

3.2.5 Newfoundland and Labrador Liquor Corporation (2003 Annual Report, Part 2.14)

Introduction

In 2003, we reviewed the Newfoundland and Labrador Liquor Corporation (the Corporation). The objectives of our review were to:

- review the financial position and operating results of the Corporation;
- determine whether controls over the purchasing of goods and services were adequate and that such expenditures were made in accordance with the *Public Tender Act* and the Corporation's policies and procedures;
- determine whether there was adequate monitoring and control of sales agents; and
- determine whether controls over the selection of agency stores were adequate.

Conclusions from our 2003 review

As a result of our review we concluded the following:

Financial Position and Operating Results

- The Corporation had a monopoly on the sale of alcohol products in the Province and was in sound financial condition, contributing significant amounts of cash to the Provincial treasury each year.
- There was an issue with the inventory levels maintained by the Corporation. During the five years ended 31 March 2003, the Corporation's inventory turnover rate averaged approximately 2 times per year.

Renovations

- The Corporation's Board neither approved an overall plan to renovate its Head Office, nor were regular updates provided to the Board on the status of the renovation project.
- The Corporation spent a significant amount of public money on several purchases which could be considered as being excessive.

Update on Prior Years' Report Items

Public Tender Act

- The Corporation did not always comply with the requirements of the *Public Tender Act*.

Marketing

- The Corporation did not call public proposals for its various marketing campaigns.
- The Corporation could not demonstrate whether the cost of the Box at Mile One Stadium had any positive impact and whether there was an ongoing cost-benefit for the Corporation.
- The Corporation used the services of Provincial and National sales agents as well as sales agents in other provinces. We found that the Corporation did not call for proposals for the provision of these services. Furthermore, there were no signed contracts in place for any of these sales agents that could be used by the Corporation to monitor and control the work of these agents.

Agency Stores

- The selection process used by the Corporation to select Agency stores was not transparent and was not based on an objective assessment of how each applicant meets qualifying criteria.
- At the time of our review, there were no signed contracts in place for 36 of the 44 agency store files that we reviewed.

Retail Stores

- The Corporation did not complete market studies or otherwise make use of any defined process to analyze the need for the three new retail stores that were opened during our review.
- Payments made by the Corporation under lease agreements for the three new retail stores were not consistent with the terms contained in the successful tender bids.

Update on Prior Years' Report Items

Expenditure Issues

- Expenses claimed by the President and Chief of Operations did not have sufficient documentation to demonstrate that the expenses were claimed for Corporation business.
- Contrary to its travel policy, the Corporation paid for the spouses of the President and the Chair of the Board of Directors to attend a wine show in New York and also paid for various conference registration fees for these spouses as well as the spouse of the Director of Enforcement.
- The Corporation had been using the services of the same engineering firm since the early 1980's to assist in the management of its capital construction and renovation projects. The Corporation has not called for proposals since that time and there were no current terms of reference and no current contract in place.

Board of Directors Expenditures

- Contrary to Government's policy for remuneration for Board members, during the year, liquor or other alcoholic beverages was provided to the Board.
- Payments to the Chairperson of the Board of Directors for the period 13 May 2000 to 31 March 2003 were not always in accordance with the policies of both the Provincial Government and the Corporation relating to remuneration of board members.

Update

In October 2005, we contacted the Corporation requesting an update as to the progress on the comments and recommendations included in our 2003 report. The information provided by the Corporation in response to our request is outlined below.

Update on Prior Years' Report Items

2003 Recommendation

The Corporation should continue with its efforts to implement its point of sale system to assist in establishing appropriate inventory levels.

Action Taken

The Corporation indicated that the Point of Sale (POS) system has been continually expanded upon and the Corporation will be, by the end of 31 March 2006, able to incorporate POS with Supply Chain Management (SCM), as envisaged originally. The SCM initiative had been on hold but was re-started in January, 2005 with completion expected by April, 2006.

2003 Recommendation

The Corporation should not spend public monies on items that could be seen as being excessive and develop a process to more precisely plan and monitor the costs and timing of renovation projects.

Action Taken

The Corporation indicated that spending will be according to budget, all of which will have ministerial approval before implementation. This is the policy of the current Board. Spending will be in accordance with need, not extravagance.

2003 Recommendation

The Corporation should comply with the Public Tender Act in the acquisition of goods and services.

