the accountability and responsibility of each party in relation to the Single Window Access Technology System and the Driver Vehicle System.	This recommendation is being implemented gradually and will be further addressed in the rewrite on the Single Window Access Technology System. Regular meetings occur with division management to discuss the roles as it relates to each system.
2.45	Access PEI and Highway Safety Division, in conjunction with ITSS, should ensure numbers assigned to transactions are issued in sequence. The data in the Single Window Access Technology System and the Driver Vehicle System should be periodically reviewed for completeness.	These recommendations will be noted in the requirements for the rewrite of the Single Window Access Technology System.
2.59	Access PEI, Highway Safety Division, and ITSS should ensure a standard password expiry of 90 days is implemented for the Single Window Access Technology System and the Driver Vehicle System, Adherence to password protocols should be monitored periodically	
2.71	Access PEI should establish service level standards for the services it provides to Islanders.	Access PEI will develop a roadmap to identify the proper performance indicators that are in alignment with other jurisdictions and the capture of these indicators using innovative technologies.
2.72	Access PEI should monitor and report performance against established service level standards.	Preliminary discussions have occurred for a communication plan that will inform clients of Access PEI's service performance.

5. Implementation of 2015 and 2016 Recommendations

APPENDIX D
Page 2 of 3

RECOMMENDATIONS REPORTED BY MANAGEMENT AS NOT COMPLETE AT OCTOBER 31, 2018 2015 AND 2016 AUDITS

We provide no assurance on management responses (for information only)

Rec. #	Recommendation	Management Response
Out-of-Province Health Services		
3.43	Health PEI should clarify policies for out-of-province health services.	Final approval and implementation of the revised Out of Province (OOP) referral policy is anticipated in late 2018-19.
3.52	Health PEI should identify arrangements for out-of-province health services that warrant formal documentation of terms and conditions. Where warranted, arrangements should be formalized.	Nova Scotia was the first priority and a draft MOU has been developed with Nova Scotia Health Authority (NSHA) to provide PEI residents with access to specialized and/or complex care. This MOU will be discussed with NSHA leadership in Spring 2019.
3.53	Health PEI should establish internal control procedures to ensure claims for out-of-province hospital services meet the key requirements of the interprovincial billing arrangements.	In September 2017 Health PEI commenced a major IT system project for OOP Health Services Reciprocal Billing Processing. Two of the three Statements of Work involve out-of-province claims and electronic billing information. These are at various stages of completion.
3.55	Health PEI should work to obtain out-of-province billing information electronically, especially from the two provinces that provide the majority of the out-of-province health services accessed by Island residents.	
Management of Contaminated Sites		
4.19	The Department of Communities, Land and Environment should ensure that all contaminated sites are added to the Contaminated Sites Registry in accordance with the <i>Environmental Protection Act</i> and regulations.	All government owned sites and four privately owned landfills with associated government liability have been added to the Registry. Work is continuing for other private properties prior to adding them to the Registry.
4.29	Management of the Environment Division should develop an internal policy to guide staff in addressing complaints and notifications. This policy should include at a minimum: a process for prioritization of complaints; and key data to be recorded in the Complaint Management System.	The Department had ITSS develop a new Information Management and Compliance System (IMACS) database in 2017-18. Draft Standard Operating Procedures (SOPs) have been developed. The IMAC database is slated to be activated in November 2018 and the SOPs will be finalized at that time.
4.33	Management of the Environment Division should implement procedures to ensure required reports from site professionals are obtained and reviewed on a timely basis.	IMACS has been designed with a timed follow-up tool. When an environmental consultant's report is to be submitted to the Department, staff will get email notification that the report is due.
4.39	Management of the Environment Division should review the backlog of open complaints and notification files and ensure appropriate action is taken on each file.	Department staff have gone through all backlogged complaints in the database to 1998 and have updated and closed files where appropriate. Staff are now reviewing files older than 1998.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT COMPLETE AT OCTOBER 31, 2018
2015 AND 2016 AUDITS**

We provide no assurance on management responses (for information only)

Rec. #	Recommendation	Management Response
Management of Contaminated Sites (cont'd)		
4.40	Management of Environment Division should regularly monitor open complaint and notification files and ensure they are addressed in a timely manner.	The Standard Operating Procedures for the new IMACS system will lay out the standards and include reporting for regular monitoring of complaints and files by staff and management.
4.43	Management of Environment Division should implement a process to review action taken by staff in addressing complaints and notifications.	New draft Standard Operating Procedures will lay out the standards for regular monitoring of data, information, files and complaints by Management.
4.57	The Department of Environment, Labour and Justice should ensure that all government owned contaminated or suspected contaminated sites: have required risk assessments completed; are prioritized based on risk; and have any required remediation work identified.	Work began on site assessments for 6 priority former landfill sites in September 2018. Site assessments are planned for additional sites in 2019.
4.58	The Department of Transportation and Infrastructure Renewal should determine, where required, the cost to close, monitor, and complete remediation work on sites owned by government and sites for which government has accepted responsibility.	
Private Nursing Homes		
4.34	Health PEI should pay transportation expenses for subsidized residents in accordance with policy.	Policy review and development required due process. The proposed policy change and the associated budget requirements need approval by Health PEI leadership and the Department of Health and Wellness.
4.46	Health PEI should maintain adequate documentation to support that each applicant's income was verified in accordance with the <i>Long-Term Care Subsidization Act Regulations</i> .	<i>Long-Term Care Subsidization Act Regulations</i> requires both Notice of Assessment as well Income Tax and Benefit Return documents. Program staff with consent will request required income information from Canada Revenue Agency.
4.49	Health PEI should conduct annual file reviews on all subsidized residents to comply with the <i>Long-Term Care Subsidization Act Regulations</i> .	Current resource capacity does not permit annual file reviews of all subsidized residents. Residents with income fluctuations and/or indirect remittances to the facility are prioritized for review.

FINANCIAL AUDITS

6. INTRODUCTION TO FINANCIAL AUDITS

6.1 Government is responsible for the management and control of public resources. The presentation of financial statements and other financial information is one way in which government demonstrates accountability. Government prepares annual financial statements to provide a full accounting of financial resources that it controls. Financial statements provide information to describe changes in a government's financial position and its revenues and expenses for the fiscal period. Information contained in the annual financial statements is used by members of the Legislative Assembly and the public to hold government accountable for its use and control of public resources. Users of the financial statements are interested in the state of a government's finances and thus need sufficient, reliable, and timely information on the province's financial position and operating results.

6.2 Management is responsible for the preparation and fair presentation of financial statements with oversight from those charged with governance. Management is also responsible to establish internal controls necessary to enable the preparation and fair presentation of financial statements. For users of financial statements to make economic decisions based on what is prepared and presented by management, it is essential that information in the financial statements is reliable.

6.3 The work of an independent auditor provides assurance that the financial statements are fairly presented. The auditor objectively assesses the accounting principles used, the estimates made, and other management assertions reflected in the financial reports. The auditor applies Canadian auditing standards to examine the entity's accounts and the presentation and disclosure of its financial information. These standards require the auditor to obtain a high level of assurance to determine whether the financial information is free from material misstatement. After completing the audit, the auditor provides an opinion in an independent auditor's report.

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

6. Introduction to Financial Audits

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

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

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

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

- the province's consolidated financial statements;
- the financial statements of government organizations, government business enterprises and trust funds; and
- appropriations and special warrants.

7. INDICATORS OF FINANCIAL CONDITION

CHAPTER SUMMARY

What we examined

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

Financial indicators related to sustainability, flexibility, and vulnerability are presented for each fiscal year from 2014 to 2018.

Why it's important

Information in this chapter is presented to assist legislators, the public, and other users to better understand the financial condition of the province. The condition of the province's finances is important because it affects all residents of the province through the level of taxation, spending, and the provincial economy.

What we found

- The province reported a surplus of \$75.2 million in 2017-18, the first reported surplus since 2007.
- As of March 31, 2018 net debt totaled \$2.13 billion. Net debt decreased by \$37.3 million or 1.7 percent compared to the prior year.
- Net debt to gross domestic product declined in 2018 and has continued to decline since 2015.
- Net debt per capita decreased from the previous year and was \$13,930 per person at March 31, 2018.

7. Indicators of Financial Condition

BACKGROUND

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

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

7.3 Our current update provides financial information and indicators for the last five fiscal periods. The most recent estimates of nominal gross domestic product (GDP) and population were used in the determination of various indicators. Consistent with other jurisdictions, nominal GDP is presented on a calendar year basis.

7. Indicators of Financial Condition

SUMMARY FINANCIAL INFORMATION

FINANCIAL HIGHLIGHTS

7.4 Exhibit 7.1 summarizes the province's financial position and operating results for the last five years.

EXHIBIT 7.1 SUMMARY FINANCIAL INFORMATION YEAR ENDED MARCH 31 (\$ Millions)

	2014	2015	2016 Restated**	2017	2018
Financial Assets	\$1,229.2	\$1,131.6	\$1,081.7	\$1,099.3	\$1,109.2
Liabilities	<u>3,328.2</u>	<u>3,265.8</u>	<u>3,251.2</u>	<u>3,271.2</u>	<u>3,243.8</u>
Net Debt	2,099.0	2,134.2	2,169.5	2,171.9	2,134.6
Non-Financial Assets	<u>988.7</u>	<u>1,003.6</u>	<u>1,025.9</u>	<u>1,026.9</u>	<u>1,064.8</u>
Accumulated Deficit	<u>\$1,110.3</u>	<u>\$1,130.6</u>	<u>\$1,143.6</u>	<u>\$1,145.0</u>	<u>\$1,069.8</u>
Revenues	1,691.8	1,726.4	1,758.7	1,837.4	1,987.7
Expenses	<u>1,737.7</u>	<u>1,746.7</u>	<u>1,771.8</u>	<u>1,838.7</u>	<u>1,912.5</u>
Annual Surplus (Deficit)	<u>\$ (45.9)</u>	<u>\$ (20.3)</u>	<u>\$ (13.1)</u>	<u>\$ (1.3)</u>	<u>\$ 75.2</u>
Nominal Gross Domestic Product*	<u>\$ 5,753</u>	<u>\$ 5,849</u>	<u>\$ 6,076</u>	<u>\$ 6,348</u>	<u>\$ 6,652</u>

Source: *Statistics Canada published November 8, 2018.

