

TABLE OF CONTENTS

SECTION	PAGE
INTRODUCTION	
1. THE PROVINCE'S FINANCES	1
SPECIAL AUDITS AND EXAMINATIONS	
2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS	13
3. IMPLEMENTATION OF THE ELECTRONIC HEALTH RECORDS INITIATIVE	15
4. SECURITY ASSESSMENT - DRUG INFORMATION SYSTEM	39
5. STUDENT FINANCIAL SERVICES	51
6. GOVERNMENT'S INVOLVEMENT IN LENDING TO THE SNOW CRAB FISHERY	67
FINANCIAL STATEMENT AUDITS	
7. INTRODUCTION TO FINANCIAL STATEMENT AUDITS	93
8. PUBLIC ACCOUNTS	95
9. APPROPRIATIONS AND SPECIAL WARRANTS	110
10. UPDATE ON PREVIOUS RECOMMENDATIONS	115
- PROVINCIAL NOMINEE PROGRAM - IMMIGRANT PARTNER CATEGORY	
- IN-PROVINCE PHYSICIAN PAYMENTS	
- DEPARTMENT OF SOCIAL SERVICES AND SENIORS - GRANTS TO NON-GOVERNMENT ORGANIZATIONS	
- GOVERNMENT'S INVOLVEMENT WITH NATURAL ORGANIC FOOD GROUP PEI INC.	
- MEDICAL EQUIPMENT - ACQUISITION AND MAINTENANCE	

TABLE OF CONTENTS

SECTION	PAGE
10. UPDATE ON PREVIOUS RECOMMENDATIONS (continued...)	
- MANAGEMENT AND USE OF DIAGNOSTIC IMAGING EQUIPMENT	
- TRAVEL - GOVERNMENT DEPARTMENTS	
- SMALL CLAIMS PROCESS	
- PEI ENERGY CORPORATION	
- PEI BUSINESS DEVELOPMENT INC. - LENDING ACTIVITIES	
- STUDENT TRANSPORTATION - EASTERN SCHOOL DISTRICT	
- CROWN AGENCIES - CONTROL AND ACCOUNTABILITY	
11. PUBLIC ACCOUNTS COMMITTEE	141
12. OFFICE OF THE AUDITOR GENERAL	145
SCHEDULES	
SCHEDULE A - APPROPRIATIONS	
SCHEDULE B - LIST OF SPECIAL WARRANTS	

INTRODUCTION

REPORT OVERVIEW

Under the *Audit Act*, the Auditor General is required to report annually to the Legislative Assembly. My 2010 Annual Report provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year. The purpose of this report is to assist the Legislative Assembly in carrying out its responsibility to hold government accountable for the management of public resources.

My 2010 Annual Report deals mainly with matters pertaining to the 2008-09 fiscal year, however, many of the issues identified remain current and are still being addressed by government.

It is not possible to audit all government programs and entities each year, however, with the resources available the Office strives to provide reasonable audit coverage on a cyclical basis. A large portion of the audit work is determined by statutory requirements which name the Auditor General as auditor. These requirements include the annual audit of the Public Accounts of the Province. The remainder of our resources are devoted to special audits and examinations.

This report includes information and discussion on the **Province's Finances**. The section on **Special Audits and Examinations** includes the results of various examinations conducted during the year. Pursuant to Section 14(d) of the *Audit Act*, our Office was requested by the Lieutenant Governor in Council to carry out an investigation into government's involvement in lending to the snow crab fishery. Our report is included in this Annual Report. In addition, this Annual Report summarizes the results of the following special audits and examinations: Implementation of the Electronic Health Records Initiative, Security Assessment - Drug Information System, and Student Financial Assistance. The Office of the Auditor General of Canada and legislative audit offices in six provinces, including PEI, conducted concurrent audits of the development and implementation of electronic health records in their jurisdictions. While the scope may have been different in different offices, all offices examined planning, implementation, and public reporting of results. In the spring of 2010,

Introduction

the participating offices will issue a joint summary report. The **Financial Statement Audits** section provides information on significant issues arising from the financial statement audits and other audit procedures conducted by the Office.

As part of our work, we provide recommendations to departments and agencies to improve the management and administration of government operations and programs. On an annual basis, we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous audits. This information is included in a separate section of the report entitled **Update on Previous Recommendations**.

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee, and its proceedings during the past year, is provided in a separate section of the report.

The section on the **Office of the Auditor General** provides information on the mission and mandate of the Office as well as the responsibilities of the Auditor General. Background information is provided on the objectives and accomplishments of the Office and the resources used to achieve them.

ACKNOWLEDGEMENTS

Cooperation of ministers, deputy ministers, heads of Crown agencies and their staff is important. To carry out our work, it is imperative that we receive the necessary information, reports, and explanations. I wish to acknowledge that my Office received cooperation in the completion of the audits covered in my Annual Report.

I would like to express appreciation to my staff for their effort and dedication over the past year. The foundation of this report and the continued success of the Office are based on their professionalism, input and commitment.

INTRODUCTION

APERÇU DU RAPPORT

En vertu de la *Audit Act* (loi sur la vérification des comptes publics), le vérificateur général doit faire rapport chaque année à l'Assemblée législative. Mon rapport annuel 2010 fournit des observations, des recommandations et des renseignements sur les vérifications et les examens des activités du gouvernement menés par le Bureau au cours de l'année. Le but de ce rapport est d'aider l'Assemblée législative à s'acquitter de sa responsabilité de tenir le gouvernement responsable de la gestion des ressources publiques.

Mon rapport annuel 2010 traite principalement d'affaires portant sur l'exercice financier 2008-09; toutefois, plusieurs des points mis en évidence demeurent actuels, et font toujours partie des préoccupations du gouvernement.

Il n'est pas possible de vérifier tous les programmes et entités du gouvernement chaque année; toutefois, avec les ressources à sa disposition, le Bureau s'efforce d'assurer une couverture de vérification raisonnable sur une base cyclique. Une bonne partie du travail de vérification est définie par les exigences statutaires qui nomment le vérificateur général à titre de vérificateur. Ces exigences comprennent la vérification annuelle des comptes publics de la province. Le reste de nos ressources sont consacrées à des vérifications et à des examens spéciaux.

Le présent rapport comprend des renseignements et une discussion sur les **finances de la province**. La section sur les **vérifications et examens spéciaux** comprend les résultats de divers examens menés durant l'année. Conformément à l'article 14(d) de la *Audit Act*, le lieutenant-gouverneur a demandé à notre Bureau de procéder à une enquête sur le rôle du gouvernement dans les prêts accordés à la pêche du crabe des neiges. Notre rapport est inclus dans le présent rapport annuel. De plus, le présent rapport résume les résultats des vérifications spéciales et examens suivants : la mise en oeuvre de l'initiative des dossiers de santé électroniques, l'évaluation de la sécurité du système d'information sur les médicaments, et l'aide financière aux étudiants. Le Bureau du vérificateur général du

Introduction

Canada et les bureaux de vérificateurs législatifs de six provinces, incluant l'Î.-P.-É., ont mené des vérifications concertées sur le développement et la mise en oeuvre des dossiers de santé électroniques dans leur administration. Bien que l'étendue variait d'un bureau à l'autre, tous les bureaux ont examiné la planification, la mise en oeuvre et les rapports publics des résultats. Au printemps 2010, les bureaux participants publieront un rapport conjoint. La section de la **vérification des états financiers** fournit des renseignements sur les questions importantes découlant des vérifications des états financiers et d'autres procédures de vérification menées par le Bureau.

Dans le cadre de notre travail, nous offrons des recommandations aux ministères et organismes afin d'améliorer la gestion et l'administration des activités et des programmes du gouvernement. Sur une base annuelle, nous communiquons avec les ministères afin d'obtenir des compléments d'information sur le statut de l'une ou l'autre des recommandations des vérifications précédentes. Ces renseignements sont compris dans une section séparée du rapport intitulée ***Update on Previous Recommendations*** (mise à jour des recommandations antérieures).

Le **Comité permanent sur les comptes publics** révisé le rapport annuel du vérificateur général, et joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. Les renseignements sur le rôle de ce Comité, et de ses travaux au cours de la dernière année, apparaissent dans une section particulière du rapport.

La section sur le **Bureau du vérificateur général** offre des renseignements sur la mission et le mandat du Bureau, ainsi que les responsabilités du vérificateur général. Des renseignements généraux sont fournis sur l'objectif et les réalisations du Bureau ainsi que les ressources utilisées pour y parvenir.

REMERCIEMENTS

La collaboration des ministres, sous-ministres, chefs d'agence des sociétés d'État et leur personnel est importante. Pour accomplir notre travail, il est impératif que nous recevions les renseignements, rapports et explications nécessaires. J'aimerais indiquer que les vérifications apparaissant dans mon rapport annuel ne se sont pas faites sans collaboration.

J'aimerais remercier les membres de mon personnel pour leurs efforts et leur dévouement au cours de la dernière année. Le fondement du présent rapport et le succès durable du Bureau tiennent de leur professionnalisme, leur contribution et leur engagement.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Each year we comment on the Province's finances. The financial position of the Province for the most recent fiscal year is discussed and comparisons are made with prior years. This information is important because it indicates where we are financially. The Consolidated Financial Statements are the primary source of information to assess the financial condition of the Province.

1.2 For 2008-09, the Province recorded a deficit of \$33.1 million which is a significant increase from the \$3.6 million deficit in 2007-08.

1.3 The net debt increased by \$61.5 million or 4.6 percent and stands at \$1.41 billion at March 31, 2009. The GDP of the Province grew by 3.9 percent. The Province's net debt is significant and has increased by \$96 million over the past five years. The increase over the past two years was \$96.4 million which offset the \$400,000 net reduction of the previous three years.

BACKGROUND

1.4 The Public Accounts record the Government's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The statements combine the financial activities of many diverse government programs and entities with expenses of approximately \$1.4 billion.

1.5 As in previous years, we are providing information to help put the numbers into perspective. The presentation is made in a format that focuses on key information to assist the Legislature and the public in obtaining a better understanding of the Province's financial condition. The Province's finances have a significant impact on the Provincial economy.

1.6 This discussion of the Province's finances is based on the Consolidated Financial Statements, which include departments,

1. The Province's Finances

Crown corporations, and agencies which are part of the overall government reporting entity.

FINANCIAL MEASURES

1.7 Some of the common terms used to describe the Province's financial condition are presented below.

1.8 The **annual surplus or deficit** is the difference between a government's revenue and expense. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year. For the year ended March 31, 2009, the Province had a deficit of \$33.1 million.

1.9 The **total debt** is the amount owed by government. Government's debt includes outstanding debentures, pension obligations, and other accounts payable. The total debt of the Province as of March 31, 2009 was \$2.1 billion.

1.10 **Financial assets** are cash and other assets which could provide resources to pay liabilities or finance future operations. Total financial assets at March 31, 2009 were \$703 million.

1.11 The **net debt** is equal to the difference between the government's total liabilities and its financial assets. The net debt of the Province as of March 31, 2009 was \$1.41 billion.

1.12 **Non-financial assets** include 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. At March 31, 2009, non-financial assets had a net book value of \$615.5 million.

1.13 The **accumulated deficit** represents the Province's liabilities net of the assets the Province has acquired; both financial and non-financial. It is calculated based on the surpluses and deficits incurred

1. The Province's Finances

over the years. The accumulated deficit at March 31, 2009 was \$793.1 million.

1.14 The **interest charged on borrowings** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on government programs.

1.15 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year. The Province's GDP is measured and reported by Statistics Canada.

1.16 **Exhibit 1.1** shows a summary of some key financial measures for the Province over the past five years.

EXHIBIT 1.1 SUMMARY OF FINANCIAL INFORMATION (Millions)

	2009	2008	2007	2006	2005
Surplus (Deficit)	<u>\$ (33.1)</u>	<u>\$ (3.6)</u>	<u>\$ 23.9</u>	<u>\$.7</u>	<u>\$ (33.6)</u>
Increase (decrease)					
in Net Debt	<u>\$ 61.5</u>	<u>\$ 34.9</u>	<u>\$ (10.7)</u>	<u>\$ (6.6)</u>	<u>\$ 16.9</u>
Net Debt	\$1,408.6	\$1,347.1	\$1,312.2	\$1,322.9	\$1,329.5
Non-Financial Assets	<u>615.5</u>	<u>587.1</u>	<u>560.8</u>	<u>547.6</u>	<u>552.9</u>
Accumulated Deficit	<u>\$ 793.1</u>	<u>\$ 760.0</u>	<u>\$ 751.4</u>	<u>\$ 775.3</u>	<u>\$ 776.6</u>
Debt Charges	<u>\$ 108.4</u>	<u>\$ 118.9</u>	<u>\$ 120.3</u>	<u>\$ 116.8</u>	<u>\$ 104.9</u>
GDP*	<u>\$4,716.0</u>	<u>\$4,538.0</u>	<u>\$4,332.0</u>	<u>\$4,142.0</u>	<u>\$4,023.0</u>

*Source: Statistics Canada

Financial Highlights

1.17 **Exhibit 1.2** shows the change in the deficit from 2007-08 to 2008-09.

1. The Province's Finances

EXHIBIT 1.2 CHANGE IN DEFICIT (Millions)

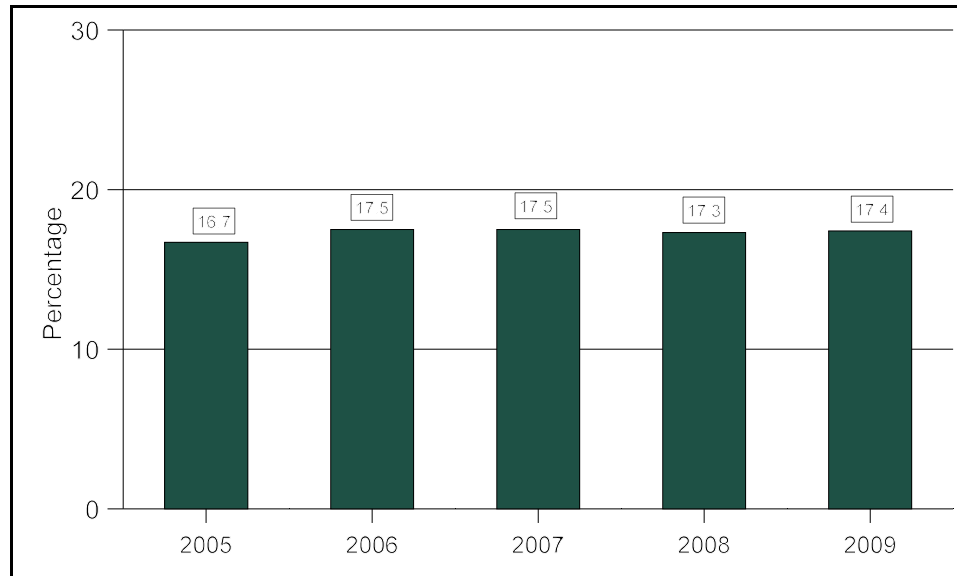
	Revenue	Expense	Deficit
2007-08 Deficit	\$1,303.0	\$1,306.6	\$3.6
Increased Federal Transfers	39.6	-	-
Increased Tax Revenue	19.1	-	-
Increased Fees & Services	9.0	-	-
Increased Other Government Revenue	5.1	-	-
Increased Government Business Entities	1.1	-	-
Increased Health	-	32.4	-
Increased Provincial Treasury	-	20.4	-
Increased Communities, Cultural Affairs & Labour	-	20.1	-
Increased Education	-	12.0	-
Increased Social Services & Seniors	-	9.1	-
Increased (Decreased) Other Expense	-	(7.6)	-
Increased Agriculture	-	6.9	-
Increased Environment Energy & Forestry	-	5.1	-
Increased Transportation & Public Works	-	5.0	-
2008-09 Deficit	<u>\$1,376.9</u>	<u>\$1,410.0</u>	<u>\$33.1</u>

1.18 The growth in revenue for 2008-09 resulted from an increase in both provincial and federal revenue. Provincial tax revenue increased by \$19.1 million. Federal revenue increased by \$39.6 million. Equalization, which comprises 57.7 percent of federal revenue recorded, increased by \$27.7 million while health and social transfers which comprise 25.8 percent of federal revenue increased by \$6.2 million.

1.19 **Exhibit 1.3** shows the ratio of provincial revenue to GDP for five years ended 2008-09. The ratio has remained relatively stable for this period indicating that government has not been increasing its own source revenue at a rate greater than the growth in the Province's economy.

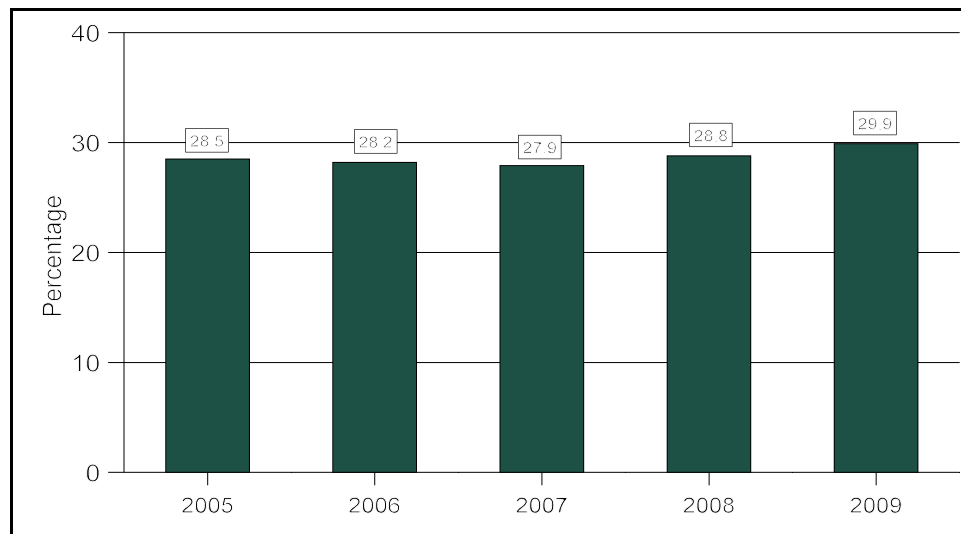
1. The Province's Finances

EXHIBIT 1.3
PROVINCIAL REVENUE AS A PERCENT OF GDP



1.20 Exhibit 1.4 shows that government spending as a percentage of GDP remained relatively constant for the three years ended March 31, 2007 and then increased slightly in 2007-08 and again in 2008-09. This indicates that the growth in expenses is at a rate greater than the growth in the economy.

EXHIBIT 1.4
EXPENSES AS A PERCENT OF GDP



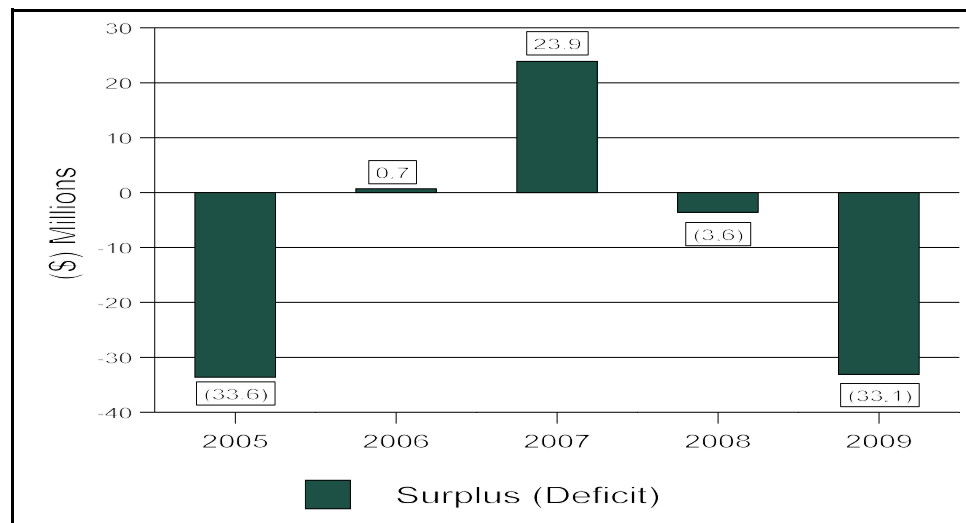
1. The Province's Finances

Sustainability

1.21 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the Government's annual surplus or deficit, net debt, and the Provincial GDP provides insight into the sustainability of a government's practices of incurring expenditures and generating revenues.

1.22 The annual deficit or surplus 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. **Exhibit 1.5** shows the annual surplus (deficit) for the last five years. For these years the combined total is a deficit of \$45.7 million. For 2008-09 the Province recorded a deficit of \$33.1 million.

EXHIBIT 1.5
THE GOVERNMENT'S SURPLUS (DEFICIT)

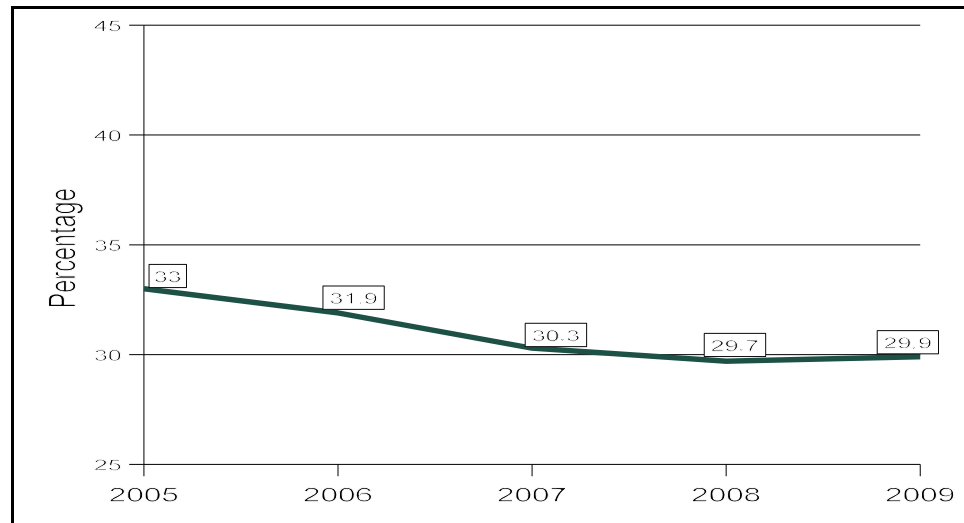


1.23 The net debt is the difference between government's total liabilities and its financial assets. Over the past five years, the net debt has increased by \$96 million totalling \$1.41 billion as of March 31, 2009.

1. The Province's Finances

1.24 Exhibit 1.6 shows the net debt to GDP ratios. Since 2005, the ratio has decreased, however, in 2009 the ratio increased slightly.

EXHIBIT 1.6
NET DEBT AS A PERCENT OF GDP



Flexibility

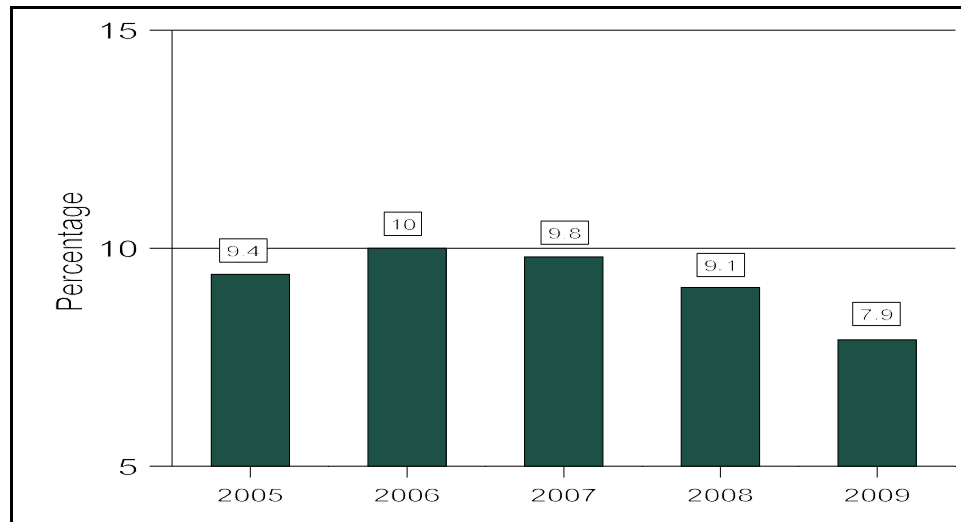
1.25 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to changing economic conditions such as a recession or higher interest rates without making substantial changes to the way it operates.

1.26 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services.

1.27 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is sometimes referred to as the "interest bite." In 2008-09, debt charges on government borrowings were \$108.4 million. The trend in the interest bite is shown in **Exhibit 1.7**.

1. The Province's Finances

EXHIBIT 1.7
INTEREST COSTS AS A PERCENT OF REVENUE



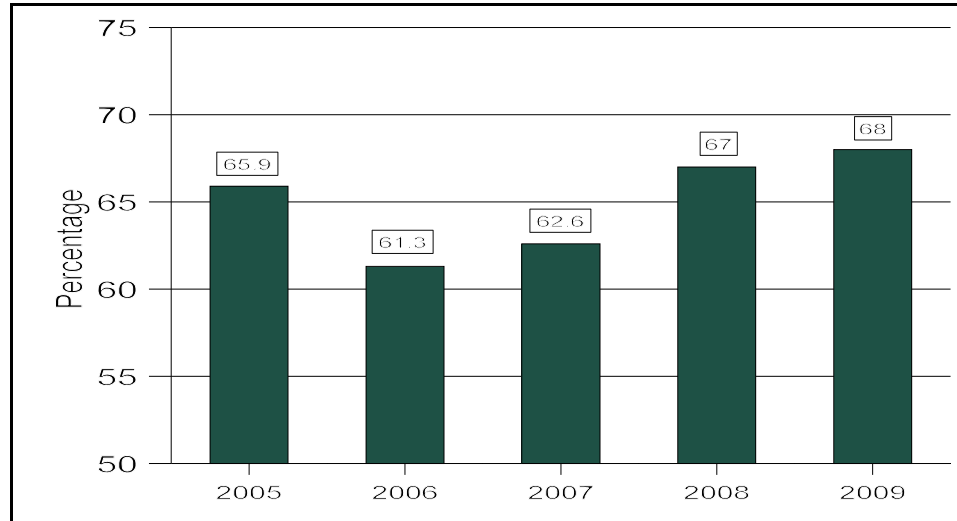
1.28 As indicated in **Exhibit 1.7**, the interest bite has been reduced since 2005. Our net debt is over a billion dollars and the first \$108.4 million must be earmarked to pay interest costs and is unavailable for government programs. Recent debenture issues have been for 5 to 32 year terms at comparatively low interest rates.

