STANDING COMMITTEE ON PUBLIC ACCOUNTS

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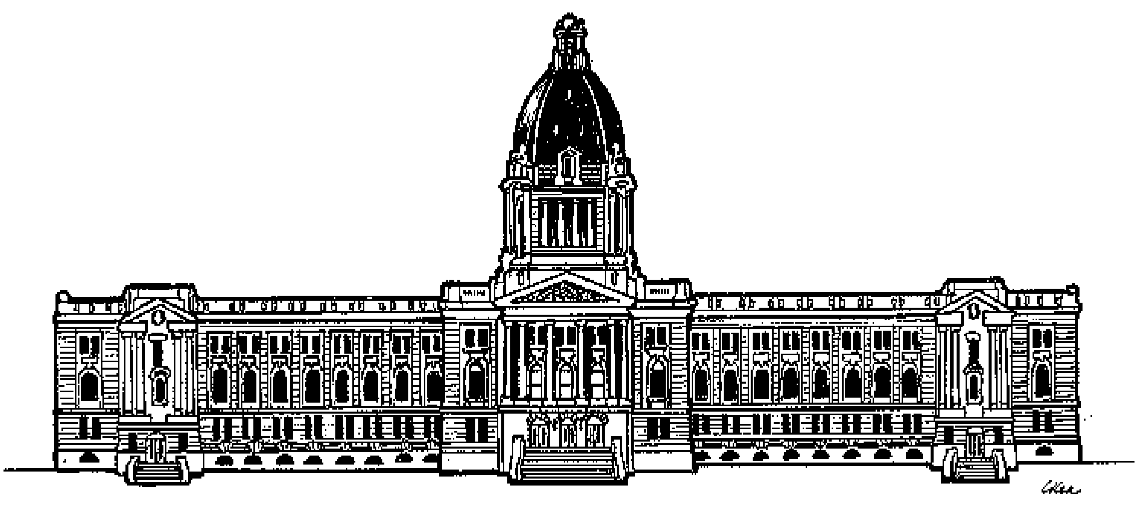

Legislative Assembly of Saskatchewan

Twenty-fifth Legislature

STANDING COMMITTEE ON PUBLIC ACCOUNTS
2006

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[The committee met at 10:30.]

Public Hearing: Saskatchewan Liquor and Gaming Authority

The Chair: — Good morning, ladies and gentlemen. We'll bring the Public Accounts Committee meeting to order. I welcome each one of you here. The one item on our agenda this morning is to deal with the Liquor and Gaming Authority as reported in chapter 7 of the 2005 report volume 3 by the Provincial Auditor.

Friends, there's a lot of material in this chapter. It's got an A and B part to it. The A part deals more with the liquor authority side, while B deals more with the gaming and SIGA [Saskatchewan Indian Gaming Authority] side of things roughly. I would suggest to committee members that we start with A, and once we've concluded our discussion on A, then we proceed to B.

However I would ask the auditor and Mr. Rod Grabarczyk — pardon me, Rod — to report on the entire chapter, and then I would invite the president and CEO [chief executive officer] of the Saskatchewan Liquor and Gaming Authority, Sandra Morgan, to respond. At that time you can also introduce your colleagues who are with you, and then we will open up the floor for questions. So, Rod, please take it away.

Mr. Grabarczyk: — Thank you and good morning, Mr. Chair, and members of the committee. I will provide an overview of chapter 7 in our 2005 report volume 3. The chapter begins on page 167 and has two parts. Part A describes the results of our audit of the Liquor and Gaming Authority, and part B deals with the Saskatchewan Indian Gaming Authority Inc., SIGA, for the year ended March 31, 2005.

First I will discuss part A of the chapter, liquor and gaming. Later in this part, we will also report the results of our investigation of the alleged misuse of public money. From the results of our audit of Liquor and Gaming for the year ended March 31, 2005, we have the following matters to report.

Liquor and Gaming needs to comply with the following past Public Accounts Committee recommendations. Liquor and Gaming needs to audit SIGA's expenses frequently and recover money for expenses that do not comply with approved spending policies. Liquor and Gaming needs to do so to inform SIGA promptly where it needs to ensure spending complies with policies. Liquor and Gaming needs to follow its rules and procedures to reconcile its recorded bank balance to the bank records promptly to detect errors or loss of public money.

We also make two new recommendations. Liquor and Gaming needs to improve an information technology strategic plan and information technology policies and procedures. Doing so will help to ensure that all threats and risks to security are identified and employees know the rules to protect Liquor and Gaming systems and data. Liquor and Gaming also needs to prepare a business continuity plan and have the board approve it so that Liquor and Gaming can continue to deliver its programs and services in the event of a disaster.

This chapter reports the results of our investigation of alleged misuses of public money at Liquor and Gaming. The investigation had two objectives. The first objective was to determine the extent of the loss at the Biggar and La Loche stores. We determined the amount of the loss to be approximately $20,000 at Biggar and 227,000 at La Loche.

The second objective was to determine the conditions that allowed the loss of public money to occur and remain undetected and make recommendations for improvement. We make five recommendations to help prevent or detect future losses of public money.

Liquor and Gaming needs to clearly set what regional managers must do, and how and what they must document for their store visits. This will help regional managers effectively monitor store operations.

Liquor and Gaming needs to train and direct its supervisory staff to supervise the work of other employees. Trained supervisory staff that have direction will be better equipped to ensure the work of others is done correctly.

Liquor and Gaming needs to train its employees to help foster a culture of fraud awareness. Fraud awareness training will help employees to prevent and detect frauds. Liquor and Gaming should require all employees to confirm they understand and comply with the code of conduct and the conflict of interest policies. By doing so, it helps to ensure employees work for the best interests of Liquor and Gaming.

And Liquor and Gaming should establish a process to ensure its employees share pertinent operational and financial information with each other. Employees sharing operational and financial information with each other will help to avoid duplication of work and the timely detection of errors and loss of public money.

I will now discuss chapter 7B on Saskatchewan Indian Gaming Authority, SIGA. We note in this chapter that SIGA has made good progress to address all of our past recommendations, but some work remains. We continue to encourage SIGA to provide effective guidance to its employees to ensure employees comply with established policies.

The exhibit on pages 202 to 205 show the status of our past recommendations as at March 31, 2005. There are 27 recommendations. Of those, 13 are fully implemented, and 13 are partially implemented, and one recommendation was not evaluated as part of our work during that year. This recommendation is being followed up in our current audit.