**Restated due to a reclassification in the consolidated statement of financial position.

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

7.6 Net debt decreased by \$37.3 million or 1.7 percent from the prior year and was \$2.13 billion at March 31, 2018. The decrease in net debt is a combination of the annual surplus of \$75.2 million offset by an increase in the net investment in non-financial assets of \$37.9 million.

7. Indicators of Financial Condition

7.7 Net debt has grown by approximately \$35.6 million or 1.7 percent since March 31, 2014. This growth is attributed to increases in the net investment of non-financial assets of \$76.1 million offset by a net decrease in the accumulated deficits of \$40.5 million.

7.8 **Exhibit 7.1** also shows total liabilities have decreased by approximately \$84.4 million or 2.5 percent since March 31, 2014.

7.9 At March 31, 2018, the province had outstanding short-term loans, loans payable, and debentures totaling \$2.9 billion making up 89.3 percent of total liabilities. These borrowings are partially offset by sinking fund assets of \$0.25 billion.

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

7.11 For the year ended March 31, 2018, the province incurred a surplus of \$75.2 million. This is a significant improvement from the prior year deficit of \$1.3 million. It is also significantly more than the surplus of \$0.6 million budgeted for 2017-18.

7.12 **Exhibit 7.2** provides a summary breakdown of the change in the province's annual surplus from the prior period's annual deficit.

7. Indicators of Financial Condition

EXHIBIT 7.2 CHANGE IN ANNUAL SURPLUS (DEFICIT) YEAR ENDED MARCH 31 (\$ Millions)

	Revenues	Expenses	Surplus (Deficit)
2016-17 Deficit	<u>\$1,837.4</u>	<u>\$1,838.7</u>	<u>\$ (1.3)</u>
Increase in:			
Tax revenue	120.5	-	120.5
Government of Canada	22.6	-	22.6
Other revenue	7.2	-	7.2
Agriculture and Fisheries		8.1	(8.1)
Education, Early Learning and Culture	-	10.6	(10.6)
Health and Wellness	-	26.2	(26.2)
Transportation, Infrastructure and Energy	-	22.4	(22.4)
Other program expenses	-	4.1	(4.1)
Amortization	-	2.4	(2.4)
Total Increase	<u>150.3</u>	<u>73.8</u>	<u>76.5</u>
2017-18 Surplus	<u>\$1,987.7</u>	<u>\$1,912.5</u>	<u>\$ 75.2</u>

Increased Revenues

7.13 Overall, revenues increased by \$150.3 million or 8.2 percent from 2016-17 to 2017-18. Increased taxes and revenue from the Government of Canada were the main drivers of the increase for the year ended March 31, 2018.

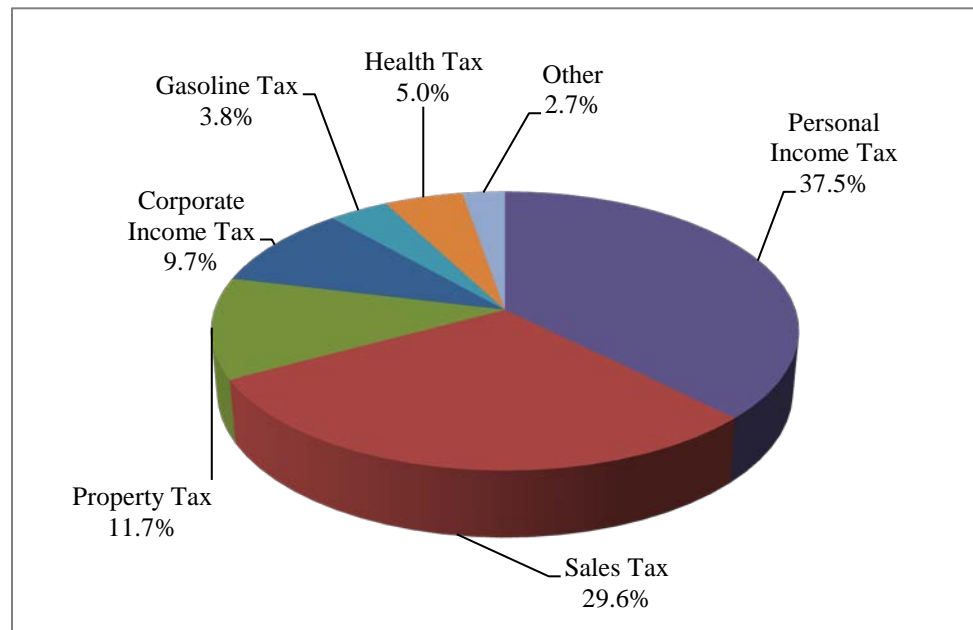
7.14 The majority of the \$120.5 million net increase in tax revenue was attributable to an

- increase of \$65.8 million in sales tax;
- increase of \$31.5 million in personal income tax; and
- increase of \$18.2 million in corporate income tax.

7. Indicators of Financial Condition

7.15 Provincial tax revenues totaled \$1.0 billion for the year ended March 31, 2018. This represented approximately half of the province's total revenue. **Exhibit 7.3** shows the source of provincial tax revenues for the year.

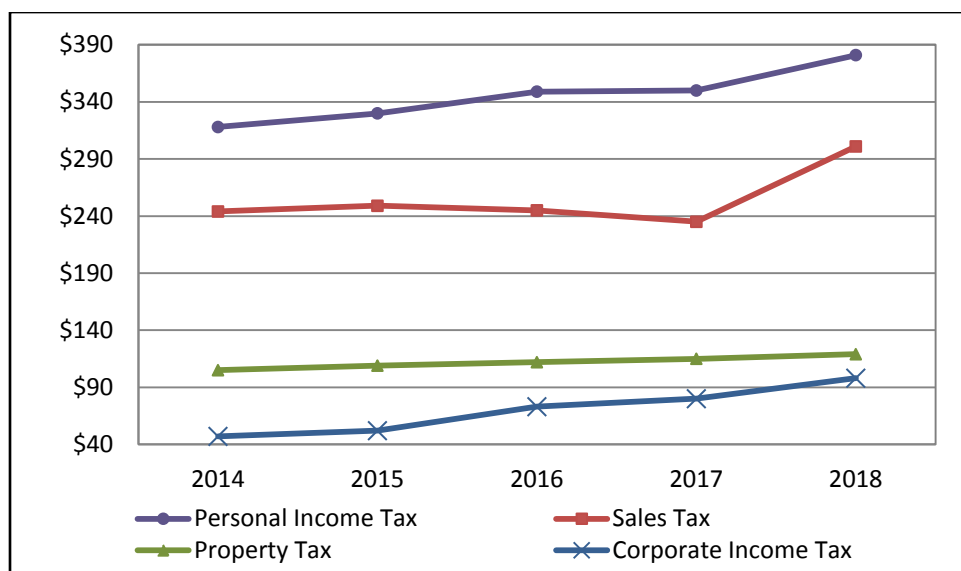
EXHIBIT 7.3
PROVINCIAL TAX REVENUES BY SOURCE
YEAR ENDED MARCH 31, 2018



7.16 **Exhibit 7.4** shows the total revenue for the four largest sources of provincial taxes from 2014 to 2018. The most significant increase from the prior period is sales tax revenue. At March 31, 2018, sales tax revenue totaled \$300.8 million, making up approximately 30 percent of the total provincial tax revenue. The increase was partially driven by the sales tax rate increase effective October 2016 as well as a federal adjustment reducing the tax revenue for the 2017 fiscal year.

7. Indicators of Financial Condition

EXHIBIT 7.4 TOTAL TAX REVENUES YEAR ENDED MARCH 31 (\$ Millions)



	2014	2015	2016	2017	2018
Personal Income Tax	\$318.3	\$329.8	\$348.5	\$349.9	\$381.4
Sales Tax	\$244.1	\$249.1	\$244.9	\$235.0	\$300.8
Property Tax	\$104.9	\$109.5	\$111.8	\$114.6	\$118.7
Corporate Income Tax	\$46.8	\$52.5	\$73.2	\$79.9	\$98.1

7.17 Revenue from the Government of Canada totaled \$718.6 million at March 31, 2018, an increase of \$22.6 million from the prior period. The increase in revenue from the Government of Canada is due primarily to an increase of

- \$12.6 million from the Investing in Canada infrastructure program; and
- \$10.0 million in equalization receipts.

7. Indicators of Financial Condition

Increased Expenses

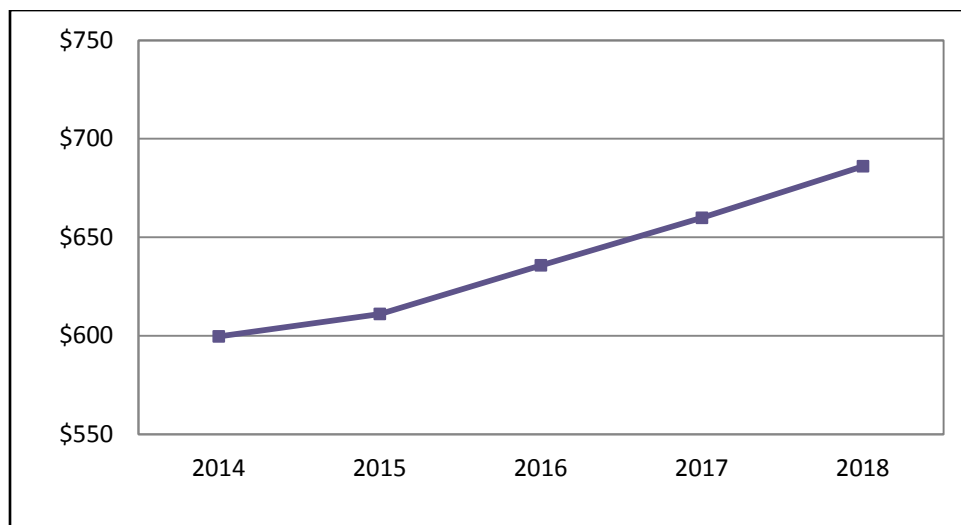
7.18 Expenses increased by \$73.8 million or 4.0 percent from 2017 to 2018 and were mainly driven by an increase of

- \$24.8 million in Health PEI expenses consisting mainly of increased compensation costs of \$15.6 million;
- \$22.4 million in expenses of the Department of Transportation, Infrastructure and Energy driven by increased funding to municipalities for projects under the Investing in Canada federal infrastructure programs;
- \$6.8 million in expenses of the Public Schools Branch and French Language School Board, and \$3.6 million in expenses of the Department of Education, Early Learning and Culture. Increased salaries and benefits and additional grants related to the new Early Learning and Child Care federal agreement made up the majority of increases; and
- \$8.2 million in Agricultural Insurance Corporation expenses due to increased indemnity payouts mostly related to potato crops.