Vulnerability

1.29 Vulnerability is the degree to which a government is dependent on, and therefore vulnerable to sources of funding outside its control or influence. In 2008-09, the Federal Government provided revenue of \$557.6 million to the Province, an increase of \$39.6 million from 2007-08. **Exhibit 1.8** shows the trend in federal revenues relative to provincial own-source revenues for the last five years. This exhibit shows dependence on federal revenues reducing for 2006 and 2007, however, increasing dependence for 2008 and 2009.

1. The Province's Finances

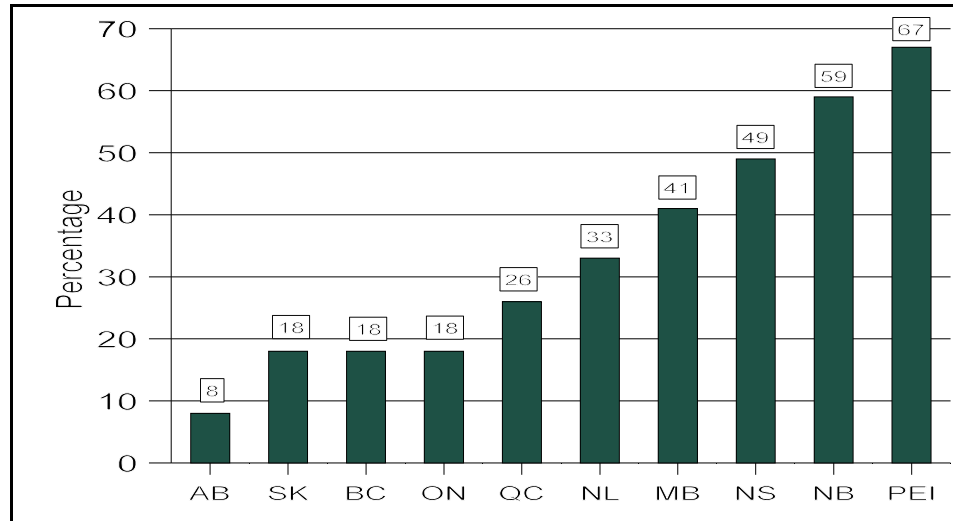
EXHIBIT 1.8
FEDERAL REVENUE AS A PERCENT OF
OWN-SOURCE REVENUE



1.30 Revenue from provincial sources is more controllable through measures such as provincial tax legislation or adjustments in user fees. Federal transfers are subject to different variables such as federal fiscal policies and the performance of other provincial economies. Any federal fiscal policy change impacts the Province. **Exhibit 1.9** shows the Province is more dependent on federal revenue than other provinces.

1. The Province's Finances

EXHIBIT 1.9 FEDERAL REVENUE AS A PERCENT OF OWN-SOURCE REVENUE AS AT MARCH 31, 2008 BY PROVINCE



Source: Provincial Auditor Saskatchewan - 2009 Report

SUMMARY

1.31 It is important for Members of the Legislative Assembly to have a regular update on the financial condition of government. This section provides summary information using indicators recommended by the Canadian Institute of Chartered Accountants. The indicators provide useful insight into government's ability to sustain its programs, the flexibility it has to respond to economic changes, and its vulnerability to sources of outside funding. The indicators help to put the finances of government into perspective and assist Members to understand and interpret the information.

1.32 Further to the above discussion, we recognize that there are other relevant non-financial matters which have to be taken into consideration by Members of the Legislative Assembly in making budgetary decisions and setting government policy direction.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 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 applicable statutory provisions.

2.2 Due to the size of our Office and the complexity and magnitude of government operations, we cannot audit all Government programs on an annual basis. There are numerous factors that influence the preparation of our annual audit program including: the results of previous audits, the total revenues and expenditures at risk, the complexity of entity operations, the significance of potential issues that may be identified by an audit, and the impact of the program on the public.

2.3 Special audits and examinations are conducted in accordance with standards established by the Canadian Institute of Chartered Accountants. There are three distinct phases in these types of audits. In the planning stage, audit staff obtain a thorough knowledge of the auditee organization or program and the environment in which it operates. This knowledge is obtained from a variety of sources and is used to develop an audit plan which contains the purpose, objectives, scope, and timing of the audit. During the second, or implementation stage, the auditor performs tests and gathers sufficient appropriate audit evidence which is then evaluated and analyzed. In the third stage, a report is drafted which includes audit observations and recommendations. The auditee is provided with a copy of the draft report for discussion purposes. At the conclusion of the audit, a final report is issued to the department or agency and a written response is requested from management.

2.4 Our work involves providing recommendations to management to address issues identified. We do not infringe on management's right to select the most appropriate course of action to deal with the

2. Introduction to Special Audits and Examinations

issues identified. As auditors, our primary concern is that action is taken to address recommendations arising from our audits.

2.5 Under Section 16 of the *Audit Act*, the Auditor General is required to call attention to any matters which he considers necessary to be brought to the attention of the Legislative Assembly. This report provides information on the following special audits and examinations: Implementation of the Electronic Health Records Initiative, Security Assessment - Drug Information System, Student Financial Services, and Government's Involvement in Lending to the Snow Crab Fishery.

3. IMPLEMENTATION OF THE ELECTRONIC HEALTH RECORDS INITIATIVE

OVERALL COMMENTS

3.1 As far back as 2001, the Department of Health recognized the potential benefits of developing an Electronic Health Record (EHR) for Islanders. In 2003, work on the first province-wide digital diagnostic imaging system was completed, and in 2005 a strategic plan to move forward on the implementation of an EHR was approved.

3.2 Implementing an electronic health records initiative was a significant undertaking. The amount and nature of the work required to establish such a system was underestimated from the outset. In addition to the technology component, the implementation of the EHR required extensive effort in re-engineering of clinical processes to an electronic format from what was largely paper based, standardizing work processes in eight hospitals and two health clinics, and training clinicians to electronically document critical health care delivery information.

3.3 Planning and management oversight for the implementation of the EHR was not adequate for such a large and complex initiative. The initial EHR strategic plan developed in 2005 was never revisited and updated even after major factors impacting the initiative became known. The Department did not have an integrated delivery plan for the EHR initiative but managed implementation on a project by project basis.

3.4 Project management weaknesses were identified for the period 2005 to 2007. Significant improvements were made in 2007 but the monitoring and reporting of project costs continued to be a problem.

3.5 For one project in the development of the EHR, we noted weaknesses in the awarding and approval of professional services contracts through the Department of Health.

3. Implementation of the Electronic Health Records Initiative

3.6 The Department of Health has spent in excess of \$33 million in capital costs for the development of the EHR initiative up to March 31, 2009. The total costs are not known mainly because capital costs for the initial components were recorded net of associated revenue. Operational costs for one major project supporting the EHR are budgeted at \$6 million annually which is significantly higher than originally anticipated. Operational costs for the overall EHR initiative are not summarized and reported.

3.7 The Province has implemented the components of an EHR which are now available to Prince Edward Islanders. However, the EHR is not complete as additional work is required to achieve integration of all EHR components in PEI as well as upgrades to meet pan-Canadian standards.

3.8 Subsequent to the completion of our audit fieldwork, the Department of Health has been reorganized. We have been advised that the responsibility for the continued implementation of the electronic health records initiative rests with the proposed new operating corporation, Health PEI. For purposes of this report, however, we reference the Department of Health, as this was the entity responsible when we completed our audit.

BACKGROUND

3.9 In 2000, as part of the First Ministers' Agreement, Canada's federal and provincial ministers of health agreed to the establishment of an electronic health record as a top priority for health care. This commitment was reinforced in subsequent Federal/Provincial agreements.

3.10 In 2001, the Federal Government established Canada Health Infoway (Infoway) as a federally funded, not-for-profit Corporation to support and accelerate the development of an electronic health information system that would be compatible across the country. Canada's 14 federal, provincial and territorial deputy ministers of health are members of Infoway. Infoway has set a target that at least 50 percent of all Canadians will have their electronic health record

3. Implementation of the Electronic Health Records Initiative

available to their authorized health care professionals by 2010 and all Canadians by 2016.

3.11 Prior to the establishment of Infoway, health information systems were being developed in all jurisdictions at various levels, at different stages of development and on numerous platforms. The main roles of Infoway are: to articulate national direction through the development of a framework or “Blueprint” for the design of health information systems, to develop national standards, and to make strategic investments to encourage the development of EHRs across the country.

3.12 An electronic health record is a secure and private lifetime record of an individual’s health history and care available electronically to authorized health care providers. The terms Electronic Medical Record (EMR) and Electronic Health Record (EHR) have gained widespread use and are sometimes used interchangeably. However, in the context of this audit these terms need to be clearly distinguished. An EMR refers to a medical record maintained in a physician’s office which may or may not be shared with other health care providers. An EHR allows health care providers to access and update a patient’s health record and includes basic personal information; medication history; laboratory, diagnostic imaging, and hospital reports; as well as other health information. **Exhibit 3.1** indicates the core systems that Infoway has determined must be in place in an EHR. All of these components are currently operational in PEI, however, additional work is required to achieve interoperability within PEI and to meet pan-Canadian interoperable standards as set by Infoway.

3. Implementation of the Electronic Health Records Initiative

EXHIBIT 3.1 CORE COMPONENTS OF AN EHR

<p>Registries</p> <p><i>Client Registry</i> - a directory that lists all patients and their relevant personal information.</p> <p><i>Provider Registry</i> - a comprehensive directory of participating, authorized health care professionals.</p>
<p>Diagnostic Imaging (DI)</p> <p>Systems that electronically collect, store, manage, distribute and display patient images and reports such as x-rays, ultrasounds, MRIs, and CT scans.</p>
<p>Drug Information System (DIS)</p> <p>Systems that enable health care professionals to access, manage, share and safeguard patients' medication history. For each prescription, the system will check for allergy alerts and drug to drug interactions against a complete medication profile.</p>
<p>Laboratory Information System (LIS)</p> <p>Systems that enable lab technicians to enter test results into a database accessible to health care professionals. Test results will link to each individual's electronic health record, providing additional information for diagnosing and treating patients.</p>
<p>Interoperable Electronic Health Record (iEHR)</p> <p>Systems that enable authorized health care professionals to view, and in some cases, update a patient's essential health information. These systems allow the registries, DI, DIS, and LIS to connect and allow health care professionals, to share data within and among jurisdictions.</p>

Source: Adapted from Infoway information

3.13 Throughout our report, we make reference to the Clinical Information System (CIS). The CIS is not a component of the EHR but is a project that includes implementation of components of the

3. Implementation of the Electronic Health Records Initiative

EHR as well as additional applications. **Exhibit 3.2** describes the work carried out under the CIS project. The CIS project upgraded the client registry, established integrated lab systems, and integrated the Diagnostic Imaging system (DI) which was an existing stand-alone system. In addition, under the CIS project, the systems to allow information from these component systems to link to each individual's health record were implemented.

EXHIBIT 3.2 CLINICAL INFORMATION SYSTEM PROJECT

Applications	Description of Work
Registration and Scheduling	Former automated admitting systems at each hospital were replaced and an integrated system was implemented.
Laboratory Systems	Former individual systems were replaced by integrated lab systems.
Pharmacy	Hospital pharmacy systems were replaced and integrated.
Clinical Documentation	Systems were implemented to capture clinical information from nursing stations and bedside that was previously paper based.
Emergency Room	Systems were implemented for triage and emergency room registration and tracking.
Surgical Suite	Systems were implemented for operating room scheduling, operating records management, and clinical documentation.
Interfaces	Communication interfaces were developed allowing information from diagnostic imaging, laboratory, and pharmacy to link to patient records.
Computerized Provider Order Entry (CPOE)	Work commenced on a system that will allow clinicians to order lab tests, medications, and radiology tests online and will eliminate the need for paper orders.

3.14 In numerous documents the EHR and CIS are used interchangeably. For purposes of this report, we refer to the complex array of interrelated systems as the EHR and we use the term CIS to mean the project undertaken to implement and upgrade a number of components of the EHR.

3. Implementation of the Electronic Health Records Initiative

3.15 It is widely believed that electronic health records will reduce costs and improve the quality of health care. Specific benefits are expected over traditional paper-based records. Records in electronic form are more likely to be legible, available when needed, and more easily and quickly retrieved. Other benefits that have been cited include the following:

- *for patients* - improved health care and decreased risks (such as adverse drug reactions), reduced likelihood of duplicate, invasive and /or expensive tests, reduced delays, and improved access to service;
- *for health professionals* - easily accessible and more current patient information for improved decision making, and effective sharing of information for collaboration;
- *for health administrators* - reduced health care costs, and improved service quality; and
- *for government* - support for improved long-term planning and resource allocation.

3.16 In 2005, a decision was approved by Treasury Board and endorsed by Executive Council, for the creation of electronic health records for PEI in partnership with Canada Health Infoway. A master agreement was signed with Infoway effective January 2005. In addition, contracts were signed covering the implementation of a Drug Information System (DIS), the CIS project, and later an upgrade to the DI system with specific funding commitments from Infoway amounting to approximately \$10 million. A more detailed chronology of events relating to the Province's EHR initiative is included as **Exhibit 3.3**.

3. Implementation of the Electronic Health Records Initiative

EXHIBIT 3.3 CHRONOLOGY OF EVENTS RELATING TO THE ELECTRONIC HEALTH RECORDS INITIATIVE

September 2000	First Ministers commit to develop Electronic Health Records and the common standards necessary to ensure the future compatibility of all the jurisdictions' health information networks.
2001	Department of Health approved a departmental strategic plan which reflected a strategy to implement new systems toward the establishment of an Electronic Health Record.
2001	Canada Health Infoway established by the Government of Canada as an independent, not-for-profit, shared governance corporation.
May 2002	Request for proposals released for Admission/Discharge/Transfer and Clinical Scheduling systems for PEI.
2002 - 2003	RIS/PACS (Diagnostic Imaging component) implemented.
January 2005	Effective date of Master Agreement with Canada Health Infoway
April 2005	EHR Strategic Plan approved by Treasury Board.
April 2005	Major restructuring of the Department of Health and removal of Regional Health Authorities
April 2005	CIS project approved by Executive Council.
April 2005	DIS project approved by Executive Council.
May 2005	Effective date of DIS Phase I Agreement with Canada Health Infoway
June 2005	Contract signed with primary vendor for CIS project
July 2005	Effective date of CIS Phase I & Phase II agreements with Canada Health Infoway
April 2006	Effective date of DIS Phase II Agreement with Canada Health Infoway
April 2006	IT Shared Services (ITSS) established and IT resources within government centralized
February 2007	CIS Implementation Risk Assessment - consultant identified key risks to project completion.
July 2007	CIS Project Team Review - consultant identified project management issues and leadership and planning actions to be addressed.
September 2007	CIS Project Review - consultant developed a delivery plan and budget which were subsequently approved and adopted.
April 2008	CIS Go-Live (Phase 1) - including registration/scheduling management, lab, acute care pharmacy, clinical documentation (vitals), and interfaces
March 2008	DIS Go-Live
2008 to 2009	CIS Go-Live (Phase II) - surgical management, emergency room management, and clinical documentation
target - 2010	CIS Subsystem - Computerized Provider Order Entry scheduled for implementation

3. Implementation of the Electronic Health Records Initiative

OBJECTIVES AND SCOPE

3.17 The objective of the audit was to assess whether the Department of Health had adequate systems and procedures in place to plan, monitor, and report on the implementation of its electronic health records initiative. We expected the Department to:

- have plans to direct and guide the implementation of an EHR system for Prince Edward Island while meeting the goals of a Canada-wide integrated EHR;
- manage EHR projects based on recognized project management methodology to achieve expected results;
- have a fair and open process to select application vendors and service providers; and
- report progress on its EHR strategy to key stakeholders.

3.18 Our audit primarily covered the period from 2005 to 2009, although we acknowledge that the Diagnostic Imaging system is a core system of the EHR and it was operational in 2003. We did not carry out specific audit work on this system other than to consider its relationship with the other components of the EHR and the system costs which are included as part of the Province's Public Accounts. Much of our audit work focused on the CIS project which makes up the majority of costs of the EHR initiative. Our audit did not include non-government entities that use components of the EHR such as retail pharmacies.

3.19 In conducting our audit, we consulted with the Office of the Auditor General of Canada as well as five other provincial legislative audit offices that have also examined EHR related initiatives within their own jurisdictions. Each of these offices has tabled its own report and a joint summary report including findings from all participating provincial audit offices and the Auditor General of Canada will be released in the spring of 2010.

3.20 Our audit included a review of numerous documents, including legislation and regulations, contracts, invoices, requests for proposals, steering committee minutes, evaluations, service agreements and consultants studies. In addition, we interviewed senior management

3. Implementation of the Electronic Health Records Initiative

of the Department of Health, and Information Technology Shared Services (ITSS), project directors, key project staff, as well as a number of users within the system.

3.21 We performed our examination in accordance with the standards for assurance engagements encompassing value for money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

3.22 In addition to the scope of the work covered under this audit, we have conducted a security assessment on the drug information system which is reported in a separate section of this Annual Report.

DETAILED AUDIT OBSERVATIONS

STRATEGIC PLANNING

3.23 We expected, for a significant investment such as the EHR, the Department would have a comprehensive EHR strategic plan indicating how the various components of the EHR would be developed, the time frame for completion of each component, and the estimated costs for each component. This high level strategic document would be used to ensure consistent understanding of the objectives and scope of the initiative as well as to assess progress against the targets contained in the plan. An EHR strategic plan is a key aspect of effective oversight.

3.24 The 2001 to 2005 Strategic Plan for the Department of Health and Social Services reflected a strategy to upgrade and implement new systems towards the establishment of electronic health records. In the years 2002 and 2003, the first core systems for the EHR were completed and included the Radiology Information System (RIS) and the Picture Archiving and Communication System (PACS) which together make up the Diagnostic Imaging component of the EHR.

3.25 In 2005, the Department developed a five year EHR Strategic Plan for the development of systems to achieve an EHR for PEI. This

3. Implementation of the Electronic Health Records Initiative

plan was presented to the IT Governance Council and approved by Treasury Board and Executive Council. It included the development and implementation of the Drug Information System (DIS) and the Clinical Information System project (CIS), as well as the development of an architectural plan to identify the remaining components required to achieve a fully operational EHR which would comply with Infoway standards. The intention was that once the architectural plan was developed the further phases of the EHR would be presented to Treasury Board for commitment to go forward.

3.26 In 2005, after the EHR Strategic Plan was approved, the Department engaged a consultant to develop the architectural plan for the completion of the EHR. This document laid out the steps for the technical completion of an EHR in PEI which included the integration of the DIS and CIS and completion of an interoperable communication capability known as the “Health Information Access Layer” (HIAL). This would complete the components of the EHR as defined by Infoway. In its funding agreements with Infoway, the Province committed to completion of the EHR to this level.

3.27 The EHR Strategic Plan was not updated to include the architectural plan. There is no current comprehensive EHR strategic plan to complete the remaining components of the EHR to Infoway standards.

Integrated Delivery Plan

3.28 We expected the Department to have an integrated delivery plan to describe how the EHR initiative would be implemented and achieve the objectives outlined in an EHR strategic plan. An integrated delivery plan would connect the objectives and priorities in an EHR strategic plan to individual projects and indicate how these projects link together. It would also identify resources, as well as assign priorities and timelines for the completion of all components of the EHR.

3.29 From the outset, the Department did not have an integrated delivery plan linked to an overall EHR Strategic Plan. In 2005 and 2006, two major reorganizations occurred that had a significant

3. Implementation of the Electronic Health Records Initiative

impact on the implementation of the EHR initiative and made the need for an integrated delivery plan more critical.

3.30 In the first reorganization all regional health authorities were collapsed into the Department which resulted in a significant restructuring of senior management and leadership positions within the Department. An extensive period of time passed before the department senior management team was in place. The implementation of the EHR initiative was impacted by the absence of senior management leadership during the critical start up phase.

3.31 The second reorganization resulted in the elimination of the Health Infomatics Division in the Department of Health, which was responsible for IT services. Rather than each department having its own IT group, there would be one central organization within Provincial Treasury providing IT service to all of government. This impacted the human resources available to implement the EHR initiative.

3.32 The 2005 approval for the EHR initiative included an estimated budget for one project totalling \$12 million to be fully funded from federal and other external sources. The plan was approved based on the expectation that there would be no capital cost to the taxpayer for this project. By 2007, budgeted expenditures for this project were \$29 million with an estimated provincial cost of \$12 million.

3.33 If an integrated delivery plan had been in place at the outset, the Department would have been in a better position to assess the impact of how these and any other changes would affect the delivery of the EHR initiative and take appropriate action. An integrated delivery plan for the EHR initiative was never prepared.

3. Implementation of the Electronic Health Records Initiative

Recommendations

3.34 The Department of Health should develop a strategic plan for the completion of the EHR.

3.35 The Department of Health should maintain an integrated delivery plan that aligns with a strategic plan for the completion of the EHR.

GOVERNANCE AND OVERSIGHT

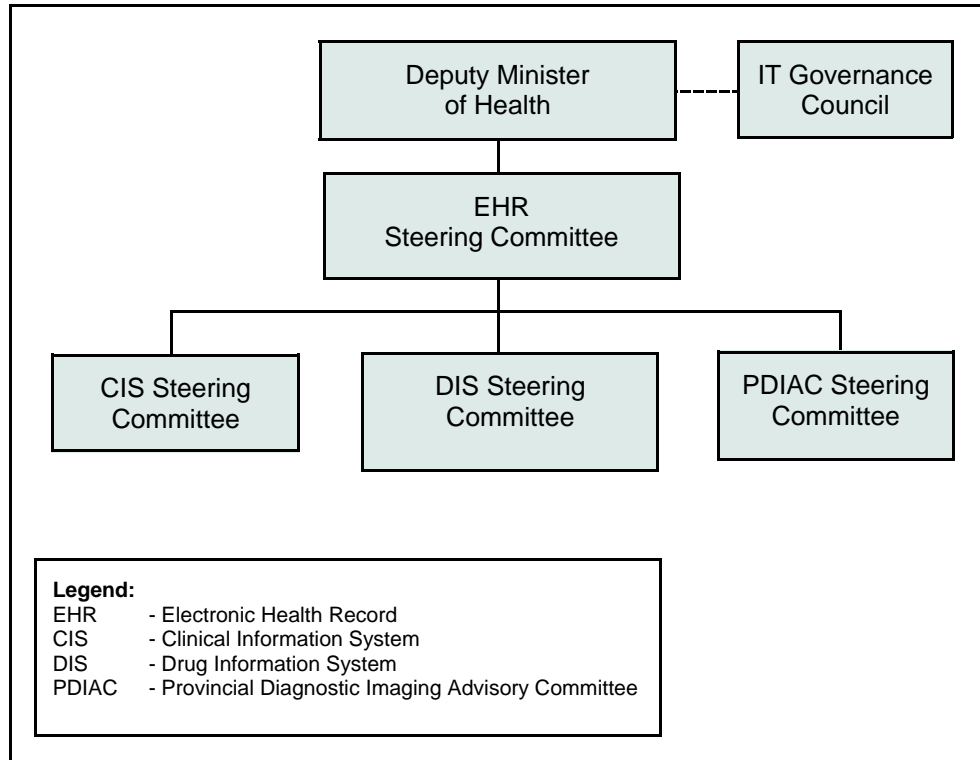
3.36 To manage an initiative of this magnitude, we expected the Department of Health to provide effective oversight and have a well defined accountability structure in place. In addition to documented plans for the implementation of the overall EHR initiative, we expected other key elements of oversight to be in place including: progress reporting, monitoring of performance, and assessment of expected outcomes. Progress reporting tells management how the project is moving forward including how much has been spent to date, how resources are being used and if the project is meeting its budget and timelines. This information allows management to make key decisions to ensure objectives are being met.

3.37 During the period 2005 to 2007 the Department of Health did not provide adequate oversight for the EHR initiative. Subsequent to 2007, oversight in place for one project was improved. However, adequate monitoring of costs and comparisons to budget for the EHR initiative was never implemented.

3.38 The governance structure established to oversee the implementation of the EHR initiative consisted of an EHR Steering Committee reporting to the Deputy Minister of Health with a separate steering committee for each project of the EHR initiative. We were advised that the role of the EHR Steering Committee was fulfilled by senior management in the Department of Health. The governance structure also included the IT Governance Council (ITGC) established through Treasury Board policy which has a responsibility to oversee IT strategy, policy and investments within Government. **Exhibit 3.4** illustrates the structure.

3. Implementation of the Electronic Health Records Initiative

EXHIBIT 3.4 EHR GOVERNANCE STRUCTURE



Source: Adapted from Department of Health information

3.39 Although this committee structure was established to oversee the EHR initiative, progress reports were not prepared on the overall EHR initiative showing the components of the EHR, the costs incurred to date, and the timeline for completion.

3.40 Some progress reporting was done on a project by project basis. The EHR Steering Committee received progress reports on the CIS project on a monthly basis. However, when we requested copies of reports comparing actual project costs to budget, the Department could not provide this information.

3.41 Further, when the CIS project was approved in 2005, Executive Council requested semi-annual progress reports including cost information be provided to Treasury Board. There was a period of 16 months from the spring of 2006 to the fall of 2007 where the Department of Health did not provide these reports to Treasury Board.

3. Implementation of the Electronic Health Records Initiative

3.42 In the spring of 2007, it was clear that there were problems with costs and timelines being exceeded on the CIS project. Consultants were engaged to refocus the project. In November 2007, Treasury Board tasked the ITSS Division of Provincial Treasury to provide oversight for the project and requested the Department of Health to provide biweekly progress reports through ITSS to Treasury Board. These were provided from November 2007 to Go-Live April 2008. These status updates did not include financial comparisons of actual to budget. However, two financial update reports were provided to Treasury Board during this period.

Recommendation

3.43 The Department of Health, in conjunction with ITSS, should strengthen the oversight of the EHR initiative by improving systems to periodically report on progress and costs.

PROGRESS ON THE EHR INITIATIVE

3.44 All of the core components of the EHR initiative are operational but further work is needed for the EHR to be fully interoperable within PEI and to complete the EHR to national standards. Based on the information provided by the Department of Health and Infoway, **Exhibit 3.5** indicates the status of completion for each component of the EHR as of December 2009.