On page 195 we make two new recommendations to improve SIGA's information technology area. We recommend that management review and the board approve an IT [information technology] strategic plan for SIGA. Also we recommend that SIGA's board approve SIGA's information technology policies and procedures. Doing so will help SIGA to address its information technology threats and risks.

We note that SIGA's employees have prepared a draft information technology strategic plan and draft policies and procedures. However senior management and the board did not review and approve the draft strategic plan or the draft policies and procedures.

That concludes my overview of the chapter. Thank you.

The Chair: — Thank you, Mr. Grabarczyk. And just before we ask for Ms. Morgan to respond, I would just note to colleagues that we have two substitutions this morning. Substituting for Mr. Iwanchuk is Mr. Peter Prebble. Welcome here, Peter. And substituting for Mr. Michael Chisholm is Dan D'Autremont. And welcome to you, Mr. D'Autremont.

We will now ask Ms. Morgan to introduce her colleagues and respond to the auditor's report, and then we'll get on with the questions. Thank you.

Ms. Morgan: — Thank you very much, Mr. Chair. I have with me this morning, on my right is Barry Lacey who is the vice-president of corporate services. On my left is Jim Engel who is the executive director of policy and planning. Seated behind me, starting at the left, is Paul Weber who is the vice-president of the retail liquor operations. Next to him is Warren Fry who is the director of casino operations. Next to Warren is Lisa Ann Wood who is executive director of human relations. Faye Rafter is seated in the chair at the back, and she's the director of compliance. And to her left, or right rather, is Tyler Lloyd who is the executive assistant to the president.

We are here today to answer the committee's questions specifically regarding the Provincial Auditor's report of last fall. And as you know, the report focused largely on the financial irregularities at Biggar and La Loche. In both cases, employees involved were dismissed with cause. The employee from the Biggar store has since been charged by the RCMP [Royal Canadian Mounted Police] with theft, and as we are meeting, he is appearing in court in Biggar. And the La Loche case is still under RCMP investigation. We have not heard anything there.

Certainly we are not happy that these incidents occurred, but we have taken actions to strengthen our control processes and procedures and have committed to implementing all of the Provincial Auditor's recommendations. Since we identified the irregularities, many changes have been made to improve accountability and the processes in our financial services and retail operations area. We have strengthened the oversight of key risk areas by adding resources and reassigning duties as appropriate.

As well we continue to strengthen the communications process with our employees. Specifically our regional managers are conducting more frequent visits to store locations to ensure that staff have a clear understanding of the policy and processes that are in place.

The auditor in his report acknowledged that no system can completely safeguard public money or prevent or detect all fraudulent acts. What's important however is that you take the necessary steps to minimize the risk and have the capacity to identify potentially fraudulent acts. We consider any fraudulent act a very important incident, and we want to get rid of them altogether at SLGA [Saskatchewan Liquor and Gaming Authority]. While we have made changes and strengthened our processes, we know that there is more work to be done, and we are committed to doing that.

And with those few remarks, Mr. Chair, we will accept questions.

The Chair: — Okay. Thank you very much, Ms. Morgan. Mr. D'Autremont.

Mr. D'Autremont: — Well thank you. Thank you for the opportunity to be present with this committee, and I'd like to welcome the CEO and her officials here today. I'd like to start off on page 168 of the auditor's report, and I'd like to direct this question to the auditor. In the second paragraph it states ". . . that Liquor & Gaming considered unreasonable or did not comply with approved policies . . ." in relationship to $1.2 million worth of SIGA expenses.

On what, from your understanding, did Liquor and Gaming use as a basis to consider some of these expenses unreasonable?

Mr. Wendel: — Mr. Chair, I think that question should be addressed to Saskatchewan Liquor and Gaming Authority, as they make the decision as to what's reasonable and unreasonable. As to those that don't comply with policy, policies are laid out and there would be many . . . They have identified many payments that didn't comply with policy, but they may well be reasonable. They would have to make that decision.

Mr. D'Autremont: — So where then did Liquor and Gaming state that these expenses were unreasonable? Was this in some sort of communiqué, a written communiqué, or was it in a verbal discussion with Liquor and Gaming that the term unreasonable was used?

Mr. Wendel: — There were two audit reports prepared by the internal auditor for Saskatchewan Liquor and Gaming. And in those reports, they would have identified certain expenses as either non-compliance or unreasonable. Those would come forward to Saskatchewan Liquor and Gaming authorities. They would make the final decision as to what's unreasonable.

Mr. D'Autremont: — Okay. Thank you. To Ms. Morgan, since it's Liquor and Gaming that is saying it's considered these expenses to be unreasonable, can you please define for the committee the use of the term unreasonable in light of these expenses?

Ms. Morgan: — Okay. An unreasonable expense by SIGA is one of two things. It's either an expense they've made that doesn't comply with existing policies. It could be on travel, those kind of expenses, or payment of individuals' salaries and whatnot. So if they are defying an existing policy of the board of directors of SIGA, that's one instance. The other is an instance where they can't provide us with the necessary documentation or make the business plan argument for the expenditure. So those are the two categories that we use when we are identifying unreasonable expenditures.

Mr. D'Autremont: — So do you use the same the same terms when SLGA is not in compliance with its policies that these expenditures are unreasonable?

Mr. Lacey: — When reviewing SIGA's expenditures, either as part of our internal audit function, what their own internal auditor might identify with the Provincial Auditor's office through the course of their examination . . . Perhaps to just expand on Ms. Morgan's comments, we identify expenses that we call either questionable or not in compliance with policy. Typically we wouldn't use the terminology inappropriate with respect to that initial identification of questionable expenses or transactions that do not comply with policy.

Subsequent to that, we undertake a review in which we review items identified as part of those processes to make a determination of what we would consider to be inappropriate expenses. And perhaps just, for the committee's information, to expand on the 1.2 million mentioned in that fiscal year, 1.2 million was identified as either questionable or not complying with policy.

In fact after we had gone through the process to determine what was inappropriate of that 1.2 million, SLGA identified 188,000 as being inappropriate and then subsequent to that would recover thirty-seven and a half per cent of that, which I believe is around $71,000 and would have been the actual recovery that SLGA would be processing with respect to that fiscal.

Mr. D'Autremont: — Thank you. You've used a different word to describe this, however. You've used the word inappropriate. To me the use of the word unreasonable means that someone is judging the expenditures and making a judgment on it, not whether they are questionable as of not being in compliance with the policies or being inappropriate in compliance with or without because there's no policy in place, but rather making a judgment that these are not expenditures that are there for any good reason.

