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## Introduction

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PEO developed the booklet, *Questions and Answers on PEO Operations*, in 2004 to answer PEO members' questions on PEO Operations. Information in this document was provided by PEO staff, with input from Council and Audit and the Finance Committees.

Timely and thorough communications is a PEO imperative. To this end, this document will also be published on the PEO website.

At past Annual General Meetings, questions have arisen about PEO expenditures and the Audited Financial Statements. The Audited Financial Statements are a reflection of past expenditure; the Auditors ensure that the statements accurately represent these past expenditures. This document is aimed at answering questions on both past expenditures and PEO's future operations. It is hoped that this document will provide members the necessary information to make informed decisions with respect to PEO's future directions.

If you have further questions, please email [operations@peo.on.ca](mailto:operations@peo.on.ca). Look for periodic updates to *Questions and Answers on PEO Operations* on PEO's website ([www.peo.on.ca](http://www.peo.on.ca)).

## 1. 2004 Financial Statements

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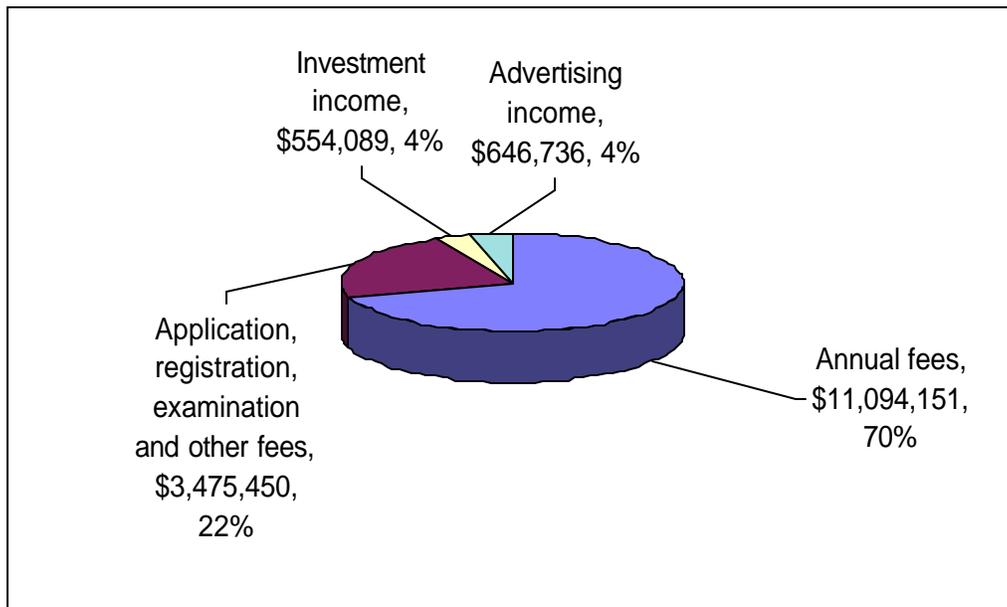
### 1.1 Revenue & Expenditures

#### 1.1.1 Revenue increased by 9 per cent in 2004 over the previous year. What accounted for the increase?

The major sources of increased revenue were:

- ◆ an increase in membership fee revenue of \$990K, an increase of 10 per cent over 2003;
- ◆ an increase in application, registration, examination, and other fee revenue of \$185,000, an increase of 6 per cent over 2003; and
- ◆ an increase in *Engineering Dimensions*' advertising revenue of \$170K, an increase of 36 per cent over last year.

**Figure 1. 2004 PEO Revenue Breakdown (\$16M)**



**1.1.2 PEO experienced a surplus of \$927,000 in 2004. What factors contributed to this surplus? What plans does PEO have for this money?**

PEO strengthened its financial position by ending the 2004 fiscal year with an excess of revenue over expenditure of \$927,000, after four years of incurring a cumulative deficit of \$4.7 million. This surplus was the result of a total team effort, as organizational effectiveness was a top priority for Council, the senior management team, and volunteers. PEO achieved the surplus through a combination of cost reduction programs, increased revenue from advertising and member applications, cost knowledge/tracking, procurement processes, and delays in filling of some staff positions.

This positive performance moves PEO toward a stronger financial position with an enhanced balance sheet and an improved operating reserve of \$6.2 million. This contribution will be used to build PEO's operating reserve.

**1.1.3 Expenditures increased by 8 per cent in 2004 over the previous year. What accounted for the increase?**

The major areas of increased expenditure were:

- ◆ *Human Resources:* An increase of \$196,000 (148 per cent) was due mainly to slightly higher costs of benefits administration, annuitants' cost approved by Council, contingency (severance packages), temporary staff expenses, and the activities of the new Human Resources and Compensation Committee.
- ◆ *Licensing and Registration:* An increase of \$211,000 (49 per cent) was due mainly to an increased number of Experience Requirements Committee (ERC) interviews and Academic Requirements Committee (ARC) assessments for the licensing process.
- ◆ *Administrative Services:* An increase of \$322,000 (37 per cent) was the result mainly of the following: online credit card payment processing, increased postage costs resulting from a higher volume of correspondence, such projects as activity-based costing and activity-based budgeting, strategic planning, a Financial System upgrade, and committee costs. In addition, two contract positions were hired to undertake the duties of two full-time staff members on sick leave.
- ◆ *Canadian Council of Professional Engineers (CCPE):* An increase of \$160,000 as a result of a \$2.40/member increase in assessment and a slight increase in membership.
- ◆ *Salaries & Benefits:* An increase of \$320,000 was due mainly to an increase in cost of benefits, which include employee future benefits.

These increased expenditures were partially offset by cost savings in other activities.

**1.1.4 Expenditures of the Human Resources department increased by 148 per cent over the previous year. What accounted for the increase?**

The expenses of the Human Resources department increased by \$196,000 because of: higher benefits costs of \$63,000 and the use of actuaries to calculate employee future benefits, which cost was not incurred in 2003. There were temporary staff expenses of \$70,000 to enable PEO to deal with staff contingencies.

In addition, Council approved annuitants cost of \$12,000. In year 2004, HR committees also performed increased activities, e.g. Core Values exercises, CEO performance evaluation, which led to an increased cost of \$57,000.

**1.1.5 Expenditures of the Licensing and Registration department increased by 49 per cent over the previous year. What accounted for the increase?**

Licensing and Registration costs were higher by \$211,000. In 2004, PEO admitted 2109 new and transferred P.Engs and reinstated 1054 P.Engs. As a result of an improved Experience Requirements Committee interview process, the committee almost doubled the number of interviews conducted to more than 1500 and expedited the admission process. This increased number of interviews, combined with a greater number of applicants sitting the Professional Practice Examination and the technical exams, increased costs by \$150,000.

**1.1.6 Expenditures of the Administrative Services department increased by 37 per cent over the previous year. What accounted for the increase?**

Transaction costs for online licence fee payment was \$150,000, which was higher than anticipated, due largely to the popularity of this new service among PEO members. This cost was partly offset by revenue of \$5,800 for from processing online payments for the Ontario Society of Professional Engineers, the Professional Engineers Foundation for Education and the Canadian Engineering Memorial Foundation. Before the online fee payment was introduced, PEO manually processed around 87,000 cheques annually. In the past, this workload required additional temporary help to process cheque payments and make deposits. After introducing its online fee payment service, only one temporary staff member was required to deal with the remaining cheque payments (PEO reduced the 2003 cost for temporary staff by 32% in 2004). It is expected additional savings will realized as a result of gaining efficiency in manual cheque processing and obtaining better rates for credit card payments.