3. Implementation of the Electronic Health Records Initiative

EXHIBIT 3.5 STATUS OF COMPLETION CORE COMPONENTS OF THE EHR¹

	Registries		Diagnostic Imaging (DI)	Drug Information System (DIS)	Laboratory Information System (LIS)	interoperable Electronic Health Record (iEHR)
	Client	Provider				
CIS project	X	X	X		X	X
Other projects			X	X		
Status as of December 2009	Operational - needs upgrade to meet Infoway standards	Operational	Operational	Operational - needs integration with other systems	Operational	Operational - needs upgrade to meet Infoway standards

¹Core components as adapted from Infoway information

3.45 Following is a summary of work remaining:

- The client registry is operational, but to meet Infoway standards it will need to be upgraded to national messaging standards.
- The Drug Information System (DIS) is operational and connects all retail pharmacies in PEI. This system needs to be integrated to link to individual health records.
- The interoperable EHR (iEHR) is a system that enables interoperability with other core components and viewing of the individual health record. This component is operational within all PEI hospitals and two family health centres. The Infoway Blueprint requires a communication capability called the Health Information Access Layer (HIAL). The iEHR will have to be upgraded to include a HIAL in order to meet the requirements of Infoway for pan-Canadian interoperability.

3.46 The total costs incurred to March 31, 2009 for the development of the EHR were not available. By March 31, 2009 expenditures on the CIS project amounted to \$27 million and expenditures on the DIS project totalled \$3.7 million. However, the cost of the RIS/PACS systems implemented in 2003, (which constitute the Diagnostic Imaging component) is recorded in the Public Accounts net of associated revenue. The Department could not provide the gross

3. Implementation of the Electronic Health Records Initiative

costs incurred to develop and implement these systems. **Exhibit 3.6** shows the capital costs incurred to March 31, 2009 on these projects net of associated revenue.

EXHIBIT 3.6
NET COST OF EHR PROJECTS
AS AT MARCH 31, 2009
(\$000s)

EHR Projects	Project Costs
Clinical Information System Project (CIS)	
Expenditures	\$27,041
Revenues Received	
Canada Health Infoway	(6,693)
PEI hospital foundations	(1,970)
Federal Medical Equipment Fund	<u>(6,265)</u>
Net Cost of CIS	\$12,113
Drug Information System (DIS)	
Expenditure	3,756
Revenues Received	
Infoway Funding	<u>(2,588)</u>
Net Cost of DIS	1,168
Net Cost of Picture Archiving and Communication system (PACS)	1,494
Net Cost of Radiology Information System (RIS)	854
Total Net Cost of EHR Projects to March 31, 2009	<u>\$15,629</u>

Source: Department of Health

3.47 We were advised there are no current plans in place to complete the EHR to pan-Canadian standards. The Department does, however, have an approved capital budget of \$6 million over the five year period to 2014-15 related to the CIS project.

3.48 We expected the Department of Health to publicly report on the progress of the EHR initiative including a comparison of actual and expected performance. The implementation of these systems is a costly undertaking. However, the potential benefits and impacts are

3. Implementation of the Electronic Health Records Initiative

far reaching. Although the Department references the EHR initiative in its Annual Report, it does not report progress achieved or costs incurred compared to budget.

3.49 The Infoway funding agreements required benefits evaluation be considered for each project. Infoway has carried out significant work on the development of performance indicators for each major component of the EHR. We noted that a number of performance indicators were identified for the evaluation of the CIS project and baseline data was obtained prior to Go-Live in early 2008. We were advised that the project management team for the CIS project is monitoring the extent of physician viewing and documenting within the EHR, which is a critical success factor for the EHR initiative. Preliminary benefits evaluations have been conducted for the CIS and DIS projects but comprehensive evaluations have not yet been conducted. We were advised the Department intends to carry out a more comprehensive evaluation at a later date.

Recommendation

3.50 The Department of Health should publicly report information on the progress achieved in implementing the EHR initiative including a comparison of actual and expected performance.

PROJECT MANAGEMENT

3.51 Recognized project management processes address the following:

- scope management - the scope of the project is controlled and appropriate approvals are obtained for changes to the scope;
- time management - the project is managed to ensure on time completion;
- cost management - project costs are closely monitored and approvals are obtained for costs exceeding the agreed amount;
- quality management - quality is assessed as part of the design and build, project complies with standards, and meets user needs;

3. Implementation of the Electronic Health Records Initiative

- communications management - key stakeholders and user community receives required information; and
- risk management - risks are monitored and action is taken to mitigate risks as the project progresses.

3.52 We expected the Department to follow accepted project management processes in the implementation of the projects making up the EHR. In reviewing project management, we focused on the CIS project.

3.53 From 2005 to 2007, there were serious project management issues, especially in scope and cost management, which impacted the project deadlines. After 2007, action was taken to control the project but cost management issues continued.

Scope Management

3.54 The CIS project was approved by Executive Council in April 2005. In June 2005, the Department signed a contract with the primary application vendor. When the project team began working with the vendor on customizing the applications to PEI's situation, it became apparent that the extent of standardization of work processes among the hospitals was an issue. The effort required to standardize processes and documentation prior to developing a system to automate the procedures was underestimated.

3.55 Management of project scope was an issue in the first phase of the project. When the applications were acquired there was not a clear understanding of exactly what applications were needed to provide expected functionality for the project. Certain aspects were added later at the request of physicians, others were required to ensure the critical applications operated properly. For example, by the end of the first six months of the project there were seven additional application licenses purchased over and above the licenses included in the original vendor contract. This affected not only the cost of the project but also timelines. Although these application additions were approved by the CIS Steering Committee, the project was not revised to reflect new target dates and costs.

3. Implementation of the Electronic Health Records Initiative

Cost Management

3.56 When the CIS project was approved in 2005, the budget was \$12 million with the expectation that it would be fully funded through a combination of sources including Infoway, the Federal Medical Equipment Fund and the PEI hospital foundations. In 2007, the project budget was spent, significant work was still required to complete the project, and the target completion date was extended to November 2007. Consultant reports were commissioned by government to review the project status and make recommendations to get the project on schedule and on budget. All the consultant studies pointed to weaknesses in project management in the first years of the project.

3.57 A detailed deployment plan was prepared in 2007 to get the CIS project back on track and bring it to completion. At that time, the total projected cost of the project was revised to \$29.1 million. Some of the key factors in the project cost overrun were a 15 month delay in the project development and implementation, approximately \$2 million in additional training costs, and underestimation of the scope of the project. Again in 2008, the project team requested an additional budget allocation of \$2.5 million because one application was expected to take additional time and consultant support to implement and would move the completion of the CIS project out to 2010. **Exhibit 3.7** illustrates the original project budget, revised project budgets, and actual expenditures to March 31, 2009.

3. Implementation of the Electronic Health Records Initiative

EXHIBIT 3.7 CLINICAL INFORMATION SYSTEM PROJECT BUDGETED AND ACTUAL EXPENDITURES (\$000)

Project Capital Costs	Original Project Budget Approved April 2005	Revised Project Budget Approved Nov 2007	Revised Project Budget Approved Jan 2009	Actual Expenditures to March 31, 2009
Payments to Primary Vendor	\$7,300	\$14,600	\$15,200	\$14,300
Implementation Team	2,200	8,900	11,500	10,400
Other	2,500	5,600	4,900	2,300
Total	<u>\$12,000</u>	<u>\$29,100</u>	<u>\$31,600</u>	<u>\$27,000</u>

3.58 The deployment plan was approved by Treasury Board and Executive Council and addressed key concerns such as a need for more direct accountability for the project, a more specific and controlled process for consideration and approval of project changes, a detailed training and roll out plan, and a revised, extended go live target date. The project team was refocused, additional human resources were acquired to manage and complete the project, and additional members were added to the steering committee to provide more leadership and coordination.

3.59 After 2007, the CIS project Steering Committee met regularly and status reports were provided on a regular basis to the EHR Steering Committee. While the refocus in 2007 resulted in improved project management processes for many aspects of the project, cost management continued to be problematic. Regular financial reports showing project costs compared to budget were not produced.

3.60 In addition to the capital costs for development of each project supporting the EHR, there are also ongoing operational costs. Operating costs such as licensing and periodic upgrades are anticipated for any system, however, when dealing with critical systems that must be available 24/7, additional monitoring costs are expected.

3. Implementation of the Electronic Health Records Initiative

3.61 We found that the operational costs of the CIS project originally provided to Treasury Board in 2005 were significantly understated. Annual operating costs were originally budgeted at \$3 million with a support staff of 24 positions. By 2007, the revised annual operating budget projected to 2009-10 was \$4.7 million and identified staff support of 53 positions.

3.62 In 2008, PEI was notified that the operating platform used for the CIS project would not be supported after 2012. Because the project was not complete and additional investments in equipment were required, the decision was made to migrate the system to a new operating platform as soon as possible. The Province negotiated an agreement with the primary vendor for a new operating platform and a service level agreement to monitor the system and provide system support. The cost of this arrangement including other related government costs is \$15 million over 10 years. This arrangement is reflected as an additional operating cost to the system, increasing the projected operating costs for 2009-10 by \$1.2 million to \$5.9 million.

3.63 The CIS project includes only certain components of the EHR initiative. Annual operating costs for the CIS are summarized and reported. However, the Department of Health does not summarize and report the operating costs of the other components of the EHR.

Recommendation

3.64 The Department of Health should implement electronic health record projects in accordance with established project management processes.

PROCUREMENT

3.65 We examined procurement processes in the Department of Health for the implementation of the CIS project. We expected that, in accordance with Treasury Board policy, professional services contracts related to the CIS would be awarded by the Department of Health based on a fair and open evaluation process; contracts over \$100,000 would be approved by Treasury Board; and signed contracts would be in place to support payments.

3. Implementation of the Electronic Health Records Initiative

3.66 Treasury Board policy indicates that as standard practice, professional contract services should be obtained through the use of a competitive process. The process should ensure that a reasonable number of qualified individuals/firms are given an equitable opportunity to compete for available work. The general objective is to select the contractor who has the potential of providing the best value for the best price.

3.67 The policy also allows for selection without competition where only one firm is capable of doing the work; the need is of extreme urgency; due to a prior contract the proposed consultant is the only one who can undertake the next phase; or due to the nature of the work it would not be in the public interest to discuss the requirement with another firm.

Selection of the Primary Vendor

3.68 In 2002, the Department issued a request for proposals for Admission/Discharge/Transfer (ADT) and Clinical Scheduling systems for all PEI hospitals as part of the development of an Electronic Health Record. The RFP also requested vendors to provide information on related applications that were available and indicated the Province was interested in entering into a long-term relationship with the successful vendor for further system development.

3.69 An evaluation process was carried out on the responses to this RFP which included a technical evaluation committee, an executive evaluation committee, pricing of the ADT/Clinical Scheduling systems, short listing based on specific criteria, in hospital demonstrations, reference checks, financial viability evaluation of the vendor, and discussions on entering into a strategic partnership. The evaluation resulted in the identification of the highest ranked vendor but due to lack of available funding the project was put on hold in January 2003.

3.70 In 2005, the Department of Health received information that funding had become available through Infoway. It entered into negotiations with the vendor that had been highest ranked in the RFP evaluation in 2003 for the ADT/Clinical Scheduling systems. The Department requested and received approval from Treasury Board

3. Implementation of the Electronic Health Records Initiative

and Executive Council for the approach to develop an EHR including not only the ADT/Clinical Scheduling systems but an entire suite of applications which would become the CIS Project. At the time of project approval, the budgeted expenditures for payments to this vendor totalled \$7.3 million.

3.71 Although the RFP issued in 2002 included an evaluation on the suite of applications available at that time through various vendors, the pricing aspect was limited to the ADT/Clinical Scheduling systems which was only one part of the CIS project. A competitive process was not carried out in 2005 in terms of updated information from vendors on the applications available and related pricing to implement the CIS project.

Other Consultants' Contracts

3.72 Throughout the planning and implementation of the CIS project, the Department of Health engaged consultants to carry out various aspects of the work including: project management, training, technical assistance, and preparation of deliverables required under the Infoway funding agreements as well as other requirements. More than \$2.7 million was spent up to March 31, 2009 on professional services by the Department of Health in addition to payments to the primary vendor.

3.73 We selected a sample of vendors with expenditures totalling \$2.4 million and requested the associated professional services contracts. We examined the contracts to determine if a competitive process had been followed for contracts over \$50,000 and whether they were approved in accordance with Treasury Board policy. Treasury Board policy requires that all contracts over \$100,000 be approved by Treasury Board.

3.74 During our audit we noted two contracts in our sample that were approved for over \$50,000 and not competitively bid.

3.75 For two contracts over \$50,000 awarded using a competitive process, the Department could not provide documented evaluations for the selection of the vendors. We also noted three contracts each

3. Implementation of the Electronic Health Records Initiative

exceeding \$100,000 that were not approved by Treasury Board as required.

3.76 Total approved values were not documented in three of the contracts we reviewed. One of these contracts was entered into for service to extend over a two month period. The end date for this contract was later extended for two additional years. Based on the estimated cost using the per diem rates in these contracts, two of the three would have exceeded \$100,000 and should have been approved by Treasury Board. Where contracts do not have a total approved dollar value, cost control is more difficult.

3.77 For the vendors we selected, we identified one instance where payments were made to the vendor but the Department could not provide a related contract. Where arrangements are not documented in a contract, essential elements may be open to interpretation, for example, the work to be performed, the per diem rate, or the duration of the service to be provided.

Recommendations

3.78 A competitive process should be used prior to the awarding of contracts.

3.79 In accordance with Treasury Board policy, the Department of Health should ensure that consultant contracts over \$100,000 are approved by Treasury Board.

3.80 The Department of Health should ensure that all consultant services acquired are documented in a signed contract.

MANAGEMENT RESPONSE

3.81 Our report was discussed with management and a written response will be provided.

4. SECURITY ASSESSMENT - DRUG INFORMATION SYSTEM

OVERALL COMMENTS

4.1 The Drug Information System (DIS) is a province-wide system where information on all prescription drugs dispensed to Island residents is processed and stored. The DIS allows for electronic prescribing and enables physicians and pharmacists to have access to patients' medication profiles. The information contained in the DIS is considered "personal information," which means information within the system should be secured and only available to those who have authorized access.

4.2 The responsibility for DIS information rests with the Minister of Health. The information custodian is the individual as designated by the Minister who has responsibility to provide for security policies, standards and procedures, and appropriate security controls commensurate with the level of risk given the nature of the information being processed and stored on the DIS. The information custodian was identified and is the Director of the Pharmaceutical Information Program (PhIP).

4.3 In general, the Department of Health has a number of procedures, both informal and formal, in place that assist in maintaining the security of information within the DIS. However, there is not a comprehensive set of formal security policies, standards, and procedures in place to govern and maintain the confidentiality, integrity and availability of patient information within the DIS.

4.4 Pursuant to Treasury Board policy, the IT Governance Council is responsible to approve and maintain overall responsibility for IT security for Government, including the establishment of policies, directives, and standards. A government-wide Government Information Security Policy (GISP) is in draft form. The GISP would provide guidance and complement a set of Department of Health or DIS specific policies, standards, and procedures. However, it has not been approved by the Information Technology Governance Council

4. Security Assessment - Drug Information System

(ITGC) or adopted by those who are responsible for maintaining the security of the DIS.

4.5 After the majority of our security assessment was completed, the Department of Health was reorganized. We were advised that responsibility for DIS information rests with the proposed new operating corporation, Health PEI. For purposes of this report, however, we reference the Department of Health as this was the responsible entity when the assessment was conducted.

BACKGROUND

4.6 The *Pharmaceutical Information Act* establishes the purpose of the DIS as follows:

- to electronically link pharmacies, physicians' offices, addiction centres, emergency rooms, and other health facilities with a database which maintains patient medication records;
- to provide pharmacists and prescribers with medication profiles of individual patients to assist in the patient's care;
- to provide electronic information for the administration of government drug-benefit plans; and
- to provide information for approved health planning, evaluation, and research on the beneficial and adverse effects of medications used by residents of Prince Edward Island.

4.7 The IT Shared Services Branch (ITSS) of Provincial Treasury manages the Service Level Agreement (SLA) with the developer (service provider) of the DIS. In this role, the ITSS acts as the intermediary between the Department of Health and the service provider.

4.8 A drug information system is one component of an Electronic Health Record (EHR). Each provincial jurisdiction is developing its own EHR with support and standards established by Canada Health Infoway (Infoway). This Annual Report includes a separate section on the Implementation of the Electronic Health Records Initiative. The Canada Health Infoway Electronic Health Record Solutions (EHRS) Blueprint is a technical architecture that guides the development of

4. Security Assessment - Drug Information System

EHR solutions in Canada. The Blueprint provides the framework for how Canada's EHR networks and systems will share, access, manage and safeguard health care information. The recommended security requirements of the Infoway EHRS Privacy and Security Requirements provide guidelines which EHR systems, including the DIS, should follow.

OBJECTIVES AND SCOPE

4.9 In accordance with Section 14 of the *Audit Act*, we conducted a security assessment of the DIS. Our work focused on assessing the security of the DIS, leveraging select requirements as set forth in the Infoway EHRS Privacy and Security Requirements.

4.10 The objectives of the security assessment were to determine whether security safeguards in place are sufficient to protect personal information and whether IT security policies and procedures are consistent with the *Pharmaceutical Information Act* and the intent of the security requirements in the Infoway EHRS Blueprint. The following processes were included in the scope of the assessment: change management, logical access including authentication and password controls, logging and monitoring, encryption, physical security and business continuity planning.

DETAILED OBSERVATIONS

POLICIES AND STANDARDS

4.11 Systems housing personal information are expected to have a formal set of security policies, standards, and procedures to support the implementation and operation of control procedures to protect the privacy, confidentiality, and security of information in the system. This is consistent with Infoway EHRS Privacy and Security Requirements.

4.12 The information custodian has responsibility to ensure that security policies, standards, and procedures exist and appropriate security controls are in place commensurate with the level of risk

4. Security Assessment - Drug Information System

given the nature of the information being processed and stored on the DIS.

4.13 We noted an absence of DIS specific policies, standards, and procedures for system security. In the absence of these DIS specific policies, we looked to overarching Government-wide IT policies and standards.

4.14 The Government Information Security Policy (GISP) that was drafted pursuant to Treasury Board policy on IT security is the overarching policy which could provide a comprehensive framework for supporting the implementation of standards and procedures for the Department of Health to manage information security. The policy, however, was in draft form and had not been approved by the Information Technology Governance Council (ITGC).

4.15 A phased implementation plan has been developed for the deployment of the GISP. We were advised by ITSS that the implementation plan for the GISP was prioritized based on effort and cost and was not prioritized based on risk. As a result, the security issues posing the greatest risks may not be addressed on a timely basis.

Recommendations

4.16 In accordance with the Pharmaceutical Information Act, the DIS information custodian should develop and implement DIS specific policies, standards, and procedures.

4.17 Information Technology Shared Services should continue to work with the ITGC to gain approval for the GISP.

4.18 Information Technology Shared Services should ensure the implementation plan for the GISP is prioritized based on risk.

4. Security Assessment - Drug Information System

INFORMATION SECURITY MANAGEMENT

4.19 The expectation set out in the Infoway EHR Privacy and Security Requirements suggests that all organizations connecting to the DIS should subject potential users of point of sale (POS) systems that connect to the DIS to a formal user registration process. These user registration procedures should ensure:

- a) that the level of user identification that is provided is consistent with the assurance required, given the value of the information assets and the functions that will become available to the user;
- b) that each potential user has a legitimate relationship with the organization; and
- c) that each potential user has a legitimate need to access personal health information via the DIS infrastructure.

4.20 We noted that external users (i.e. private pharmacies) use their own POS application to access the DIS. These users' access rights are defined / administered in their own POS application. Pharmacists who have been formally granted access to the DIS are responsible to manage access for pharmacy technicians based on a need to do and need to know basis. We noted that initial worksite assessments were not consistently performed. The result is that external systems accessing the DIS may have weak security controls or user access management processes which increases the risk of unauthorized/ inappropriate access.

4.21 User accounts within the DIS system should possess an identifier to uniquely identify the user within the DIS. There was a privileged generic account noted within DIS which is used by the service provider Helpdesk for support purposes.

4.22 The use of a service provider generic account does not provide a trail of user accountability and assumes that the users accessing this account are authorized users from the service provider Helpdesk who are performing authorized activity within the DIS.

4.23 We expected that procedures would be in place to support the revocation of user access privileges in a timely manner.

4. Security Assessment - Drug Information System

4.24 There are no formal procedures for removing access on a timely basis and user accounts remain on the DIS following user termination or change in job responsibilities. The termination process is dependent on notification from responsible managers, pharmacists in-charge, or participating prescribers. This dependency could result in accounts not being deactivated in a timely manner and inappropriate/unauthorized users accessing the DIS. Additional monitoring activities could be initiated by DIS administrators, such as the periodic review of user accounts against current Department of Health employees or the review of inactive accounts.

4.25 Based on leading practice and through discussions with the DIS service provider, ITSS, and the Department of Health, the expectation was established that sufficient password controls would be implemented for the DIS.

4.26 During our examination, when attempting to change the password of an existing user of the DIS, we noted that certain password controls are not enforced for the DIS application. There were no controls in place to enforce minimum password length, password complexity, and no password expiration.

4.27 We expected that a process for “hardening” key infrastructure components such as operating systems and database servers would be implemented. This is the practice of configuring the IT components to safeguard them from known vulnerabilities and attacks.

4.28 It was observed during our review of documentation and inquiries with staff that there is currently no practice of infrastructure “hardening.” Placing reliance on a default set of installation configuration settings increases the risk of a system compromise or security incident occurring.

Recommendations

4.29 The Department of Health should review the process for planning and conducting worksite assessments for point of sale locations to achieve consistency in the process and ensure that all initial worksite assessments are conducted.

4. Security Assessment - Drug Information System

4.30 Given the sensitivity and privacy of the information that is available on the DIS, ITSS in coordination with the Department of Health should ensure that each employee of the service provider requiring access to the DIS has a unique user name and password to enable more accurate monitoring of activity. The use of service provider accounts, unique or generic, should be logged and monitored and/or shadowed during active service provider sessions.

4.31 To provide for the timely removal of user access, the Department of Health should develop formal processes involving communications from Human Resources.

4.32 The Department of Health in conjunction with ITSS should implement standard password controls for the DIS.

4.33 The Department of Health should work with ITSS to establish a series of baselines for system security settings in the DIS based on needs and common recognized standards.

PERSONAL INFORMATION PROTECTION

4.34 Given that the data processed, transmitted, and stored within the DIS is personal information, it was expected that encryption would be utilized to protect the data. The importance of encryption is elevated given the observations noted regarding the DIS physical security environment.

4.35 An encrypted network connection is used to provide protection over DIS data communications for external users (i.e. private pharmacies). However, DIS data communication on the internal network is not encrypted. Data at rest in the database, in transit on the intranet, and in storage is not encrypted making it vulnerable to unauthorized access.

4. Security Assessment - Drug Information System

Recommendation

4.36 The Department of Health should classify the information in the DIS and make risk-based decisions over what data should be encrypted when in transit and in storage.

PHYSICAL AND ENVIRONMENTAL SECURITY

4.37 All organizations hosting components of the DIS should use security perimeters to protect areas that contain information processing facilities supporting DIS servers, applications, or data. These secure areas must be protected by appropriate entry controls to only allow access to authorized personnel. This is consistent with Infoway EHRS Privacy and Security Requirements.

4.38 We were unable to identify a formal request and approval process for granting physical access to the data center. In addition, personnel who have access to the data center (through proximity cards, master key, and pass code) are not reviewed on a periodic basis. In addition, entry and exit to the data center is not logged and monitored (entry and exit, attempted entry, and visitor log).

4.39 In accordance with Infoway EHRS Privacy and Security Requirements, server rooms and equipment containing personal health information should be protected to reduce the risks from environmental threats and hazards. The server room containing the DIS server and data did not have environmental conditions such as humidity and temperature documented or monitored.

Recommendations

4.40 ITSS should strengthen the physical security processes and controls that support the administration and monitoring of those who require access to the data center. The implementation of security controls should be commensurate with the level of the sensitivity of the data that can be accessed.

4. Security Assessment - Drug Information System

4.41 Environmental conditions in the server room for the DIS should be documented and monitored by ITSS.

CHANGE MANAGEMENT

4.42 There are several types of changes that are implemented into the DIS environment including: application and data changes, infrastructure changes, DIS operating system changes, and DIS patches. Systems housing personal health information should be subject to formal change management policies and procedures and evidence of each change demonstrating control points within the process should be maintained. This is consistent with Infoway EHRs Privacy and Security Requirements.

4.43 The change management process documents used for the DIS were in draft form. There is no formal authorization, approval, and monitoring of data changes, and evidence of key control points for all changes implemented to the DIS was often not retained.

4.44 Where feasible, segregation of duties should be maintained in the areas of responsibility of employees and third-party contractors who have access to hosted components of the DIS. This is necessary to reduce opportunities for unauthorized modification or misuse of personal health information and security critical system data.

4.45 We examined segregation of duties and found a procedural segregation of duties exists between individuals performing development of program changes and those who move changes in and out of the DIS production environment. We noted segregation of duties is not enforced as the service provider, who is the developer of changes, has full access and has the ability to implement changes to the DIS production environment.

4.46 We noted that the service provider has local user accounts that have full access to the DIS production environments. There are no formal procedures in place to monitor the activities of the service provider user accounts.

4. Security Assessment - Drug Information System

Recommendations

4.47 The Department of Health in conjunction with ITSS should approve and implement a formal set of policies and procedures governing DIS change management. Evidence should be retained for key control points throughout the process including: authorization, testing, approval, segregation of duties, and monitoring.

4.48 Given the sensitivity and privacy of the information that is available on the DIS, the use of a local user account by an external service provider should be logged and monitored and/or shadowed during active service provider sessions by the Department of Health with support from ITSS.

EXTERNAL PARTY AND USER SECURITY ASSESSMENTS

4.49 It was expected that the Department of Health would perform an assessment of the risks associated with access by external and internal users and would implement appropriate security controls where necessary to mitigate identified risks.

4.50 The Department of Health has a process in place to conduct security assessments and worksite assessments for users who access the DIS, however, the assessments were not performed on a consistent basis.

Recommendation

4.51 The Department of Health and ITSS should review practices for performing security and worksite assessments with the objective of establishing a consistent approach.

MONITORING AND LOGGING

4.52 Security event logging is desirable in systems hosting sensitive information. Failure to capture key security events can result in breaches of security or inappropriate activity not being identified in a timely manner. With significant incidents, the time to troubleshoot or

4. Security Assessment - Drug Information System

diagnose the root cause can increase, resulting in further downtime or time to revert to base state.