And that's why I asked the question. Do you use that term as well when SLGA is not in compliance with its own policies?

Ms. Morgan: — Well I guess I would have to say yes because we want to be in compliance with our policies. And if the Provincial Auditor finds that we aren't, then we are obviously going to do everything we can to remedy that.

Maybe it's the language that is the problem — unreasonable, non-compliance. The issue with SIGA has always been, when making a determination on their expenditures, are the issues of culture that come into the equation. And so we try to be as sensitive as we can to expenditures they make for cultural reasons, i.e., purchasing cigarettes for some of their ceremonies. But definitely if the Provincial Auditor were to identify us as being in non-compliance or making unreasonable expenditures or whatever, we would clearly be doing everything we could to rectify that.

Mr. D'Autremont: — Well to me the use of the word unreasonable seems to be judgmental, whereas the use of the word questionable brings into question whether or not that is an appropriate expenditure. And yet you seem to be very reluctant to use the word unreasonable in reference to SLGA. But according to the Provincial Auditor this was . . . the word unreasonable was used in a communiqué from SLGA auditors dealing with SIGA. So I think it is very much a use of the word. It seems to be a very provocative word and perhaps it is inappropriate use of language in this particular case in describing the circumstances.

Ms. Morgan: — Well I can appreciate your points with respect to the use of the language. I don't know if SLGA has used the word unreasonable. We used the word questionable with respect to SIGA, and non-compliance or inappropriate. But we'll certainly be more sensitive in the future to the language we use in our communications.

Mr. D'Autremont: — Well let me turn back to the Provincial Auditor. You've indicated in my first question that the information Liquor and Gaming considered unreasonable or did not comply with approved policies in relationship to SIGA, that that was a statement in one of their internal auditing documents that was presented to you. Is that correct?

Mr. Wendel: — I think the term reasonable or unreasonable may have come out of either ours or out of their report. But the way the agreement reads is — between SLGA and SIGA — is that SIGA can deduct reasonable expenses from slot machine revenue. So if they've flagged an item as an item that's questionable if you like — we've used the term unreasonable — now my staff are not certain whether the word was reasonable or unreasonable in their report that the examining internal auditor . . . But that would be our reason for using the word reasonable or unreasonable.

Mr. D'Autremont: — I wonder if you could check those reports and provide that information, whether that . . . whether the word unreasonable was used in the SLGA reports, audited reports to the Provincial Auditor's office.

Mr. Wendel: — We can do that.

Mr. D'Autremont: — Okay. Thank you very much. Further on on that page it talks about the loss of the $247,000 that occurred from the liquor stores. What follow-up have you done since that time to provide direction to your employees and training for your employees?

Ms. Morgan: — Well there are several of the Provincial Auditor's recommendations that we have complied . . . have already completed or are in the process of completing. And one of those is the checklist for our assistant regional managers and store managers with respect to the issues that they have to make sure are being complied with. And as well we've . . . All of our employees now, by the end of July this year, have to have read and signed an employee code of conduct declaration. We are in June undertaking a series of seminars facilitated by KPMG with respect to fraud awareness, which is another of his recommendations. We have improved, we believe, our communications internally with respect to the financial services division and retail operations.

We've in essence been working on each of the Provincial Auditor's recommendations to make sure that we have done everything we possibly can to prevent this in the future. And if you like, we prepared a summary of what we have done, and we'd be happy to distribute that to members of the committee.

Mr. D'Autremont: — If you would please.

Ms. Morgan: — Okay.

Mr. D'Autremont: — On page 176 it says:

> The Liquor & Gaming investigation found that the La Loche store began delaying deposits a few years ago. The investigation found that certain employees responsible for reconciling store sales and deposits knew about delayed deposits.

Since there was knowledge within the system that this was occurring, how high within the hierarchy of SLGA did that knowledge go?

Ms. Morgan: — I'll let Mr. Lacey answer this. This involves his employees.

Mr. Lacey: — Yes. The staff that were aware of the outstanding deposits at La Loche were staff within the bank reconciliation unit, so that knowledge would have resided within that unit, which would have been made up of the coordinator that does the reconciliations and the supervisor for that unit.

Mr. D'Autremont: — Would the hierarchy within the retail side have been aware of it?

Mr. Lacey: — Our investigation indicated that they were not aware of the outstanding deposits at that store location.

Mr. D'Autremont: — You have the store manager, then you have the regional manager who supervises him. Is that correct? Is there anyone in between there?

Ms. Morgan: — There's the store manager, and then the regional manager. So there is no one in between them at that stage.

Mr. D'Autremont: — What's the responsibility of the regional manager in relationship to any particular store? In this case La Loche, but it could be any store. What is their supervisory role?

Ms. Morgan: — Regional managers are responsible for visiting the stores on a frequent basis to determine whether or not all the policies and procedures according to the operating manual for our retail division are being adhered to and complied with. And it is their job to make sure this is occurring and if it is not occurring, to determine why, to have the store manager be in compliance. In other words provide him with whatever he needs to have — or she — in order to be in compliance with the policy manual.

So it is just a constant communication with store managers about what is in our policy manual and what they need to be complying with, whether it's the way they handle the cash, the way they use the computer, the way they fill in time sheets. It's just everything to do with the operations of that store.

Mr. D'Autremont: — So was the store manager in compliance with all of the policies in the operation of the La Loche store?

Ms. Morgan: — Now I have to be careful what I say because the RCMP investigation is still under way. I will put it this way. He was a long-time employee and had never had anything on his record. There was nothing with respect to his employment to that point in time that would have led us to believe there was anything wrong.

Mr. D'Autremont: — So he may or may not have been in compliance with the policies. Shouldn't his regional manager, if he was not in compliance with the policies, been aware of that fact?

Ms. Morgan: — The answer is yes. And he should have reported them. If he had known, he had a duty to report them.

Mr. D'Autremont: — So the accounting side knew that there were irregularities in the reconciliation of the account, and yet the regional manager was unaware that there was any concerns there. Shouldn't there have been some communication going on to inform the regional manager that we have a problem here because the auditor's report takes these reconciliation problems back to 2002.

Ms. Morgan: — The answer shortly put is yes. And it's one of the recommendations the Provincial Auditor makes, is to improve communications between financial services and retail operations, and we have undertaken some initiatives in that regard that we've outlined on the document that was distributed.