7.19 Expenses for the Ministry of Health and Wellness totaled \$686.1 million for the year ended March 31, 2018. This represented approximately 40 percent of the province's total program expenses. Health related expenses continued to increase as shown in **Exhibit 7.5**. Expenses have increased by \$86.4 million or 14.4 percent since 2013-14.

7. Indicators of Financial Condition

EXHIBIT 7.5 MINISTRY OF HEALTH AND WELLNESS EXPENSES YEAR ENDED MARCH 31 (\$ Millions)



	2014	2015	2016	2017	2018
Health and Wellness Expenses	\$599.7	\$611.1	\$635.8	\$659.9	\$686.1

FINANCIAL INDICATORS

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

7. Indicators of Financial Condition

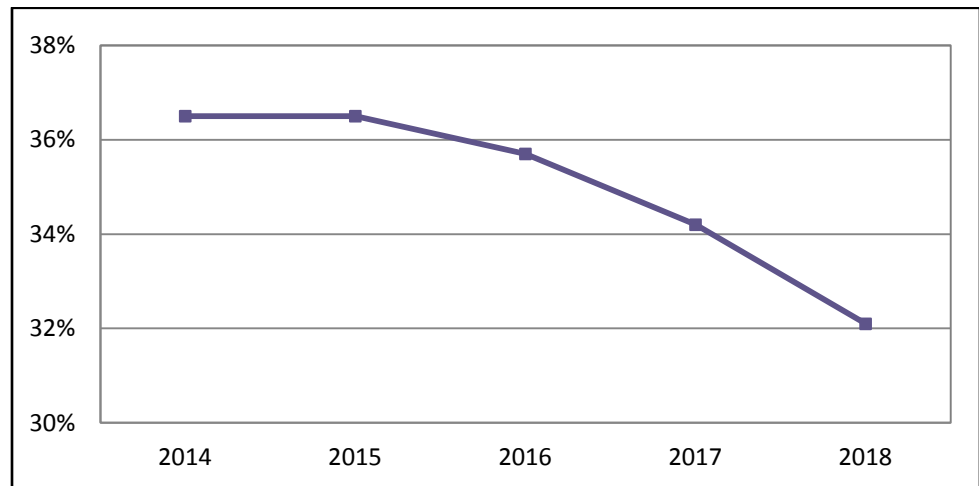
SUSTAINABILITY

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

Net Debt to GDP

7.22 Net debt to GDP provides a measure of the financial demands placed on the economy by the province's spending and taxation policies. A decreasing ratio indicates net debt is growing at a rate slower than the growth in the economy. The province's net debt to GDP ratio has declined since 2015 as shown in **Exhibit 7.6**.

**EXHIBIT 7.6
NET DEBT TO GDP
YEAR ENDED MARCH 31**

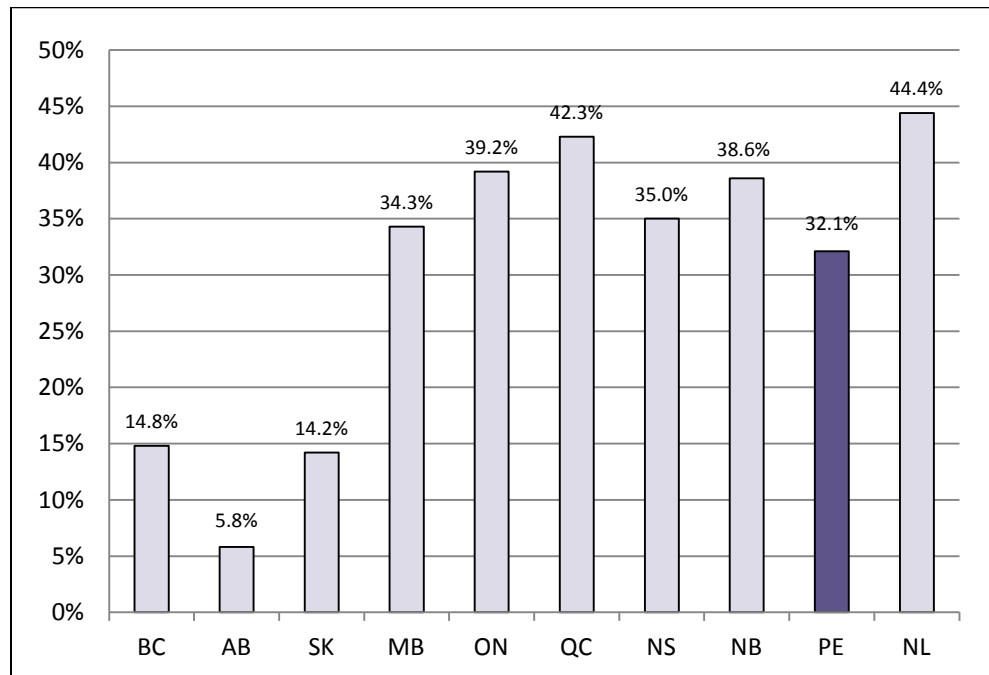


	2014	2015	2016	2017	2018
Net Debt to GDP	36.5%	36.5%	35.7%	34.2%	32.1%

7. Indicators of Financial Condition

7.23 Exhibit 7.7 compares the province's net debt to GDP with other Canadian provinces. At March 31, 2018, PEI's net debt to GDP ratio is lower than six other provinces and higher than British Columbia, Alberta, and Saskatchewan.

EXHIBIT 7.7
NET DEBT TO GDP CANADIAN PROVINCES
MARCH 31, 2018



Source: Net debt derived from each province's consolidated financial statements at March 31, 2018. GDP data from Statistics Canada published November 8, 2018.

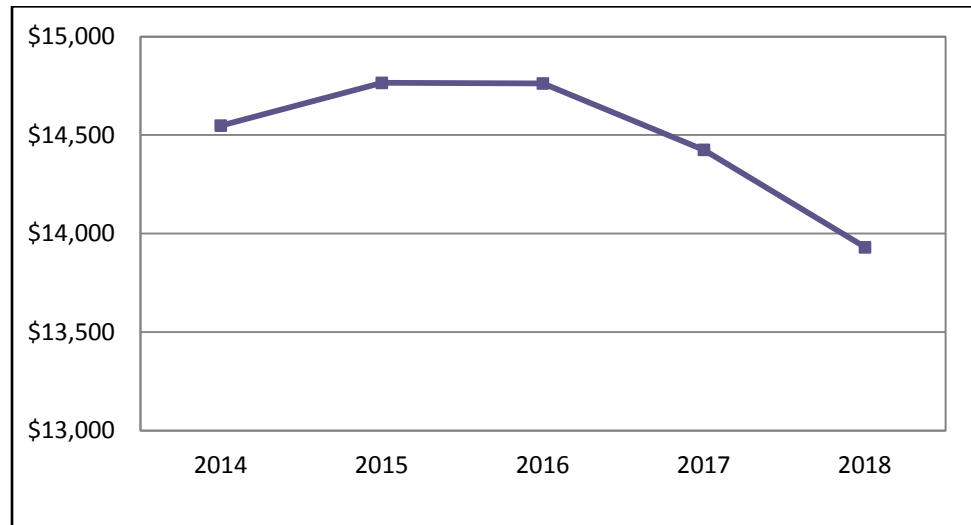
Net Debt per Capita

7.24 Net debt per capita is the amount of net debt attributable to each resident of the province. The province's net debt per capita decreased by \$495 from the previous year. This indicates the population is growing at a faster rate than net debt.

7. Indicators of Financial Condition

7.25 Exhibit 7.8 shows the province's net debt per capita has been decreasing since 2015 to its lowest amount in 2018. The net debt attributable to each Island resident was \$13,930 at March 31, 2018, down from \$14,425 at March 31, 2017.