4.53 Logging capabilities for the DIS application and its supporting infrastructure were not in place resulting in various security events not being captured. Failed logon attempts were not being recorded within the log file for the DIS. The underlying servers were not configured to capture any events other than server system events which include the start up and shut down of services, however, key security events such as: logon events, object access events, permission usage events, policy change events, and privilege usage events were not being logged.

4.54 For systems hosting sensitive data, such as personal health information, security and audit logs should be reviewed in detail, on a regular and ongoing basis. This is consistent with Infoway EHRS Privacy and Security Requirements.

4.55 IT staff are not reviewing security and audit logs on a regular and ongoing basis. The current practice is to only review logs upon the request of an external client or as a result of problems being identified and then as a source for troubleshooting. Failure to review logs regularly increases the risk of inappropriate activity not being identified in a timely manner.

4.56 Within the DIS supporting infrastructure, the default system logs are configured in a circular fashion, where logged events are retained until the log reaches a specified size at which point it deletes the oldest event to make room for the next. Use of a circular log creates the risk of key events not being identified in a timely manner prior to their deletion.

4. Security Assessment - Drug Information System

Recommendations

4.57 The Department of Health should work with ITSS to establish a series of baselines for system security auditing of the DIS based on needs and on recognized standards. The auditing program should address the following: what is audited, how often logs are reviewed and what action should be taken on identified events.

4.58 The Department of Health in conjunction with ITSS should establish log creation and retention standards and practices for the DIS.

BUSINESS CONTINUITY PLAN / DISASTER RECOVERY PLAN

4.59 A Business Continuity Plan (BCP) and a Disaster Recovery Plan (DRP) should be in place to support the continued operation of the DIS. Those that support the DIS should regularly test and maintain business continuity plans by performing regular reviews to ensure that they are up to date and effective.

4.60 There is no formal DRP in place for the DIS and no related disaster recovery testing performed. A BCP does exist, however, the plan was created in 2007, has no indication of updates or review since its creation, and no formal testing of the plan was evident.

Recommendation

4.61 The Department of Health, with support from ITSS, should establish a formal Disaster Recovery Plan for the DIS and should ensure that this plan and the Business Continuity Plan are reviewed, tested and updated on an annual basis.

MANAGEMENT RESPONSE

4.62 We have discussed our report with management and a written response will be provided.

5. STUDENT FINANCIAL ASSISTANCE

OVERALL COMMENTS

5.1 The Prince Edward Island Student Loans Program helps to make post secondary education accessible for all Island students. Each year, federal and provincial student loan applications are processed and approximately 2,000 provincial student loans are awarded. These loans are provided to students attending universities and colleges both in and out of province. The program is administered using Canada Student Loans legislation.

5.2 The PEI program does not have its own legislation, nor does it have a control framework with clearly established authorization levels for policy changes. Changes were made to loan and assistance policies over time and it was unclear what level of authorization was provided as these decisions were often not documented.

5.3 In general, controls were in place to ensure only eligible students received funding. The amount of student assistance is impacted by students' financial resources and study costs. Controls need to be strengthened to verify financial resources available to students and guidelines should be documented for the processing and approval of student appeals.

5.4 The Division moved to a new computerized processing system with online application capabilities for the 2008-09 academic year. The system was implemented in a short period of time and evidence of proper planning and testing of the system for PEI could not be provided. During our audit, errors were noted in the tax rates used in calculations that impacted the student award. As well, the service agreement for the system did not include all required clauses to protect the interests of the Province.

5.5 The Agreement with the financial institution for the funding and delivery of the student loans program is comprehensive, however, the Agreement was not being adequately monitored in such areas as the Interest Relief Program and loan collections.

5. Student Financial Assistance

BACKGROUND

5.6 The Student Financial Services office (SFS) is part of the Post Secondary and Continuing Education Division (the Division) of the Department of Innovation and Advanced Learning (the Department). The mandate of the Division is to improve and maintain quality education and human development programs for life long learners and to ensure that learners have access to post-secondary education. Student Financial Services administers several provincial student financial assistance programs including the Prince Edward Island Student Loan Program (PEISLP). Student Financial Services also administers the application process on behalf of the Federal Government for federal loans and grants and on behalf of the Millennium Scholarship Bursary Foundation for its grant and bursary programs.

5.7 When a PEI student seeks to pursue post secondary education and requires financial assistance, an application is submitted to the SFS office for consideration for both a federal and provincial student loan. Students could qualify, in the 2008-09 academic year, for up to a maximum of \$210 per week of study in Canada Student Loan (CSL) and \$165 per week in Provincial Student Loan (PSL). The SFS office also administers federally and provincially funded assistance that a student does not have to pay back. This would include for example, the George Coles Bursary, the Island Skills Award, and the Island Student Award which are payable to Island students at varying points in their studies at UPEI, Holland College, and/or Collège Acadie.

5.8 Government has an agreement with a financial institution to fund and deliver the PEISLP. The financial institution provides the funds to the student and the Province in turn provides a full guarantee on the provincial student loans issued. The financial institution bills the Department semi-annually for administration fees and monthly for interest on the student loans while the student is active in his/her study program. In addition, they also bill for any defaulted loans pursuant to the guarantee. The guarantee payout is comprised of the defaulted student loan balance, including accumulated interest and administration fees in accordance with the agreement. The defaulted

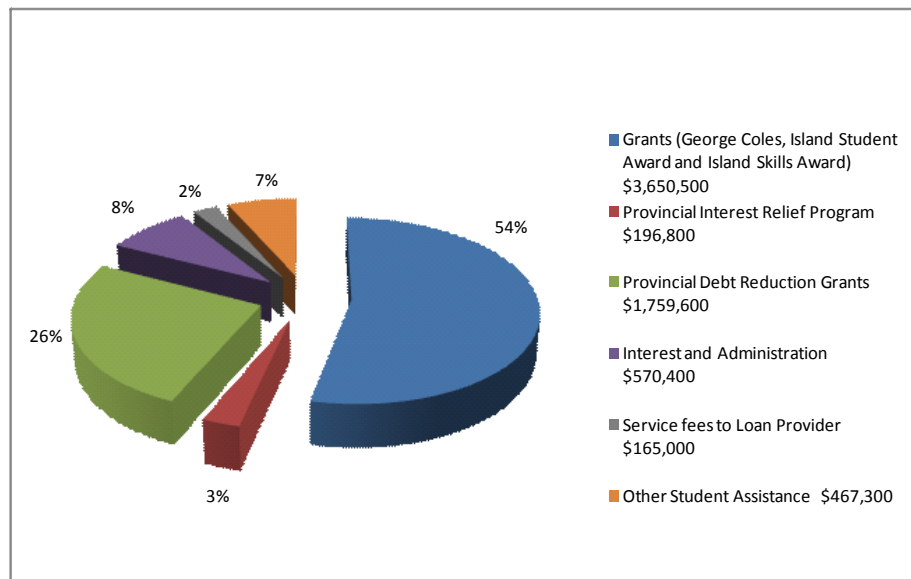
5. Student Financial Assistance

loans are forwarded to the Department of Provincial Treasury to proceed with collection through other means.

5.9 During the 2008-09 academic year, approximately \$7.4 million in provincial student loans were approved by SFS bringing the total guaranteed provincial student loans outstanding to approximately \$25 million as of March 31, 2009. Payouts on guarantees for defaulted student loans totalled approximately \$930,000 for the 2008-09 fiscal year and are recorded as a debt expense of the Department.

5.10 During the 2008-09 fiscal year, expenditures recorded in the Division for student financial assistance totalled approximately \$6.8 million. Expenditures for the prior year totalled \$4.6 million. The majority of this increase is due to the introduction of the George Coles Bursary in 2008-09. **Exhibit 5.1** depicts the breakdown of these expenditures. As illustrated in the exhibit, the Provincial Debt Reduction Grant Program and three other grant programs comprise 80 percent of the total expenditures for 2008-09.

EXHIBIT 5.1
STUDENT FINANCIAL ASSISTANCE COSTS
FISCAL YEAR ENDED MARCH 31, 2009



5. Student Financial Assistance

5.11 The Province has an agreement with the Province of Nova Scotia to utilize their computerized student financial application, processing, and assessment system. The agreement also includes an arrangement for Nova Scotia to provide PEI with technical support services on this system.

OBJECTIVES AND SCOPE

5.12 In accordance with Section 13 of the *Audit Act*, we conducted an examination of the management processes in place in the Student Financial Services office for administering the provincial student financial assistance program. The examination also extended to the Department of Provincial Treasury to assess the management of the defaulted student loans and collection efforts on these loans. Our audit work encompassed loans issued to full-time students during the 2008-09 academic year as well as interest relief and debt reduction programs during the same period. We did not audit other grant programs but did verify for our sample of loans that students were correctly assessed for eligibility for the George Coles Bursary, Island Student Award, and Island Skills Award.

5.13 The objectives of the audit were to determine:

- whether the Division had controls in place to ensure only eligible students received financial assistance and only in the amount to which he/she was entitled;
- whether the Division had controls in place to ensure that the financial institution was complying with the terms and conditions of its agreement with the Province; and
- whether the Province was maximizing the collection of student financial assistance repayable to the Province.

5.14 We performed our audit in accordance with the standards for assurance engagements encompassing value for money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

5. Student Financial Assistance

DETAILED AUDIT OBSERVATIONS

PROGRAM ADMINISTRATION

5.15 We expected the Student Financial Assistance Program to be based on legislation, as is the case in other provinces, or on a set of policies that would govern the eligibility and awarding of student financial assistance. We noted that PEI does not have specific legislation that establishes the Provincial Student Loan Program. In 1994, Executive Council approval was obtained to establish a PEISLP based on the guidelines set out in the *Canada Student Loans Act* and the *Canada Student Financial Assistance Act*.

5.16 Since legislation does not exist and Executive Council approved the original student loan program, we expected to find either program changes approved at the Executive Council level or a policy framework approved by Executive Council that clearly establishes authority and responsibility for program policy changes. We found that a number of changes were made to the program and there was no documented approval for these changes.

5.17 In accordance with Executive Council approval, we expected program policies to be the same as the federal guidelines. We noted during our audit some differences between the federal guidelines and what is in practice in the provincial program. For example, the provincial program, in contrast to the federal guidelines, allows pension contributions to be deducted against parental income in the calculation of the required parental contribution for dependent students. In addition, the Province applies a different minimum student contribution calculation during the pre-study period from what is outlined in the federal guidelines. Student Financial Services could not provide documentary evidence approving these changes. Without clear and documented authority for program changes, a risk exists that unauthorized changes will be made.

5.18 In addition to student loans and assistance while students are in their study program, there is also assistance available for students after the study period. The Interest Relief Program provides eligible

5. Student Financial Assistance

applicants with up to 30 months interest relief after completion of their studies whereby the Province pays the interest on the loan on behalf of the graduated student. In our review of the Provincial Interest Relief Program, we requested documentation supporting the approval of the program and its terms and conditions. We were provided with approval documentation for the program that existed prior to 2001 under the previous risk shared student loan program. The program has changed since that time and we expected to see approval for the program as it currently operates. The Department could not provide this information.

Recommendation

5.19 The Student Financial Services office should seek Executive Council approval to establish a framework for authorization of program policy changes.

STUDENT ASSISTANCE APPLICATIONS

5.20 The primary role of Student Financial Services (SFS) is to process student assistance applications. According to the SFS office, it approved 3,867 federal full-time student loan applications in the 2008-09 academic year totalling approximately \$22.3 million. Of these 3,867 applications, there were 2,114 that also qualified for provincial student loans totalling almost \$7.4 million. Beginning in the 2008-09 academic year, students had the option to either apply on-line using the new Student Assistance Management System (SAMS) or apply manually. Approximately 70 percent of the applications in 2008-09 were received electronically.

5.21 The student's financial need is assessed based on the information provided by the applicant, including the student's financial resources and the student's study program. The application is processed by the SFS office and the student is notified of his/her temporary assessment.

5.22 The CSL funds are released for the student at the beginning of the study term. After the certificate of eligibility is signed by the educational institution to verify the applicant's status as a student, the

5. Student Financial Assistance

documents are sent to the National Student Loans Service Centre (NSLSC) which releases the loan funds. The NSLSC manages the daily operations for the CSL portion of the student's total loan received.

5.23 If a student is also eligible to receive a provincial student loan, he/she must submit a pre-study report and required documentation to receive a final assessment from the SFS office. The PEI student loan document, or certificate of eligibility, is sent out at the midpoint of the student's program. This document must be signed by the educational institution and is sent to a branch of the financial institution that the province has contracted with for the funding and delivery of the PEISLP.

5.24 The Province provides a full guarantee on the loans issued under the agreement with the financial institution. While the applicant remains a student and provides proof at the beginning of each academic period verifying this fact, the provincial government will pay the interest accumulating on these loans up to and including six months after the study period end date.

5.25 Separate applications are required to be submitted by a student for some other types of provincially and federally funded grants that are administered by the SFS office. For example, a Provincial Debt Reduction Grant may be applied for by the student within one year after the student's graduation date. This grant provides up to \$2,000 to the student per year of study and is paid directly to the financial institution holding the provincial student loan. A provincially funded Interest Relief Program is also available to students having difficulty meeting their payments after graduation. The Provincial Government will pay the interest on the matured loans on behalf of the student, in 6 month increments for up to 30 months, if the student meets certain eligibility requirements.

5.26 We selected a sample of loan applications from the 2008-09 academic year to determine whether the eligibility criteria were properly applied and that the loan entitlement was calculated in accordance with program policy.

5. Student Financial Assistance

5.27 Following are the stated criteria for student loan eligibility:

- the applicant is a resident of PEI;
- the applicant is attending a designated educational institution;
- the applicant successfully completed the prior year of study where applicable;
- the applicant had no prior defaulted loans; and
- the applicant has a demonstrated financial need.

5.28 After the applicant is determined to be eligible for assistance, a financial assessment is conducted. This assessment considers the applicant's status as dependent, single parent, married etc., as well as the study program the applicant is enrolled in, as costs vary between programs and educational institutions.

5.29 To determine financial need, the financial resources available to the student are considered as part of the loan application, including the student's income as well as parental or spousal income where applicable. We expected the financial resources disclosed on the application would be verified prior to provincial loan disbursement.

5.30 Prior to the 2008-09 academic year, the applicant and where applicable the applicant's parent(s) or spouse, were required to submit prior year income tax information with the application. With the introduction of the on-line application, this requirement for copies of income tax information was changed from hard copy documentation to having the appropriate persons give authorization to SFS to verify their income directly with Canada Revenue Agency (CRA). A Memorandum of Understanding (MOU) with CRA was to be obtained in time for the 2008-09 academic year, however, at the time of our audit this MOU was still in draft form. A one-time data download was obtained from CRA after the academic year. However, income amounts used in the processing of 2008-09 student loans were not verified against this income tax information. In the absence of this verification of income, potential over-awards to students may go unadjusted.

5. Student Financial Assistance

5.31 In discussions with management, we were advised that prior to the provincial portion of the student loan being released, proof of pre-study income claimed by the student must be provided and any required adjustment is made to the assistance entitlement. Although this does act as a partial control, it would not provide income verification for other sources, such as parental, spousal, or investment income.

5.32 To calculate the pre-study and study period contributions, a deduction is to be made from income for taxes. It was noted during the testing of applications that incorrect tax rates were being used by the system for pre-study and study period contributions. There are federal guidelines which determine the tax rates which should be used. The system was using the tax rates designated for the spouse of a student rather than the rates designated for the students. Depending on the individual applicant, the use of the incorrect rate resulted in an overstatement or an understatement in the financial need calculation.

Recommendations

5.33 Student Financial Services should ensure financial resources available to students are verified.

5.34 Student Financial Services should use the documentation on income obtained from CRA for the 2008-09 academic year and verify a sample of income reported on student loan applications.

5.35 Student Financial Services should take the necessary steps to ensure that the proper tax rates are used to calculate student financial need.

5.36 We expected an internal quality control process to be in place to help ensure applications are accurately assessed by staff within the SFS office. We noted there are some quality control processes in place. The system, for example, is table based and many of the allowances for tuition and living costs are built into the system requiring less input and thus reducing the risk of human error. Also,

5. Student Financial Assistance

more complicated applications are assigned to the most senior person within the office. An appeal process also exists that allows applicants to appeal their application if they feel that they were under-awarded due to an error on their assessment.

5.37 There were in excess of 3,800 applications processed in the 2008-09 academic year. It was noted that periodic quality control reviews are not part of the management process of the student financial assistance program to catch errors produced by the system or by the processor of the loan application. Many of the applications that are processed by the SFS office are straightforward. Different circumstances, however, can make the application more complicated and increase the risk of errors. For example, if the student is married, has dependents, and/or has financial assets to be considered, the complexity of the application is increased. A periodic review of a sample of higher risk files would help reduce the risk of errors going undetected.

Recommendation

5.38 Student Financial Services should implement a quality control review process for the student financial assistance program.

STUDENT APPEALS

5.39 We noted that an appeal function is a requirement under the federal guidelines and therefore an expectation for the SFS office. If a student does not agree with the assistance award, he/she has the right to appeal. A student may appeal on the basis of the student contribution amount, as well as the parental or spousal contribution amount. To appeal any of these amounts, an appeal form must be submitted with the applicable supporting documentation. If the student is not satisfied with the results of the appeal to the SFS office, he/she has the right to request the case to be reviewed by an independent appeal board.

5.40 To ensure consistency of appeal awards and oversight of the appeal process, we expected to find parameters in place over the

5. Student Financial Assistance

appeal function. This would include assigned responsibility within SFS for the processing of appeals, the levels of review, and approvals required as well as guidelines for circumstances that require consideration of the Appeal Board.

5.41 We noted that appeals are not separately logged in the system. The Division could not provide the number of appeals that were processed in the 2008-09 academic year and the corresponding student information. An Appeal Board was established by Executive Council in October 2002 with general terms of reference. It was noted that this Appeal Board did not meet during the 2008-09 academic year.

5.42 Our sample testing included files where appeals were awarded. While we do not question the results of the appeals and acknowledge that exceptions are a part of the loan process, we do see the need for a well defined process to monitor and approve appeals to ensure consistency and fairness.

Recommendation

5.43 Student Financial Services should document guidelines for the processing and approval of appeals for student financial assistance.

AGREEMENT WITH THE FINANCIAL INSTITUTION

5.44 The Province has an agreement with a financial institution entitled “Agreement Regarding the Funding and Delivery of PEI Student Loan Program” (the Agreement). The current Agreement is dated April 27, 2007 and is in effect for the period February 2007 to July 31, 2011.

5.45 In the Agreement, the financial institution agrees to provide loans to eligible students and the Province agrees to provide a full guarantee on the loans issued under the Agreement. The fully guaranteed loans came into effect on provincial loan applications approved after August 2001.

5. Student Financial Assistance

5.46 The Agreement outlines various covenants for both parties to adhere to as well as service level standards for the financial institution.

5.47 Under the Agreement, the Province is responsible to pay the financial institution semi-annually for loan administration fees based on the number of loans outstanding and interest is billed monthly for loans held by students that have not yet completed their education. The financial institutions also bills the Province for administration fees and interest charges related to the processing of applications under the Interest Relief Program. Under this Program, a maximum of 30 months of interest relief is available to eligible students.

5.48 We expected to find a process in place to assess the accuracy of the invoices received from the financial institution. This process would include verification to ensure interest and fee rates charged are in accordance with the Agreement and applied to legitimate student loans. Supporting documentation is provided with the invoice including a list of applicable loans. We noted that SFS staff reviewed these invoices to ensure interest and fee rates are charged in accordance with the Agreement, however, there is no further verification on the accuracy and validity of the billing through a review of the supporting loans documentation. This results in a risk that fees will be paid to the financial institution that are not owed by the Province. Without adequate controls in place over these monthly invoices, overpayment of fees may occur.

5.49 The Agreement with the financial institution outlines reporting requirements on a monthly, quarterly, and annual basis. Since the requirements were identified in the Agreement, we expected controls to exist to ensure that the financial institution is providing all the reporting required and the reports were regularly reviewed. We found that management and staff were not aware if the required quarterly and annual reports had been received.

5.50 We were informed that the financial institution administers the Interest Relief Program on behalf of the Province. We expected to find controls in place to ensure that the interest relief eligibility criteria used by the financial institution were valid and in accordance with

5. Student Financial Assistance

approved provincial criteria. We found that SFS does not monitor the management of the Interest Relief Program and does not verify debtor eligibility for the program. In the absence of monitoring the administration of the program, there exists a risk that ineligible debtors may receive interest relief funding and potentially cost the Province up to 30 months in interest payments.

Recommendations

5.51 Student Financial Services should implement controls to periodically verify the legitimacy of the monthly invoices from the contracted financial institution by reviewing the supporting documentation received with these monthly invoices.

5.52 Student Financial Services should ensure that all reporting required for the management of the student financial assistance program is received from the contracted financial institution and reviewed on a timely basis.

5.53 Student Financial Services should implement monitoring procedures over the administration of the Provincial Interest Relief Program to ensure adherence to provincial guidelines for the program on debtor eligibility for interest relief payments.

DEFAULTED LOANS AND COLLECTIONS

5.54 The Agreement with the financial institution provides for a Provincial Government guarantee of the provincial student loans issued by the financial institution. The Agreement includes performance standards for the financial institution to prevent default and ultimately collect on the delinquent loan. In the event the procedures outlined in the Agreement do not result in the collection of the loan, a listing of items as proof of collection attempts along with the loan file must be returned to SFS prior to payment of the guarantee. These submissions for guarantee payouts are prepared monthly.

5. Student Financial Assistance

5.55 When the information on defaults is received by SFS, we expected to find that the information on defaulted loans was verified prior to payout which would include ensuring that the financial institution upheld its performance standards to prevent the default. To determine if a verification process existed, a sample of defaulted payouts made to the financial institution was tested. We found that SFS reviews each default file when it is received from the financial institution primarily to ensure the numerical accuracy and numerical legitimacy of the claim. In other words, the loan would be examined to ensure that it was in fact a provincially guaranteed loan (post August 2001), that the amount being claimed by the financial institution did not exceed the original loan amount approved for the student, and that the interest and fees included in the defaulted balance were reasonable and based on agreed rates. In all of our sample items, no exceptions were noted in these areas.

5.56 We did find, however, that SFS did not always assess the adequacy of the collection methods employed by the financial institution or perform a thorough examination of the supporting documentation provided by the financial institution in support of the default. We found, in half of the default files reviewed by our office, SFS did not obtain sufficient evidence from the loan provider to adequately prove that all reasonable steps in the normal course of business were taken to contact the borrower on the delinquency of the account. If a more thorough examination had been performed by SFS on these files, a guarantee payout may have been avoided.

Recommendation

5.57 Student Financial Services should perform sample testing on defaulted loan files to ensure that the contracted financial institution is meeting the performance standards for loan collection.

5.58 After payment of the defaulted loan balance to the financial institution, SFS transfers the loan information and file to the Department of the Provincial Treasury for further collection efforts. We expected that this transfer of information be complete, timely, and accurately recorded in Provincial Treasury's loan system.

5. Student Financial Assistance

5.59 To test these controls, we examined the transfer of the information of the loans in the defaulted loan sample used in our previous testing. We found that all of the defaulted loans in our sample were accurately transferred to Provincial Treasury on a timely basis.

5.60 Provincial Treasury signed a Memorandum of Understanding (MOU) with Canada Revenue Agency (CRA) effective April 2007 to allow for the collection of debts owed by student loan debtors through income tax refunds and GST credits. Canada Revenue Agency is required to notify individuals that their income tax refund may be withheld. Defaulters then have the opportunity to make arrangements with Provincial Treasury to repay the outstanding debt instead of having their tax refunds withheld.

AGREEMENT FOR STUDENT ASSISTANCE MANAGEMENT SYSTEM (SAMS)

5.61 Student Financial Services entered into a contract with the Department of Education in Nova Scotia (NS) to obtain licensed access to their Student Assistance Management System (SAMS), as well as technical services.

5.62 Converting to a new computerized system requires significant planning and testing before it can be fully integrated and used in the business environment. The Department entered into a relationship with NS to conduct a pilot of SAMS for an eight week period. We expected that the SFS office would have performed procedures such as verification that data transfers between the old and new systems were complete and accurate. Evidence could not be provided by the Department at the time of our audit that adequate procedures were carried out before entering into a formal agreement with NS. In fact, during our audit, evidence of errors in the system calculations were noted. As well, management indicated that they could not obtain certain reports from the system which are important for internal reporting and decision making.

5.63 Further, it was noted that the assumption of liability clause in the contract with the service provider is written such that “under no

5. Student Financial Assistance

circumstances shall the service provider be liable to PEI or any other person or entity.” It essentially exonerates the service provider in the event of such things as security breaches. The onus is completely on the PEI Government, even though the service and maintenance of the system is provided solely by the service provider. This clause contradicts Treasury Board policy on professional services contracts whereby a hold harmless and indemnity clause is a standard requirement in all contracts and provides protection should the Government be sued for something for which the contractor should be liable.

Recommendations

5.64 Student Financial Services should take action to have all required management reports generated from the Student Assistance Management System.

5.65 Student Financial Services should consult with the Risk Management Division of Provincial Treasury as well as legal counsel in the Attorney General’s Office to re-evaluate the indemnity clause in the Student Assistance Management System Agreement.

MANAGEMENT RESPONSE

5.66 Our report was discussed with management of the Department and a written response will be provided.

6. GOVERNMENT'S INVOLVEMENT IN LENDING TO THE SNOW CRAB FISHERY

INTRODUCTION

6.1 On July 14, 2009, an Order in Council was issued requesting the Auditor General to undertake a special investigation into the Province's involvement in lending to the snow crab fishery in the fiscal year 2005-06 and to determine if the non-performing loans which were approved during that period were based on viable, prudent business plans. The Auditor General is required by section 14(d) of the *Audit Act* to undertake special assignments or investigations when requested by the Lieutenant Governor in Council.

6.2 In an effort to establish a snow crab processing industry on the Island, Government provided financial support to Island fishers to assist in the purchase of snow crab licenses. By providing financial support, Government intended to increase the amount of snow crab available to Island processors. Two loan guarantees and nine loans were provided by two Crown corporations.

6.3 The loan guarantees were provided by PEI Business Development Inc. (BDI), which is now Innovation PEI, while the PEI Lending Agency provided the loans. Broadly stated, the mandates of these corporations are complementary and aimed at achieving economic growth for job and wealth creation within the Province. The corporations promote economic growth by attracting new businesses to the Island or by assisting in the development, maintenance, and/or expansion of existing business.