Mr. D'Autremont: — The auditor's report in 2002 talks of reconciliation problems. Should there not have been a duty by SLGA, from top to bottom, to ensure that the employees of SLGA were made aware of those problems, and that there was some constructive procedures put in place to rectify those problems? I mean we're talking from 2002 to the 2005 report now, and the difficulties just came to light publicly in 2005.

Ms. Morgan: — There's no doubt we had some issues with respect to our bank reconciliations. And quite frankly, after the first time this was mentioned in the Provincial Auditor's report, we did make some internal changes that we thought would fix the problem. And for a while we were being current with our reconciliations, and then for various reasons we fell behind again. But I will let Barry explain and outline exactly what we have done since last November, when this report was released, in order to fix this problem once and for all.

Mr. Lacey: — As Ms. Morgan mentioned, actions were taken to bring the bank reconciliations into I guess a timeliness perspective. However as the auditor notes in his reports, they fell behind again. So we've taken additional action. Specifically we've allocated additional permanent resources to the bank reconciliation unit. We've reorganized the unit such that it reports to a different individual, a different supervisor who has a professional accounting background.

In addition to that, we've reviewed our bank reconciliation procedures and strengthened those procedures such that we've put in, specifically put in requirements with respect to who must be notified when and for what specific reasons when there are irregularities found in the bank reconciliations. I guess those are to name a few.

Mr. D'Autremont: — Well in 2002, when the Provincial Auditor reported problems with reconciliation, you're saying that SLGA provided additional resources to bring the reconciliations back into line, into compliance. Who was then monitoring it to ensure that that stayed, those reconciliations remained in compliance? You've indicated that they've failed again. So who was responsible for that failure? Why was that allowed to happen?

Mr. Lacey: — In the spring and summer of 2005, one of the reasons the reconciliations fell behind again — there was a couple — but one of the primary ones was we had introduced a new point of sale system into our system. And as part of introducing the point of sale system. we changed our bank reconciliation processes given how the information flowed from that information system.

And the new information system in fact allowed us to make some improvements to our bank reconciliation process, one of which is allows us to do daily reconciliations now of what the stores are to deposit to what actually is being deposited into the banks. However, there was a period of time through that transition period, staff learning curves, learning new processes, in part, was one of the reasons why we fell behind again in spring, summer of 2005.

Mr. D'Autremont: — SLGA fell behind in its reconciliations in 2002. You're saying again in the spring of 2005. What about between those two periods? How many times did SLGA fall out of compliance with its reconciliations?

Mr. Lacey: — Well there was a period of time between 2005 and when we brought the reconciliations into a timely process in the '04-05 year. That period of time when that work was being performed, bringing the bank reconciliations into a timely manner, we would have been behind for that time period.

In '04-05, reconciliations were timely for six months as noted in the auditor's office. For the remaining six months there would have been one or two months out of what our timelines would be.

So I guess what I would answer from 2002 to . . . I'm getting my years mixed up . . . 2004, there would have been progress towards bringing the bank reconciliations to a more timely state, such that in 2004 we had achieved timely bank recs.

Mr. D'Autremont: — Okay. Thank you. So it took you two years to come into compliance from the 2002 report time to catch up. And then you fell behind again in the spring of 2005 after coming into compliance at some point in time during 2004.

Mr. Lacey: — That's correct.

Mr. D'Autremont: — So now you have the proper procedures in place. You have the proper personnel in place to be able to deal with these.

Mr. Lacey: — Yes.

Mr. D'Autremont: — So from the point in time in 2004 when you had come into compliance on reconciliations to when you fell behind again in 2005, what was the reason for that?

Mr. Lacey: — Once again it would hard to point to a particular reason. There were a number of reasons. I would indicate that the primary reason has been . . . is we had significant changeover in that unit from 2002 to 2004. And so in part we had new staff learning the processes. In fact all staff at one point in that unit were new during that time period. So it was a case of them learning their respective roles and functions. That would be one aspect of it.

We had an unfortunate incident with one of the people we brought into the unit. We had some performance issues with one of the individuals who was brought into the unit. They did not pass their probation. So as a result we had to bring other staff into the unit to basically replace that individual's functions and duties. In part recognizing we had those issues as well, we reallocated on a temporary basis additional staff from outside that unit to assist in the bank reconciliations as well as bringing in an outside consultant or accountant to help us bring those up to speed.

Mr. D'Autremont: — Well during the period 2002-2004, the staff you had in place did bring the reconciliations into compliance. So obviously they had the capabilities to perform their duties and there were enough of them on staff to do those duties.

You fell behind again from some point in 2004 into the spring of 2005. Did the staffing numbers change? Because obviously, other than the one person that you have mentioned, you had the same people there that had done the work to bring you into compliance into 2004. So they obviously are capable of carrying out those duties. Was there a change in the number of staff other than the one person?

Mr. Lacey: — I'm sorry. I'm perhaps . . .

Mr. D'Autremont: — How many people in 2004, when you brought it into compliance, did you have for staff in that location?

Mr. Lacey: — We would have two staff in that location permanently assigned to that role from 2002 until 2004. The bank recs would have not been timely until 2004. So I don't believe there would have been a specific time period in those year and a half to two years we would have been timely. In compliance, from a timeliness perspective, for six months in 2004, as indicated due largely to changes in the process, fell behind again in 2005. With an additional resource being added to that unit, we now have three resources, full time, dedicated to our reconciliation processes.

Mr. D'Autremont: — So at the time period that you fell back out of compliance, you had lost one of the two employees that had been there previously?

Mr. Lacey: — Sorry. When we fell into in compliance in 2005 again?

Mr. D'Autremont: — Yes.

Mr. Lacey: — One of the other issues we encountered with respect to falling out of compliance in 2005, in addition to system issues, were when we became aware of the Biggar and La Loche issues and some of the issues we had around our bank reconciliation processes. One of the employees was suspended with pay until we could complete that investigation and make a determination of what happened. So in fact there was a period of time through the summer months when we would have been one person short in that unit due to that reason.

Mr. D'Autremont: — What are the qualification requirements for staffing in this area? Are they chartered accountants? What's their qualifications? What's the job requirement?

Mr. Lacey: — I'm sorry I don't have that information with me here specifically. I can tell you certainly at that period of time there would not have been a requirement for them to have a professional accounting designation.

I do know that there would have been a requirement for them to have a certain level of accounting classes and formal accounting training. I could get you that information. I'm not certain to what level of formal training was required for those positions.