Deploying advanced technologies and introducing automation in PEO's accounts receivable process increased convenience to members, improved PEO's cash flow position, and enhanced the association's image as a customer-focused organization. As of December 31, 2004, 25,615 online fee transactions had been processed, leading to collection of \$5.1 million, or 46 per cent of PEO's annual fee revenue.

Implementation of a new activity-based-costing system (at a cost of \$30,000) and upgrading of the Financial System (at a one-time cost of approximately \$81,000) should

help PEO to better understand, track, and manage the costs of its activities and processes. This will help streamline business processes and facilitate cost control initiatives. The activity-based management system has enabled PEO to establish and maintain an effective budgeting process in which Finance Committee, staff, and Council were fully engaged.

PEO incurred increased postage costs of \$98,000 due to a higher volume of correspondence associated with the licensing process, which was the result of an increased number of licence applicants and an additional mailing of reminder letters to members (two letters in 2004 vs. one letter in 2003). The mailing of an extra reminder letter and the convenience of online fee payment contributed to 49 per cent fewer P.Eng. licence cancellations (1109 cancellations in 2004 vs. 2190 cancellations in 2003) and an improved licence fee revenue stream.

Hiring two contract staff to undertake the duties of two full-time staff on sick leave increased operating costs by \$27,000.

**1.1.7 I hear that PEO has spent thousands of dollars to implement a privacy policy. Is this correct? Why did PEO develop and implement a privacy policy?**

The *Personal Information Protection and Electronic Documents Act* (PIPEDA) is a federal statute that applies to all organizations engaging in commercial activities involving personal information. PIPEDA imposes significant legal obligations on such activities (e.g. obtaining consent to collect, use and disclose personal information, duty to safeguard such information, obligation to have written privacy policies).

To better fulfil its regulatory mandate of serving and protecting the public interest, PEO will be making more information about its licence holders available to the public. At its September 2004 meeting, Council approved the move to an “expanded public information model”. Under this model, PEO will make universally available in the public interest information about licensees. Such information will include practitioners’ business contact information, PEO licence number, chapter affiliation, educational qualifications, year of first licensing, PEO awards, other professional involvements, other recognition, or professional conduct history.

In 2004, PEO spent \$135,000 (a one-time cost) on developing and implementing its privacy policy, which included auditing PEO’s business processes, developing a privacy policy and subpolicies, developing and distributing an information brochure, and developing training material for staff, chapters and volunteers.

PEO is not subject to PIPEDA. However, to obtain Investigative Body Status from Industry Canada, PEO has to demonstrate that it has an appropriate Privacy Policy. While this Privacy Policy need not be entirely compliant with PIPEDA, it has to be consistent with general privacy principles.

As a major statutory regulatory body in Ontario, PEO has to meet basic community expectations in its operations. A body of the stature of PEO would lose credibility if it did not have a Privacy Policy. Most other regulatory bodies in Ontario have privacy policies.

### 1.1.8 How does PEO manage its expenditures?

It is PEO policy that all the expenditures must be within the Council-approved budget. Any proposed expenditure related to an approved activity must be related to an appropriate line item in the approved budget before the expense can be incurred.

PEO management ensure that planned departmental expenditures are from an appropriate budgeted line item and do not exceed the approved budget before a purchase order to release funds can be issued or money spent.

PEO management regularly review their department budgets to ensure the expenses are charged accurately against the appropriate general ledger accounts.

Invoices and transactions for the payment of all department or committee budgeted expenses incurred in the conduct of the affairs of the association are reviewed for accuracy and appropriateness by committee staff advisors or management staff of the related department and signed by the appropriate authorities before a payment is made.

PEO accounts payable staff review all expenditures before making payments. The CEO/registrar and manager of financial services authorize the payments from the bank. The President has been reviewing the cheque register from time to time to monitor expenditures. It is anticipated that a subset of the Audit Committee will perform this function in the future. Payments for unapproved expenses are not authorized.

Each department head receives a budget comparative report monthly, which details variances, for internal control and cost analysis. As well, the Finance Committee reviews variances once every three months and seeks explanations on significant variances. Council is provided the financial statements quarterly.

PEO is considering adopting procurement processes and systems in which quality-based selection criteria are used to acquire goods and services that add value to PEO and to ensure procurement is driven by the approved budget.

PEO is reviewing the following policies to establish a more comprehensive internal control system:

1. Banking Policy;
2. Expenditure Approval Authority Policy;
3. Extraordinary Expenditures Policy;
4. Expense Report Policy;
5. Procurement Policy;
6. Investment Policy; and
7. Operating Reserve Policy.

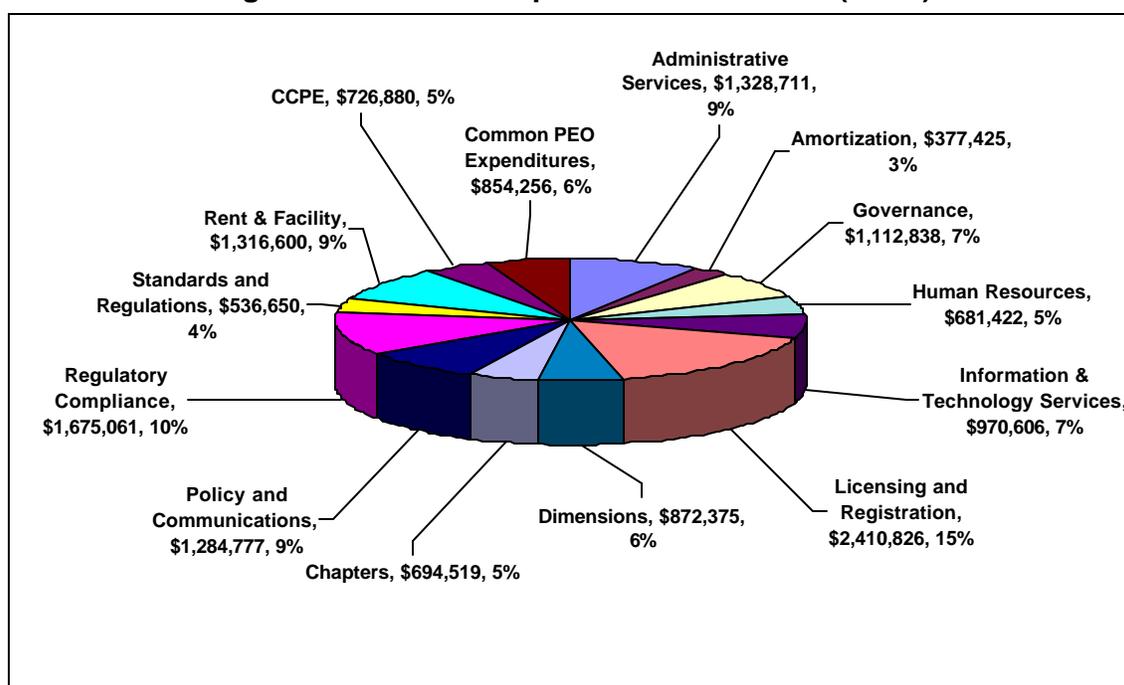
The policies help PEO establish authorities, responsibilities and accountabilities as the key components of its internal control mechanism for entering into contracts and for spending money, according to the approved budget and in compliance with the *Professional Engineers Act*, Regulation 941/90, *By-Law No. 1*, and other policies and procedures.

**1.1.9 How is my annual PEO licence fee spent? Can you give me a breakdown of PEO’s expenditures?**

The annual licence fee is only one component (70 per cent) of PEO’s total revenue. The breakdown of PEO’s revenues was illustrated in Figure 1. In addition to annual fees, PEO also receives revenues from application, registration, examination and other fees. Advertising and investment income were 8 per cent of revenue in 2004.