**EXHIBIT 7.8
NET DEBT PER CAPITA
YEAR ENDED MARCH 31**



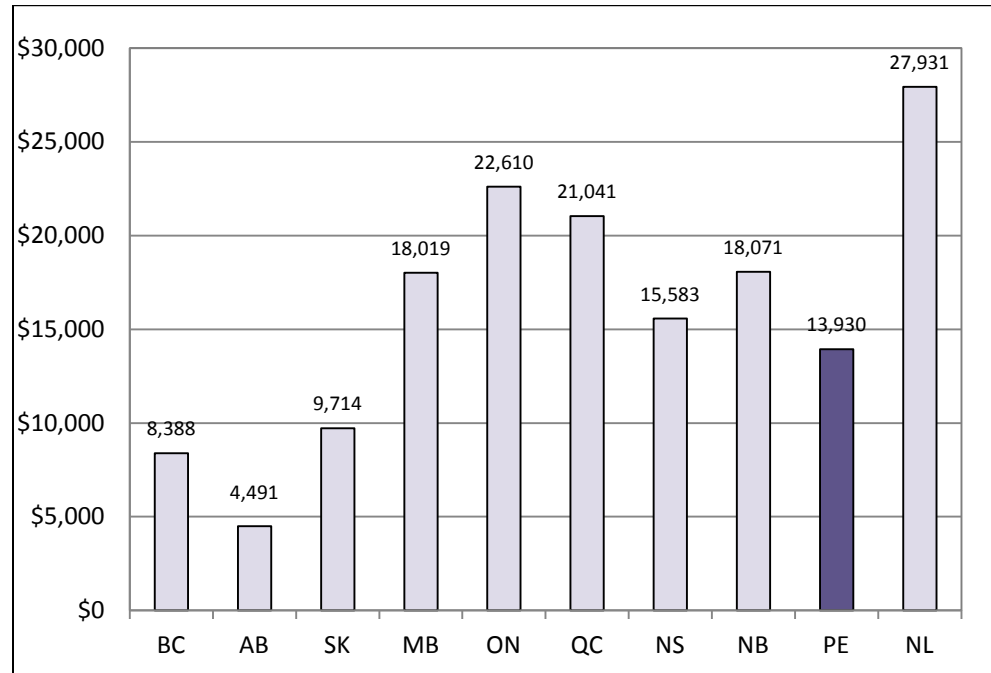
Source: Population data from Statistics Canada published September 27, 2018.

	2014	2015	2016 Restated	2017	2018
Net Debt per Capita	\$14,548	\$14,765	\$14,762	\$14,425	\$13,930

7. Indicators of Financial Condition

7.26 A comparison of PEI's net debt per capita to other Canadian provinces is provided in **Exhibit 7.9**. PEI's net debt per capita ratio is more favorable than the other provinces, except for British Columbia, Alberta, and Saskatchewan.

EXHIBIT 7.9
NET DEBT PER CAPITA CANADIAN PROVINCES
MARCH 31, 2018



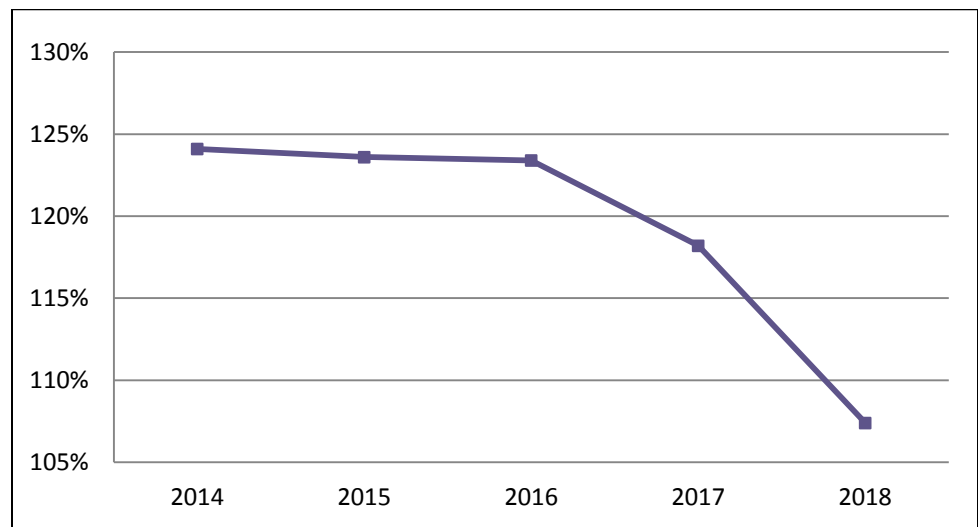
Source: Net debt derived from each province's consolidated financial statements at March 31, 2018. Population data from Statistics Canada published September 27, 2018.

7. Indicators of Financial Condition

Net Debt to Total Revenues

7.27 Exhibit 7.10 depicts the ratio of net debt to total revenues. This ratio is a measure of the future revenue which will be required to pay for past transactions. The province's ratio has decreased overall from 2014 to 2018 which is a favorable trend.

**EXHIBIT 7.10
NET DEBT TO TOTAL REVENUES
YEAR ENDED MARCH 31**



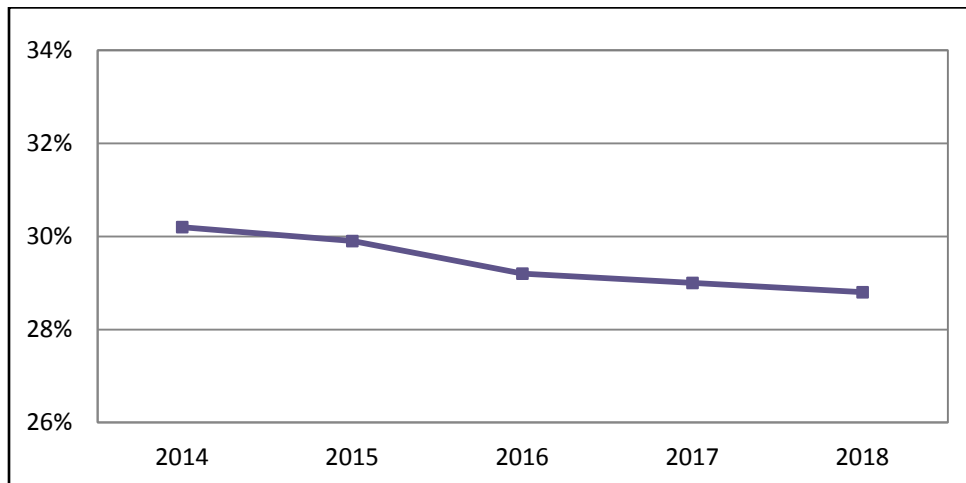
	2014	2015	2016	2017	2018
Net Debt to Total Revenues	124.1%	123.6%	123.4%	118.2%	107.4%

7. Indicators of Financial Condition

Expenses to GDP

7.28 During 2017-18, government expenses increased by \$73.8 million from the prior period. Comparing expenses to GDP provides the trend of government spending over time in relation to the growth in the economy. A decreasing ratio indicates government spending is growing at a slower rate than the growth in the economy. Expenses as a percentage of GDP are consistent with the previous year and have declined over the past four years. **Exhibit 7.11** shows government spending at March 31, 2018 represented approximately 28.8 percent of GDP compared to 29 percent in 2017 and 30.2 percent in 2014.

**EXHIBIT 7.11
EXPENSES TO GDP
YEAR ENDED MARCH 31**



	2014	2015	2016	2017	2018
Expenses to GDP	30.2%	29.9%	29.2%	29.0%	28.8%

FLEXIBILITY

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

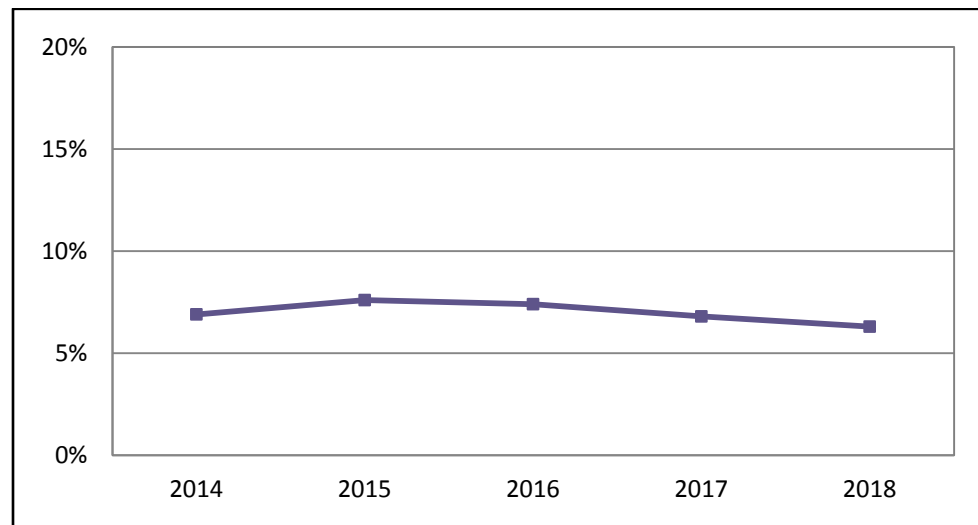
7. Indicators of Financial Condition

7.30 Flexibility provides insight into the management of financial resources. A government that increases its current borrowings reduces its future flexibility to respond to adverse economic circumstances. Similarly, increasing taxation or fees reduces a government’s ability to do so in the future as citizens and businesses approach the limit that they can or are willing to bear.

Interest Costs to Total Revenues

7.31 One measure of a government’s flexibility is the “interest bite”. This is the interest cost as a percentage of total revenues and is shown in **Exhibit 7.12**. This indicator illustrates the extent to which past borrowing decisions constrain a government’s ability to provide programs and services in the future.

EXHIBIT 7.12
INTEREST COSTS TO TOTAL REVENUES
YEAR ENDED MARCH 31



	2014	2015	2016	2017	2018
Interest Costs to Total Revenues	6.9%	7.6%	7.4%	6.8%	6.3%

7.32 Interest costs totaled \$125.5 million during 2017-18. This means the first \$125.5 million of revenue must be used to pay interest costs and is not available for government programs and services. Interest charges were approximately 6.3 percent of total revenues for the March 31, 2018

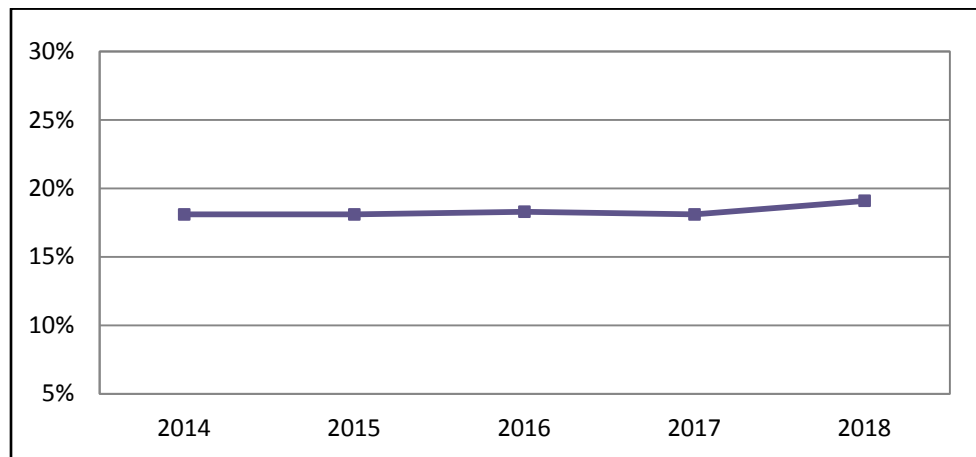
7. Indicators of Financial Condition

fiscal year. The interest costs to total revenues ratio has declined since last year and has also decreased compared to 2014.