Mr. D'Autremont: — Is formal training now required for those positions?

Mr. Lacey: — The requirements from a training perspective for those positions would have not of changed. What has changed is the individual responsible for the reconciliations or the supervisor does have an accounting designation. That was done on purpose, I guess, with respect to ensuring that we had that level of education and training overseeing the reconciliation processes.

Mr. D'Autremont: — Was that level of training in place prior to 2005?

Mr. Lacey: — No, it was not.

Mr. D'Autremont: — So the supervisor at that point in time would have been somebody who had come up through the system with whatever the requirements were for their initial hire and in-house training?

Mr. Lacey: — And also would have had some outside formal accounting training as well. What I'm unable to provide you today is whether it was one year, two years of professional accounting classes and could certainly endeavour to provide that information to the committee.

Mr. D'Autremont: — If you would, please. So you're comfortable now then that the procedure, what you have in place now, will be able to maintain the reconciliations in compliance?

Mr. Lacey: — Yes, certainly, and we are in compliance today.

Mr. D'Autremont: — What changes, if any, were made at the regional manager level for requirements to ensure that the stores under their direction are meeting the policy guidelines and the necessary requirements for reconciliations and compliances?

Ms. Morgan: — Well firstly, as I said earlier, we developed a checklist detailing everything that the regional managers must be reviewing. And by the end of March of this year, the managers had completed a review of all the stores in '05-06.

We have an abbreviated checklist for regional managers to use when they make their regular store visits. We have specific written instructions that are given to managers that they must raise with the regional manager to make sure they are in compliance. And discussions go on, on an ongoing basis. I mean, the regional managers have regular meetings with the vice-president of retail operations.

And as well, twice a year all managers, all store managers and regional managers meet for two days at a minimum for various reasons and not the least of which will be to review policies. And the president is always at those meetings as well. So the work is just ongoing.

Mr. D'Autremont: — Thank you. You're ensuring compliance with the policies. What measures do you have in place to ensure enforcement of those policies? When you find someone who is not in compliance, how do you deal with it now?

Ms. Morgan: — Well any time we find non-compliance, I mean depending on the issue, there's various steps you can take. Clearly in Biggar and La Loche, there was non-compliance, and the employees lost their jobs. But in addition, there's disciplinary action that can be taken with the employees with respect to non-compliance, especially anything that's repeated non-compliance.

But usually it's just a question of the communication. I mean, it harkens back to that issue of communication and the need for us to be clear in our communication with employees about what is expected of them and the fact that, yes, you have this manual, but you don't just put it on a shelf to collect dust. You have to comply with the contents of that manual.

So it's just repeating, repeating the message. And as I say, I mean, it can lead to job loss. It can lead to discipline. It can lead to suspension. It's just depending on the nature of the lack of compliance.

Mr. D'Autremont: — So how do you track that compliance or lack thereof, with the individual employees or with the individual stores in the system?

Ms. Morgan: — Well firstly, I want to say that 99.9 per cent of our employees are complying. And where there is non-compliance on whatever the issue might be, the regional manager works with that individual — whether it's a manager or somebody else in the store — to get them into compliance, like, to determine whether it's just an issue of communication or whether it's an issue of not understanding what's in writing in the manual . . . but sitting down with these employees and walking them through what it is they are having difficulty with.

And we will be hiring two more managers this budget year in order to more readily address issues. We've determined that four regional managers is not enough for a province this size and the number of stores we have. So we can make the visits to the stores even more frequent.

Mr. D'Autremont: — Your policy for how often should regional managers be in each store, what's the policy on that?

Ms. Morgan: — Well with the exception of Creighton, which is as you know near Flin Flon and a long ways away, but we do get to that store at least once a year. But on average, I think the regional managers are in the stores about four times a year, the stores under their region. More often if there are issues that arise.

Mr. D'Autremont: — You have — what? — I believe, 80-some stores in the system.

Ms. Morgan: — We have 81.

Mr. D'Autremont: — Eighty-one. So you've got roughly 20 stores within each region?

Ms. Morgan: — I believe that's correct, yes.

Mr. D'Autremont: — So do you think once every three to four months is sufficient time for each regional manager to be in each store?

Ms. Morgan: — I think the answer to that is no, we don't, which is why we asked for two more positions in this area such that we could make more frequent visits to the stores.

Mr. D'Autremont: — Going back to the La Loche situation with the regional manager, did the regional managers perform the duties they were assigned in confirming compliance of the policies at that store during the period of 2002 to 2005 when there was non-compliance?

Ms. Morgan: — Well the regional managers have not existed for that entire time because we only developed the regional manager system three years ago, I believe. So clearly based on his direction at that time, he believed the store. He had no reason to believe, as I said earlier, that they weren't in compliance. And it was a long-time employee in that store with whom we'd never had problems. So we were pretty certain that he was doing his job, the regional manager, to the best of his ability, based on the direction he'd been given.

The checklist that we now have didn't exist at that time. And since these incidents last summer, we have spent a lot of time with our managers and regional managers on their responsibilities and what it is they have to be reviewing when they are in those stores. So I would say that it's in the last ten months that things have gotten more aggressive with respect to regional managers.

Mr. D'Autremont: — Nevertheless there must have been some direction though that the corporation was given to its regional managers on to what the performance of their duties were, what the corporation expected from those regional managers. I wonder if we could have some indication as to what those directions were and what the expectations were of the corporation of the duties of the regional managers.

Ms. Morgan: — We can undertake that and provide that to you with respect to their job descriptions, with respect to our operating manual, policy manual. I mean their responsibility was to make sure that those policies were being adhered to. So we can undertake to provide that information to you. I don't have a copy of that with me here today.

Mr. D'Autremont: — Yes, if you would please. And if you could note any changes that you have made from what was there previously to what your expectations and procedures are now.

Ms. Morgan: — Okay. We'll do that.

Mr. D'Autremont: — In some of the changes that you are putting in place now, are you looking at putting in better inventory control so that you understand better what's going in and out of each location?

Ms. Morgan: — Well this new point-of-sale system we have does that on a daily basis. Now we know every product that is sold in every store in the province on a daily basis and know how much money should be being deposited representing those sales. And that now comes in daily to head office here in Regina.

Mr. D'Autremont: — And that includes the stores in the North that may or may . . .

Ms. Morgan: — Yes.

Mr. D'Autremont: — May not have more difficult communication problems.

Ms. Morgan: — Yes. Everybody has the same system now.