PEO plans to utilize its activity-based-costing model to establish accurately the breakdown of usage for annual fees. Figure 2 illustrates an approximation of the areas in which the annual licence fee is spent.

**Figure 2. 2004 PEO Expenditure Breakdown (\$15M)**



**Notes:**

1. Common PEO Expenditures include the cost for activities in the areas of reception, switchboard, mailroom, office supplies, kitchen supplies, which are attributed to all PEO departments.
2. Expenditures are based on 2004 Financial Statements and adjusted to include salaries and benefits.

## **1.2 Operating Reserve**

A new operating reserve policy was developed in 2004 to replace the then-current policy. The new policy was approved by Council at its January 2005 meeting. PEO's operating reserve of \$6.2 million as of December 31, 2004, exceeds the upper limit requirement of \$5.1 million for the operating reserve set by Council.

### **1.2.1 What is purpose of having an operating reserve?**

An operating reserve balance in a non-profit organization is similar in nature to retained earnings or owners' equity in business enterprises in that it comprises cumulative operating revenues in excess of operating expenditures.

Like business enterprises, non-profit organizations must maintain a balance between revenue and expenditures to survive. The operating reserve provides the necessary funding capacity to deal with such uncertainties as a decrease in revenue and increased costs.

### **1.2.2 Why did PEO need a new operating reserve policy?**

PEO needs an operating reserve policy that provides an effective planning and control mechanism as an integral part of its business planning and budgeting process. PEO requires financial flexibility in order to better plan, control and manage the allocation of its financial resources.

Council reviewed and revised its operating reserve policy to enhance its financial flexibility and planning in implementing new initiatives, replacing outdated assets and/or programs, or satisfying members' needs by expanding certain activities. The previous policy was based on a minimum of 50 per cent and a maximum of 100 per cent of operating expenditure and did not offer any planning framework. These set targets were arbitrary percentage figures of an operating budget, as they did not express any meaningful co-relationship among revenue received, operating expenditure, operating reserve, capital assets, and Council's strategic intent.

Since PEO's past policy did not clearly determine what would constitute real funding needs for unexpected events, the operating reserve could in fact have been set either too high or too low.

Under the old policy, if the reserve level is set too high, PEO might be unable to undertake some programs, in an effort to keep costs down, with the potential that it might inadequately fulfil its mandates and achieve its objectives.

If the reserve level is set too low, PEO might be short of funds to deal with unanticipated situations and might be unable to respond to possible future growth and increased costs. In either case, the past policy did not effectively satisfy the intended purposes of the operating reserve.

### 1.2.3 How does PEO's operating reserve policy meet its short- and long-term objectives?

The operating reserve policy has two major components as shown in Table 1.

<b>Table 1. Operating reserve elements</b>
<b><u>Internally restricted funds for specific long-term purposes</u></b>  1. Wind-up costs 2. Funding to carry out mandates in the event of catastrophe 3. Invested in fixed assets (net book value on balance sheet) 4. Employee future benefits expenses (0 to 100 per cent financing from operating reserve)
<b><u>Membership fee stabilization funds appropriated at the discretion of Council</u></b>  1. Future capital asset purchases 2. Funding for strategic initiatives 3. Contingency funding and change in Council direction before a fee increase can be introduced 4. Other funds as planned and specified by Council, e.g. workshop initiatives, building fund, etc.

- ◆ *Internally restricted funds for specific long-term purposes.* Used to deal with future uncertainties and to manage long-term liabilities
- ◆ *Membership fee stabilization funds appropriated at the discretion of Council.* Used to serve as a planning mechanism beyond normal business planning to meet short-term needs and equalize the levels for revenue and expenditure. These funds are intended to:
  - ◇ increase PEO's financial capacity and flexibility and support Council's direction for carrying out PEO's mandate in a longer term;
  - ◇ establish proper financial planning for the future so that fee increases are evened out over a number of years; and
  - ◇ make the annual fee structure reasonable and acceptable.

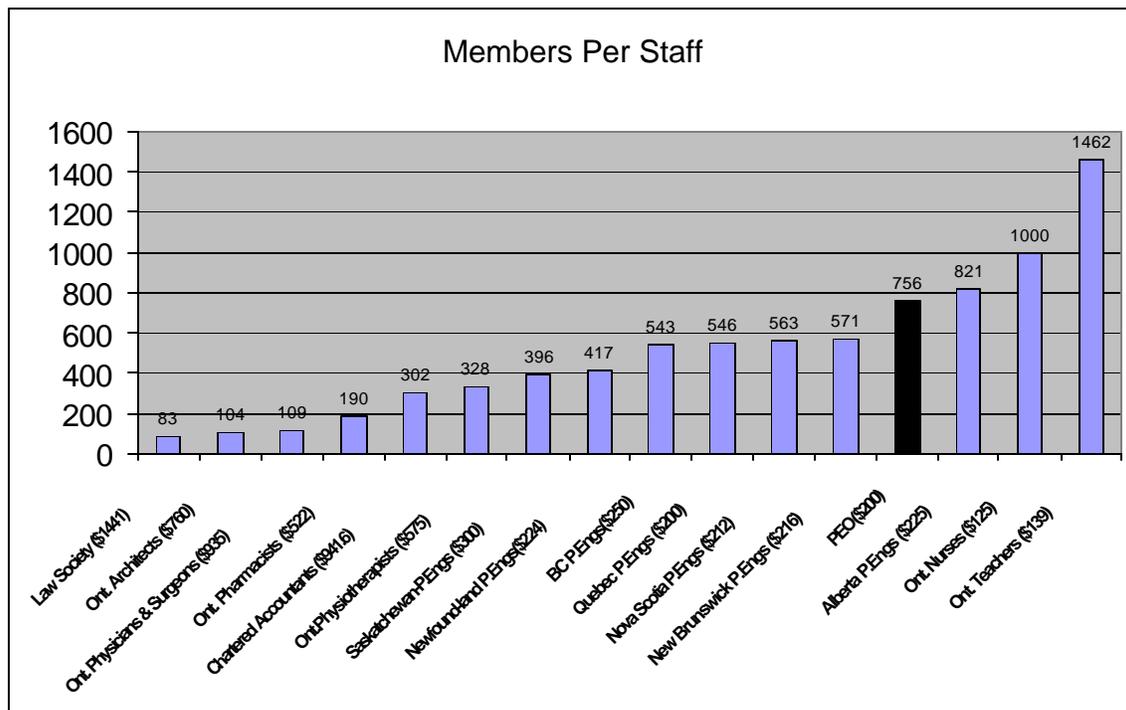
### 1.2.4 Does PEO review its operating reserve policy on an ongoing basis?

The policy requires an ongoing dynamic assessment of the operating reserve annually. The integral components of the operating reserve, and the amounts, should be carefully scrutinized annually to reflect new circumstances and future needs. Both internally restricted funds and membership fee stabilization funds are reviewed when Council approves the budget as part of PEO's business planning and budgeting process. A timetable of operating reserve build-up is developed, if the required reserve level is not met.

### 1.3 Staffing and Salaries & Benefits

PEO employs staff and a larger contingent of volunteers to conduct its daily regulatory functions, as mandated under the *Professional Engineers Act*, effectively and efficiently. PEO also utilizes temporary staff, contractors, and consultants in addition to full-time staff and volunteers.