Own Source Revenues to GDP

7.33 Own source revenues as a percentage of GDP indicates the extent to which a government is taking money out of the local economy through taxation, fees, and/or other charges. **Exhibit 7.13** indicates the percentage was stable between 2014 and 2017 fiscal periods but has grown during the 2018 fiscal period.

**EXHIBIT 7.13
OWN SOURCE REVENUES TO GDP
YEAR ENDED MARCH 31**



	2014	2015	2016	2017	2018
Own Source Revenues to GDP	18.1%	18.1%	18.3%	18.0%	19.1%

VULNERABILITY

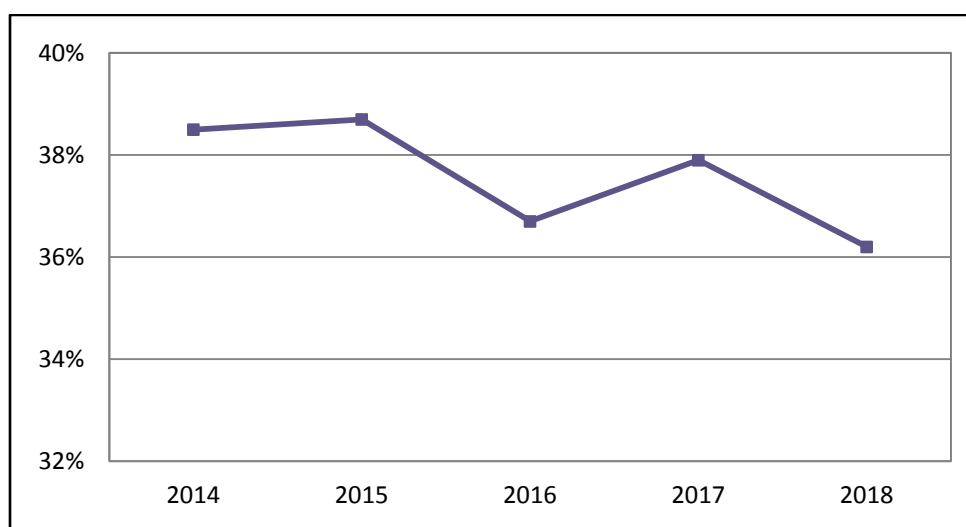
7.34 Vulnerability is the degree to which a government depends on sources of funding outside its control or influence. It provides insight into the risks the province is exposed to that could affect its ability to meet existing service commitments to the public and financial commitments to creditors,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

7. Indicators of Financial Condition

Federal Revenues to Total Revenues

7.35 As indicated in **Exhibit 7.14**, federal revenues as a percentage of total revenues have decreased over the previous year and compared to 2014. A decreasing ratio indicates less vulnerability. In 2017-18, the federal government provided 36.2 percent of the provinces total revenues or \$718.6 million.

EXHIBIT 7.14
FEDERAL REVENUES TO TOTAL REVENUES
YEAR ENDED MARCH 31
(\$ Millions)



	2014	2015	2016	2017	2018
Provincial Revenues	\$1,040.0	\$1,058.1	\$1,113.8	\$1,141.5	\$1,269.1
Federal Revenues	<u>651.8</u>	<u>668.3</u>	<u>644.9</u>	<u>695.9</u>	<u>718.6</u>
Total Revenues	<u>\$1,691.8</u>	<u>\$1,726.4</u>	<u>\$1,758.7</u>	<u>\$1,837.4</u>	<u>\$1,987.7</u>
Federal Revenues as Percent of Total	38.5%	38.7%	36.7%	37.9%	36.2%

7. Indicators of Financial Condition

GLOSSARY

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

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

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

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

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

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

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

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

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

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

8. AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

CHAPTER SUMMARY

What we examined

The *Audit Act* requires the Auditor General to audit the consolidated financial statements of the province. This chapter provides summary information on issues identified during our audit. We also include information on other reporting requirements under the *Audit Act*.

Why it's important

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

What we found

- The 2017-18 consolidated financial statements fairly present the province's financial results. An unqualified audit opinion was issued on October 25, 2018.
- Some transactions were not measured in accordance with Canadian Public Sector Accounting Standards.
- Improvements in financial statement notes and schedules are required.

8. Audit of the Consolidated Financial Statements

BACKGROUND

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

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

8.3 The *Financial Administration Act* requires the Minister of Finance to annually table the Public Accounts in the Legislative Assembly. The Public Accounts for March 31, 2018, were tabled on October 31, 2018.

OBJECTIVES AND SCOPE

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

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

8. Audit of the Consolidated Financial Statements

8.6 In the following sections, we provide information on our independent audit opinion on the province's consolidated financial statements for the fiscal year ended March 31, 2018. We also include observations and recommendations arising from our work and information to address other reporting requirements under the *Audit Act*.

AUDIT OPINION

8.7 Our audit was conducted in accordance with Canadian auditing standards. On October 25, 2018, the Auditor General issued an unqualified audit opinion on the province's consolidated financial statements. The independent audit opinion stated the province's consolidated financial statements for the year ended March 31, 2018, were fairly presented in accordance with Canadian public sector accounting standards.

OBSERVATIONS AND RECOMMENDATIONS

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

8.9 As part of the audit process, we evaluate the audit evidence and the financial statements and identify any audit adjustments required. We provide these adjustments to management and request that all adjustments be posted to the financial statements. We also identify issues requiring improvements in the areas of internal control and financial reporting. The following paragraphs detail some of the more significant recommendations resulting from our audit.

8.10 During our audit of the consolidated financial statements for the year ended March 31, 2018, we noted three areas where the measurement of financial statement transactions were not in accordance with Canadian Public Sector Accounting Standards (PSAS). These transactions were discussed with staff of the Comptroller's Office and recommendations for correction were provided to the Comptroller. In some cases corrections

PUBLIC SECTOR ACCOUNTING STANDARDS

8. Audit of the Consolidated Financial Statements

were made. The uncorrected transactions did not affect our audit opinion on the consolidated financial statements.

Transactions not recorded in accordance with Canadian Public Sector Accounting Standards

Liabilities

8.11 PSAS defines liabilities as present obligations to others, arising from past transactions or events, which will result in the future sacrifice of economic benefits. Liabilities embody a duty or responsibility to others, leaving government little or no discretion to avoid settlement.

8.12 We noted an expense and related liability recorded in the consolidated financial statements for \$3.0 million which was not in accordance with PSAS. There were no transactions or events prior to March 31, 2018, to indicate that an expense occurred or an obligation existed to others. There were no funds spent or agreements signed, and no commitments were made by government to third parties relating to this transaction.

8.13 We recommended an adjustment to remove \$3.0 million from expenses and liabilities, as these were overstated in the consolidated financial statements. The Comptroller's Office did not agree with this adjustment and did not adjust the consolidated financial statements.

Municipal tax credit

8.14 PSAS requires that transfers made through a tax system be recognized as expenses and not as a reduction of tax revenue. A new municipal funding memorandum of understanding (MOU) was signed between the province and municipalities. Included in the agreement is a real property tax credit, which replaced a municipal support grant program. The province incorrectly recorded the grant under the new MOU as a reduction to property tax revenue. As this was a transfer made through the tax system, a reclassification adjustment of \$4.7 million to increase revenue and expenses was recommended. The adjustment was recorded in the consolidated financial statements.

8. Audit of the Consolidated Financial Statements

Accrual accounting

8.15 PSAS requires that items recognized in government financial statements be accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions in the period it occurred, regardless of whether there has been a receipt or payment of cash. We recommended audit adjustments relating to revenues and expenses which were recorded on the cash, rather than accrual, basis. These included accruals for miscellaneous revenue, expenses for IT contracts and payroll. These adjustments were not made.

Recommendation

8.16 The Office of the Comptroller should ensure transactions are recorded in accordance with Public Sector Accounting Standards in the preparation of the consolidated financial statements.

FINANCIAL STATEMENT NOTES AND SCHEDULES

8.17 The consolidated financial statements contain a number of note disclosures and schedules which are an integral part of the financial statements. These notes and schedules provide information useful to clarify and explain items in the financial statements. For this information to be useful it must be complete, accurate, clear and understandable for users.

Note disclosures require improvement

8.18 Disclosure of significant contractual obligations provides information to the users of the financial statements about government resources that have already been committed for future spending. Consistent with prior periods, we noted incomplete information and errors in the schedule of contractual obligations and related note disclosures provided for audit.

8.19 Significant errors were also identified in the schedule of contractual rights. This schedule was disclosed for the first time at March 31, 2018 as required by a new Public Sector Accounting Standard. Contractual rights disclosure provides information about future resources that will be available to meet obligations or finance operations. We requested further follow up by the Comptroller's Office to address the errors identified; however, responses were not provided. As a result of our

8. Audit of the Consolidated Financial Statements

audit work on this issue, we identified and recommended a significant number of changes to this note disclosure.

8.20 We noted the disclosures detailing pensions and other retirement benefit plans are lengthy and complex. The information presented is accurate; however, the excessive detail and complex presentation make it difficult for the reader to understand. Note disclosures for pensions and other retirement benefits should be clearly presented.