OVERALL COMMENTS

6.4 The outstanding loans to snow crab fishers totalled \$17.1 million at September 30, 2009 with a provision for loss of \$9 million. All of these loans were in default at that date. Price fluctuations and quota declines contributed to the current financial situation of the snow crab loan portfolio. Prices peaked in 2004 and quotas in 2005. Since that time, in the majority of cases, the fishers have received a

6. Government's Involvement In Lending To The Snow Crab Fishery

lower price and reduced quota. In addition, quota and price affect the purchase price of licenses and because these were high when the licenses were acquired, most fishers paid a high price for the licenses. These factors combined with Government's willingness to approve high risk loans to support the snow crab fishery are the primary reasons for the substantial value of the non-performing snow crab loans.

6.5 We were advised that in approving these loans Government was pursuing a strategic initiative to increase access to the snow crab fishery by Island fishers. However, an approved strategy and related action plan was never developed.

6.6 We examined all loans issued by the Lending Agency since 2005 for the purchase of snow crab licenses as well as a loan outstanding at BDI that arose from a guarantee provided in 2003. Loans were issued for the purchase of both out-of-province and Island licenses during 2005-06 and 2006-07. We draw a distinction in our report between loans for the purchase of out-of-province licenses and loans for the purchase of Island licenses. Specific loan financing parameters were approved by Executive Council for the purchase of out-of-province licenses and Government's strategic initiative to increase access to snow crab quota related to out-of-province licenses.

6.7 In all cases, the Lending Agency obtained or compiled the necessary information to assess the key financial, management, risk, and security considerations for all the loans issued by the Agency.

6.8 Many of the snow crab loans were initially denied by the Lending Agency because of security concerns with out-of-province licenses. In addition, not all loans could demonstrate an ability to service the debt based on price and quota at the time of the loan. The majority of the loans had an unacceptable risk rating by the Lending Agency when they were approved. Most of the loans were high risk from the outset and the volatility of price and quota in the snow crab fishery was a major risk factor when considering these loans. Government accepted this higher risk as part of a strategic initiative

6. Government's Involvement In Lending To The Snow Crab Fishery

to increase access to snow crab with the intention of increasing snow crab processing in PEI.

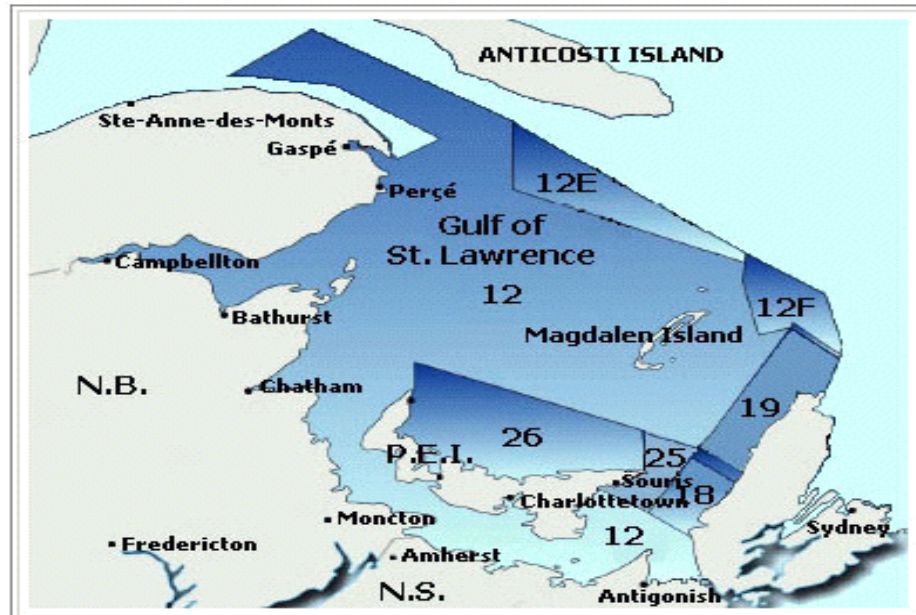
BACKGROUND

6.9 The fishing industry is an important sector within the Island's economy with a landed value of approximately \$155 million in 2008. Between the years 2001 and 2004, the snow crab industry experienced a significant increase in price and quota making the industry lucrative and attractive. Island access to this fishery was limited at this time.

6.10 Based on information provided by the federal Department of Fisheries and Oceans (DFO), beginning in 1985, Prince Edward Island was provided access to an exclusive inshore zone (Areas 25/26). In 1997, the access for the 30 traditional inshore harvesters was broadened to include access to the larger Crab Fishing Area 12. The Southern Gulf of St. Lawrence is a DFO administrative zone comprised of snow crab fishing areas 12, 18, 25 and 26. A snow crab fisher is permitted to land his catch at any designated port located in an administrative zone. **Exhibit 6.1** illustrates the Southern Gulf of St. Lawrence snow crab fishing areas.

6. Government's Involvement In Lending To The Snow Crab Fishery

EXHIBIT 6.1 SOUTHERN GULF OF ST. LAWRENCE SNOW CRAB FISHING AREAS 12, 18, 25 and 26



Source: Department of Fisheries and Oceans Canada, "Integrated Fisheries Management Plan Snow Crab in the Southern Gulf of St. Lawrence Crab Fishing Areas 12, 18, 25 and 26; 2008"

6.11 Beginning in 1997, a traditional fleet share of the total allowable catch (TAC) was provided to PEI. The Province's 2009 share of the TAC was approximately 6.4 percent. This quota amounted to approximately 1,345 tonnes or 2.97 million pounds of snow crab in 2009.

6.12 Each year DFO determines the TAC for the Southern Gulf of St. Lawrence region. According to DFO, snow crab stocks follow an eight to nine year oscillation. From the biomass estimates, DFO in consultation with stakeholders, sets an exploitation rate and determines the total allowable catch which is then allocated to New Brunswick, Quebec, Nova Scotia and Prince Edward Island. Within jurisdictions, the TAC is allocated among the traditional fleet, First Nations, and new access. **Exhibit 6.2** provides a history of the price and total allowable catch for the Southern Gulf of St. Lawrence.

6. Government's Involvement In Lending To The Snow Crab Fishery

EXHIBIT 6.2 PRICE AND TOTAL ALLOWABLE CATCH HISTORY SOUTHERN GULF OF ST. LAWRENCE SNOW CRAB FISHERY

Year	Average Price Per lb.	Total Allowable Catch (Metric Tonnes)	Year	Average Price Per lb.	Total Allowable Catch (Metric Tonnes)
2000	2.80	15,500	2005	2.00	32,336
2001	2.40	13,800	2006	1.25	25,869
2002	2.50	22,000	2007	2.35	23,207
2003	3.00	17,148	2008	2.00	20,900
2004	3.00	26,600	2009	1.75	20,900

Source: Department of Fisheries and Oceans Canada

6.13 In an effort to increase the amount of snow crab available to Island processors, the Province provided financial support to Island fishers to acquire snow crab licenses allocated to the Southern Gulf of St. Lawrence and to area 23 which is the Eastern Cape Breton, Maritime Region.

6.14 Two guarantees were provided by BDI to acquire out-of-province licenses; one in 2001 and the other in 2003. One of these expired and no payout was required on the guarantee. The second guarantee was called by the financial institution in 2008 and the amount paid out was converted to a loan which is still outstanding.

6.15 Lending Agency issued loans to snow crab fishers to acquire snow crab licenses with funds disbursed in 2005-06 and 2006-07. Five loans were issued to purchase out-of-province snow crab licenses. Three were issued to fishers to purchase Island snow crab licenses and one of these fishers also received a loan for a fishing vessel.

6. Government's Involvement In Lending To The Snow Crab Fishery

6.16 Exhibit 6.3 summarizes the loans and guarantees provided by Lending Agency and BDI. In an effort to address these non-performing loans, Government demanded a minimum payment from each fisher to be received no later than September 8, 2009 or legal action would be taken. All of these fishers made a payment but not all fishers made the minimum payment demanded. As of September 30, 2009, the total amount outstanding was \$17.1 million. All the loans were still in default at that date and the total provision for possible loss was recorded at \$9 million.

EXHIBIT 6.3 FINANCIAL SUPPORT PROVIDED TOTAL OUTSTANDING AT SEPTEMBER 30, 2009

Loan	Financial Support	Disbursement Date	Total Outstanding
1	\$ 1,700,000 (Note 1)	n/a	n/a
2	2,089,800 (Note 2)	June 28/08	\$ 1,965,800
3	3,060,000	Feb 13/06	3,554,100
4	1,920,000	Feb 3/06	2,363,800
5	1,550,000	Apr 29/05	1,749,300
6	1,000,000	Apr 25/06	1,088,000
7	1,235,000 (Note 3)	Mar 3/06 & Feb 21/09	1,790,700
8	1,072,000	Mar 30/06	1,126,800
9	1,125,000	Mar 3/06	1,290,500
10	2,350,000	Dec 8/06	2,158,100
Total	\$17,101,800		\$17,087,100

Note 1 - Guarantee expired.

Note 2 - Guarantee paid out June 28, 2008. Converted to a loan and security position of the bank acquired.

Note 3 - Consolidation of two loans.

6. Government's Involvement In Lending To The Snow Crab Fishery

OBJECTIVES AND SCOPE

6.17 In accordance with Section 14(d) of the *Audit Act*, we examined the Province's involvement in lending to the snow crab fishery. We were requested to determine if the non-performing loans which were approved during this period were based on viable, prudent business plans. The objectives of the audit were to assess the adequacy of:

- the due diligence conducted prior to the approval of financial support; and
- the processes used to monitor compliance with the terms and conditions of the financial support.

6.18 Our audit included non-performing loans to the snow crab fishery that were outstanding at September 30, 2009 at the Lending Agency and BDI. This involved an examination of loan files at Lending Agency and two guarantees issued by BDI, one of which is now an outstanding loan.

6.19 In order to complete our work, we reviewed various industry studies, obtained industry statistics, reviewed applicable statutes, and interviewed personnel and senior staff of the Crown corporations, DFO, representatives of financial institutions, and of the snow crab industry. We also reviewed documentation supporting due diligence, approval, and monitoring processes for each loan and guarantee provided by government.

6.20 The scope of our work did not include an assessment of compliance with all existing lending policies of BDI and the Lending Agency, however, where issues related to policies were identified, they are included in this report.

6.21 The audit was conducted in accordance with standards for assurance engagements encompassing value for money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

STRATEGIC INITIATIVE - SNOW CRAB FISHERY

6.22 During our audit, we noted in a number of cases loans were approved based on Government's strategic initiative to increase Island access to the snow crab fishery in support of increased Island processing. We expected such a strategic initiative to be documented and approved by Executive Council. We also expected clear goals and objectives to be documented with activities identified to achieve them. There were references in the Department of Fisheries, Aquaculture and Rural Development's Annual Report and various Treasury Board minutes and Executive Council decisions beginning in 2005 indicating that government intended to increase Island access to the snow crab fishery. Further, we were provided with correspondence from a senior government official to the former Department of Agriculture, Fisheries and Aquaculture indicating the need to develop such a plan. We found that a formal strategic plan was not developed or approved.

6.23 An important component of a strategic initiative is the ability to assess whether or not desired results are being achieved. We expected performance information to be obtained to monitor and report on whether the strategic initiative resulted in an increased amount of snow crab processed as a result of the loans provided.

6.24 Based on the snow crab quota acquired when the Lending Agency loans were approved, an additional 1.3 million pounds of snow crab quota was made available to Island snow crab fishers. When the BDI guarantees were provided, an additional 523,000 pounds of snow crab quota was made available. Most of the snow crab loan files included various agreements to sell the snow crab to Island processors, but there was no determination of whether the snow crab was actually sold to Island processors and/or processed on PEI. In fact, we noted information which indicated that one agreement may not have been followed as sales may have been made to off-Island processors. In 2005, Treasury Board supported by Executive

6. Government's Involvement In Lending To The Snow Crab Fishery

Council, requested a study be completed on the actual amount of snow crab processed on PEI. This report was not completed.

6.25 Our audit concluded that performance measures and targets were not established to measure the impact of the financial support provided to snow crab fishers. While the loans for out-of-province licenses increased the amount of quota controlled by Island fishers, the extent to which that increased quota met Government's objectives and was processed on PEI has not been examined. In addition, the Island loans did not increase quota to Island fishers, and in some cases fishers were not required as part of the loan agreement to have the snow crab sold to an Island processor. At the time of our audit the impact of providing these loans was not measured and reported.

Recommendation

6.26 Government strategic initiatives should be formally documented and approved, and include clearly stated goals and objectives with identified performance measures. Information should be reported on results achieved.

SNOW CRAB LOANS - LENDING AGENCY

6.27 Prior to 2005, applications were received by the Lending Agency to provide financial support for the purchase of out-of-province snow crab licenses. These licenses presented a challenge in the loan assessment process because they are an intangible asset and are more difficult to value and take as security. Licenses are also subject to separate consideration in Lending Agency's policies. In general, the policy requires that financing for fishing licenses and/or quotas be considered based on alternative security available with financing not to exceed specified percentages of the appraised value of real property, registered fishing vessels, or assignable guaranteed cash investments. Security issues were a major reason Lending Agency initially denied these applications and referred them to Treasury Board and/or Executive Council.

6. Government's Involvement In Lending To The Snow Crab Fishery

6.28 In 2004, Executive Council authorized the Lending Agency to provide a loan to finance an out-of-province snow crab license. Other applications were subsequently received and in November 2005, the Lending Agency approached Treasury Board regarding Government's position on financing out-of-province snow crab licenses. Further, if this support for financing was provided, the Agency requested approval of general parameters for such financing. As well, they sought decisions on two specific applications received to finance out-of-province snow crab licenses. Treasury Board forwarded the information to Executive Council and after consideration Executive Council requested the Department of Development and Technology to examine the business case for financing out-of-province snow crab licenses. Treasury Board agreed with the recommendation of the Department of Development and Technology that Lending Agency provide loans to Island fishers to acquire snow crab licenses based on certain financing parameters. Executive Council approved the following loan financing parameters in December 2005:

- loan investments represent no more than 80 percent of the total purchase price of a snow crab fleet license;
- minimum 20 percent cash contribution by the applicant;
- debt service must be evident based on a five year industry average price as well as a review of the historical financial performance of the fishing operation;
- a first security interest over all assets, including power of attorney over all fishing licenses, unlimited personal guarantees, and any other security deemed necessary;
- all snow crab landings to be sold to a PEI processor;
- no individual or corporation shall secure financing for more than one snow crab license and equipment; and
- application fees to be .5 percent and the interest rate to be the Lending Agency's five year cost of borrowing plus 2.75 percent.

6.29 In addition, Treasury Board recommended, supported by Executive Council, that a moratorium be put in place on loans for out-of-province snow crab licenses until a detailed analysis was conducted on the amount of snow crab processed in PEI. The report was to be presented to Treasury Board by June 30, 2006. We were advised that this report was not prepared.

6. Government's Involvement In Lending To The Snow Crab Fishery

6.30 After Executive Council approved parameters for financing out-of-province snow crab licenses, it was an obligation of the PEI Lending Agency to apply these parameters in assessing each relevant application. There were five loans issued for the purchase of out-of-province licenses, one of which was issued before the financing parameters were approved by Executive Council. In addition, Lending Agency provided three loans for the acquisition of Island snow crab licenses.

Security Issues

6.31 To mitigate the risk of financial loss, lenders generally require the borrower to provide security in the event the borrower is unable to service the debt. Security can range from tangible assets to intangible assets. As part of our audit, we reviewed the security supporting each loan. We considered the lending policies at the Lending Agency and where applicable, the financing parameters approved by Executive Council.

6.32 To manage its risk, the Lending Agency took both tangible and intangible assets as security. Tangible security included real estate, fishing gear, and vessels and intangible security included snow crab and other fishing licenses. The Lending Agency also obtained personal guarantees and general security assignments from individuals and corporations.

6.33 A fishing license is the property of the Federal Government and is provided at the discretion of DFO which provides the holder with an authority to fish; it is therefore an intangible asset.

6.34 Snow crab licenses can be held by an individual or by a corporation. For individuals, DFO requires the holder of the license to be resident in the jurisdiction to which the license has been allocated. To address this residency requirement, trust agreements were used for the purchase of licenses of other jurisdictions. Under these agreements, a resident of the jurisdiction to which the license has been allocated would hold the license in trust for a purchaser in another jurisdiction. For corporate licenses, trust agreements are not

6. Government's Involvement In Lending To The Snow Crab Fishery

required. The only requirement is for the majority shareholder of the corporation to be a Canadian resident.

6.35 Tangible assets are generally easier to value as information is often widely available to support the valuation. The valuation of intangible assets is much more difficult. Taking intangible assets, such as a fishing license, can also present difficulty in establishing control over the asset in the event of default.

6.36 Lending Agency file documentation identified that Island fishers were potentially overpaying for the snow crab licenses. We estimated the value of the snow crab licenses as security. We calculated the value of the license using valuation methodology and other information obtained from the Lending Agency, DFO, and a marine broker. Our calculations indicated in each case the purchase price of the Island license was higher than the calculated values. For the out-of-province licenses, the purchase price of the license did not always exceed the calculated values.

6.37 While valuation is an issue for the license, so too is realizing on the security in the event of default. A court ruling has recognized a fishing license as property in terms of bankruptcy and insolvency situations. However, in cases outside bankruptcy, the rights of lenders have yet to be tested in a court of law. This raises a question as to the ability to realize on security where licenses are issued in the name of an individual and trust agreements are in place. At the time of the loan applications there were three snow crab licenses where trust agreements were used. When the license is held by a corporation, a lender can realize on its security by taking control of the corporation that holds the license.

6.38 Taking a snow crab license as security also presents another challenge. The challenge is to ensure license transfers only occur with the knowledge and consent of the lender. The Lending Agency took steps to mitigate this risk by completing letters of undertaking and power of attorney over the licenses. During our work, we identified one case in which a snow crab license was transferred to another individual. The Lending Agency was not informed of the transfer. The Lending Agency did not have a power of attorney or letter of

6. Government's Involvement In Lending To The Snow Crab Fishery

undertaking with the new holder of the license. This raises questions as to the impact of the transfer on the security position of the Lending Agency.

6.39 In April 2007, DFO implemented a process to address the issue of access to capital for the industry. Under this process, a *Notice of an Arrangement with a Financial Institution* form can be completed by the license holder and the lender and filed with DFO. If this form is on file, DFO will not process a license transfer without the documented acknowledgment of the lender.

Recommendations

6.40 The Lending Agency should determine the impact of the snow crab license transfer and ensure appropriate measures are taken to protect its security position.

6.41 For loans where fishing licenses form part of the security, the Lending Agency should file appropriate documentation with DFO to protect its security position.

Out-of-Province Snow Crab Licenses

6.42 In addition to security issues discussed earlier, we assessed the due diligence conducted prior to the approval of the five loans for out-of-province licenses. We considered whether the loans were supported with viable, prudent business plans and checked for monitoring of the terms and conditions of the loan. We also expected each loan to be approved in accordance with legislation and policy, as well as any direction the Lending Agency received from Treasury Board and Executive Council.

Due Diligence

6.43 We assessed each loan to determine if appropriate due diligence had been conducted on the file. Where applicable, we also checked for adherence to parameters established by Executive Council. We observed that the normal requirements for documentation to support the loan application were followed and the

6. Government's Involvement In Lending To The Snow Crab Fishery

loans officers compiled and/or obtained additional information to carry out a complete assessment.

6.44 To establish a sustainable snow crab processing industry on the Island, financially viable snow crab fishing operations are needed to supply local processors. The amount of snow crab quota allocated each year is determined by DFO and not under the control of fishers. As well, the price on the dock is set based on supply and other market considerations. The fishers have little control over the price received. With little control over revenue, management of expenses is a key success factor. One of the largest cash outflows of these operations is debt service due to the significant levels of debt incurred to acquire these licenses. The ability to service the debt is a key decision point in assessing the viability of the snow crab loan applications.

Ability to Service Debt

6.45 Prudent revenue analysis should consider current prices as well as anticipated changes in prices and quota. The approved financing parameters required projects to demonstrate an ability to service the debt based on a five year industry average price. The five year average price was generally higher than the price at the time of these loans because prices had declined. In addition to the assessment based on the five year average price, we assessed debt service using price and quota at the time of the loan in order to determine the likelihood of debt service based on conditions at that time. In assessing the ability to service the debt, we considered whether there was sufficient cash available from the snow crab operation to make the debt payments after deducting the expenses of the snow crab operation as reported by the applicant.

6.46 Four of the five loans for out-of-province licenses were subject to the parameters established by Executive Council. We found that based on the five year average price all of the applications could service the debt, although some applications were marginal. Using the actual price at the time of the application, three of these loan applications could not demonstrate debt service. The Lending Agency assessed these four snow crab loans at an unacceptable risk or higher than normal lending risk. These assessments are consistent

6. Government's Involvement In Lending To The Snow Crab Fishery

with our conclusions given the generally highly leveraged positions of the applicants, low prices at the time of the loans, and the expected multi year decline in the stocks.

6.47 The Lending Agency initially recommended that three of these four loans be declined. However, the loans were submitted for approval based on government's strategic initiative to increase Island access to the snow crab fishery to support increased Island processing.

6.48 The fifth loan was issued in April 2005 before the parameters were established. The application did demonstrate an ability to service the debt but was initially denied by Lending Agency Board because the Board had concerns with financing out-of-province fishing licenses.

Approvals

6.49 Legislative authority is provided to the Lending Agency to approve financial support up to \$2.5 million. Financial support in excess of this amount requires the approval of the Lieutenant Governor in Council.

6.50 We identified one loan in excess of \$2.5 million which was submitted to Executive Council for approval with the Lending Agency's request for direction on snow crab loan parameters. The decision from Executive Council provided the approval of the snow crab loan financing parameters but did not specifically address the loan approval requested. The loan was approved by the Lending Agency Board.

6.51 Another loan failed to meet a number of the financing parameters and we had concerns with the approval process for the loan:

- The applicant failed to contribute the required minimum 20 percent and the maximum 80 percent government contribution was exceeded.

6. Government's Involvement In Lending To The Snow Crab Fishery

- It was a second loan to the individual which was not permitted under the parameters. The Lending Agency noted that, as this was a second loan, it would be virtually unsecured and would jeopardize the existing loan to this individual. Lending Agency documented their concerns and communicated them to Treasury Board.
- The total outstanding loans to the applicant exceeded \$2.5 million thereby requiring Executive Council approval. Lending Agency did not recommend this application for approval and deferred a decision on approval to Executive Council. The amount of the loan was subsequently reduced by Treasury Board from \$1.035 million to \$1 million, which reduced the total outstanding debt of this individual to within the authority limit of the Lending Agency Board. Treasury Board considered and approved the loan but the amount of the loan was reduced and Executive Council approval was not required. However, Executive Council approval should have been obtained for the exceptions to the financing parameters.
- Lending Agency recommended a full provision for loss on this loan at the time of approval.
- This loan was approved even though the moratorium was still in place on loans for out-of-province licenses.

6.52 For another loan, Executive Council approved an exemption from the moratorium that was in place but included as a condition of approval that a legal opinion be obtained to ensure the loan approval did not contravene an existing agreement with a seafood processor. We were advised this legal opinion was never obtained.

Monitoring Terms and Conditions

6.53 When public funds are used to provide financial support, they are put at risk. Terms and conditions are included in the loan agreement to mitigate the lender's risk. A critical component of the lending process is the ongoing monitoring of the support to ensure all agreed terms and conditions have been complied with.

6.54 We expected the loans would be regularly monitored to ensure compliance with all terms and conditions noted in the accepted letter of offer. We also expected adequate action to be taken for instances

6. Government's Involvement In Lending To The Snow Crab Fishery

of non-compliance as well as documentation to demonstrate the monitoring process had occurred. We found that the snow crab loans had been monitored at least annually and action was generally taken for non-compliance with the financial reporting requirements. We did note instances where tax returns were required but were not provided and documentation did not indicate follow up.

6.55 Our audit found that loan files did not contain sufficient documentation to demonstrate that negative covenants such as restrictions on disbursements, debt incurrence, and capital expenditures as well as other restrictions had been monitored for compliance. Management advised that all monitoring on the loans would not necessarily be documented. However, file documentation should clearly demonstrate that the negative covenants have been monitored and where non-compliance is identified, appropriate action was taken.

Recommendations

6.56 When eligibility criteria for loan financing are established by Executive Council, exceptions to the criteria should be approved by Executive Council.

6.57 The Lending Agency should comply with conditions attached to Executive Council approvals.

6.58 The Lending Agency should ensure that all terms and conditions of loans for out-of-province snow crab licenses are monitored for compliance and documentation is maintained.

Island Snow Crab Licenses

6.59 During 2005-06, three Island fishers approached the Lending Agency requesting financing for the acquisition of snow crab licenses that were allocated to PEI. This would be the purchase of a snow crab license from another Island fisher.

6. Government's Involvement In Lending To The Snow Crab Fishery

6.60 Because these loans relate to Island licenses, they were not subject to the parameters approved by Executive Council for financing out-of-province licenses. As such, the lending policies at Lending Agency applied. The Lending Agency Board, however, set aside its existing security policies applicable to these licenses and approved the loans based on the precedent established by Executive Council for financing out-of-province loans. Financing for the transfer of PEI licenses did not, however, directly support government's strategic initiative because these licenses did not represent increased quota for Island fishers and two of the three loans did not require the fishers to sell to an Island processor.

Due Diligence

6.61 We assessed each loan to determine if appropriate due diligence had been conducted on the file. Lending Agency followed its normal practice of requiring supporting documentation for loan applications and where necessary obtained or compiled additional information to do a complete assessment of the applications.

6.62 Similar to the loans for the purchase of out-of-province licenses, the ability to service the debt is a key factor in assessing the viability of the loan application.

Ability to Service Debt

6.63 After the project evaluation, the recommendation of Lending Agency was to approve all the loans for the acquisition of Island licenses. The ability to service the debt was demonstrated based on both the estimated revenue using historical prices as well as the price in place at the date of the application. In assessing the ability to service the debt, we considered whether there was sufficient cash available from the snow crab operation to make the debt payments after deducting expenses of the snow crab operation as reported by the applicants. The loans were, however, rated as above average risk by the Lending Agency due to the projected decline in snow crab quota over the following four to five years. These loans were approved by the Lending Agency Board.

6. Government's Involvement In Lending To The Snow Crab Fishery

Monitoring Terms and Conditions

6.64 We expected that the terms and conditions attached to these loans would be monitored for compliance. We found that the loans were monitored at least annually for financial reporting requirements. Some tax returns were not provided and follow-up was not evident from the file documentation. For these loans, there was insufficient documentation to demonstrate that negative covenants such as restrictions on disbursements, debt incurrence, capital expenditures, and other restrictions had been monitored for compliance.