Figure 3



**Notes:**

1. The dollar figures after the associations' names are 2004 annual renewal dues for full membership, excluding GST.
2. All members of the Quebec Engineering Association (OIQ) must pay a contribution of \$20.20 to the Office des professions du Québec besides the annual dues. OIQ members, except those registered as retired, must pay a contribution to the group professional liability insurance plan (\$13.30 for Engineers)

Web research was conducted to benchmark staffing of other self-regulatory organizations, including other engineering associations in Canada. The key performance indicator, “members per staff” is defined as the average number of licence holders per staff member and represents a measure for organizational efficiency. The higher the “members per staff”, the greater the organization efficiency. The effect of volunteers is not considered while calculating this measure.

As Figure 3 illustrates, there is one PEO staff member for every 756 professional engineers. The ratio of P.Engs to staff at PEO is high among benchmarked associations. This observation is consistent with PEO striving to operate efficiently and effectively.

In Figure 3, PEO’s staffing includes regular full-time staff, contractors, and temporary staff, which are defined as follows:

- ◆ *Regular full time staff.* Are employees who work a normal work week for PEO.
- ◆ *Contractors.* Are employed by PEO for a set period of time. Normally, contractors are part of PEO payroll and will work a normal work week.
- ◆ *Temporary staff.* Are hired for short-term assignments to replace absent staff (for example, disability, maternity leave, backlog, and special project). Normally, temporary staff are employed by a third party (agency) for the period of time they are with PEO and will work a normal work week.
- ◆ *Consultants.* Are hired for a specific project and will bill PEO for services rendered.

### **1.3.1 Overall, there was an increase of 5 per cent in 2004 salaries and benefits from the year before. Why?**

The 5 per cent increase in 2004 salaries and benefits was due mainly to an increase in the cost of benefits of \$386,000, which includes the current benefit expenses and future employee benefits.

There are three components under Salaries and Benefits: salaries, benefit expenses, and severance payments. The salaries of 2004 increased by \$7,000, as compared to those of 2003, even after applying 4.5 per cent increase. Incremental cost of living and performance allowances of 4.5 per cent were offset by decreased staffing levels due to attrition and decreased severance payments. There was also a 0.5 per cent increase in group insurance benefits.

On the other hand, severance payments were reduced by \$57,000 as compared to those of 2003.

**1.3.2 I hear that more than 100 people work at PEO. Is this correct?**

No, it is not correct.

Table 2 shows both actual and budgeted staffing levels, including temporary and contract positions. As of March 31, 2005, the actual staffing level is 75 regular full-time staff, which is less than the approved budgeted headcount of 78 for 2005.

**Table 2**

<b>Year</b>	<b>Approved Regular Full-time Staff (number in approved budget)</b>	<b>Actual Average Full-Time Staff (excludes Contract and Temporary)</b>	<b>Budgeted Staff Salaries and Benefits</b>	<b>Actual Staff Salaries and Benefits</b>	<b>Actual Average Staff (including Contract and Temporary)</b>
1997	74	67	\$3,892,740	\$4,013,630	73
1998	77	64	\$4,536,169	\$4,394,555	73
1999	78	64	\$4,618,000	\$3,858,844	71
2000	78	69	\$5,196,125	\$4,881,368	74
2001	79	67	\$5,596,000	\$5,389,409	76
2002	78	68	\$6,022,899	\$5,572,544	78
2003	82	70	\$6,658,838	\$6,689,442	82
2004	78	74	\$7,704,206	\$7,009,432	87
2005	78	75 (As of March 31, 2005)	\$7,474,483		86

*Note:* Figures for salaries and benefits include the cost for employee future benefits and severance payments. For 2005 and beyond, the actual average staffing will be stated as full-time equivalent (FTE).

**Table 3**

	<b>2005 Budget</b>	<b>2005 Actual</b> (As of March 31, 2005)
<b>Regular full-time staff</b>	78	75
	\$7,474,483	
<b>Contract staff</b>	9	9
	\$441,216	
<b>Temporary staff</b>	2	2
	\$70,000	
<b>Legal</b>	\$575,050	
<b>Consultants</b>	\$279,150	

### 1.3.3 I understand that PEO utilizes temporary staff, contractors, and consultants in addition to full-time staff. Why?

Like other businesses, PEO utilizes temporary staff, contractors, and consultants in addition to full-time staff and volunteers to conduct its daily regulatory functions, as mandated under the *Professional Engineers Act*, efficiently and effectively.

PEO deploys such resources as legal and management consultants because of the need to use their expertise to support both regulatory and support activities. It is usually much more economical to outsource the services required rather than hire staff on a regular full-time basis.

PEO deploys contractors and temporary staff for short-term assignments and to replace absent staff (for example: disability, maternity leave, backlog, and special project). This resourcing strategy offers organizational flexibility, helps PEO meet its staffing needs, and avoids locking into unnecessary, longer-term staffing costs. In 2004, PEO used:

- ◆ **Contractor staff** primarily in the Information and Technology Services, Administrative Services, and Licensing and Registration departments. The projects handled by IT contractor staff included enhancing and supporting PEO's websites (main PEO website, chapter sites and services, and student membership site), and internal support for software and report writing. Licensing and Registration contractors were hired to handle the large backlog in Experience Requirements Committee interviews. Administrative Services contractors were hired to undertake the regular duties of two full-time staff who were on sick leave in 2004 and to assist in PEO's financial system upgrade. These were the key drivers for increased costs for contractors by 15% in 2004 as compared to 2003.
- ◆ **Temporary staff** primarily in Licensing and Registration and Administrative Services to cover maternity leaves of absence and increased workload due to additional applications. In 2004, PEO reduced the 2003 cost for temporary staff by 32%, as shown in Table 4.
- ◆ **Consultants** for the following projects:
  - ◇ to handle the process and interviews for the performance review of the CEO/Registrar at the request of the Human Resources and Compensation Committee;
  - ◇ to assist with Council's September 2004 workshop;
  - ◇ to conduct a survey at the request of the Equity and Diversity Committee;
  - ◇ to conduct project management training;
  - ◇ to provide pension management data related to future benefits, at the request of the Finance Committee;
  - ◇ to manage an upgrade of PEO's financial system;
  - ◇ to assist with strategic planning and conduct an external stakeholder evaluation of PEO's efficacy as a regulator;
  - ◇ to upgrade PEO's LicenceEase database system; and

- ◇ to conduct a workshop for members of Council and the Audit and Finance committees on employee future benefits.

**1.3.4 How much did PEO spend in the following areas in 2004 versus 2003?  
a) Regular full time staff; b) Temporary staff; c) Contract staff; d) Legal;  
and e) Consultants**

Table 4 shows PEO’s expenditures for each human resource type.

**Table 4**

	2003	2004	% change from 2003 to 2004
<b>Regular full-time staff</b>	70	74	6%
	\$6,689,442	\$7,009,432	5%
<b>Average contract staff</b>	7	9	29%
	\$312,881	\$358,979	15%
<b>Average temporary staff</b>	4	4	0
	\$359,549	\$245,479	-32%
<b>Legal</b>	\$607,397	\$689,458	14%
<b>Consultants</b>	\$338,041	\$300,239	-11%

Notes:

1. The figures for salaries and benefits include the cost for employee future benefits and severance payments.
2. The complement for the contract staff and temporary staff are not stated as full-time equivalent (FTE).
3. Legal costs continued their downward trend throughout 2004 notwithstanding a one-time cost of \$116,000 for privacy project.

**1.4 Employee Future Benefits**

Commencing in 2000, the accounting rules changed from a cash basis of accounting to an accrual basis. Under the new rules, an annual expense is recorded; however, the expense is no longer the cash paid but rather an amount calculated actuarially, which represents the cost of a future benefit earned through service in the current period.