8.21 We also noted a number of missing disclosures in the presentation of supplementary financial information for government business enterprises. This consisted primarily of undisclosed transactions between government business enterprises and other government organizations. This issue was brought to the attention of the Comptroller's Office, but changes were not made in the notes to the consolidated financial statements. Note disclosures for government business enterprises should be complete.

Errors in financial statement schedules

8.22 The cost of roads and bridges in the tangible capital assets schedule to the consolidated financial statements includes \$603 million in assets for road resurfacing which are fully amortized. The oldest of additions date back to 1959. It is possible that some of these assets are still in use; however, several resurfaced roads most likely have been replaced over the years and should be removed from both the cost and accumulated amortization. There is no net effect on the consolidated financial statements; however, both the cost and accumulated amortization are overstated on the schedule of tangible capital assets.

8.23 For the past three years, we reported that calculated variances between budget to actual for three Crown corporations were incorrectly reported in the schedules to the consolidated financial statements. Similar errors were noted at March 31, 2018.

Recommendation

8.24 The Comptroller's Office should review the note disclosures and schedules in the consolidated financial statements to ensure the information included is complete, accurate, and clearly presented.

8. Audit of the Consolidated Financial Statements

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

8.25 Volume I of the Public Accounts provides a financial statement discussion and analysis (FSD&A) prepared by the Comptroller's Office. The main purpose of the FSD&A is to expand on and explain information in the consolidated financial statements. It is provided to assist users in understanding and evaluating the financial condition of the province.

8.26 Although not part of the consolidated financial statements, the FSD&A is prepared by management and accompanies the financial statements. We have reviewed the FSD&A included in Volume I of the March 31, 2018 Public Accounts and noted that the information presented is limited.

8.27 The FSD&A included several financial statement indicators for the past five years. It also included various charts and graphs which presented financial data on the province's revenues, expenses, financial assets, tangible capital assets, liabilities, and net debt for the 2017-18 fiscal year compared to the previous four years. However, there was very little interpretation and narrative explanations provided relating to the financial data presented. For example, there were no explanations documented for significant variances such as current year actual results to budget and current year actual results to prior year results. The Canadian Public Sector Accounting Board provides guidance on the type of information to be provided in the FSD&A.

8.28 Financial statement discussion and analysis is a core element of external reporting and we encourage government to make improvements in this area.

BUDGET PRESENTATION

8.29 Canadian public sector accounting standards require original budget information to be presented in the province's consolidated financial statements. For several years, we noted the province's budget document is not presented on the same basis as its consolidated financial statements. The province's original budget does not include each consolidated entity's revenues and expenses on a line by line basis. A separate reconciliation was necessary to present the budget on the same comparative basis as the actual financial results. No changes were made for the March 31, 2018 fiscal year and the original budget revenues and expenses were increased by \$89.7 million to put them on a comparative basis with the actual financial results.

8. Audit of the Consolidated Financial Statements

8.30 We noted improvements in the 2018-19 budget document. Revenues and expenses of some consolidated entities are presented in the budget on a line by line basis. A summary of total revenues and expenses is presented for the remaining entities; however, the amounts are not broken out on a line by line basis.

8.31 The operating budgets for government business enterprises are prepared on a net basis and the details of each entity's revenues and expenses are not disclosed to the Legislature nor are they publicly available. This is significant because government business enterprises had revenues of \$189.1 million (2017 - \$183.5 million) and expenses of \$117.5 million (2017 - \$110.3 million) for the year ended March 31, 2018. Government business enterprises also controlled \$848.5 million (2017 - \$842.8 million) in total assets at year end. For several years we recommended that the details of government business enterprise's operating budgets be provided to Legislators.

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

Recommendation

8.33 Budgets should be presented on the same basis as the consolidated financial statements.

OTHER REPORTING REQUIREMENTS

DEBTS CANCELLED, DISCHARGED, WRITTEN OFF

8.34 Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, debts, or monies due to the province that have been discharged, cancelled, and/or released under Section 26 of the *Financial Administration Act*. For the year ended March 31, 2018, the amount cancelled or discharged under Section 26 is detailed in **Exhibit 8.1**. Also included are amounts written off under Section 26.1(1).

8. Audit of the Consolidated Financial Statements

EXHIBIT 8.1 AMOUNTS CANCELLED, DISCHARGED OR WRITTEN OFF YEAR ENDED MARCH 31, 2018

	Cancellations Section 26(1)	Write-offs Section 26.1(1)
PEI Housing Corporation	\$ 1,453	\$10,292
PEI Grain Elevators Corporation	102,578	-
PEI Century 2000 Fund Inc.	219,141	-
Finance PEI	844,715	-
Department of Health and Wellness	-	7,593
Various Departments	39,109	-
Total	\$1,206,996	\$17,885

SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS

8.35 Section 16 of the *Audit Act* also requires the Auditor General to include information in the Annual Report on surpluses/deficits of agencies, boards, and Crown corporations. **Exhibit 8.2** includes the surplus or deficit of each entity.

8. Audit of the Consolidated Financial Statements

EXHIBIT 8.2 SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS YEAR ENDED MARCH 31, 2018

	Annual Surplus (Deficit)
Charlottetown Area Development Corporation*	\$ 1,264,055
Public Schools Branch	(1,607)
Finance PEI	3,143,561
French Language School Board	(444,137)
Health PEI	21,519,532
Innovation PEI	-
Island Investment Development Inc.	25,476,151
Island Waste Management Corporation	145,148
PEI Advisory Council on the Status of Women	(2,551)
PEI Agricultural Insurance Corporation	(4,132,946)
PEI Aquaculture and Fisheries Research Initiative Inc.	(14,398)
PEI Crown Building Corporation	-
PEI Energy Corporation	7,373,920
PEI Grain Elevators Corporation (July 31, 2017)	(236,564)
PEI Housing Corporation **	(244,000)
PEI Human Rights Commission	20,404
PEI Liquor Control Commission	21,377,733
PEI Lotteries Commission	15,708,989
PEI Museum and Heritage Foundation	202,377
PEI Regulatory and Appeals Commission	(82,582)
PEI Self-Insurance and Risk Management Fund	1,462,027
PEI Student Financial Assistance Corporation	-
PEI 2014 Inc.	(388,499)
Summerside Regional Development Corporation	(153,338)
Tourism PEI	-

* Includes the provincial portion only

**Based on draft financial statements

9. MATTERS NOTED IN OTHER FINANCIAL AUDITS

CHAPTER SUMMARY

What we examined

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

Why it's important

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

What we found

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

Adequacy of supporting documentation and non compliance with Treasury Board policies were the most common issues.

BACKGROUND

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

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

9. Matters Noted In Other Financial Audits

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

9.4 At the completion of an audit, we assess any issues that were identified during the audit but did not impact our audit opinion. Issues assessed as significant are communicated to management in a letter. This management letter provides recommendations for improvements in various areas, such as the entity's system of internal control, proper accounting for transactions and disclosures, compliance with policies and agreements, or any other matter the auditor concludes should be brought to the attention of management and those charged with governance. Our audits may also identify matters of a less significant nature which are verbally communicated to management.

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

SCOPE

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

9. Matters Noted In Other Financial Audits

SUMMARY OBSERVATIONS

9.7 For the majority of the financial statement audits completed, management letters were issued. The main issues identified and detailed in our management letters can be categorized into accounting concerns, compliance issues, and internal control weaknesses. Following is a description of each category along with examples of issues identified in the financial statement audits.

Accounting Concerns

9.8 Financial statements are prepared in accordance with a set of accounting standards. An objective of these standards is to enable users of the financial statements to understand the information and for the information to be fairly presented. The majority of accounting concerns identified and reported related to how amounts were determined and recorded and the adequacy of supporting documentation.

9.9 The most prevalent accounting concern raised dealt with adequacy of supporting documentation. We have consistently reported to the Prince Edward Island Housing Corporation that there is a lack of support in tenant files for the calculation of the tenant's annual rent. We also noted that other entities were missing supporting documentation for employment contracts and a marketing contract.

Compliance Issues

9.10 Governments have objectives and establish regulations, policies, and procedures to clearly communicate expectations. We noted a number of compliance issues during our financial statement audits. These issues related to compliance with legislation, agreements, entity policies and Treasury Board policies.

9.11 Non compliance with Treasury Board policies was a recurring issue noted during our audits. For example, we reported to Health PEI that it was not in compliance with Treasury Board policies for both appropriation transfers and signing authority. We also reported to the Prince Edward Island Liquor Control Commission that they were not in compliance with Treasury Board Human Resource Policy and Procedures regarding classification and pay rates. In both cases, the issues were raised in previous management letters but were not adequately addressed.

9. Matters Noted In Other Financial Audits

Internal Controls

9.12 Internal controls help to ensure transactions are appropriately recorded and authorized. They also help to ensure business processes operate as intended. Weaknesses in internal control can expose an entity to business and financial risks. Internal control issues identified included inadequate segregation of duties and the need to update policies and procedures.

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

10. APPROPRIATIONS AND SPECIAL WARRANTS

CHAPTER SUMMARY

What we examined

We examined the processes for recording current and capital appropriations for the fiscal year ended March 31, 2018. We also examined the approvals, processing, and recording of special warrants, appropriation transfers, and sequestrations.

Why it's important

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

What we found

- Special warrants provided an additional \$24.7 million in authorized spending for current expenditures and \$17.2 million for capital expenditures.
- Consistent with prior years, expenditures were incurred at March 31, 2018 without a special warrant as required by the *Financial Administration Act*.

BACKGROUND

10.1 The *Appropriation Act (Current Expenditures) 2017* authorized \$1,739.8 million in current expenditures for the fiscal year ended March 31, 2018. The *Appropriation Act (Capital Expenditures) 2017* authorized capital spending of \$96.6 million.

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

10. Appropriations and Special Warrants

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

10.4 This chapter provides comments and recommendations resulting from the audit of the province's appropriations and special warrants for the year ended March 31, 2018. In addition to the information provided in this chapter, readers should also consider the province's consolidated financial statements and our independent auditor's report on those financial statements.