Recommendation

6.65 The Lending Agency should ensure that all terms and conditions of loans provided for Island snow crab licenses are monitored for compliance and documentation is maintained.

LOAN GUARANTEES 2001 TO 2003 - BDI

6.66 In 2001, the Lending Agency was approached by a fisher seeking a loan guarantee of \$1.7 million to assist in the acquisition of an out-of-province snow crab license. The Lending Agency was not prepared to provide the requested assistance. The Agency's primary concern was that these licenses were allocated to out-of-province jurisdictions and raised questions in terms of consistency with the Lending Agency's mandate regarding the financing of an asset that resides outside of PEI. Treasury Board authorized BDI to provide the loan guarantee but stated that a clear exit strategy should be developed. The guarantee subsequently expired and BDI was not required to pay out on the guarantee.

6.67 In 2003, another fisher approached BDI for a loan guarantee of \$2.3 million to assist in the acquisition of an out-of-province snow crab license. The application was approved by Executive Council.

6.68 We expected BDI to follow a due diligence process in assessing these applications which would include at least the following:

6. Government's Involvement In Lending To The Snow Crab Fishery

- an assessment of the management ability of the proponents;
- a financial assessment of the proponents and project;
- an evaluation of the business plan;
- a risk assessment; and
- an evaluation of the security.

6.69 We reviewed the loan guarantees provided by BDI and found that a project assessment had been carried out on each application that covered the key areas noted above.

6.70 Business Development Inc. policy requires any loan guarantees provided by the corporation be in the form of a deficiency guarantee. A deficiency guarantee requires the lender to exhaust all other measures, including realization on security, prior to calling on the guarantor to pay the remaining balance. For one of the approved loan guarantees, the accepted letter of offer stated that BDI would provide a deficiency guarantee, however, the actual guarantee signed with the financial institution was an unconditional guarantee.

6.71 The loan file did not include documentation authorizing the change in the type of guarantee being provided. As a result, the loan guarantee signed with the financial institution did not agree with what was intended by BDI. The guarantee was subsequently called by the financial institution and BDI was required to pay out the balance of the loan. The financial institution was not required to realize on any security. This guarantee was converted to a loan of \$2.1 million and is included in the outstanding balance of snow crab loans.

6.72 Consistent with the snow crab loans at the Lending Agency, the snow crab license is a key piece of BDI's security on the loan. To protect its security, it is necessary for BDI to ensure that license transfers do not occur without the knowledge and consent of BDI. The Department of Fisheries and Oceans implemented a process in 2007 whereby, if the proper forms are on file, licenses will not be transferred without the documented acknowledgement of the lender. Business Development Inc. should ensure that the appropriate forms are filed with DFO to protect its security interest.

6. Government's Involvement In Lending To The Snow Crab Fishery

Recommendations

6.73 Business Development Inc. (now Innovation PEI) should ensure that the type of loan guarantee provided in the accepted letter of offer is consistent with the formal arrangement with the lending institution.

6.74 For loans where fishing licenses form part of the security, Business Development Inc. (now Innovation PEI) should file appropriate documentation with DFO to protect its security position.

OTHER ISSUES

Policies and Procedures

6.75 Formal policies and procedures serve as a training tool for new staff and as a reference resource for existing staff. Policies define the expectations of the organization and promote consistency. Without documented policies and procedures, inconsistent treatment can result, expectations may not be met, and/or unintended consequences could occur. Both BDI and the Lending Agency have formal policies and procedures to govern the provision of financial support.

6.76 The BDI lending policies were in draft form at October 31, 2009 and have been in draft since 2003. This issue was previously identified in our 2007 audit of lending activities.

6.77 In October 2009, the *Prince Edward Island Business Development Inc. Act* was repealed with the proclamation of the *Innovation PEI Act*. This Act created a new Crown corporation, Innovation PEI, which is the successor to BDI. Staff of BDI informed us that a review of lending policies will be completed as part of the changeover to the new corporation. Once the review is completed, policies will be submitted to the new credit management committee for approval.

6. Government's Involvement In Lending To The Snow Crab Fishery

6.78 The Lending Agency has established practices for their lending activities, however, these practices have yet to be reflected in an updated policy manual. The current policy manual has not been updated since May 2001. We made a number of observations and suggestions to the Lending Agency as it relates to their lending policies and practices. Management acknowledged our suggestions and has initiated action to review the policy manual.

Financial Reporting Requirements

6.79 One of the terms and conditions we expected to find in the letters of offer were standard financial reporting requirements. We reviewed the terms and conditions attached to each snow crab loan and loan guarantee and noted all had financial reporting requirements as a condition of the support. However, we noted that the financial reporting requirements were not consistent from one snow crab loan to another and were not always commensurate with the level of risk assumed.

6.80 The objective of financial reporting requirements is to enable the lender to monitor risk on an ongoing basis and take timely action where necessary. Credible information is critical to the ongoing risk management process. Reporting requirements should be impacted by the dollar value of the loan as well as the risk assessment. Higher value and higher risk loans should have more rigorous financial reporting requirements with increased levels of independent assurance. Independent assurance adds credibility to the information and makes it more reliable. Information such as personal and corporate tax returns and notices of assessment should be part of the reporting requirements, particularly for small privately held businesses. These records provide information that is otherwise not available in the financial statements, but is essential to a prudent evaluation of the financial position of a borrower.

6.81 PEI Business Development Inc. policy defines the normal requirement of review level financial statements for loans with a commitment over \$100,000 but less than \$1 million. Audited financial statements are preferred for all loans having a total commitment in excess of \$1 million. We noted that BDI's policy does not address

6. Government's Involvement In Lending To The Snow Crab Fishery

personal and corporate tax returns and related information as a financial reporting requirement.

Recommendations

6.82 Business Development Inc. (now Innovation PEI) should ensure that its lending policies are reviewed and approved.

6.83 The Lending Agency should establish a process for periodic review and update of its lending policies.

6.84 In addition to financial statements, Business Development Inc. (now Innovation PEI) should include personal and corporate tax returns and related notices of assessment in financial reporting requirements where appropriate.

Annual Reporting

6.85 The *Financial Administration Act* requires Crown corporations to prepare an annual report including goals and results achieved, and publicly release the report within six months of the end of the financial year. At the time of our audit, we noted the Lending Agency had not filed its annual reports as required by the Act for 2006-07, 2007-08 and 2008-09. The timely preparation and release of annual reports was also identified as an issue in our audit of Control and Accountability of Crown Corporations in 2004.

Recommendation

6.86 The Lending Agency should prepare and release its annual report in accordance with the requirements of the Financial Administration Act.

FINANCIAL STATEMENT AUDITS

7. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

INTRODUCTION

7.1 Members of the Legislative Assembly need adequate and reliable information on the Province's financial condition in order to hold government accountable for its use and control of public funds. Section 13 of the *Audit Act* requires the Auditor General to perform financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to a financial audit by an external auditor.

7.2 Management is responsible for the preparation of the financial statements and all related decisions. Financial statements reflect management's assertions. They provide information that is used to assess entity performance and management's stewardship over the economic resources entrusted to them. Therefore, it is imperative that the reader has confidence in the quality of the financial information provided by management.

7.3 To add credibility to the financial statements, users often rely on the work of an independent auditor. The auditor can objectively assess the accounting principles used, the estimates made, and other management assertions reflected in the financial statements. The auditor examines the entity's accounts and disclosures in accordance with Canadian generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The result of this examination is the auditor's opinion as expressed in the Auditor's Report.

7.4 In addition to issuing an Auditor's Report on the financial statements, the auditor may also issue a separate communication to management detailing observations arising from the audit. This communication is referred to as a management letter. The letter identifies any significant weaknesses noted in the entity's system of

7. Introduction to Financial Statement Audits

internal control, weaknesses in management processes, and/or any other area of concern which requires the attention of management.

7.5 For the majority of the financial statement audits we performed, management letters were issued. We brought to management's attention any significant issue or concern identified during the audit. We also made recommendations to address the items identified. These recommendations are at various stages of implementation.

7.6 In the following sections, we provide summary information on our audits of the Public Accounts and Appropriations and Special Warrants.

8. PUBLIC ACCOUNTS

BACKGROUND

8.1 Overall responsibility for the management of the Province's finances rests primarily with Executive Council. Under the authority of the *Financial Administration Act*, Executive Council acts through Treasury Board to fulfill its fiscal management responsibility. The *Financial Administration Act* further delegates general responsibility for the management and direction of the Province's finances to the Provincial Treasurer (now the Minister of Finance and Municipal Affairs). Responsibilities of the Minister include the operations of the Department, all activities related to the Operating Fund, and supervision, control, and direction of all financial matters of the Province; unless specifically assigned to another Board or Minister.

8.2 Management of the Province's finances is a significant responsibility which affects every taxpayer. With this responsibility comes the need for accountability. Taxpayers need to know how government has discharged its responsibilities in order to hold government accountable for its stewardship of the Province's finances and resources.

8.3 The Legislative Assembly, including its Public Accounts Committee, plays a primary role in holding government accountable. To fulfill their oversight role, members of the Legislative Assembly need reliable information. A primary source of information used by the Legislative Assembly are the Public Accounts. The Public Accounts consist of two volumes. Volume I contains the Province's audited consolidated financial statements and Volume II contains the audited financial statements of the Operating Fund, Crown corporations, and agencies.

8.4 The *Financial Administration Act* requires the Provincial Treasurer to annually table the Public Accounts in the Legislative Assembly. The Department's Comptroller is required to prepare the Public Accounts. According to the Act, the Public Accounts must contain the financial statements of the Operating Fund and the consolidated financial statements of the Province. The consolidated financial statements provide the most complete information about the

8. Public Accounts

operating results and financial position of the Province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies.

OBJECTIVES AND SCOPE

8.5 The *Audit Act* provides a broad mandate for the Auditor General to examine and report on the use and control of public funds and resources entrusted to government, Crown corporations, and agencies. Section 16 of the Act requires the Auditor General to perform an audit of the Public Accounts of the Province for each fiscal year and express an opinion on the Province's financial position and operating results.

8.6 The consolidated financial statements of the Province, Crown corporations, and agencies are audited and reported upon by either the Auditor General or a public accounting firm; depending on the statutory or other arrangements made. Under Section 17 of the *Audit Act*, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the auditor's report for each of these entities when performing the audit of the Public Accounts.

8.7 This report contains comments and observations arising from our audit of the Public Accounts for the fiscal year ended March 31, 2009 as well as comments to address other reporting requirements under the *Audit Act*. We also considered the results of those financial statement audits conducted by public accounting firms in our reporting.

DETAILED AUDIT OBSERVATIONS

Financial Statement Discussion and Analysis

8.8 The Public Accounts is a major accountability report of the Government of Prince Edward Island. It provides an opportunity to integrate and accumulate key information about government

8. Public Accounts

operations that taxpayers need to know. It is a document that has the potential to provide one of the most complete reports on government's management of the Province's finances and stewardship over those resources.

8.9 We reviewed the financial statement discussion and analysis included in the March 31, 2009 Public Accounts and concluded it does not provide users with the necessary information to fully assess the overall performance of government. The Public Accounts as an accountability document is still not being maximized.

8.10 The purpose of a financial statement discussion and analysis is to expand on and explain information contained in the financial statements. This information makes the financial statements more useful by extending the understanding of the information reported. The information complements and supplements the government's consolidated financial statements allowing government to express qualitative information given its detailed knowledge of the transactions, events, and conditions underlying the reported financial position and changes therein.

8.11 We acknowledge the additional information now included in the Public Accounts, however, further improvement would be beneficial to users. We reviewed the Public Accounts of several jurisdictions and noted each had a financial statement discussion and analysis section with considerably more information provided as compared to PEI. We also reviewed public filings of several large public companies and identified more extensive management discussion and analysis.

8.12 The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants has published recommended practices for financial statement discussion and analysis for a government or government organization choosing to provide supplementary information beyond that contained in its financial statements.

8. Public Accounts

8.13 Some basic information recommended by PSAB:

- a highlights section which provides a brief, concise summary of significant events affecting the financial statements;
- an analysis section that includes information on significant risks and a brief outline of government strategies, policies, and techniques to manage those risks and uncertainties;
- an analysis of significant trends related to financial statement components;
- an analysis that identifies and explains significant variances between the current year actual results and budget as well as significant variances between current year actual results and prior years actual results; and
- government's assessment of significant internal and external factors and trends that shape key strategies.

8.14 Financial statement discussion and analysis has become a core element of external reporting and we encourage Government to make further improvements in this area.

Recommendation

8.15 The financial statement discussion and analysis included with the Public Accounts should be improved so that it communicates sufficient information to enable users to more fully understand and evaluate the overall performance of Government.

Timely Financial Statements

8.16 As in prior years, we continue to stress the importance of releasing the Public Accounts on a timely basis. Financial statements are an important source of information for decision makers. Their usefulness diminishes as time passes and increased efforts are needed to have the financial statements available on a more timely basis. As well, there has been a change in the *Financial Administration Act* regarding years where there is a fixed date for a general election. In these years, the consolidated financial statements for the fiscal year preceding the fixed election date are required to be

8. Public Accounts

tabled by August 31. For the 2009 fiscal year, the Province's consolidated financial statements were tabled November 20, 2009. Currently, PEI is among the latest jurisdictions to release its consolidated financial statements.

8.17 The March 31, 2009 Public Accounts noted an improvement in the release date to November 20, 2009. The 2008 Public Accounts were released on January 26, 2009. There is still a need for significant improvement in order to meet an August 31 deadline. Government will need to meet year end accounting and audit readiness requirements on a timely basis and ensure year end audit readiness is of adequate quality to enable the timely completion of audit work.

8.18 The improved timeliness of the consolidated financial statements is also dependent on the timeliness of the Comptroller's Office receiving audited financial statements of entities included in the government reporting entity. The *Financial Administration Act* requires each reporting entity to have audited financial statements completed within three months of year end. Currently over 50 percent of the reporting entities are not meeting this requirement.

Compliance with the Financial Administration Act - Annual Reports

8.19 The *Financial Administration Act* requires reporting entities to provide an annual report within six months of their year end. Although we did not test to ensure all entities were complying with this section of the Act, we did note several instances where annual reports have not been completed or made public as required by the Act. We noted the following entities were not in compliance with the reporting requirements of the Act: the PEI Lotteries Commission, the PEI Lending Agency, the Teachers Superannuation Fund, the Civil Service Superannuation Fund, and the PEI Housing Corporation.

8.20 This concern has been previously reported by our Office, however, action is still needed. Non-compliance with this section of the Act diminishes accountability and we strongly urge Government to address this issue.

8. Public Accounts

Recommendation

8.21 The Department of the Provincial Treasury (now Finance and Municipal Affairs) should implement a process and assign responsibility to ensure the annual report requirements as outlined in the *Financial Administration Act* are complied with.

Consolidated Financial Statements

8.22 The consolidated financial statements are a primary accountability document for Government. The Auditor General is required to express an opinion as to whether the Province's consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector. Our audit was carried out in accordance with Canadian generally accepted auditing standards. On November 13, 2009, we issued an unqualified audit opinion on the Province's consolidated financial statements.

8.23 In addition to our audit opinion, the following paragraphs detail some of the more significant observations resulting from our audit.

Accounting Policies

8.24 As part of our audit, we assessed the accounting policies used to prepare the Province's consolidated financial statements. Significant steps have been taken towards preparing and presenting the consolidated financial statements in accordance with Canadian GAAP. However, we did identify the following items which are not in full compliance.

8.25 Consolidated Budget Estimates - Current accounting standards set as a basic requirement the inclusion of consolidated budget data with the Public Accounts. Consolidated budget estimates were prepared for the first time for the 2003-04 year. To facilitate meaningful comparisons, consolidated budgets need to be prepared and reported on the same basis as that used to prepare the consolidated financial statements. The 2008-09 Budget Estimates

8. Public Accounts

were prepared on a consolidated basis but we noted differences in the format used in the budget and the basis used in the 2008-09 consolidated financial statements. The budget included the net annual surplus of Crown corporations as revenue in the Budget summary.

8.26 Current accounting standards require inclusion of each consolidated entity's revenues and expenses rather than the net result. The absence of budgeted revenue and expense information of Crown corporations in budget documents limits the usefulness of budget information in assessing Crown corporation operations and creates difficulties in comparing consolidated budget and consolidated financial statement information.

Recommendation

8.27 The budget format should be revised to follow the format of the consolidated financial statements of the Province.

8.28 We also noted concerns with the capital budgets. Although the Province now prepares capital estimates, these budgets are not prepared on the same basis as the Province's tangible capital asset policy. Capital budgets include expenditures for assets which are below the threshold limits for capitalization as defined in the tangible capital asset policy. We encourage the Province to prepare its capital budgets on a basis consistent with its tangible capital asset policy.

Recommendation

8.29 The tangible capital asset policy thresholds should be followed when preparing the capital budget.

8.30 Tangible Capital Assets - The Province first began recognizing tangible capital assets in the 2003-04 Public Accounts. In that year, the Province recognized all tangible capital assets but included an exception with regard to the completeness of land as follows: *"Under the Transitional Provisions of PSAB Section PS 3150 historical cost is still being gathered for certain land parcels. Adjustments to cost may be required when more information becomes*

8. Public Accounts

available.” A similar note is disclosed in the 2008-09 schedule of tangible capital assets. Despite our continued recommendation to address this issue, the Province has yet to determine the historical cost for all land parcels.

Recommendation

8.31 Historical cost information should be obtained for all land parcels.

8.32 Government Business Enterprises - Condensed financial information of Government Business Enterprises (GBEs) as presented in Schedule 5 of the Province’s consolidated financial statements does not meet current PSAB standards. The consolidated financial statements should include the recommended disclosures for GBEs.

8.33 Subsequent Events - The Comptroller’s Office is responsible for the preparation of the consolidated financial statements. Preparation of the consolidated financial statements in accordance with current standards requires events to be identified which occur between the date of the financial statements of entities included in the government reporting entity and the date of completion of the Province’s consolidated financial statements. We noted there is a significant time span between these dates and there is currently no review by the Comptrollers Office of events occurring between these dates.

Recommendation

8.34 The Comptroller’s Office should implement a process to ensure subsequent events are appropriately updated as required by current accounting standards.

8. Public Accounts

Future Accounting and Audit Changes

8.35 Standards and pronouncements comprising Canadian GAAP continue to evolve and significant changes such as the adoption of International Financial Reporting Standards (IFRS) are already scheduled.

8.36 Effective January 1, 2011, public companies must implement IFRS. These standards also apply to Government Business Enterprises. Other government organizations (OGOs) are to consider the needs of their financial statement users in determining whether the standards of the Public Sector Accounting Board or IFRS are more appropriate.

8.37 Canada is also in the process of adopting International Standards on Auditing as Canadian auditing standards. These new standards will be effective for audits of financial statements with periods ending on or after December 14, 2010. These standards will impact audit processes as well as financial statement preparation processes. The standards will be effective for the audit of the Provinces consolidated financial statements for the March 31, 2011 year end.

8.38 The adoption of International Financial Reporting Standards and the implementation of Canadian auditing standards will impact government financial reporting. We strongly encourage Government to be proactive in its monitoring and assessment of these changes and the impact on its reporting processes.

Timely Preparation of Federal Claims

8.39 As reported over the past several years, we continue to note problems with the receipt of amounts due from the Federal Government. The issue, as noted below, is in the timely preparation of federal claims.

8.40 At March 31, 2009, federal receivables totalled \$84.4 million. Included in this balance is \$50 million related to the Canada-Prince Edward Island Provincial-Territorial Base Funding Agreement which

8. Public Accounts

was received subsequent to year end. Of the amount received, \$25 million related to the 2008 year and \$25 million to 2009. The majority of the remaining \$34.4 million in receivables will be reimbursed by the Federal Government on the basis of claims submitted by the Province.

8.41 Discussions with departmental staff indicated that timely submission of claims by the Province continues to be the major factor in delaying the receipt of federal funds. Delays in submitting the claims result in slower cash flows and higher interest costs to the Province.

Recommendation

8.42 All amounts due from the Federal Government should be claimed on a timely basis.

Guaranteed Debt

8.43 As noted in our 2009 annual report, the amount of debt guaranteed by government continues to rise. There has been a significant increase in the balance of guarantees issued by the Province over the past five years. Guaranteed debt has increased by 77.7 percent (\$106.8 million) over this period.

8.44 Exhibit 8.1 summarizes the components of the guaranteed debt balances for the past five years as reported in the Guaranteed Debt Schedule in the Public Accounts.

8. Public Accounts

EXHIBIT 8.1 GUARANTEED DEBT YEAR ENDED MARCH 31 (Thousands)

	2009	2008	2007	2006	2005
Lines of Credit/Demand Loans	\$ 1,516	\$ 2,191	\$ 200	\$ 1,335	\$ 4,128
Student Loans	24,989	25,312	23,897	22,056	19,304
Debentures/Capital Loans*	215,031	177,417	138,920	123,695	101,924
Agencies & Crown Corporations*	<u>2,713</u>	<u>5,759</u>	<u>7,495</u>	<u>9,475</u>	<u>12,088</u>
Total Guaranteed Debt	<u>\$244,249</u>	<u>\$210,679</u>	<u>\$170,512</u>	<u>\$156,561</u>	<u>\$137,444</u>

**Prior year figures have been reclassified to conform with the 2009 presentation*

8.45 In addition to the guaranteed debt noted above, there are guarantees disclosed in the notes to the consolidated financial statements which are not included on the Guaranteed Debt Schedule. One of these guarantees was issued by the PEI Business Development Inc. (now Innovation PEI) whereby it indemnified lease payments to a landlord on behalf of a private company. In the case of default by the tenant, the maximum amount indemnified is \$108,000 per month, pursuant to the lease ending February 2025. A provision of \$14.7 million has been established for this guarantee at March 31, 2009. The second guarantee relates to the Credit Union Deposit Insurance Corporation (CUDIC) whereby the Province shall ensure the obligations of the CUDIC are carried out. The CUDIC provides deposit insurance coverage on insurable deposits in each of the ten credit unions in the Province. Insurable deposits totalled \$574.9 million at December 31, 2008.

8.46 The continued growth in guaranteed debt represents a significant increase in the level of financial risk assumed by the Province. This risk needs to be diligently monitored to ensure the financial exposure of the Province is minimized.

8. Public Accounts

Pension Obligations

8.47 Pension liabilities continue to rise whereas the market value of assets have seen a significant decline over the past two years. **Exhibit 8.2** reflects the net pension assets (obligations) for each of the past five years. Pension obligations are based on full actuarial valuations completed every three years with estimates updated by the Province during the interim periods. The last full actuarial valuations for the Teachers Superannuation Fund and the Civil Service Superannuation Fund were dated April 1, 2008 while the one for the Members of the Legislative Assembly Pension Fund was dated April 1, 2006.

EXHIBIT 8.2
NET PENSION ASSETS (OBLIGATIONS)
YEAR ENDED MARCH 31
(Millions)

	2009	2008	2007	2006	2005
Pension fund liabilities	\$(1,596.6)	\$(1,493.2)	\$(1,391.2)	\$(1,170.1)	\$(1,048.8)
Pension fund assets	<u>1,157.7</u>	<u>1,381.0</u>	<u>1,409.1</u>	<u>1,077.9</u>	<u>831.8</u>
Unfunded pension					
(liability) surplus	(438)2.2)	17.9	(92.2)		(217.0)
Unamortized adjustments	<u>471.2</u>	<u>155.4</u>	<u>13.6</u>	<u>71.2</u>	<u>49.7</u>
Net pension assets					
(obligations)	<u>\$ 32.3</u>	<u>\$ 43.2</u>	<u>\$ 31.5</u>	<u>\$ (21.0)</u>	<u>\$ (167.3)</u>

8.48 Exhibit 8.3 provides a summary of the change in the PEI Master Trust. The PEI Master Trust is the pool of pension assets used to fund pension obligations. The total market value of pension assets held and the rate of return on the assets held in the PEI Master Trust is noted.

8. Public Accounts

EXHIBIT 8.3 PEI MASTER TRUST YEAR ENDED MARCH 31 (Millions)

	2009	2008	2007	2006	2005
Master Trust Investments	<u>\$ 1,020</u>	<u>\$1,220</u>	<u>\$1,223</u>	<u>\$ 930</u>	<u>\$ 831</u>
Change in Master Trust Investments:					
Special contributions by Government	\$ 28	\$ 34	\$ 22	\$ 19	\$ 18
Interest and dividends	40	48	44	27	25
Market value gains/losses	(249)	(87)	65	85	22
Plan withdrawals and expenses less contributions	(19)	(22)	(16)	(32)	(25)
Transfer of assets from Uniform Pension Plan*	-	24	178	-	-
Total increase/decrease	<u>\$ (200)</u>	<u>\$ (3)</u>	<u>\$ 293</u>	<u>\$ 99</u>	<u>\$ 40</u>
Plan asset rate of return	<u>(17.10%)</u>	<u>(3.10%)</u>	<u>11.50%</u>	<u>13.50%</u>	<u>5.90%</u>

**In prior years health sector employees contributed to the Uniform Pension Plan. This plan was amalgamated with the Civil Service Superannuation Fund.*

8.49 As of December 31, 2009, the value of the Master Trust investments had increased by \$206 million to \$1,226 million.

OTHER REPORTING REQUIREMENTS

Cancellation or Discharge of Debt

8.50 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*. The total amount owed by third parties to the Province and discharged, cancelled, released, and/or written off was \$623,373 in 2008-09. The amount cancelled or discharged under Section 26 is detailed in **Exhibit 8.4**.

8. Public Accounts

EXHIBIT 8.4 AMOUNTS CANCELLED OR DISCHARGED YEAR ENDED MARCH 31, 2009

	Section 26(1)	Section 26.1(1)
Revenue Tax Act	\$ -	\$493,292
Environment Tax Act	-	212
Gasoline Tax Act	-	3,425
Real Property Tax Act	<u>126,444</u>	<u>-</u>
	<u>\$126,444</u>	<u>\$496,929</u>

Surplus (Deficit) of Crown Corporations and Agencies

8.51 Section 16 of the *Audit Act* requires the Auditor General to include information in the Annual Report on deficits of agencies not covered by appropriations in the year in which they have been incurred, and any surpluses not paid into the Operating Fund in the year in which they are earned. In **Exhibit 8.5**, we have also included the cumulative surplus or deficit for each entity.