PEO staff prepared a booklet called *Employee Future Benefits Background* in November 2004, which is published and available at [www.peo.on.ca](http://www.peo.on.ca). An information session on this subject was organized on November 19, 2004, prior to the Council meeting, for the members of Council, and the Pension, Audit, and Finance committees with the following objectives:

- ◆ to ensure that members of the committees and Council understood the pension and employee future benefits provided by PEO and how they must be accounted for;
- ◆ to ensure that members of the committees and Council understood the options for budgeting and administering employee future benefits; and
- ◆ to provide a framework and scope for further consideration by committees or a task force of potential future changes to pension and/or employee future benefit plans.

#### 1.4.1 What are employee future benefits?

Employee future benefits are defined in Paragraph 3461.005 of the Canadian Institute of Chartered Accountants Handbook as benefits earned by active employees that are expected to be provided to them when they are no longer providing active service, pursuant to the terms of an entity's undertaking to provide such benefits.

#### 1.4.2 What are the components that make up employee future benefits?

PEO's benefits are shown in Table 5.

**Table 5. PEO Employee Benefits**

Employee Future Benefits Components	Offered Benefits
Pension and other retirement benefits (retiree future benefits)	Benefits to employees and their beneficiaries after retirement include: <ul style="list-style-type: none"> <li>• Pension income</li> <li>• Health care and dental care benefits</li> </ul>
Post-employment benefits (while actively employed)	Benefits to the employees include: <ul style="list-style-type: none"> <li>• Short-term disability income benefits</li> </ul>
Compensated absences (while actively employed)	<ul style="list-style-type: none"> <li>• Sick days</li> <li>• Vacation</li> </ul>
Termination benefits	Severance package

#### 1.4.3 The accounting rules for calculating benefits cost changed in 1999. What was changed and why?

Prior to 2000, the most common accounting practice for non-pension post-retirement benefits was simply to record the cost of providing those benefits as they were incurred, the pay-as-you-go approach.

In 1999, the Accounting Standards Committee (AcSC) issued section 3461 (Employee Future Benefits) of the Canadian Institute of Chartered Accountants (CICA) handbook. The new section replaced the previous section 3460 on pensions, and extended the principles of pension accounting to other types of post-retirement benefits, effective January 1, 2000. The new section changed the CICA Handbook recommendations for pension accounting to an approach that is consistent with U.S. practice, and to proposals put forward by the International Accounting Standards Committee.

In 2000, PEO started to perform accounting valuations of its post-retirement benefits to comply with section 3461 of the CICA handbook and will continue doing so for its pension plans.

#### **1.4.4 Why does PEO have to comply with the accounting rules for calculating benefits cost?**

If PEO does not follow the CICA Handbook with respect to employee future benefits, the annual financial statements of the organization would not be prepared in accordance with Generally Accepted Accounting Principles. This would force the auditor to provide a reservation in their audit opinion.

#### **1.4.5 Why have the expenses for employee future benefits increased dramatically? What factors contributed to the increase?**

PEO is not the only business that has been experiencing a high cost for employee future benefits. "A majority of Canadian Chief Financial Officers (CFOs) believe a pension crisis exists, but do not see it as permanent," according to a 2004 survey released by The Conference Board of Canada and Watson Wyatt, which polled 68 chief financial officers of Canadian organizations, representing six public-sector pension plans and 62 private-sector plans totaling over 20 per cent of private-sector pension assets in Canada. These companies have pension assets ranging from \$2 million to \$43 billion.

Many factors explain the increase in benefit expenses. An important factor is the decrease in the discount rate used to calculate both the liabilities (causing actuarial losses) and the current service cost (causing an increase in that component of the expenses).

### **1.5 Process Improvement and Cost Savings**

In 2003, Council carried a motion that "an ongoing process improvement savings program within the approved annual budget be established by the CEO/Registrar and tied into pay for performance". The Treasurer's Report has been published and posted at [http://www.peo.on.ca/registrar/operations\\_home.htm](http://www.peo.on.ca/registrar/operations_home.htm) to provide details on PEO's financial position.

### **1.5.1 What has PEO done to improve its business processes and achieve cost savings in its operation?**

Council and management at PEO are aware of the importance of ongoing process improvement. Not only has PEO committed itself to develop and implement a zero-deficit budget for its operation, but it **increased its operating reserve by \$927,000 (\$16.26/member).**

Implementation of a new activity-based-costing system and upgrading of the Financial System will help PEO to better understand, track, and manage the costs of its activities and processes. This will help streamline business processes and facilitate cost control initiatives.

The deployment of advanced technologies and the introduction of automation in PEO's accounts receivable process increased convenience to members, improved PEO's cash flow position, and enhanced the association's image as a customer-focused organization. As of December 31, 2004, 25,615 online membership fee transactions had been processed, leading to the collection of \$5.1 million, or approximately 50 per cent of the annual fee revenue. Benefits will be realized by reduced costs for manual cheque processing.

As published in the Treasurer's Report and 2004 Financial Statement Analysis, staff undertook additional initiatives to tightly control costs in the following areas:

- ◆ Salaries and benefits were below the 2004 budget by 9 per cent, leading to cost savings of \$695,000.
- ◆ Corporate legal expenses budgeted at \$320,000 relating to PEO Governance were reduced to \$214,000.
- ◆ Meeting expenses for PEO functions were reduced by \$52,000.
- ◆ Legal costs for counsel to represent PEO in discipline and registration hearings and for enforcement activities were reduced by engaging a contract litigator at a reduced hourly rate. PEO also employed more junior counsel as the Independent Legal Counsel to discipline hearing panels. Staff represented PEO at selected discipline hearings and court appearances. Together, these proactive initiatives resulted in an estimated \$40,000 in cost savings.
- ◆ Adopting an online recruitment process in place of conventional newspaper advertising helped PEO achieve cost savings of \$42,000 for staff recruitment.
- ◆ Implementation of process improvements in financial services achieved cost savings of \$14,000 in budgeted audit fees.

### **1.5.2 Are we going to continue seeing process improvements and, more specifically, cost savings from PEO in the future?**

As outlined in answer to question 1.5.1, PEO has embarked on a set of automation initiatives and is taking initiatives to reduce costs, like other responsible corporations. PEO continues on its commitment to ongoing improvement by reviewing business processes and identifying and implementing cost-effective means of operation.

## **2. PEO Business Planning Process**

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### **2.1 PEO Business Planning**

#### **2.1.1 What is PEO's financial state, based on the 2004 financial statements?**

PEO strengthened its financial position by ending the 2004 fiscal year with an excess of revenue over expenditure of \$927,000, after a cumulative deficit over four years of \$4.7 million. This positive performance moves PEO toward a stronger financial position with an enhanced balance sheet and an improved operating reserve of \$6.2 million.