10.5 **Schedule A** of this Annual Report provides a comparison of current and capital appropriations to actual expenditures in accordance with the classifications in the 2017 appropriation acts and approved special warrants for the 2017-18 fiscal year.

OBSERVATIONS AND RECOMMENDATION

SPECIAL WARRANTS

10.6 For the year ended March 31, 2018, special warrants totaling \$41.9 million were issued for current and capital expenditures. **Exhibit 10.1** provides a summary of these special warrants. The *Audit Act* requires the Auditor General to list in detail appropriations made by special warrant and the purpose of such appropriations. This information is included in **Schedule B** of this Annual Report.

10. Appropriations and Special Warrants

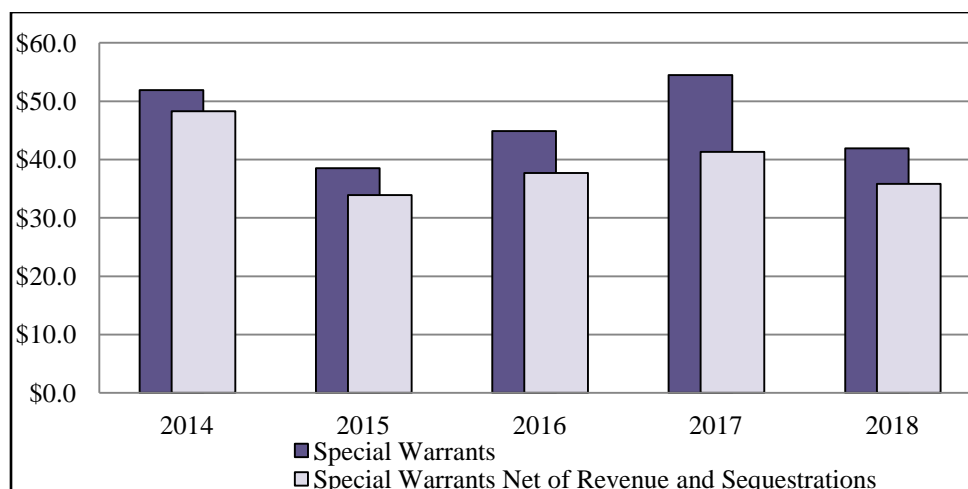
EXHIBIT 10.1 SUMMARY OF SPECIAL WARRANTS MARCH 31, 2018

Department/Entity	Special Warrant
Current:	
Communities, Land and Environment	\$ 795,000
Education, Early Learning and Culture	4,690,000
Family and Human Services	7,633,900
Health PEI	5,741,870
Innovation PEI	3,000,000
Interministerial Women's Secretariat	157,300
Workforce and Advanced Learning	2,697,800
Total Current	24,715,870
Capital:	
Communities, Land and Environment	2,100
Education, Early Learning and Culture	11,725,000
Family and Human Services	924,100
Transportation, Infrastructure and Energy	4,500,000
Total Capital	17,151,200
Total Special Warrants	\$41,867,070

10.7 Special warrants were partially offset by a \$6.1 million increase in revenue for a net increase in spending authority of \$35.8 million. The total special warrants and special warrants net of revenue and sequestrations for each of the last five years are presented in **Exhibit 10.2**.

10. Appropriations and Special Warrants

EXHIBIT 10.2 SPECIAL WARRANTS YEAR ENDED MARCH 31 (\$ Millions)



	2014	2015	2016	2017	2018
Total Special Warrants	\$51.9	\$38.5	\$44.9	\$54.5	\$41.9
Revenue and Sequestrations	3.6	4.6	7.2	13.2	6.1
Special Warrants Net of Revenue and Sequestrations	\$48.3	\$33.9	\$37.7	\$41.3	\$35.8

Delay in Issuing Special Warrants

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

10.9 Consistent with prior years, our audit identified instances where a special warrant was not authorized prior to the expenditure being incurred. There were 6 instances, the most significant of which relate to the Department of Education, Early Learning and Culture (EELC) and Health PEI.

10.10 EELC had total current and capital special warrants of \$5.9 million relating to the March 31, 2018 fiscal year authorized by Executive Council ten months after year end, on January 30, 2019. In fiscal 2017-18, Health PEI's operating expenditures exceeded its operating budget by

10. Appropriations and Special Warrants

\$5.7 million. A special warrant for the over expenditures was not authorized by Executive Council until October 16, 2018.

Recommendation

10.11 In accordance with the *Financial Administration Act*, special warrants should be obtained prior to expenditures being incurred.

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

PUBLIC ACCOUNTS COMMITTEE

11. PUBLIC ACCOUNTS COMMITTEE

REVIEW OF AUDITOR GENERAL'S REPORTS

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

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

11.3 The Auditor General's Annual Report to the Legislative Assembly is referred to the Committee for review and consideration. The Committee may request the Auditor General and other witnesses to appear and answer questions on matters raised in her reports. During the 2018 fiscal year, the Auditor General met with the Committee on several occasions to complete the review of the 2016 Annual Report, and review the 2017 and 2018 Annual Reports. The Auditor General also provided a briefing to the Committee on the Public Accounts of the Province of PEI for the year ended March 31, 2017.

2018 JOINT CONFERENCE

11.4 In September 2018, the Legislative Assembly of Prince Edward Island and the Auditor General of Prince Edward Island hosted the 2018 annual joint conference of the Canadian Council of Public Accounts Committees and Canadian Council of Legislative Auditors. This conference brings together members of the federal and provincial public accounts committees and legislative auditors. Joint sessions and discussions help to maintain and enhance a positive working relationship between auditors general and public accounts committees.

OFFICE OF THE AUDITOR GENERAL

12. OFFICE OF THE AUDITOR GENERAL

AUDITOR GENERAL'S MANDATE

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

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

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

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

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

- provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year;

12. Office of the Auditor General

- calls attention to anything that the Auditor General considers necessary to be brought to the attention of the Legislative Assembly; and
- includes other specific reporting requirements pursuant to the *Audit Act*.

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

OUR VISION

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

OUR MISSION

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

OUR VALUES

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

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

12. Office of the Auditor General

- **Reliability**

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

- **Progressive**

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

- **Relevance**

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

12.9 Our vision, mission and values guide us in our day-to-day actions and work as independent professionals.

AUDITS AND OTHER ASSURANCE ENGAGEMENTS

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

12.11 The Office is responsible to annually complete 16 financial audits, including the consolidated financial statements of the province. On an annual basis, the Office completes a number of performance audits and examinations. Various factors are considered in establishing priorities for performance audits and examinations. In addition, follow-up work is completed on previous audit recommendations. Work plans can also be impacted by requests from the Legislative Assembly and/or Executive Council.

12.12 In December 2018, a separate report entitled “Petroleum Product Pricing: Prince Edward Island Regulatory and Appeals Commission” was presented to Members of the Legislative Assembly of Prince Edward Island. This report was requested by the Legislative Audit Committee, a standing committee of the Legislative Assembly established pursuant to the *Audit Act*.

12. Office of the Auditor General

RESOURCES

12.13 Office operations are funded by an annual appropriation approved by the Legislative Assembly. For the year ended March 31, 2019, the Office's approved budgeted expenditures amounted to \$2,135,700 and are summarized in **Exhibit 12.1**. Salaries and benefits account for approximately 92 percent of the Office budget for 2018-19.

EXHIBIT 12.1
OFFICE OF THE AUDITOR GENERAL
BUDGET
YEAR ENDED MARCH 31, 2019

Account	Budget
Administration	\$ 32,900
Equipment	4,500
Materials, supplies and services	35,900
Professional services	57,400
Salaries	1,964,800
Travel and training	31,600
Grants - CAAF	8,600
Total	\$2,135,700

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

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

12.16 The Legislative Audit Committee is responsible for administrative oversight of the Office of the Auditor General. This Committee includes the Speaker of the Legislative Assembly, who is the Chairperson, the

12. Office of the Auditor General

Leader of the Opposition, and the Minister of Finance. On an annual basis, the Committee reviews the budget estimates submitted by the Auditor General.

PROFESSIONAL STANDARDS

12.17 The Accounting Standards Board and the Auditing and Assurance Standards Board establish the accounting and assurance standards which apply to public sector entities and our work. In conducting our work, we rely on these standards as well as guidance provided by the Chartered Professional Accountants of Canada (CPA Canada) and other authoritative sources.

12.18 For financial audits, the Office is subject to a periodic practice inspection conducted by CPAPEI, which is the regulatory body that provides oversight of the public accounting profession in the province. A practice inspection is designed to protect the public interest by ensuring Office practices meet professional standards. A practice inspection was conducted by the Chartered Professional Accountants of Nova Scotia on behalf of CPAPEI in November 2018. The inspection concluded that our Office was in compliance with professional standards and practices. Our next practice inspection by CPAPEI is expected in 2021.