Action Taken

The Corporation indicated that it has, in November 2005, created a position, Director of Facilities Management, to replace that formerly known as Property Manager. The key functions of this new position will be the management of the *Act*, on-going asset management programs and the corporate purchasing function, formerly managed by the Accounting Department.

Update on Prior Years' Report Items

The Corporation indicated that the individual hired has considerable experience in public sector facilities management and procurement.

2003 Recommendation

The Corporation should call for public proposals for all professional services and establish a process to support the selection of the best proposal.

Action Taken

The Corporation indicated that it is currently reviewing its approach to the use of professional services. In accordance with the Provincial Government consulting guidelines, Request For Proposals have been issued and this will continue. Also, the Corporation is in the process of calling for proposals on the management of capital projects related to facilities, currently supplied by a sole source.

2003 Recommendation

The Corporation should ensure that it has signed contracts in place with all companies providing services to the Corporation. These contracts should outline the roles, responsibilities and accountabilities of these companies.

Action Taken

The Corporation indicated that a complete review of all contracts within which the Corporation has entered into was initiated early in 2005. By the end of this fiscal year, March 2006, signed contracts should be in place for all service providers to the Corporation.

2003 Recommendation

The Corporation should complete a cost-benefit analysis to determine whether the Corporate Box at Mile One Stadium should be kept. If it is determined that the Box should be kept, records should be maintained to indicate specifically who attends events.

Update on Prior Years' Report Items

Action Taken

The Corporation indicated that it no longer maintains a corporate box at Mile One Stadium.

2003 Recommendation

The Corporation should ensure the selection process for agency stores is transparent and based on an objective assessment of how each applicant meets qualifying criteria.

Action Taken

The Corporation indicated that the agency store program is currently under review. This includes the selection process, the criteria used, the evaluation and approval of the Board. Beyond that, the standards of performance for agencies are being established as related to appearance, products carried, hours of operation and merchandising capability. These will all be incorporated into future agreements and thoroughly understood prior to the selection of any agent.

2003 Recommendation

The Corporation should conduct market studies or otherwise make use of a defined process to analyze the need for new retail stores.

Action Taken

The Corporation indicated that new stores will be opened based upon the situations that exist. Lease expiration will cause reviews to take place, likely leading to new stores being developed. These locations will reflect developing markets, residential and commercial, as well as developing traffic patterns and merchandizing opportunities.

Update on Prior Years' Report Items

2003 Recommendation

The Corporation should ensure that all payments relating to leases are in accordance with the terms and conditions outlined in the successful tender.

Action Taken

The Corporation indicated that as leases are reviewed, amounts being paid out in accordance with the terms of the lease, are verified with "Accounts Payable" to ensure accuracy and awareness of dates related to such payments.

2003 Recommendation

The Corporation should ensure that all claims submitted for payment are supported by appropriate documentation and that the items claimed are eligible under the Corporation's policy.

Action Taken

The Corporation indicated that all expense claims are considered in relation to Corporation policy and exceptions are documented, if approved.

2003 Recommendation

The Corporation should ensure that remuneration of Board members is in accordance with Corporation policy.

Action Taken

The Corporation indicated that Board Members are remunerated according to guidelines provided - no more, no less.

Update on Prior Years' Report Items

2003 Recommendation

The Corporation should ensure its annual reports contain information on the performance of the Corporation in relation to its original approved plan and objectives.

Action Taken

The Corporation indicated that the Annual Report is moving to reflect performance versus plan in all areas. The current administration could not develop a plan in mid-stream, but all future reports will reflect comparative performance data.

3.2.6 Province of Newfoundland and Labrador Pooled Pension Fund (2003 Annual Report, Part 2.15)

Introduction

In 2003, we performed a review of the Province of Newfoundland and Labrador Pooled Pension Fund. The objectives of our review were to determine changes in the unfunded pension liability and how the Pension Investment Committee monitors the activities of the Fund.

Conclusions from our 2003 review

As a result of our review we concluded the following:

- Although Government had taken some action to address the unfunded pension liability, the liability continued to increase.
- Even though Government had committed substantial annual special payments to address pension funding issues, two of the pension plans administered by the Fund will be depleted of assets and require deficiency payments (Uniformed Services Pension Plan 2013-14 and Teachers' Pension Plan 2015-16).
- The Pension Investment Committee did not require an independent external appraisal prior to the acquisition of real estate property by Newvest Realty Corporation, the entity formed by the Committee to administer the real estate holdings.