Mr. D'Autremont: — So is this all being done over, let's say, an intranet rather than the Internet, so that it's internal?

Ms. Morgan: — It's internal to our organization, yes. I don't pretend to understand the technology that's involved here, but all I know is that it was implemented last July and it's working.

Mr. D'Autremont: — Some of the problems that we talked about in Crown Corporations on this issue is difficulties with inventory control as far as breakage, as far as perhaps returns. How do you control that as far as your inventory control is concerned?

Ms. Morgan: — I'll ask Paul Weber who's our vice-president of retail operations to answer that question.

Mr. Weber: — Mr. Chair, to control our inventory and the breakages, we have quarterly inventory counts. We can get a daily balance from our point-of-sale system. Any breakage or products that are unsaleable, we have a process in place where the store staff must record the breakage or the customer complaint or whatever the reason is for the product being unsaleable, write that down on a control sheet. And then when they dispose of the product, it has to be witnessed. So there have to be two employees witnessing the destruction of that product, and then the product that's destroyed is entered as an adjustment to the inventory system.

So we keep a perpetual inventory on a regular basis. It's a real-time inventory so that at any point in any store we can go in and, for example, we can go in and count the 750 ml size of a particular vodka and check it to the cash register and know at that point in time whether we're short a product or whether the inventory balances.

Mr. D'Autremont: — I wonder if you could describe what you mean by the term unsaleable. If a beer box is damaged isn't it still possible to sell the actual bottles?

Mr. Weber: — Well if a carton is damaged, sure we tape the cartons up. But the public when they walk in and they see a display of beer and they see a case of beer taped up, they are less likely to buy it. So we'll put it on the floor and see if it'll sell. If it doesn't we have an arrangement with the suppliers where we take that and write it off and charge the supplier for that product. And they pay us our cost to destroy the product and remove it from sale because they don't want their product image damaged by having products out there that are not saleable.

Other things that can cause products to be unsaleable — we can have defaced labels, we can have cracked caps, we can have chipped bottles. We get customer complaints with regards to product quality. For example if a customer buys a bottle of wine and they take it home and they think something's wrong with it or they don't like the product, they'll bring it back. We'll record the reason for the return and that goes into our retail services branch so that we can monitor quality control. And then that product would be written off, the customer would be refunded their money, and we would dispose of the product in the manner that I mentioned to you.

Mr. D'Autremont: — Has SLGA looked at having sales in the sense of discount sales, like day-old bread, for products that have damaged labels or you know the box is beat up?

Mr. Weber: — Yes, we used to do that and that was open to our employees. We would sell it at cost. Unfortunately we determined that over time it's interesting how the salvage or the unsaleable products used to go up at certain times of the year and so we had to discontinue that practice. So now all of the product gets destroyed so that there's no temptation to create unsaleable product.

Mr. D'Autremont: — I think the Minister of Agriculture uses the term moral hazard often. Perhaps if those sales had been made available to the public rather than to employees of SLGA it might have had a different impact.

Mr. Weber: — We considered that but there was the issue of liability in the sense of if we sold a product that we wouldn't sell on our shelves, even though it was at a discount, the issue came up, well what happens if the customer takes that and there's something wrong with the product. It was not worth the risk. When we write it off we're only losing . . . We write it off at our cost. Most of the time unless it's a product that's broken in the store by a customer, any of the unsaleable products, most of them we charge back to the supplier. And so we're not losing a lot of dollars by any means for shrinkage. Our shrinkage represents less than 1 per cent of our volume when you look at the total shrinkage.

Mr. D'Autremont: — How much did you say as a percentage of?

Mr. Weber: — It's less than 1 per cent. I forget the actual per cent we calculated. I can get that number for you. We're going to take a look. We may have that with us. It's a very small percentage.

Mr. D'Autremont: — Less than 1 per cent of several hundreds of millions of dollars is still a significant amount of dollars.

Mr. Weber: — If I remember correctly it's somewhere in the neighbourhood of $70,000 annually. Again, I stand to be corrected. Barry will check the numbers that we have but it's in that range. So the type of product that we sell, it's not perishable. We don't normally have issues other than damaged products, and occasionally we of course have product go missing through shoplifting in some of our locations.

Mr. D'Autremont: — Liquor sales are approximately, total stores, $250 million. So even 1 per cent is two and a half million, so hopefully it's significantly less than that.

Mr. Weber: — No, I think it's .003 per cent, if I remember correctly, on the calculation. We're talking, our stock dispositions were for '04-05 $83,569. So we're talking really, when you look at a retail business, really small shrinkage compared to other retailers as well.

Mr. D'Autremont: — Okay, thank you. Part of the problem in my understanding of the La Loche situation dealt with the ability to make deposits of the sales that went through that store. What has SLGA done now to improve that situation?

Ms. Morgan: — Well there has not been a bank in La Loche as you know, and Loomis and Brink's won't provide security service there. So 27 years ago or 30 years ago when the store opened, the Liquor Board made an arrangement with the Hudson's Bay store, that in essence our deposits would be made in the Bay and then they would in turn would give us cash for ongoing operations.

When the Bay ceased to do business, a store called the Northern Store replaced it, and we continued that arrangement with the store. We have a formal written agreement with them with respect to the service they provide to us. And I think now we're requiring daily deposits into that store. We tried to get Brink's and Loomis but they weren't interested.

Mr. D'Autremont: — In the past that particular store was making deposits at times once every two weeks. So now they're doing it on a daily basis.

Ms. Morgan: — Every day, yes, every day.

Mr. D'Autremont: — And how has that been working in comparison to your tracking through your electronic system with store sales?

Mr. Lacey: — I mean it's been working very well. Once again we're monitoring that store location in this particular case because the cheque comes down through the mail. We set some time frames up where we expect to see that cheque come down for every day's sales. So yes we're monitoring that the same as we are all the other stores, no exception.

Mr. D'Autremont: — Obviously there will be at times a difference between the actual cash deposit and the sales on a particular day, or what may be recorded, because you'll have breakage or unsaleable products. What's the acceptable error rate that you're looking at?

Mr. Lacey: — I believe you're probably referring to cash overages and shorts. And I think the rate that we have right now is 5 cents per $1,000 of sales.

Mr. D'Autremont: — So point five per cent.