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

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

12. Office of the Auditor General

PROFESSIONAL AFFILIATIONS

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

12.22 Key affiliations include:

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

SCHEDULES

CURRENT APPROPRIATIONS

	APPROPRIATION ACT 2017	SPECIAL WARRANTS	TOTAL APPROPRIATIONS	EXPENDITURES 2018	UNDER EXPENDITURES 2018
CURRENT					
AGRICULTURE AND FISHERIES	\$ 30,709,000	\$ -	\$ 30,709,000	\$ 28,417,875	\$ 2,291,125
AUDITOR GENERAL	2,114,000	-	2,114,000	2,004,892	109,108
COMMUNITIES, LAND AND ENVIRONMENT	21,081,000	795,000	21,876,000	21,559,047	316,953
COUNCIL OF ATLANTIC PREMIERS	188,400	-	188,400	63,302	125,098
ECONOMIC DEVELOPMENT AND TOURISM	1,047,800	-	1,047,800	1,019,836	27,964
EDUCATION, EARLY LEARNING AND CULTURE	256,123,700	4,690,000	260,813,700	260,813,097	603
EMPLOYEE BENEFITS	62,414,900	-	62,414,900	56,403,351	6,011,549
EMPLOYMENT DEVELOPMENT AGENCY	5,231,500	-	5,231,500	5,149,760	81,740
EXECUTIVE COUNCIL	7,192,300	-	7,192,300	7,017,418	174,882
FAMILY AND HUMAN SERVICES	103,369,700	7,633,900	111,003,600	111,003,549	51
FINANCE	75,486,800	-	75,486,800	73,573,253	1,913,547
GENERAL GOVERNMENT	8,300,000	-	8,300,000	5,396,134	2,903,866
HEALTH AND WELLNESS	13,093,000	-	13,093,000	12,734,099	358,901
HEALTH PEI	640,152,800	5,741,870	645,894,670	645,894,670	-
INNOVATION PEI	39,561,900	3,000,000	42,561,900	42,561,900	-
INTERMINISTERIAL WOMEN'S SECRETARIAT	438,600	157,300	595,900	595,814	86
ISLAND REGULATORY AND APPEALS COMMISSION	1,200,300	-	1,200,300	1,200,000	300
JUSTICE AND PUBLIC SAFETY	54,725,800	-	54,725,800	52,986,427	1,739,373
LEGISLATIVE ASSEMBLY	5,874,700	-	5,874,700	5,631,296	243,404
PEI PUBLIC SERVICE COMMISSION	7,484,300	-	7,484,300	7,382,355	101,945
RURAL AND REGIONAL DEVELOPMENT	1,904,600	-	1,904,600	1,710,847	193,753
TOURISM PEI	13,982,500	-	13,982,500	13,590,419	392,081
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	133,852,800	-	133,852,800	131,101,179	2,751,621
WORKFORCE AND ADVANCED LEARNING	128,231,500	2,697,800	130,929,300	130,855,031	74,269
INTEREST CHARGES ON DEBT	<u>126,025,500</u>	<u>-</u>	<u>126,025,500</u>	<u>124,151,987</u>	<u>1,873,513</u>
TOTAL CURRENT	<u>\$1,739,787,400</u>	<u>\$24,715,870</u>	<u>\$1,764,503,270</u>	<u>\$1,742,817,538</u>	<u>\$21,685,732</u>

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2017 and approved special warrants for the 2017-18 fiscal year. This differs from the format used in the Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2017	SPECIAL WARRANTS	TOTAL APPROPRIATIONS	EXPENDITURES 2018	UNDER EXPENDITURES 2018
<u>CAPITAL</u>					
COMMUNITIES, LAND AND ENVIRONMENT	\$ 375,000	\$ 2,100	\$ 377,100	\$ 377,001	\$ 99
EDUCATION, EARLY LEARNING AND CULTURE	13,250,000	11,725,000	24,975,000	24,967,599	7,401
FAMILY AND HUMAN SERVICES	750,000	924,100	1,674,100	1,674,094	6
FINANCE	7,614,500	-	7,614,500	7,292,676	321,824
HEALTH PEI	26,705,800	-	26,705,800	21,966,699	4,739,101
JUSTICE AND PUBLIC SAFETY	715,000	-	715,000	701,591	13,409
TOURISM PEI	750,000	-	750,000	749,999	1
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	<u>46,485,000</u>	<u>4,500,000</u>	<u>50,985,000</u>	<u>50,589,288</u>	<u>395,712</u>
TOTAL CAPITAL	<u>\$ 96,645,300</u>	<u>\$17,151,200</u>	<u>\$ 113,796,500</u>	<u>\$ 108,318,947</u>	<u>\$ 5,477,553</u>
GRAND TOTAL	<u>\$1,836,432,700</u>	<u>\$41,867,070</u>	<u>\$1,878,299,770</u>	<u>\$1,851,136,485</u>	<u>\$27,163,285</u>

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2017 and approved special warrants for the 2017-18 fiscal year. This differs from the format used in the Operating Fund financial statements.

COMMUNITIES, LAND AND ENVIRONMENT

EC2018-121 CLIMATE CHANGE SECRETARIAT

Professional Services	\$ 15,000
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ENVIRONMENT

Materials, Supplies & Services	415,000
Salaries	43,000

FORESTS, FISH AND WILDLIFE

Professional Services	58,200
Salaries	189,200
Travel & Training	<u>74,600</u>

Total Department of Communities, Land and Environment	<u>\$ 795,000</u>
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To fund additional costs for beverage container management, forest fires, and environmental studies, partially offset by revenue of \$380,000, which includes federal revenue under various agreements and a reimbursement from the government of British Columbia.

EDUCATION, EARLY LEARNING AND CULTURE

EC2019-36 EARLY CHILDHOOD DEVELOPMENT

Grants - Autism Services	\$ 275,000
Grants - Early Childhood Development	1,915,000

EXTERNAL RELATIONS AND EDUCATIONAL SERVICES

Professional Services	100,000
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GRANTS TO PUBLIC SCHOOLS

Grants - Maintenance	250,000
Salaries	1,750,000

INNOVATION, EDUCATION AND PROGRAMS

Materials, Supplies & Services	100,000
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ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2018 FISCAL YEAR

PROVINCIAL LEARNING MATERIALS DISTRIBUTION CENTRE

Materials, Supplies & Services	300,000
Total Department of Education, Early Learning and Culture	\$ 4,690,000

To fund additional early childhood development grants, international student agent fees, heating fuel increases, teaching salaries, elementary music curriculum, and classroom resources, partially offset by revenue of \$2,015,000, which includes federal revenue and an increase in international tuition fees and services.

FAMILY AND HUMAN SERVICES

EC2018-160 CHILD AND FAMILY SERVICES

Equipment	\$ 63,900
Salaries	876,200

HOUSING SERVICES

Materials, Supplies & Services	98,600
Professional Services	81,800
Salaries	210,000

SOCIAL PROGRAMS

Grants - Community	1,188,900	
Grants - Disability Support Program	863,200	
Grants - Seniors Initiatives	237,500	
Materials, Supplies & Services	50,300	
Professional Services	197,000	
Salaries	395,300	4,262,700

To fund additional costs for housing services, the Disability Support Program, child protection and non-governmental organizations, partially offset by federal revenue of \$98,600.

EC2018-188 HOUSING SERVICES

Grants - Community Housing Fund	3,000,000
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To fund grants for housing services.

ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2018 FISCAL YEAR

EC2019-32 SOCIAL PROGRAMS

Grants - Social Assistance Benefits 371,200

To fund additional costs for social assistance programs.

Total Department of Family and Human Services \$ 7,633,900

HEALTH PEI

EC2018-648 MEDICAL AFFAIRS

Professional Services - In-Province Physician Services \$ 5,741,870

To fund additional in-province physician services.

INNOVATION PEI

EC2018-156 BUSINESS DEVELOPMENT PROGRAMS

Grants - Business Expansion and Product Development \$ 3,000,000

To fund additional business development costs.

INTERMINISTERIAL WOMEN'S SECRETARIAT

EC2018-189 INTERMINISTERIAL WOMEN'S SECRETARIAT

Grants \$ 157,300

To fund grants to various organizations.

WORKFORCE AND ADVANCED LEARNING

EC2018-161 LABOUR AND INDUSTRIAL RELATIONS

Professional Services \$ 200,000

SKILLS PEI

Grants - Canada Job Fund	448,000
Grants - Career Preparation Program	1,342,300
Grants - Labour Market Development Agreement	<u>707,500</u>

Total Department of Workforce and Advanced Learning \$ 2,697,800

To fund costs for labour market programming, fully offset by revenue, which includes federal revenue under various agreements and revenue provided by the Workers Compensation Board to fund the Workers Compensation Appeals Tribunal.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES **\$24,715,870**

COMMUNITIES, LAND AND ENVIRONMENT

EC2019-35 EQUIPMENT

Forest Fire Vehicles		<u>\$ 2,100</u>
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To fund additional costs for a forest fire vehicle.

EDUCATION, EARLY LEARNING AND CULTURE

EC2017-579 NEW SCHOOL CONSTRUCTION

Buildings - New	\$3,675,000	
Equipment & Machinery Purchases	130,000	

SCHOOL IMPROVEMENTS

Buildings - Restoration/Renovations	5,420,000	
Equipment & Machinery Purchases	<u>500,000</u>	<u>9,725,000</u>

To fund additional costs for school construction at École La-Belle-Cloche and Three Oaks Senior High School.

EC2018-162 CAPITAL IMPROVEMENTS – SCHOOLS

School Construction and Renovations	390,000	
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EQUIPMENT

Classroom Technology	224,000	
Vehicle Purchases - Light Fleet	<u>136,000</u>	<u>750,000</u>

To fund additional costs for school construction, classroom technology, and light fleet.

EC2019-37 CAPITAL IMPROVEMENTS – SCHOOLS

School Construction and Renovations		<u>1,250,000</u>
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To fund additional costs for school construction at Three Oaks Senior High School.

Total Department of Education, Early Learning and Culture		<u>\$11,725,000</u>
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**ORDER-IN-
COUNCIL**

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2018 FISCAL YEAR

FAMILY AND HUMAN SERVICES

EC2017-642 CAPITAL IMPROVEMENTS

Housing Unit Renovations	<u>\$ 917,300</u>
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To fund additional costs of housing renovations, fully offset by federal revenue.

EC2019-33 CAPITAL IMPROVEMENTS

Housing Unit Renovations	<u>6,800</u>
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To fund additional costs of housing unit renovations.

Total Department of Family and Human Services	<u>\$ 924,100</u>
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TRANSPORTATION, INFRASTRUCTURE AND ENERGY

EC2018-117 CAPITAL IMPROVEMENTS - HIGHWAYS

Bridges	\$ 1,430,000
National and Collector Highways	510,000
Provincial Paving	1,500,000

LAND

Land Purchases	<u>1,060,000</u>
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Total Department of Transportation, Infrastructure and Energy	<u>\$ 4,500,000</u>
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To fund additional costs for bridges, highway construction and land purchases.

TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES	<u>\$17,151,200</u>
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TOTAL SPECIAL WARRANTS ISSUED FOR THE 2018 FISCAL YEAR	<u>\$41,867,070</u>
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