8. Public Accounts

EXHIBIT 8.5 SURPLUS (DEFICIT) OF CROWN CORPORATIONS AND AGENCIES

	Annual Surplus (Deficit) For the Year	Cumulative Surplus (Deficit)
Advisory Council on the Status of Women	\$ 2,663	\$ (1,860)
Agricultural Insurance Corporation	(9,603,476)	6,520,170
Agricultural Research Investment Fund Inc.	34,318	181,194
Aquaculture and Fisheries Research Initiative Inc.	(235,220)	471,760
Business Development Inc. (now Innovation PEI)	56,322	598,136
Charlottetown Area Development Corporation	(16,252)	5,020,571
Eastern School District	(3,876)	196
Energy Corporation	3,409,985	10,838,516
French Language School Board	2,261	15,681
Grain Elevators Corporation	201,686	836,995
Harness Racing PEI	(295,893)	(500,744)
Human Rights Commission	1,905	1,905
Island Investment Development Inc.	4,689,541	7,497,550
Island Waste Management Corporation	105,530	259,729
Lending Agency	844,940	1,089,802
Museum and Heritage Foundation	(19,715)	562,991
Self-Insurance and Risk Management Fund	(10,967)	7,517,306
Special Projects Fund	(110,992)	531,219
Summerside Regional Development Corporation Ltd.	(140,712)	3,392,350
Western School Board	(368,241)	2,413
Workers Compensation Board	(25,628,218)	(13,390,368)

MANAGEMENT RESPONSE

8.52 This report has been discussed with management.

9. APPROPRIATIONS AND SPECIAL WARRANTS

INTRODUCTION

9.1 Government's legislative authority to spend public monies is provided annually by an *Appropriation Act*. Authority for expenditures which exceed the initial amount set by an *Appropriation Act* is provided by special warrant or transfer of an appropriated amount.

9.2 *Appropriation Acts* require the approval of the Legislative Assembly whereas special warrants require the approval of the Lieutenant Governor in Council acting on the advice and recommendation of Executive Council. Transfers are generally approved by Treasury Board.

9.3 For the fiscal year ended March 31, 2009, the *Appropriation Act (Current Expenditures) 2008* authorized \$1,349.6 million in current expenditures while the *Appropriation Act (Capital Expenditures) 2008* authorized \$76.9 million for capital. Special warrants accounted for an additional \$28.3 million in authorized spending of which \$12.5 million related to current expenditures and \$15.8 million related to capital.

APPROPRIATIONS

9.4 The *Appropriation Acts of 2008* provide the legislative authority for current and capital expenditures. Section 16 (b) (ii) of the *Audit Act*, requires the Auditor General to “*provide an opinion on whether the expenditures that were authorized by the Annual Appropriation Act, or by special warrant, were expended for the purpose for which they were appropriated.*”

9.5 Our audit of appropriations and special warrants for the year ended March 31, 2009 concluded amounts were expended for the purpose for which they were appropriated. In addition to the information provided in **Schedules A and B**, readers should also consider the Province's consolidated financial statements and our audit report on those statements.

9. Appropriations and Special Warrants

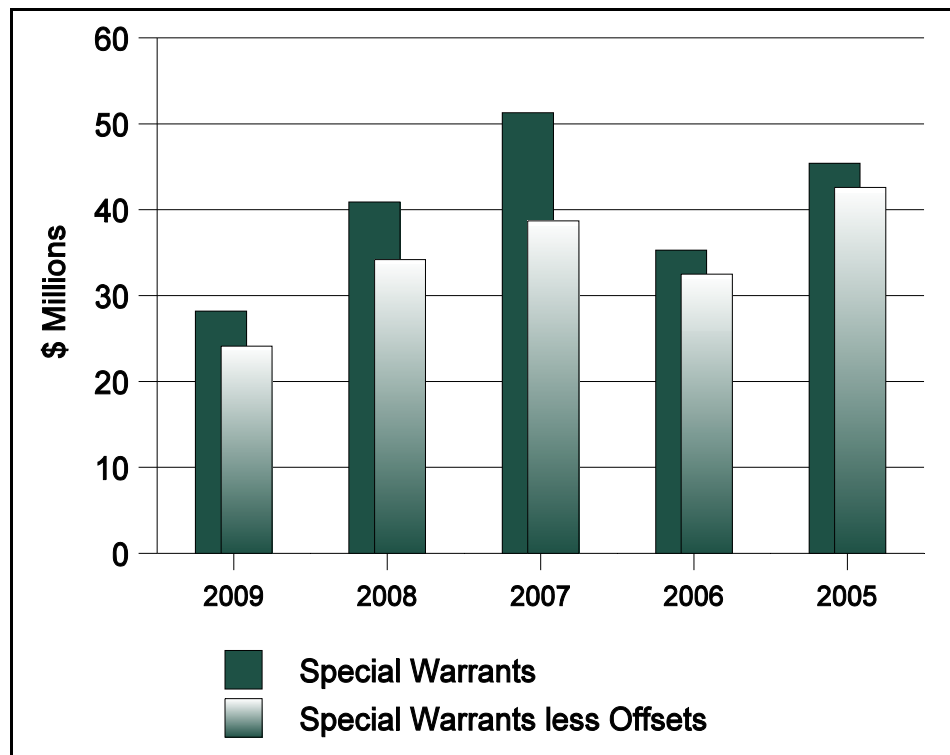
9.6 Schedule A provides a comparison of appropriations to actual expenditures in accordance with the classifications in the *Appropriation Acts of 2008*.

SPECIAL WARRANTS

9.7 Section 16(h) of the *Audit Act* requires the Auditor General to list, in detail, all appropriations made by special warrant and their purpose. This list is provided in **Schedule B** attached to this report.

9.8 Special warrants for the March 31, 2009 fiscal year were partially offset by a \$4.1 million increase in revenue resulting in a net increase in spending authority of \$24.2 million. **Exhibit 9.1** provides a comparative of the total amount of special warrants and special warrants net of revenue for the last five years.

**EXHIBIT 9.1
SPECIAL WARRANTS
YEAR ENDED MARCH 31**



9. Appropriations and Special Warrants

Delays in Issuing Special Warrants and Transfers

9.9 Normally, an expenditure should not be incurred unless it is provided for by an appropriation. In cases where an appropriation is expected to be exceeded, the spending authority should be in place prior to the expense being incurred. Current arrangements for approval and reporting of special warrants normally results in the spending authority being put in place prior to the expense being incurred. However, we have identified instances when the approval was after the fact. That is, the legislative authority for the expenditure was not in place prior to the expenditure being incurred.

9.10 During our audit, we noted four departments had exceeded their authorized current expenditure limit. For one department, a transfer from general government was not authorized until January 21, 2010. For the remaining three departments, special warrants were not issued until February 2, 2010.

Recommendation

9.11 Special warrants and transfers should be issued on a timely basis.

MANAGEMENT RESPONSE

9.12 This Report has been discussed with management.

UPDATE ON PREVIOUS RECOMMENDATIONS

10. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

10.1 Each special audit or examination results in a report which is provided, through our Annual Report, to the Legislature. A fundamental component of special audit reports are recommendations which address observations or deficiencies noted during the audit. They are designed to contribute to the improvement of the management and administration of government operations and programs. It is management's prerogative to select the best course of action to address the issues identified. Our concern is that all recommendations are being addressed by management.

10.2 On an annual basis, we request information on the action taken in addressing outstanding recommendations. This information is normally requested through the Deputy Minister or Chief Executive Officer of the organization. At a minimum, we review each response for reasonableness. It is normally more cost effective to carry out detailed verification during the next scheduled audit.

10.3 Following is summary information we obtained on the status of recommendations from the special audits and examinations reported in the 2009 Annual Report of the Auditor General as well as outstanding recommendations from audits in the 2008, 2007, 2006, and 2004 Annual Reports.

10. Update on Previous Recommendations

PROVINCIAL NOMINEE PROGRAM - IMMIGRANT PARTNER CATEGORY

10.4 Following are the recommendations resulting from our audit of the Provincial Nominee Program - Immigrant Partner Category in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from Island Investment Development Inc. (IIDI).

Auditor General's Recommendation	Status/Management Response
The IIDI Board of Directors should fulfill its responsibility to provide oversight for all operations of IIDI including the Provincial Nominee Program.	The Board of Directors of IIDI have reviewed and approved various Provincial Nominee Program policies. On a go-forward basis, the Board will perform oversight of the program and will approve policy and program changes.
Program policies should be documented and approved by the Board of Directors of IIDI.	All program policies will be documented and approved by the Board of Directors of IIDI.
IIDI should ensure that approved eligibility criteria and policies of the Provincial Nominee Program are accessible to all potential applicants.	IIDI will ensure that approved eligibility criteria and policies of the Provincial Nominee Program are accessible to all potential applicants.
IIDI should take steps to improve communication with immigrants regarding good faith and language proficiency deposits and refunds.	IIDI has drafted a comprehensive policy for the Good Faith Deposit Agreement and the Language Deposit Agreement. Summary documents that explain the process for deposits, as well as a Frequently Asked Questions (FAQ) document, have been drafted and posted on the Immigration website www.gov.pe.ca/immigration . The documents have also been translated into chinese, farsi, korean, and french and posted to the IIDI website.
The Board of Directors of IIDI should establish a policy on approval levels required for business applications and exceptions to policy.	The IIDI Board of Directors has directed that all exceptions to policy be approved by the IIDI Board.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
IIDI staff should verify that the terms of conditional eligibility requirements are met before processing the file.	The staff of IIDI have reviewed the errors identified and are reviewing internal procedures to ensure these omissions are avoided in the future.
IIDI should ensure that required documentation is on file to support the business approval.	IIDI will continue to ensure the appropriate document is on file to support an approval.
IIDI should ensure business files are subject to consistent application of the eligibility criteria.	IIDI will continue to ensure the business files are subject to consistent application of eligibility criteria.
IIDI should develop a strategy to follow up on businesses which received units under the Program. IIDI should provide information in its Annual Report on the results of these follow-up procedures.	IIDI has consulted legal counsel and determined it has the ability to follow up with only the companies who have signed a Use of Proceeds Agreement. IIDI will be following up with those companies.
IIDI should ensure, on an ongoing basis, that all companies sign the Use of Proceeds Agreement and that the wording of all such agreements prohibits payments to shareholders.	IIDI will ensure all companies that participate within the Program will sign a Use of Proceeds Agreement.
IIDI should be diligent in the review of investment documents to identify errors and omissions.	IIDI has reviewed and enhanced internal procedures to eliminate errors and omissions in the future.
Similar to a licensing procedure, IIDI should develop and apply criteria that intermediaries must meet in order to achieve and maintain approved intermediary status.	Should intermediaries be utilized in future programs, IIDI will develop criteria that intermediaries must meet to achieve and maintain approved intermediary status.
IIDI should ensure that letters of credit provided by intermediaries are up to date and consistently accessible.	As of June 5, 2009, all letters of credit posted for all intermediaries were current.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
IIDI should continue to seek legal advice on the potential liability related to investor refunds.	IIDI has obtained a legal opinion that neither the Province nor IIDI are a party to or have any obligations pursuant to any of the contracts or agreements in force between any or all of the immigrant partners, agents, intermediaries, and or investee corporations.
IIDI should implement a reporting framework with the intermediaries to include regular reporting of balances and activities of the rejected investor trust fund accounts.	IIDI has requested that quarterly updates be provided to the Department. These statements will reflect the activities within the Replacement Investor Trust Fund administered by the intermediaries.
The Legislative Assembly should review the <i>Conflict of Interest Act</i> to determine if revisions can be made to clarify conflict of interest situations for Members.	The Speaker of the Legislative Assembly requested that the Conflict of Interest Commissioner review the provisions of the <i>Conflict of Interest Act</i> and provide the Assembly with an opinion. The Conflict of Interest Commissioner has provided a report to the Legislative Assembly as requested.
The Treasury Board Conflict of Interest Guidelines should be clarified and strengthened regarding their specific application to, and the expectations for, Deputy Minister level employees.	The Premier directed the Clerk of Executive Council to undertake a complete review of the Conflict of Interest Guidelines. A draft was completed in late 2009 and planning for new guidelines is in progress.
IIDI should review its deposits to ensure the defaulted revenue reported is complete.	IIDI has reviewed all Good Faith and Language Deposits held. As of June 5, 2009, all refunds and defaults had been processed.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
<p>IIDI should conduct an evaluation of the Immigrant Partner Category of the Provincial Nominee Program.</p>	<p>Citizenship and Immigration Canada are completing a framework for a national evaluation of provincial nominee programs and PEI will be participating in the evaluation. IIDI is also completing an outside party examination of the economic results of the immigrant partner program. Finally, the outcomes of the past program are continually being compiled and will be weighed by the IIDI Board in establishing any new programs.</p>
<p>In accordance with the <i>Financial Administration Act</i>, IIDI should provide an Annual Report to the Legislative Assembly which includes information on the PNP.</p>	<p>IIDI will submit an Annual Report to the Legislative Assembly on a yearly basis which will include information on the Provincial Nominee Program.</p>
<p>The Province should develop a strategy to improve the settlement services available to immigrants.</p>	<p>The Department is working with its federal and provincial partners, as well as the Association for Newcomers, to move forward on issues such as language training, translation and interpretation, diversity, and single window service supply. Also, the Population Secretariat will continue to refine settlement services.</p>

10. Update on Previous Recommendations

IN-PROVINCE PHYSICIAN PAYMENTS

10.5 Following are the recommendations resulting from our audit of In-Province Physician Payments as presented in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Health and Wellness.

Auditor General's Recommendation	Status/Management Response
The Medical Programs Division should ensure deactivation of billing numbers is carried out on a timely basis.	This has been completed. In the future, quarterly reports will be produced by the Medicare Office and reviewed to ensure better accuracy.
The Medicare Office should ensure that stipends paid agree to the rate approved in the Master Agreement.	All stipends have been reviewed. No discrepancies have been noted.
The renewal forms for a PEI Health Card should state the basic criteria a person must meet to be eligible for Medicare coverage on PEI and applicants should be required to confirm that they meet these criteria during renewal.	A review of the procedures and practices in place in other provinces is underway. Currently, there are some legal concerns as to whether all adults need to sign in a household, or whether the head of the household can sign on behalf of all members of the household.
The Department of Health should review the current variance between the number of active PHNs and the population and take appropriate action where possible.	A cleanup of all non-renewed numbers has occurred. A statement of work has been developed with the external ICS service provider to develop an automated process within the database. This is expected to occur in the 2010-11 fiscal year.
The Department of Health should use the information obtained from shadow billings to compare the costs and productivity of physician services under the various payment models.	This work has been completed. There are active discussions ongoing within government regarding the information gathered in relation to the upcoming negotiation process.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Department of Health should ensure adequate monitoring of the hours worked and the level of productivity of salary and contract physicians, especially those in private clinics.	A new structure for the delivery of primary care services is under development with additional management resources identified for government approval. Closer monitoring of hours worked and productivity is expected from these changes.
Department management should ensure that internal audit procedures provide adequate coverage of fee-for-service claims from all physicians.	An external consulting firm has been hired to provide a renewed audit plan for the in-province physician payment account.
Periodic summary reports should be prepared and presented to management indicating the scope and results of the internal audit work completed.	This is expected as part of the renewed audit plan under development.
The internal audit function should include analytical procedures to identify unusual patterns in physician claims. Any anomalies identified should be investigated and sufficient, appropriate audit evidence should be gathered to explain and document the issue.	This is expected as part of the renewed audit plan under development.
Arrangements with the external service provider for the Integrated Claims System (ICS) should be formalized in a signed agreement and approved by Treasury Board as required by Treasury Board policy.	The Information Technology Shared Services branch of Provincial Treasury is presently in negotiations with the external service provider regarding this matter.
ITSS and the Department of Health should consult with the Risk Management and Insurance Section of the Department of the Provincial Treasury to determine the appropriate insurance coverage to be included in the Service Level Agreement for the Integrated Claims System.	Modifications have been made based on input from a solicitor and Risk Management and Insurance Section. A draft contract has been provided to the Deputy Minister.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
<p>The Information Technology Governance Council should formalize a Government Information Security Policy. ITSS, in coordination with the Department of Health, should apply the approved policy requirements to the Service Level Agreement for the Integrated Claims System.</p>	<p>ITSS continues to work towards the endorsement of the GISP by the IT Governance Council. It is expected that the GISP will be ratified in the 2010-11 fiscal year. The draft GISP has not been completely applied to the ICS Service Level Agreement. Meetings are being held involving security resources to ensure all aspects are understood and covered off, including investigating the identified gaps and determining when these gaps could be incorporated into an agreement with the vendor.</p>
<p>ITSS, in coordination with the Department of Health, should ensure additional access controls are implemented to minimize the risk of unauthorized access to confidential information in the Integrated Claims System.</p>	<p>Work has been completed to investigate the technical modifications required to move to unique user names and passwords for ICS. Also, the external service provider is making product enhancements so every user will have a unique user name and password.</p>
<p>ITSS, in coordination with the Department of Health, should ensure that:</p> <ul style="list-style-type: none"> • only employees who require access to modify tables within the ICS have that access; and • user access is limited based on requirements of the position. 	<p>Work is underway to determine the level of access required by each position and to create more restricted positions that meet the access requirements of the various roles.</p>
<p>ITSS, in coordination with the Department of Health, should monitor the activity of users in the Integrated Claims System.</p>	<p>Processes have been drafted to ensure there are regular reviews of user access to determine if it is appropriate and that there is regular monitoring of who is making modifications within ICS.</p>

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
<p>ITSS, in coordination with the Department of Health, should take the necessary steps to improve the usefulness of the monitoring report.</p>	<p>Existing audit reports have been reviewed to determine if the required information is present for tracking of user accounts and system modifications. It has been determined that these reports must be modified. Key elements to be included in the audit report have been identified.</p>
<p>ITSS, in coordination with the Department of Health, should ensure that each employee of the service level provider requiring access to the Integrated Claims System has a unique user name and password to enable more accurate monitoring of activity.</p>	<p>Each employee of the service level provider has been assigned a unique user name and password. Work is in progress to determine how to best address the monitoring of access and system modifications.</p>
<p>ITSS, in coordination with the Department of Health, should develop a disaster recovery plan for the Integrated Claims System.</p>	<p>The Province has embarked on an Enterprise-wide Business Continuity Planning project. As an additional step to that project, priorities with regard to the development of Disaster Recovery Plans for critical systems such as Integrated Claims Systems will be endorsed.</p>

10. Update on Previous Recommendations

DEPARTMENT OF SOCIAL SERVICES AND SENIORS - GRANTS TO NON-GOVERNMENT ORGANIZATIONS

10.6 Following are the recommendations resulting from our audit of Department of Social Services and Seniors - Grants to Non-Government Organizations as presented in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Community Services, Seniors and Labour.

Auditor General's Recommendation	Status/Management Response
The Department of Social Services and Seniors should develop a strategy outlining its objectives and criteria for providing funding to Non-Government Organizations (NGOs).	The Department is currently developing its strategy in relation to providing funding to NGOs. Criteria for funding have been established. The Department has recently completed its strategic plan which will facilitate identifying NGOs whose services align with the Departmental strategic direction.
A standardized format should be developed for budget submissions from NGOs.	A standardized format for budget submissions from NGOs has been developed for the 2010-11 fiscal year.
Department staff should document the assessment of NGO budget submissions.	The Department has developed a template to document the assessment of NGO budget submissions and the funding decisions related to those submissions. It will be implemented for the 2010-11 NGO submissions.
The Department should ensure that funding decisions for NGOs are well documented and supported.	The Department has developed a template to document the assessment of NGO funding decisions. It will be implemented for the 2010-11 NGO submissions.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Funding agreements for NGOs in excess of \$100,000 should be approved by Treasury Board as required by Treasury Board policy.	For the 2008-09 and 2009-10 fiscal years, Treasury Board approval was requested and received for all NGO contracts in excess of \$100,000. The Department will continue to submit these funding agreements to Treasury Board for approval.
For all funding provided to NGOs, the Department should ensure that signed agreements exist which clarify the performance expectations of the parties involved.	As of the date of this response, all NGOs which are expected to receive funding in the current fiscal year have either had the contract signed or are in the process of being signed.
The Department should ensure that required documentation regarding Workers Compensation and insurance coverage is current and received prior to payments being issued to the NGOs.	Workers Compensation and insurance information is now being collected as contracts are signed.
In coordination with the Risk Management and Insurance Section of the Department of the Provincial Treasury, the Department should review the insurance policies of the NGOs.	As contracts are signed, insurance information provided by each NGO is reviewed by the Risk Management and Insurance Section at Provincial Treasury to ensure insurance requirements have been met.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
<p>The Department should ensure that information is received from each NGO on a timely basis as required in the funding agreement. This information should be used by the Department to assess the services provided by the NGO in relation to the original performance expectations covered in the funding agreement.</p>	<p>For the 2009-10 fiscal year, contract requirements and expectations as to the receipt of these reports have been discussed in depth with the NGOs and a template has been developed. NGOs have been notified that quarterly reports are expected to be submitted at the same time as, or prior to, quarterly invoices for funding with the intent that funding will not be released until receipt of these reports. The Department will continue to monitor the success of this process and amend it as necessary.</p>
<p>The Department should include additional information on grants to NGOs in its Annual Report to the Legislative Assembly.</p>	<p>Information on NGO grants was included in the Department of Social Services and Seniors 2007-08 Annual Report released in May 2009. The Department intends to continue to provide this information in future reports.</p>

10. Update on Previous Recommendations

GOVERNMENT'S INVOLVEMENT WITH NATURAL ORGANIC FOOD GROUP PEI INC.

10.7 Following are the recommendations resulting from our audit of Government's Involvement with Natural Organic Food Group PEI Inc. as presented in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from the Department of Agriculture, PEI Lending Agency, and the Secretary to Treasury Board.

Auditor General's Recommendation	Status/Management Response
When government enters into a development project, it should ensure that a financial plan is in place to address the financing requirements and sources of funding. Financing risks identified should be monitored.	A financial plan should be in place which addresses financing requirements and sources of funding for each development project. Currently, loans in excess of \$1 million are reported to Treasury Board on a quarterly basis.
Financial assistance provided by the Lending Agency should be approved in accordance with the <i>Lending Agency Act Regulations</i> .	Management of the Lending Agency agrees with this recommendation. The instances noted in the audit pertain to two working capital loans which management and the Board considered to be within the limits imposed by the regulations since a \$1 million guarantee, which had previously been approved, did not have to be provided through the Lending Agency.
Invoices should be obtained prior to advancing funds for equipment acquisition.	This recommendation has been reviewed by senior management of the Department of Agriculture to ensure compliance with respect to the financial terms contained in all funding arrangements. Also, all documents with significant financial implications to the Department are to be reviewed by staff of the Corporate and Financial Services Division.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Responsibilities outlined by Executive Council regarding the disbursement of financial assistance should be followed.	This recommendation has been reviewed by senior management of the Department of Agriculture to ensure compliance with respect to the financial terms contained in all funding arrangements. Also, all documents with significant financial implications to the Department are to be reviewed by staff of the Corporate and Financial Services Division.
If required financial statements of a client company are not available, compensating controls should be implemented such as reviewing other types of reports and/or exercising a right to appoint a representative to the Board of Directors.	The acquisition of financial statements is crucial and had presented some difficulties for Agency staff. The Lending Agency made several attempts to acquire the information from the client without success. In the future, if a situation arises where there is doubt as to the financial stability of a borrower and the option to appoint a representative to the Board exists, this option will be explored in consultation with legal counsel.
The Department of Agriculture should ensure that terms and conditions attached to financial assistance are complied with.	This recommendation has been reviewed by senior management of the Department of Agriculture to ensure compliance with respect to the financial terms contained in all funding arrangements. Also, all documents with significant financial implications to the Department are to be reviewed by staff of the Corporate and Financial Services Division.
To ensure economic development initiatives are thoroughly assessed and monitored, there should be coordination among departments and agencies; keeping in mind their respective mandates and areas of expertise.	Economic development initiatives should be directed to the appropriate department or agency.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
<p>The Department of Agriculture should ensure changes to terms and conditions attached to financial assistance are authorized at the level of the original approval.</p>	<p>This recommendation has been reviewed by senior management of the Department of Agriculture to ensure compliance with respect to the financial terms contained in all funding arrangements. Also, all documents with significant financial implications to the Department are to be reviewed by staff of the Corporate and Financial Services Division.</p>
<p>The Lending Agency should assess the recourse available in exercising the remaining security for the loan.</p>	<p>Under the supervision of the Receiver, all fixed assets have been sold, the inventory liquidated, and receivables collected. All that remains are the personal guarantees that were taken in support of the loans. In addition to the sole Quebec shareholder, there are four guarantees from PEI hog producers. The Lending Agency sees no benefit in pursuing these guarantors. Nothing can be gained financially as these farming operations remain over leveraged.</p>

10. Update on Previous Recommendations

MEDICAL EQUIPMENT - ACQUISITION AND MAINTENANCE

10.8 Following are the outstanding recommendations resulting from our audit of Medical Equipment - Acquisition and Maintenance as presented in the 2008 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Health and Wellness.

Auditor General's Recommendation	Status/Management Response
To assist in ranking equipment priorities, the items on the Queen Elizabeth Hospital medical equipment priorities listing should be supported with a documented needs assessment.	QEH has this process in place for new medical equipment purchases.
Policies should be developed and approved by the Department of Health regarding the circumstances required for standardization of medical equipment.	We continue to move toward a standardized philosophy for the procurement of medical equipment and supplies. In November 2009, the Health Management Directors gave their endorsement to pursue a policy of standardization where safety and financial costs were also to be considered. The Standards Committees of both PCH and QEH are working collaboratively on a number of opportunities for standardization of equipment.
A complete database of medical equipment should be maintained at both the Queen Elizabeth Hospital and the Prince County Hospital.	Significant progress has been made at various sites across the Province. However, additional investment will be required to fully implement and maintain the inventory and preventative maintenance system. Several sites have begun entering equipment inventory and both QEH and PCH are recording maintenance work orders in the system.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
<p>The Queen Elizabeth Hospital and Prince County Hospital should have documented policies for preventative maintenance of medical equipment and a process in place to flag equipment when preventative maintenance is due.</p>	<p>The preventative maintenance policy was approved by the Health Management Committee in November 2009. Automated equipment flagging has commenced and will be fully operational as soon as equipment inventories are completely entered into the system.</p>
<p>Maintenance systems for medical equipment should record all repairs and preventative maintenance completed and should be used to provide periodic reports to senior management.</p>	<p>Daily work orders are now being entered into the asset management program at various sites. Additional resources will be required to complete inventory input and manage the system on an ongoing basis. Once the system is fully operational, appropriate reports will be developed and presented to management on a consistent basis.</p>

10. Update on Previous Recommendations

MANAGEMENT AND USE OF DIAGNOSTIC IMAGING EQUIPMENT

10.9 Following are the outstanding recommendations resulting from our audit of Management and Use of Diagnostic Imaging Equipment as presented in the 2008 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Health and Wellness.