Mr. Lacey: — Yes. Your math is better than mine. Yes. The other piece we have in the La Loche piece, because there is not a bank per se in La Loche, what we have is when they provide the dollars to the general store in La Loche, the money that's provided to the general store is signed with the general store and the employee present. So that log is also submitted to head office so that we're able to track specifically what the store said, the north store said they received, and to ensure it's consistent with the cheque that we received at head office out of the La Loche location.

Mr. D'Autremont: — And how is that information transmitted from La Loche to head office? Is it electronically, is it . . .

Mr. Lacey: — By mail.

Mr. D'Autremont: — By mail so . . .

Mr. Lacey: — By inter-office mail.

Mr. D'Autremont: — Okay. Would it not be possible to do that by fax as well where you would actually have the signatures in place?

Mr. Lacey: — I believe and I could be . . . If I'm wrong we can get back to the committee on this piece. I believe it comes down by mail along with the cheque. So the cheque has to physically get to head office for deposit at our bank here in Regina. And so along with that cheque through the mail service, the log comes down as well.

I stand to be corrected. The log is in fact faxed down to head office. The cheque would come through the mail.

Mr. D'Autremont: — Okay, thank you. To me that sounds better because now you have the information much more quickly. And you can track it with your . . . in comparison to your electronic report that you get on a daily basis, I believe.

One of the other issues that the Provincial Auditor raised was your information technology needs and the need for a strategic plan, and in particular a policy dealing with confidentiality, privacy, integrity, and the availability of information. So you've changed your systems to utilize IT in a much more appropriate manner. What have you done to prepare your strategic plan? And I'm particularly interested in the security that you're using to ensure that this information remains internal to SLGA and is not accessible to others.

Ms. Morgan: — I'm sorry. Are you talking about the privacy of individuals who are licensed by us?

Mr. D'Autremont: — No. Your sales, your internal . . .

Ms. Morgan: — Financial information.

Mr. D'Autremont: — Financial interests.

Ms. Morgan: — Okay, sorry.

Mr. Lacey: — With respect to just the control processes that we have in place, many of the controls you'd see in any typical IT environment, being it employee passwords and requiring certain characteristics in those passwords, alphanumeric, non-numeric, etc. We also have firewalls in place that prevent inappropriate access from the outside world, so to speak. Physical security controls over access to the hardware themselves such that a person from the outside can't directly access the hardware, so encrypted communication when we're going from outside head office locations. So a variety of control processes are in place, I guess, that you would expect an environment would have to protect that information.

Mr. D'Autremont: — Have you done any studies to determine that your system is secure? Have you tried to have someone hack the system from outside to see what kind of . . . if your security is actually working?

Mr. Lacey: — No, we haven't had someone particularly try to access our control systems. The one step that we are taking which the Provincial Auditor has recommended in his report is the development of formal and comprehensive IT policies that would include security policies. While many of the processes I've mentioned we have in place right now — we have in place to protect the systems — but also a very necessary step as mentioned by the auditor is to actually formalize your expectations of what you expect your information systems staff to have in place as a senior management team. And then a secondary step to that would have someone in to come and independently review whether or not the processes you have in place meet those policy expectations that you have set.

And it's our intent in the upcoming board meeting with our board this spring is that we will have passed that formal, comprehensive set of policies and we can move to that next step then which I think would perhaps get at your point.

The Chair: — Mr. D'Autremont, were you volunteering?

Mr. D'Autremont: — No, but I have a son who could probably do it. There was an article in the paper — in the *Leader-Post* — about, oh, 18 months or so ago by a security firm that they had gone around to a number of businesses in downtown Regina and asked them, are your sites secure? And everybody said, yes they are. And then they toured around Regina with their laptop in their vehicle and were able to access a number of those sites even though the individuals in question believed that their sites were secure.

And it didn't — according to this article — it didn't seem to take very long. And when I talked to my son he tells me it doesn't take very long either. Not that he's doing it, but he is aware of those abilities since he's in university. And so I'm just wondering, have you done any studies to determine that your sites are actually secure.

Mr. Lacey: — No. I guess specifically with conducting specific tests to see if our security procedures can be breached by for example a third party you just mentioned, we haven't undertaken that. We have however as part of our information technology, development of our information technology systems we have engaged two partners who are experts in the field of information technology, outside of SLGA — EDS Canada and Paradigm Consulting out of Regina here who have worked very closely with us in the development of our systems and have brought to bear much expertise with respect to providing us advice in that area.

Mr. D'Autremont: — So perhaps they have run independent actions on their own part to ensure that their own systems are secure as far . . . in relationship to SLGA, their work with SLGA, that you may or may not be aware of. Is that possible?

Mr. Lacey: — Yes, that certainly would be possible. I'm not aware of them purposely trying to breach our systems, but certainly the expertise that they would bring to bear certainly would strengthen the processes that we have in place to protect our information.

Mr. D'Autremont: — I would think it would be prudent on their part to do the work properly in the best manner they could possibly and then have another employee assigned . . . can you beat this?

Mr. Lacey: — I think certainly that could be something that we could look at down the road. I don't think it's something certainly that we have contemplated to date with respect to hiring an outside agent who might be as expert as you've indicated. Perhaps that occurred 18 months ago with respect to that firm. That certainly is something that we could take away and look at as we continue to look at how we can ensure we have security over our information.

Mr. D'Autremont: — Okay thank you. I think it's something that we all need to be aware of as we're utilizing information in a number of cases. It's not our personal information but other people's information and business information that should not be accessible to others, those that not normally would have access to that information.

The Chair: — Mr. D'Autremont, if the Chair could just interject here for a minute. The Chair has been unusually quiet in this Public Accounts meeting. We are approaching the last five minutes of the time we've allocated for our meeting this morning. It seems fairly obvious to me that we're not going to get to the 7B on the SIGA component of the report. I just want to know for my colleagues, are you prepared to move to the point where we can deal with the eight recommendations in 7A, or do you propose to continue asking questions until the time is complete and then resume at a subsequent meeting and deal with all the recommendations? Just for the information of all members.

I know that there are some that have a meeting at 11:45 or shortly after 11:45. So just . . .

Mr. D'Autremont: — One more question.

The Chair: — You have one more question?

Mr. D'Autremont: — Then I'll be done with this section.

The Chair: — Okay. And are there other questions that other members want to ask, or would everyone be prepared to go to the eight recommendations? It's the wish of everyone to go to the eight recommendations.

Okay. Mr. D'Autremont, continue with your question.

Mr. D'Autremont: — On page no. 179, it lists a number of funds that . . . outstanding deposits and those kind of things including, I believe, the money from the Biggar and La Loche liquor stores. Has all of that money been accounted for in the sense that while it may have been misappropriated, you know where it went to?