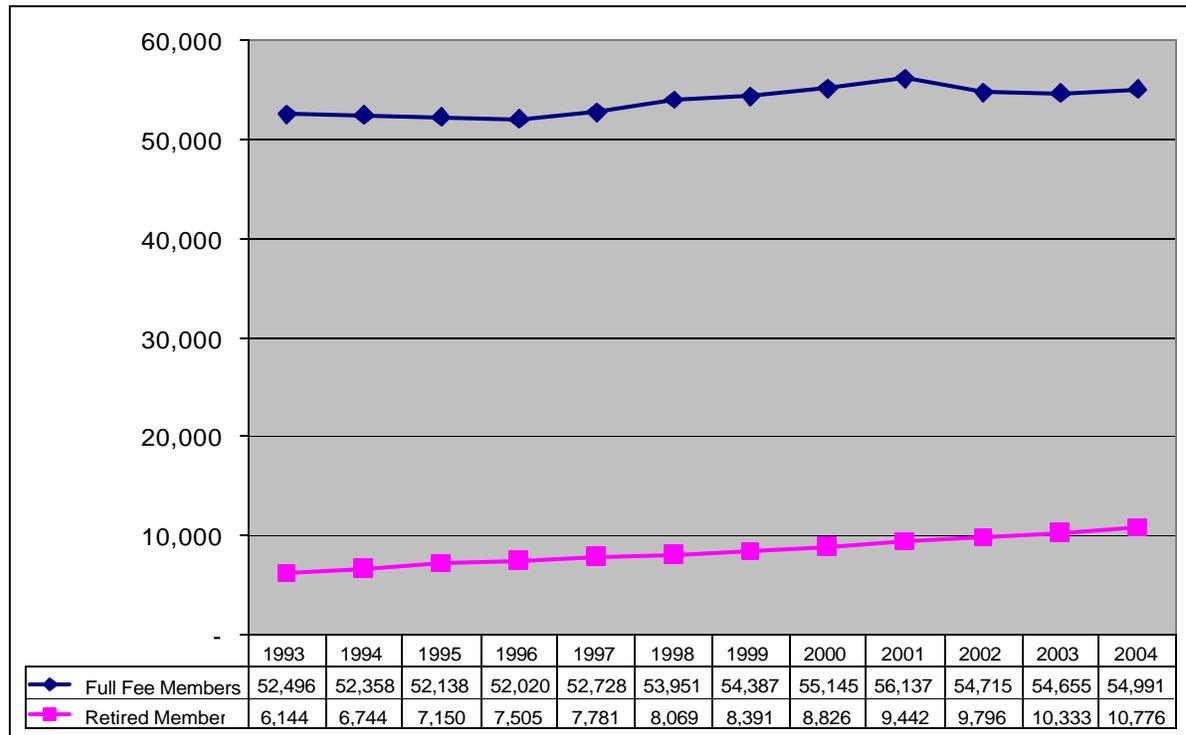
In 2004, PEO realized revenue of \$15.7 million, which exceeded the budget target by \$196,000. Revenues from miscellaneous fees, including application, registration, technical exam, consulting engineer designation and Professional Practice Exam fees, exceeded budget. This was due mainly to significant increases in foreign applications and a more efficient Experience Requirements Committee interview process. In addition, *Engineering Dimensions'* advertising revenue exceeded target. These two revenue streams accounted for the favourable overall revenue results.

Total expenditures were \$14.8 million (95 per cent of the approved budget).

#### **2.1.2 Can you provide historical information about membership growth over the last 10 years?**

The growth in P.Eng. licences is estimated to be an average 1.5 per cent on an annual basis, as shown in Figure 4. However, membership has not been consistently growing for the last 10 years. For example, the number of full fee members for the period of 1993 to 1995 decreased. The membership growth rate is highly influenced by a number of factors, including economic trends, unemployment, an aging population, number of retirees, immigration, and PEO processes for issuing licences (e.g. improved Experience Requirement Committee interview process).

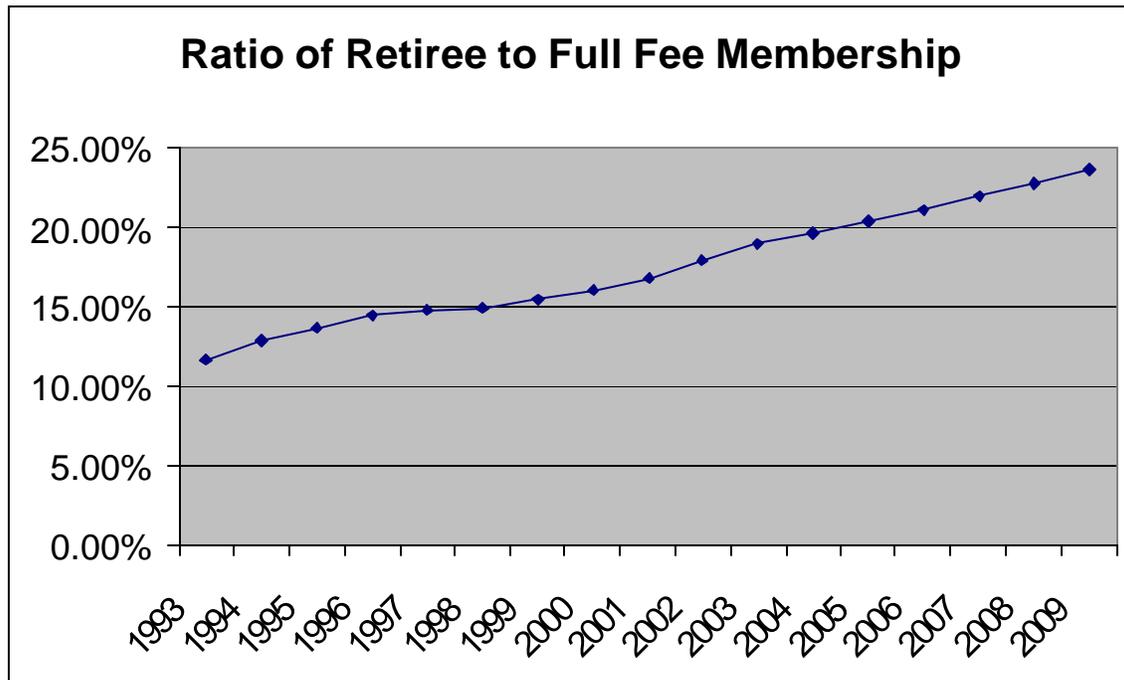
**Figure 4. Historical Data of P.Eng Full Fee Member v.s. Retired Member**



The number of retirees is expected to continue to increase over the next five years at a constant rate of 5.4 per cent as compared to the 1.5 per cent growth of full fee members. There is still a net increase in the number of retirees, despite those whose membership ended for various reasons.

The number of retirees increased at a higher rate from 1998 to 2004, as compared to 1993 to 1998, as shown in Figure 5. In fact, the net effect is an increase in the ratio of retirees over full fee members from 12 per cent in 1993 to approximately 19 per cent in 2004. It is expected that this ratio will increase to an estimated 23 per cent in 2009. In other words, for 2004, each full fee member had to absorb 19 per cent of the membership fee of a retiree, as compared to a mere 12 per cent in 1993, to maintain PEO's revenue requirements, assuming that full-member fees had remained the same over the period.

Figure 5



**2.1.3 What is PEO doing to increase membership? Would it be possible to reduce annual licence fees, while maintaining a balanced budget, if membership increased?**

PEO is not mandated under the *Professional Engineers Act*, R.S.O. 1990 to increase its membership, but rather to regulate the practice of professional engineering and to govern its members and various licence holders.

Council has approved a set of Governance Principles that include:

*“The role of PEO is to provide trusteeship and leadership of the engineering profession through licensing and development of competent and ethical professional engineers for today’s and tomorrow’s needs.”*

Furthermore, as a part of the 2005-2009 Strategic Plan, PEO will undertake initiatives to accomplish the following two strategic objectives:

- ◆ increase the public’s confidence in the P.Eng. licence; and
- ◆ increase the public’s confidence in PEO as a regulator.

These initiatives are intended to serve as building blocks to:

- ◆ attract/engage unlicensed engineers;
- ◆ retain licensed engineers who no longer practise engineering; and
- ◆ increase uptake of CEAB grads.

It is expected that such initiatives as PEO promoting the relevance of the profession to engineering graduates, raising awareness among employers of the added value licensed engineers provide, and increasing the public's confidence in the licence will be an incentive for engineers to join PEO and maintain their memberships.