Auditor General's Recommendation	Status/Management Response
Diagnostic Imaging Services should implement a quality assurance program that includes a peer review of a sample of each radiologist's analysis of diagnostic images.	A peer review program is currently not standard practice across Canada, however, the Diagnostic Imaging department is evaluating potential benchmarks with other jurisdictions. Current practices include all locums and new radiologists having report samples reviewed as well as radiologists consulting each other on complex cases with any questionable reports being discussed as a group.
Diagnostic Imaging Services should consider implementing a centralized booking process for the two CT scanners at QEH and PCH.	Diagnostic Imaging Services has successfully implemented a centralized booking model for CT.

10. Update on Previous Recommendations

TRAVEL - GOVERNMENT DEPARTMENTS

10.10 Following are the outstanding recommendations resulting from our audit of Travel - Government Departments as presented in the 2008 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Finance and Municipal Affairs.

Auditor General's Recommendation	Status/Management Response
The PCard Policy and Procedures document should be amended to more clearly outline PCard usage and the responsibilities for program administration.	An amended PCard Policy has been drafted by the Office of the Comptroller which more clearly outlines responsibilities for PCard coordinators and cardholders.
As approved by Treasury Board, PCard policies should be included in the Treasury Board Policy and Procedures Manual.	The amended PCard Policy will be included in the Treasury Board Policy and Procedures Manual following its approval by Treasury Board.

10. Update on Previous Recommendations

SMALL CLAIMS PROCESS

10.11 Following is the outstanding recommendation resulting from our audit of the Small Claims Process as presented in the 2008 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from management of the Office of the Attorney General and Public Safety.

Auditor General's Recommendation	Status/Management Response
Performance measures should be established for court services and the Legal and Judicial Services Division should report to senior management and the Legislature on the performance of court services including Small Claims.	Last year our response noted that this recommendation, because of its constitutional implications, requires in-depth consideration by legal officers in the Office of the Attorney General. That is still the case as of March 2010. In the past year, we engaged consultants to conduct a study and their report, <i>Review of Senior Positions in Judicial Services</i> , was completed in March 2009. Implementation of the recommendations in the report will require further discussions with the Judiciary. We hope to make progress in this area during the coming year.

10. Update on Previous Recommendations

PEI ENERGY CORPORATION

10.12 Following are the outstanding recommendations resulting from our examination of the PEI Energy Corporation as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the PEI Energy Corporation.

Auditor General's Recommendation	Status/Management Response
The Energy Corporation should develop a strategic plan that is linked to the renewable energy strategy and approved by the Board of Directors.	The Corporation continues to perform its roles as identified in Government's energy strategy entitled <i>Prince Edward Island Strategy - Securing our Future: Energy, Conservation and Renewables</i> . The Corporation has yet to develop a detailed strategic plan primarily because of external activities surrounding electricity supply for the Province which could significantly affect the Corporation's current activities and responsibilities.
The Energy Corporation should prepare a business plan, linked to its strategic plan, that outlines planned activities and required resources.	When the strategic plan for the Corporation has been developed, a business plan will be prepared to reflect planned activities and required resources.

10. Update on Previous Recommendations

PEI BUSINESS DEVELOPMENT INC. - LENDING ACTIVITIES

10.13 Following is the outstanding recommendation resulting from our examination of PEI Business Development Inc. - Lending Activities as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from management of Innovation PEI.

Auditor General's Recommendation	Status/Management Response
The draft policy manual for lending activities should be revised where necessary and approved.	As of March 2010, the draft policy manual for lending activities is under review by the Director of Lending Services and the Chief Executive Officer of Innovation PEI.

10. Update on Previous Recommendations

STUDENT TRANSPORTATION - EASTERN SCHOOL DISTRICT

10.14 Following is an outstanding recommendation resulting from our examination of Student Transportation-Eastern School District as originally presented in the 2006 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from management of the Eastern School District.

Auditor General's Recommendation	Status/Management Response
In accordance with Eastern School District policy, a standard performance appraisal process should be implemented for bus drivers.	Three bus drivers have been hired as bus coaches and placed within the Eastern School District to provide support to existing, potential, and new drivers. Part of their responsibility is to provide feedback with regards to the drivers they work with. The current goal of the District involves implementing a review of all current bus drivers on a three-year rotation. There is also a process being developed to assist in the assessment of driving skills for existing, new, and potential drivers.

10. Update on Previous Recommendations

CROWN AGENCIES - CONTROL AND ACCOUNTABILITY

10.15 Following is an outstanding recommendation resulting from our examination of Crown Agencies - Control and Accountability, as presented in the 2004 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from the Secretary to Treasury Board.

Auditor General's Recommendation	Status/Management Response
In addition to budgets by program area for school boards, the Budget Estimates should, at a minimum, provide supplementary information showing budgeted revenues and expenditures by school board.	School Board budgets are based on the amounts approved in the Legislature.

PUBLIC ACCOUNTS COMMITTEE

11. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

11.1 The Standing Committee on Public Accounts is a Committee of the Legislative Assembly. It provides an important link in the accountability process. Through Committee proceedings, members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable for the use of public funds and the stewardship of public assets.

11.2 The Committee currently consists of seven members and is chaired by a member of the Official Opposition. It is charged with matters concerning the Public Accounts of the Province and the Auditor General's Annual Report. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

PROCEEDINGS AND RESULTS

11.3 During the year, the Committee met to commence the review of my 2009 Annual Report. Since the date of my last Annual Report up to March 1, 2010, I appeared before the Committee on seven occasions and assisted in their deliberations by providing further information, explanation, and clarification on a number of issues.

11.4 In its November 20, 2009 report to the Legislative Assembly, the Committee endorsed all the recommendations and observations on Government's Involvement with Natural Organic Food Group PEI Inc.

11.5 Through its deliberations, the Committee has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to continuing to work with the Committee in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

12. OFFICE OF THE AUDITOR GENERAL

MANDATE AND MISSION

12.1 The *Audit Act* provides the mandate for the Office of the Auditor General. As a servant of the Legislative Assembly, the Auditor General is independent of government. Authority is given to carry out financial statement audits of the Public Accounts as well as any agency of government or Crown controlled or owned corporation.

12.2 Under the Act, the Auditor General also has a broad mandate to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with the applicable statutory requirements.

12.3 The mission of the Office of the Auditor General is as follows:

- to conduct independent audits and examinations that provide objective information, recommendations, and assurance to the Legislative Assembly; and
- to promote best practices in government operations.

RESPONSIBILITIES AND FUNCTIONS

12.4 The *Audit Act* sets out the responsibilities of the Auditor General. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. The work of the Office can be categorized into two main types of assignments: financial audits and special audits and examinations.

12.5 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the financial auditor for a number of Crown corporations and agencies.

12.6 The mandate allows the Auditor General to conduct any examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and

12. Office of the Auditor General

efficiently, and is complying with the applicable statutory provisions. Special examinations may include work on compliance with applicable authorities on a government-wide basis. In addition, the Act allows for special assignments or investigations at the request of the Lieutenant Governor in Council.

12.7 The Office performs an important service to the Legislative Assembly. In some cases, where government reports information about its performance, we comment on its completeness and accuracy and thus provide credibility and add value to that information. In other circumstances, we audit government programs directly and report our findings to the Legislative Assembly and the public. The reports resulting from these assessments include recommendations and advice which assist government in identifying opportunities for improvement in the management and control of public funds.

OPERATING PHILOSOPHY

Independence

12.8 The Auditor General is responsible to the Legislative Assembly, not government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The *Audit Act* establishes the legal framework for an independent audit office. The key components in building that independence include:

- the existence of a Legislative Audit Committee which reviews the Office's budget;
- the authority to carry out the audits and examinations which the Auditor General deems necessary;
- the right of access to records and information necessary to perform audit functions;
- the power to request and receive information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

12. Office of the Auditor General

12.9 In addition, the independence of the Office is supported by our quality assurance policies and an office code of conduct which include, among other things, policy and guidance on ethics, impartiality, and potential conflict of interest situations.

Audit Planning

12.10 Each year an audit work plan is developed consistent with the audit priorities established by the Office and the resources available. The annual work plan includes a number of financial statement audits as well as special audits and examinations.

12.11 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a specific division or program. Audits are sometimes carried out on a particular function on a government-wide basis.

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

Professional Standards

12.13 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on generally accepted accounting principles for the public sector in conducting our audits as well as other guidance provided by the CICA.

12. Office of the Auditor General

12.14 Our audits are conducted in accordance with generally accepted standards for assurance engagements. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities. They are designed to ensure that our audits are properly planned, conducted, and reported and that audit findings are based on well substantiated evidence.

12.15 The Office is subject to a periodic practice inspection carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession. The most recent practice inspection was completed in October 2009.

PERSONNEL, ADMINISTRATION, AND AFFILIATIONS

Organization

12.16 The Office staff complement consists of two audit directors, twelve auditors, one student auditor, and two administrative staff. Two auditor positions remain vacant and are not funded. With our limited staff, we strive to provide audit coverage of significant areas of government on a cyclical basis.

12.17 Under the *Audit Act*, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is the Chairperson, the Leader of the Opposition, and the Provincial Treasurer. On an annual basis, the Committee reviews the budget estimates of the Office.

12. Office of the Auditor General

12.18 For the year ended March 31, 2010, the original budgeted expenditures for the Office amounted to \$1,682,100 as displayed in **Exhibit 12.1**.

EXHIBIT 12.1 OFFICE OF THE AUDITOR GENERAL OFFICE BUDGET YEAR ENDED MARCH 31, 2010

Expenditures	Budget
Administration	\$ 30,200
Equipment	7,200
Materials, Supplies, and Services	9,000
Professional and Contract Services	12,300
Salaries	1,578,900
Travel and Training	34,500
Contribution - CCAF	<u>10,000</u>
Total	<u>\$1,682,100</u>

Professional Affiliations

12.19 As an Office, we strive to keep current in all aspects of legislative and other audit practices, as well as new developments within the profession. The Office maintains a close association with a number of professional organizations to share experience and methodology with a view to contributing to the ongoing development of legislative audit practices. Some of the key affiliations include the following.

- The Canadian Council of Legislative Auditors (CCOLA) - The meetings of the Council bring together legislative auditors of the Federal Government and the provinces and provide an opportunity for information exchange, discussion, development, and enhancement of legislative audit practices. Members of the Office serve on various CCOLA committees.
- The Public Sector Accounting Board - The Office provides input and cooperates with the Board in its efforts to improve and

12. Office of the Auditor General

harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession.
- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

OBJECTIVES AND ACCOMPLISHMENTS

12.20 In accordance with its mandate, the Office has established two broad goals.

(I) To promote improved accountability for, and management of, public funds.

(II) To continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.

In support of these goals, the Office has developed a number of objectives. The following paragraphs provide information on each of these objectives and the accomplishments during the year.

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

12. Office of the Auditor General

12.21 The Annual Report provides information on significant issues and recommendations resulting from our work. We expect that the Annual Report presented each year will act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts provide the impetus to bring about the improvements recommended in the Report.

12.22 The 2009 Annual Report of the Auditor General was tabled in the Legislative Assembly on April 2, 2009. The Report was referred to the Public Accounts Committee and the Auditor General appeared before the Committee to discuss the Annual Report and provide additional information and explanations to the Committee.

(ii) To express audit opinions on the financial statements of the Province and other Crown corporations and agencies subject to audit by our office.

12.23 An unqualified audit opinion was provided on the Public Accounts for the year ended March 31, 2009. We continue to work closely with the Office of the Comptroller in improving the financial statement presentation and disclosure. In addition to the Public Accounts, we conduct a number of financial statement audits of Crown corporations, pension and trust funds, and other agencies. This process provides assurance to the taxpayers, through the Legislative Assembly, on the fairness of information reported by government.

(iii) To perform selected special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.

12.24 The Office has a limited amount of resources to carry out its work. Many of the financial statement audits which we perform are required under legislation. The extent of special audit and examination work that we can undertake is determined by the resources available after the financial audit work has been assigned.

12. Office of the Auditor General

12.25 Our special audits and examinations provide information and assurance on the management of public resources in a number of areas. We provide advice and make recommendations to improve management controls and practices where issues are identified.

(iv) To perform other investigations as may be required from time to time.

Occasionally, we are asked to investigate potential weaknesses in control or to follow up on specific observations from our report. This Annual Report includes the results of a special examination on Government's Involvement in Lending to the Snow Crab Fishery which was requested by the Lieutenant Governor in Council.

12.26 It has also been our practice to follow up on outstanding recommendations and provide information in our Annual Report on the status of implementation of the recommendations arising from our audits. This is part of the legislative audit function which provides important feedback to the Public Accounts Committee and assists in its role of holding government accountable.

(v) To maintain technical competence in an evolving accounting and auditing environment.

(vi) To remain aware of and provide input to the development of public sector accounting standards.

(vii) To build leadership within the Office by providing professional development and training opportunities for staff.

12.27 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep up to date on emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board and the Assurance Standards Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting standards. In addition, we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This

12. Office of the Auditor General

participation allows us to share knowledge and experience as well as receive information on newly developed methodology.

12.28 Except for one student position, audit staff within the Office have professional accounting designations. We strive to provide training and professional development opportunities to staff. Individual staff members attend various professional courses, conferences, seminars, and meetings.

12.29 For 2006 and subsequent years, the Institute of Chartered Accountants of PEI requires members to take a minimum of 20 hours of professional development per year and not less than 120 hours in a three year period.

SCHEDULES

OPERATING FUND
APPROPRIATIONS

	APPROPRIATION ACT 2008	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	APPROPRIATION ACT EXPENDITURES 2008-09	UNDER EXPENDITURES 2008-09
CURRENT						
AGRICULTURE	\$ 28,544,900	\$ 350,000	\$ 433,400	\$ 29,328,300	\$ 29,316,284	\$ 12,016
OFFICE OF THE ATTORNEY GENERAL	36,954,000	-	1,331,300	38,285,300	37,442,279	843,021
AUDITOR GENERAL	1,553,700	-	90,500	1,644,200	1,467,007	177,193
COMMUNITIES, CULTURAL AFFAIRS AND LABOUR	75,200,900	-	551,900	75,752,800	65,592,417	10,160,383
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	194,273,500	1,484,900	1,473,300	197,231,700	194,929,782	2,301,918
ISLAND REGULATORY AND APPEALS COMMISSION	1,200,000	-	110,700	1,310,700	1,310,700	-
ENVIRONMENT, ENERGY AND FORESTRY	23,184,000	324,600	549,400	24,058,000	23,150,610	907,390
ENERGY CORPORATION	579,600	-	12,500	592,100	591,500	600
EXECUTIVE COUNCIL	3,791,300	-	174,000	3,965,300	3,716,762	248,538
FISHERIES, AQUACULTURE AND RURAL DEVELOPMENT	7,226,400	-	256,400	7,482,800	7,307,333	175,467
EMPLOYMENT DEVELOPMENT AGENCY	3,751,900	600,000	10,000	4,361,900	4,294,115	67,785
HEALTH	398,442,200	80,400	11,934,300	410,456,900	410,455,094	1,806
INNOVATION AND ADVANCED LEARNING	81,878,600	582,500	154,500	82,615,600	82,615,583	17
BUSINESS DEVELOPMENT INC. (NOW INNOVATION PEI)	28,364,700	-	408,500	28,773,200	28,773,200	-
LENDING AGENCY	1,386,500	-	47,300	1,433,800	1,433,800	-
LEGISLATIVE ASSEMBLY	4,563,200	-	104,000	4,667,200	4,351,101	316,099
PROVINCIAL TREASURY	35,258,500	-	1,071,400	36,329,900	33,755,529	2,574,371
COUNCIL OF ATLANTIC PREMIERS	123,500	-	-	123,500	123,500	-
GENERAL GOVERNMENT	25,690,800	1,500,000	(23,057,000)	4,133,800	3,094,323	1,039,477
EMPLOYEE BENEFITS	39,051,400	6,527,300	2,100	45,580,800	45,578,735	2,065
TECHNOLOGY ASSET MANAGEMENT	2,300,000	-	-	2,300,000	1,615,677	684,323

Note: Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Acts 2008. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

OPERATING FUND
APPROPRIATIONS

	APPROPRIATION ACT 2008	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	APPROPRIATION ACT EXPENDITURES 2008-09	UNDER EXPENDITURES 2008-09
CURRENT (continued...)						
PEI PUBLIC SERVICE COMMISSION	5,658,200	-	205,600	5,863,800	5,822,859	40,941
SOCIAL SERVICES AND SENIORS	119,361,500	-	1,392,900	120,754,400	119,358,988	1,395,412
TOURISM PEI	23,850,400	677,900	500,900	25,029,200	18,102,202	6,926,998
INTERMINISTERIAL WOMEN'S SECRETARIAT	428,700	-	6,900	435,600	411,825	23,775
TRANSPORTATION AND PUBLIC WORKS	89,666,400	324,400	2,235,200	92,226,000	92,225,931	69
INTEREST CHARGES ON DEBT	<u>117,338,100</u>	<u>-</u>	<u>-</u>	<u>117,338,100</u>	<u>106,096,246</u>	<u>11,241,854</u>
TOTAL CURRENT	<u>\$1,349,622,900</u>	<u>\$ 12,452,000</u>	<u>\$ -</u>	<u>\$1,362,074,900</u>	<u>\$1,322,933,382</u>	<u>\$39,141,518</u>
CAPITAL						
AGRICULTURE	\$ 171,000	\$ -	\$ -	\$ 171,000	\$ 166,982	\$ 4,018
OFFICE OF THE ATTORNEY GENERAL	660,000	-	-	660,000	654,434	5,566
COMMUNITIES, CULTURAL AFFAIRS AND LABOUR	346,000	-	-	346,000	346,000	-
EDUCATION	15,300,800	4,303,300	-	19,604,100	17,827,118	1,776,982
ENVIRONMENT, ENERGY AND FORESTRY	119,800	-	-	119,800	112,691	7,109
FISHERIES AND AQUACULTURE	30,000	-	-	30,000	25,997	4,003
HEALTH	20,784,800	-	-	20,784,800	19,580,209	1,204,591
PROVINCIAL TREASURY	3,538,600	-	-	3,538,600	2,840,466	698,134
PUBLIC SERVICE COMMISSION	79,600	84,300	-	163,900	163,878	22
SOCIAL SERVICES AND SENIORS	667,000	-	-	667,000	650,800	16,200
TOURISM PEI	1,121,200	2,428,800	-	3,550,000	3,549,111	889
TRANSPORTATION AND PUBLIC WORKS	<u>34,035,000</u>	<u>9,014,600</u>	<u>-</u>	<u>43,049,600</u>	<u>40,305,515</u>	<u>2,744,085</u>
TOTAL CAPITAL	<u>\$ 76,853,800</u>	<u>\$15,831,000</u>	<u>\$ -</u>	<u>\$ 92,684,800</u>	<u>\$ 86,223,201</u>	<u>\$ 6,461,599</u>
GRAND TOTAL	<u>\$1,426,476,700</u>	<u>\$28,283,000</u>	<u>\$ -</u>	<u>\$1,454,759,700</u>	<u>\$1,409,156,583</u>	<u>\$45,603,117</u>

Note: Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Acts 2008. This differs from the format used in the Operating Fund financial statement in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

**ORDER-IN-
COUNCIL**

LIST OF SPECIAL WARRANTS ISSUED FOR THE 2008-09 FISCAL YEAR

AGRICULTURE - CURRENT

EC 2009-498 FARM INCOME RISK MANAGEMENT

Grants - Canada Agricultural Income Stabilization \$ 350,000

To fund the Provincial share of grants for Canada Agri-Recovery Program regarding damage to potato crops from excessive rainfall in August and September 2008.

EDUCATION AND EARLY CHILDHOOD DEVELOPMENT - CURRENT

EC 2009-36 ADMINISTRATION

Administration	\$	40,200
Equipment		30,000

GRANTS TO SCHOOL BOARDS

Salaries		1,076,800
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GENERAL

Salaries		327,400
Professional and Contract Services		<u>10,500</u>
		<u>\$ 1,484,900</u>

To fund additional costs due to an increase of immigrant students requiring English as an additional language. Fully offset by revenue from Island Investment Development Inc.

ENVIRONMENT, ENERGY AND FORESTRY - CURRENT

EC 2009-173 WATERSHED MANAGEMENT

Equipment	\$	78,700
Materials, Supplies, and Services		4,300
Professional and Contract Services		55,200
Salaries		7,200

**ORDER-IN-
COUNCIL**

LIST OF SPECIAL WARRANTS (continued...)

DRINKING WATER MANAGEMENT

Administration	2,000
Equipment	10,000
Professional and Contract Services	13,000
Travel and Training	1,000

FISH AND WILDLIFE DIVISION MANAGEMENT

Equipment	6,000
Professional and Contract Services	50,000

RESOURCE INVENTORY AND MODELING

Professional and Contract Services	97,200	<u>\$ 324,600</u>
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To fund costs for projects which involve watershed management and forests, fish and wildlife. Fully offset by revenue from the Federal Government under the terms of the Canada Prince Edward Island National Water Agreement.

EMPLOYMENT DEVELOPMENT AGENCY - CURRENT

EC 2009-37 COMMUNITY AND BUSINESS PROJECTS

Grants - Special Projects Program	<u>\$ 600,000</u>
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To fund additional Special Projects Program spending to create employment through non-profit sponsors.

HEALTH - CURRENT

EC2008-559 HEALTH RESEARCH AND EPIDEMIOLOGY

Salaries	<u>\$ 80,400</u>
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To fund salaries. Fully offset by revenue from the Federal Government under the terms of the Memorandum of Agreement for Services, National Diabetes, and Chronic Disease Surveillance System.

**ORDER-IN-
COUNCIL**

LIST OF SPECIAL WARRANTS (continued...)

INNOVATION AND ADVANCED LEARNING - CURRENT

EC2010-75 LABOUR MARKET DEVELOPMENT

Equipment		<u>\$ 582,500</u>
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To fund additional computer software needs. Fully offset by revenue from the Federal Government under the terms of a supplementary agreement to the Labour Market Development Agreement.

GENERAL GOVERNMENT - CURRENT

EC 2009-174 GRANTS

Grants-in-lieu of Property Tax		\$ 446,400
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GOVERNMENT INSURANCE PROGRAM

Administration		244,600
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CONTINGENCY FUND AND SALARY NEGOTIATIONS

Salaries	<u>809,000</u>	<u>\$ 1,500,000</u>
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To fund additional costs for negotiated salary costs, grants-in-lieu of property taxes, and insurance premiums.

EMPLOYEE BENEFITS - CURRENT

EC2010-74 EMPLOYEE FUTURE BENEFITS

Accrued Vacation Leave		\$2,002,900
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GOVERNMENT PENSION CONTRIBUTION

Interest on Unfunded Pension Liability	2,926,000	
Civil Service Superannuation Fund Pension Contributions	<u>1,598,400</u>	<u>\$ 6,527,300</u>

To fund additional costs for accrued vacation leave expenses and pension obligations.

ORDER-IN-COUNCIL LIST OF SPECIAL WARRANTS (continued...)

TOURISM PEI - CURRENT

EC 2009-176 FRENCH SERVICES

Grants - Tourism Product Development	\$	50,000
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To fund additional costs to print tourism booklets in French.
Fully offset by revenue from the Federal Government under the terms of the Canada Prince Edward Island Agreement on the Promotion of Official Languages.

EC2009-177 ADMINISTRATION

Grants - Tourism Product Development	\$	606,900
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PARKS OPERATIONS

Materials, Supplies, and Services	<u>21,000</u>	<u>\$ 627,900</u>
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Additional grants to fund tourism product development and increased operating costs of parks.

Total	<u>\$</u>	<u>677,900</u>
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TRANSPORTATION AND PUBLIC WORKS - CURRENT

EC2010-76 PROVINCIAL HIGHWAY MAINTENANCE OPERATIONS

Materials, Supplies, and Services	<u>\$</u>	<u>324,400</u>
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To fund additional winter highway maintenance costs for sand.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES	<u>\$</u>	<u>12,452,000</u>
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ORDER-IN-COUNCIL LIST OF SPECIAL WARRANTS (continued...)

EDUCATION - CAPITAL

EC 2008-662 SCHOOL CONSTRUCTION AND CAPITAL IMPROVEMENTS

Capital - Land, Buildings, Computer Equipment, and Capital Improvements \$1,410,400

BUS REPLACEMENT

Capital - School Buses	<u>2,892,900</u>	<u>\$ 4,303,300</u>
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To fund building improvements, computers, and school buses as well as land for the Longworth Avenue Sports Field. Partially offset by revenue from PEI School Boards.

PEI PUBLIC SERVICE COMMISSION - CAPITAL

EC 2009-175 SYSTEMS AND ADMINISTRATION

Capital - Professional Services		<u>\$ 84,300</u>
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To fund additional costs to improve the functionality of the new payroll system.

TOURISM PEI - CAPITAL

EC 2008-79 CAPITAL PURCHASES

Capital - Machinery and Equipment		\$ 1,778,800
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To purchase the fixed assets of Golf Links PEI Inc. at book value.

EC 2008-364 EQUIPMENT

Capital - Machinery and Equipment		<u>650,000</u>
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To purchase machinery and equipment.

Total		<u>\$ 2,428,800</u>
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ORDER-IN-COUNCIL LIST OF SPECIAL WARRANTS (continued...)

TRANSPORTATION AND PUBLIC WORKS - CAPITAL

EC 2008-80	LAND PURCHASES		
	Capital - Land		\$ 6,122,200
	To purchase the Dundarave Golf Course and the former Golf Academy property from Golf Links PEI Inc., at book value.		
EC 2008-643	CAPITAL IMPROVEMENTS - HIGHWAYS		
	Capital - Highways and Bridges	\$2,250,000	
	LAND		
	Capital - Land	<u>136,000</u>	2,386,000
	To fund bridge repairs due to storm damage, additional liquid asphalt and land purchase. Partially offset by a federal claim for disaster relief.		
EC 2009-305	STRATEGIC HIGHWAY IMPROVEMENT PROJECTS		
	Capital - Professional Services		<u>506,400</u>
	To fund Rails to Trails Project. Fully offset by federal revenue from the Public Transit Capital Trust.		
	Total		<u>\$ 9,014,600</u>
	TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES		<u>\$15,831,000</u>
	TOTAL SPECIAL WARRANTS ISSUED FOR THE 2008-09 FISCAL YEAR		<u>\$28,283,000</u>