Ms. Morgan: — What we know, or the amounts we now know are correct. We are not in a position to say where these funds went after they disappeared. We just don't know that, but we know the amounts, and we know that they're accurate now.

Mr. D'Autremont: — Yes. You know that there was X amount at Biggar, X amount at La Loche.

Ms. Morgan: — La Loche. Yes.

Mr. D'Autremont: — And there's not some number out there that's not accounted for.

Ms. Morgan: — No. No, we checked immediately.

Mr. D'Autremont: — Okay. Thank you. That was the last of my questions on that section.

The Chair: — All right. And my understanding then is that no other members have any questions at this time. Is that correct?

All right. We will then move to the recommendations which begin on page 173. There are two recommendations on that page. I'll read the recommendations for the committee members. These recommendations are by the Provincial Auditor, no. 1:

> We recommend that the Board of Directors of the Liquor and Gaming Authority approve the information technology strategic plan.

Is there a motion? Ms. Crofford.

Ms. Crofford: — I'll move that we concur with the auditor's recommendation and report progress.

The Chair: — A motion to concur and note progress. Any discussion on the motion? Seeing none, we'll call the question. All in favour? That's carried.

Recommendation no. 2:

> We recommend that the Board of Directors of the Liquor

> and Gaming Authority approve the information technology policies and procedures.

Again, is there a motion? Ms. Crofford.

Ms. Crofford: — Yes. Again I'll move that we concur with the auditor's recommendations and report progress.

The Chair: — Similar motion to concur and note progress. Any discussion on the motion? Seeing none, we'll call the question. All in favour? That's carried.

Recommendation no. 3 on page 174 reads:

> We recommend that the Liquor and Gaming Authority prepare and the Board of Directors approve a complete business continuity plan.

Again is there a motion? Mr. Borgerson.

Mr. Borgerson: — Yes, I'll move that we concur and note progress.

The Chair: — Again a motion to concur and note progress. Any discussion on this motion? Seeing none, call the question. All in favour? That is carried.

Recommendation no. 4 on page 181, the recommendation reads:

> We recommend the Liquor and Gaming Authority clearly set out what work the regional managers must do and how and what they must document for their store visits.

Is there a motion? Mr. Borgerson.

Mr. Borgerson: — Yes, I'll move that we concur and note compliance, Mr. Chair.

The Chair: — Okay. This time, a motion to concur and note compliance. Is there any questions, discussion regarding this motion? Seeing none, call the question. All in favour? That's carried.

Recommendation no. 5:

> We recommend the Liquor and Gaming Authority train and direct its supervisory staff to help supervise the work of other employees.

Is there a motion? Ms. Crofford.

Ms. Crofford: — I move that we concur with the auditor's comments and report compliance.

The Chair: — Again a motion to concur and note compliance. Is there any discussion on the motion? Seeing none, we'll call the question. All in favour? That's carried.

Recommendation no. 6:

> We recommend the Liquor and Gaming Authority train its employees to help establish a culture of fraud awareness.

Mr. Borgerson.

Mr. Borgerson: — Yes, Mr. Chair, I'll move that we concur and note progress.

The Chair: — A motion to concur and note progress. Is any discussion on the motion? Seeing none, call the question. All in favour? None opposed. It's carried.

Recommendation no. 7, on page 182:

> We recommend that the Liquor and Gaming Authority require all employees to confirm they understand and comply with its code of conduct and conflict of interest policies.

Is there a motion? Ms. Crofford.

Ms. Crofford: — I'll note that we agree with the auditor and report compliance . . . note compliance. Would that be compliance or . . .

The Chair: — A motion to concur and note compliance. I was actually going to ask the question because it hasn't been raised on this. Are you moving concur and note compliance?

Ms. Crofford: — See they won't be done until July so I wonder if . . . It's sort of close to . . . I think it might be best to note progress. Yes.

The Chair: — All right. The motion then is to concur and note progress. I guess my question . . .

Ms. Crofford: — Yes, they're getting there.

The Chair: — You're safer with progress, Ms. Crofford.

Ms. Crofford: — Yes. Yes.

The Chair: — I note on the paragraph, two paragraphs above the recommendation that the auditor says:

> Management told us that Liquor and Gaming required its managers to discuss with all employees the code of conduct and conflict of interest policies. We could not find any documentary evidence of such discussions.

I guess, why was there no such evidence? And is that evidence in place as of today?

Ms. Morgan: — What we're required to do today is sign a declaration saying that they have read the code of conduct and understand it.

So with respect to discussions, I couldn't honestly say that every manager has kept notes of the discussions they've had with their employees. I know it's been an agenda item on everybody's team meetings that they have, but I don't know about written notes. I just know that we now require our employees to sign a written declaration.

The Chair: — Mr. Borgerson.

Mr. Borgerson: — I'll first indicate that the grid or the matrix that you provided for us is very helpful. And I think, yes we're caught in between progress and compliance. In fact they have complied in terms of laying out the requirement, but as it's indicated here, the code of conduct declaration is to be signed by July 31, 2006. So I think the motion's a good one.

The Chair: — So compliance is actually being accomplished.

Mr. Borgerson: — That's right.

The Chair: — All right. Are we ready for the question?

An Hon. Member: — Question.

The Chair: — All in favour? That's carried. We move to the final recommendation in 7A on page 183 which reads:

> We recommend the Liquor and Gaming Authority establish a process to ensure its employees share pertinent operational and financial information with each other.

Is there a motion? Mr. Borgerson.

Mr. Borgerson: — I'll move that we concur and note progress.

The Chair: — Again a motion to concur and note progress. Any discussion on the motion? Seeing none, we call the question. All in favour? Again that's carried, carried unanimously.

I would at this point then like to thank you, Ms. Morgan, and your associates for coming before the Public Accounts Committee. It looks like we may have to do this again in the near future as we didn't quite complete the task set out before it, but there is a lot of material there, and I think we have made strides, significant strides towards completing the material.

We have to also report progress but not compliance yet. Thank you, Ms. Crofford. I'd also like to thank the Provincial Auditor and the comptroller's office for being with us this morning. We had one other potential item which we have run out of time, a motion regarding the annual conference that four members from this committee attend annually. We will deal with that motion at the next meeting of the Public Accounts Committee which shall occur in one week from today.

I declare this meeting adjourned.

[The committee adjourned at 11:46.]