## **2.2 PEO's 2005-2009 Strategic Plan**

PEO developed a three-year strategic plan in June 2001. In April 2004, Council approved the initiation of a process to create a plan for the next five years. Council unanimously approved PEO's 2005-2009 Strategic Plan at its meeting on March 4, 2005.

### **2.2.1 Where can I get a copy of the new Strategic Plan and its background documents?**

To save printing costs, the entire Strategic Plan is posted on the PEO website in a PDF format, and can be downloaded from [http://www.peo.on.ca/registrar/StratPlan/2005/stratplan\\_home.htm](http://www.peo.on.ca/registrar/StratPlan/2005/stratplan_home.htm).

Background documents referred to in Appendix B of the Strategic Plan can be requested by contacting:

Policy and Communications Department  
Professional Engineers Ontario  
25 Sheppard Avenue, Suite 1000  
Toronto, Ontario M2N 6S9  
email: [consultations@peo.on.ca](mailto:consultations@peo.on.ca)

### **2.2.2 What is the general direction of the 2005-2009 Strategic Plan?**

The 2005-2009 Strategic Plan focused on areas of PEO business that required substantial improvement through high-value changes, assuming that existing core businesses would be adequately resourced and continuously improved.

The four predominant themes of the Strategic Plan are:

- ◆ PEO needs to better protect the public by maximizing, exercising, and evaluating its regulatory powers already provided for under the *Professional Engineers Act* through Regulation 941 to have a comprehensive regulatory regime before seeking to amend the Act;
- ◆ PEO needs to communicate its regulatory roles and responsibilities more effectively with its stakeholders;
- ◆ PEO needs to ensure that its processes and programs are adequately resourced, effective and aligned with its regulatory obligations; and
- ◆ PEO Council needs to be a more effective and efficient policy-making body in accordance with its regulatory obligations.

### **2.2.3 What consultation with members took place in developing the new Strategic Plan?**

Through the Strategic Outcomes Database, an innovative grassroots consultation was carried out via the website during July-October 2004. The database contained recommendations from the April 2004 Chapter Leaders' Conference, as well as START (Chapter Structure and Revitalization Team) I and START II reports. Over 100 members provided on-line input through this method. The final research project examined the consolidated ideas and identified nine themes for consideration.

A presentation on the Strategic Plan's progress was given at the November 2004 Chapters Leaders' Forum. Chapter executives were encouraged to participate in the on-line SWOT (Strengths, Weaknesses, Opportunities, Threats) exercise in November. Those results were incorporated into the overall SWOT results, leading to identification of Critical Issues.

### **2.2.4 The cost of implementing the top priority initiatives of PEO's 2005-2009 Strategic Plan is estimated to be approximately \$5.4 million over the next five years. How will PEO fund these initiatives?**

In approving the plan, Council also approved a \$5.4 million funding envelope, the Strategic Investment Fund, to carry out the initiatives contained in the seven priority strategic objectives.

The Strategic Investment Fund, as a part of the unrestricted component of the Operating Reserve, will be funded from the Operating Reserve, as well as other revenue. A five-year business plan, updated annually, will be prepared to ensure that the Strategic Investment Fund can be maintained. In future years, a combination of increases in revenue from such sources as cost recovery, advertising revenue, and fees, as well as shifting priorities and reductions to the annual operating budget, will be required to fund the strategic improvements to PEO's programs and services.

Miscellaneous fees have not increased (even to account for inflation) since 1990; however, the cost to process applications and other activities has changed significantly. Using the actual inflation rate for the last 15 years, the accumulated impact of inflation on 1990 miscellaneous fees is approximately 34 per cent. One of the Strategic Plan's initiatives is to review the miscellaneous fees and use activity-based-costing information to determine the total cost of current operations related to each of the activities performed at PEO. Accurate information on PEO's operation costs will provide Council with necessary information to effectively set policies regarding fees.

The Strategic Investment Fund is intended to operate parallel to the annual operating and capital budgets. The Strategic Investment Fund will be used only to carry out the priority Strategic Objectives.

### **2.2.5 What might be the impact on fees of carrying out the Strategic Plan?**

As with any business, investments are needed to fundamentally grow or change the enterprise in specific strategic directions. Existing resources are dedicated to maintaining current business operations. A separate, protected fund is necessary to ensure that strategic change can be implemented without affecting regular business operations.

More detailed business planning on an initiative-level is underway, which will better indicate the timing and resource costs of implementation. Council has allocated \$600,000 of the Operating Reserve in 2005 to fund the Strategic Plan initiatives. In future years, a combination of a reduced annual operating budget and increased revenue from such sources as cost recovery, advertising revenue, and fees will be required to fund the Strategic Investment Fund.

### 3. External Relations

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#### 3.1 Canadian Council of Professional Engineers (CCPE)

##### 3.1.1 The fee that PEO pays to belong to CCPE increased from \$566,511 in 2003 to \$726,880 in 2004. Will this assessment increase again in 2005?

No. In February 2004, the CCPE board approved deferral of the planned increase in assessment until 2008. The assessment will remain unchanged in 2005, 2006 and 2007. In fact, PEO worked with CCPE in 2004 to develop a more appropriate method of allocation of CCPE cost and achieved cost savings of \$35,000 in the 2005 assessment. This fee structure continues into the future. The assessment for 2005 was budgeted for \$739,000, which is an approximately 2 per cent increase, due to the increase in PEO's membership.

##### 3.1.2 What does CCPE do for PEO?

PEO, as one of the 12 constituent members, has three representatives on the 18-person CCPE board. PEO also has representation on the committees that actively participate in all undertakings, decisions and long range planning at CCPE that relate to all CCPE activities, except Member Services. This includes PEO's input into all the activities and functions described in the sections below.

CCPE conducts business activities in support of the constituent members' regulatory activities (admissions, practice, discipline and enforcement) at a cost of \$1.6 million.

- ◆ CCPE's 2004 budget totaled \$5 million, about 40 per cent of the cost of these programs was borne by the 12 provincial/territorial association/ordre. The governance framework and management mechanisms to demonstrate accountability to constituent members cost \$1.05 million. PEO's share represented \$566,000 in 2003 and the assessment increased to \$740,000 in 2004. The assessment is based on the formula shown in Table 6.

**Table 6. CCPE Assessment Formula**

<b>Constituent Members</b>	<b>2003</b>	<b>2004</b>	<b>2005*</b>
Full Paying Member	\$8.65	\$11.05	\$13.45
Partial Paying Member (retiree and fee remissions)	\$7.55	\$9.95	\$12.35
Member-in-Training	\$6.70	\$9.10	\$11.55

\*increase has been deferred by CCPE Board February 2004 until 2008. Will be reviewed as part of the preparation of the CCPE budget for 2008.

Note: As of 2006, assessment fees will be one flat fee for all members.

- ◇ Through the Canadian Engineering Accreditation Board (CEAB), CCPE accredits Canadian undergraduate engineering programs that meet the profession's high education standards. Graduates of those programs are deemed by the profession to have the required academic qualifications to be licensed as professional engineers in Canada.
- ◇ Through the Canadian Engineering Qualifications Board (CEQB), CCPE develops national guidelines on the qualifications for registration, standards of practice and ethics expected of professional engineers. It also publishes the *CCPE Examination Syllabus* and the *CCPE List of Foreign Engineering Educational Institutions and Professional Qualifications*.

The Syllabus describes an examination program to assess the academic qualifications of individuals who have not graduated from an accredited Canadian engineering program, an engineering program offered outside Canada but recognized to be equivalent to a Canadian program under a mutual recognition agreement, or a program offered outside Canada that has been evaluated by the Canadian Engineering Accreditation Board (CEAB) and deemed to be "substantially equivalent" to a Canadian program. The academic qualifications requirement to be licensed as a professional engineer in Canada is outlined in CCPE's *National Guideline on the Admission to the Practice of Engineering in Canada*.

- ◇ CCPE maintains official marks on the terms engineer, engineering, professional engineer, P.Eng., consulting engineer, ingénieur, ing., ingénieur conseil, génie and ingénierie. This helps CCPE's constituent members to enforce the provisions of the Engineering Act in their jurisdiction, and protect the Canadian public through the regulation of engineering practice.
- ◇ Through the government-funded project, *From Consideration to Integration*, CCPE facilitates the integration of international engineering graduates (IEG) into the engineering profession and workforce without compromising Canadian engineering standards. CCPE, in close consultation with the Constituent Members, has developed 17 recommendations to improve the integration processes for IEGs. Further government funding is being sought to implement these project.
- ◆ CCPE attempts to achieve "engineering without borders" through activities that result in national and international mobility, while maintaining the high standard of Canadian engineering practice, at a cost of \$315,000.
- ◇ The international activities that CCPE committees, volunteers and staff undertake for Canada's engineering profession are overseen and coordinated by its International Committee. This committee is also responsible for keeping CCPE's Board of Directors abreast of new opportunities to maintain or enhance international mobility for Canadian engineers, and for monitoring the use and viability of CCPE's existing mutual recognition agreements on the full or partial recognition of engineering qualifications.

- ◇ CCPE negotiates international agreements on behalf of its constituent members, primarily at the educational level through CEAB, to facilitate increased international mobility for Canadian engineers. The agreements also make it easier for CCPE's constituent members to evaluate the academic qualifications of international engineering graduates applying for engineering licensure in Canada.
- ◇ CEAB also plays a key role in CCPE's international activities, by assessing the equivalency of the accreditation systems used in other nations relative to the Canadian system, and by monitoring the accreditation systems employed by the engineering bodies that have entered into mutual recognition agreements with CCPE.
- ◆ CCPE proactively addresses the challenges of continuing relevance of the engineering profession to maintain a strong profession, today and in the future, at a cost of \$56,000 (human resources and overhead costs are included with the costs of conducting CCPE's core business activities, identified in the first item above).
  - ◇ CCPE's research activities monitor the pulse of the engineering profession in Canada, from coordinating its ongoing research on the nature of engineering work in Canada, to undertaking its trends in engineering student enrolment and the number of degrees awarded study and its annual membership surveys.
  - ◇ CCPE coordinates a national survey of the engineering profession, as well as monitoring emerging areas of engineering practice.
  - ◇ The key research publications produced by the committee include *Canadian Engineers for Tomorrow – Engineering Enrolment and Degrees Awarded Report* and summary findings from CCPE's national surveys of the engineering profession in Canada.
- ◆ CCPE raises the profile of professional engineering at a cost of \$760,000.
  - ◇ CCPE produces several annual publications, including the CEAB's *Accreditation Criteria and Procedures Report*, a national insert, the *CCPE Annual Report* and numerous news releases.
  - ◇ CCPE presents the Canadian Engineers' Awards to honour Canada's outstanding engineers, engineering teams, engineering students and engineering achievements.
  - ◇ CCPE offers a National Scholarship Program to support exceptional engineers undertaking studies at the university level.
  - ◇ CCPE supports the Canadian Engineering Memorial Foundation, which is dedicated to increasing the participation of women in the engineering profession.
  - ◇ CCPE supports the initiatives undertaken by its constituent members during National Engineering Week (NEW). This annual celebration of engineering and the achievements of Canada's professional engineers features myriad events

- geared primarily toward students. NEW's goal is to promote awareness of the engineering profession and the career opportunities it offers, as well as the contributions of engineering and engineers to public safety, health, quality of life and economic well-being.
- ◇ CCPE also supports the activities of the Canadian Federation of Engineering Students (CFES) such as the annual Congress, Canadian Engineering Competition and Presidents' Meeting.
  - ◆ CCPE enhances the professional, social and economic welfare of engineers through the provision of high quality member services, at a cost of \$270,000 (creates about 60 per cent of total CCPE revenue).
    - ◇ CCPE sponsors insurance and investment products for Canada's engineers, from RRSPs to professional liability insurance, as well as special discounts on car rentals.
  - ◆ CCPE influences federal government decision making in the areas of public policy on issues relevant to public welfare and safety as well as the engineering profession, at a cost of \$250,000.

### **3.2 Ontario Society of Professional Engineers (OSPE)**

On December 31, 2003, PEO's annual grant to the Ontario Society of Professional Engineers (OSPE) ended.

#### **3.2.1 Does PEO have any financial obligations to OSPE?**

At the end of December 31, 2003, PEO's annual grant to the Ontario Society of Professional Engineers (OSPE) ended. Therefore, PEO does not have any further financial obligations to OSPE.

During 2004, PEO worked hard to improve its working relationship with OSPE. Senior representatives of both PEO and OSPE have been meeting regularly as the Joint Relations Committee to discuss and resolve issues of common interest and address concerns.

In its March 2005 meeting, Council approved the following motion:

*“That Council authorize the President and the CEO/Registrar to execute an agreement (agenda Appendix C-427-3(b)(ii)A) between PEO, the Ontario Society of Professional Engineers (OSPE) and the Canadian Council of Professional Engineers (CCPE) wherein PEO assigns all its rights, titles, and interest in the collection of administrative expenses to OSPE under CCPE's Manulife group insurance policy No. SP-212 and CCPE's Maritime Life group insurance policy No. G-507.”*

OSPE assumed the administration of the CCPE Affinity programs with Manulife. The annual administrative fee of approximately \$200,000 has been transferred to OSPE in 2004.

In its January 2005 meeting, Council approved the following motion:

*“That PEO approve the appointment of the Ontario Society of Professional Engineers (OSPE) as PEO's agent for advertising in Engineering Dimensions and sponsorships, replacing Dovetail Communications.”*

### **3.3 Government Communications Program**

#### **3.3.1 I heard that PEO called for volunteers to be PEO spokespeople for a government communications program. What is this all about?**

The Engineering for Ontarians Program is designed to ensure that the provincial government and the public continue to recognize PEO's regulatory mandate and support the role of the self-regulating profession in serving and protecting the public. PEO has undertaken this government communication program to unite the government with engineers. This grassroots initiative aims at preparing spokespeople to deliver key messages to government on the role and value that self-regulating professions like engineering provide in protecting the public. The focus of this program is on the self-regulatory mandate of PEO.

It is critical that government understands and appreciates the distinct role played by the self-regulating body in maintaining the highest level of professionalism among our licensed practitioners to protect the public.

The Engineering for Ontarians program aims to proactively develop ongoing relationships with Members of Provincial Parliament as a mechanism for sharing valuable information, insights, and current and pending initiatives. The objective is not to advocate or lobby the government on any one particular issue of concern.

The main messages during the information campaign are:

1. PEO has a legislative mandate under the Professional Engineers Act to regulate the practice of professional engineering in order "*that the public interest may be served and protected*".
2. The self-regulating engineering profession has been successfully protecting the public for more than 80 years.
3. PEO has unique knowledge and expertise and it is in the best interest of government to consult with us before considering any new policy directions that may have the potential to impact the regulation of the practice of professional engineering.

PEO is committed to a long-term information and communications program to ensure PEO's mandate and key message stay on the Ontario government's radar screen.

**Notes:**