2.13 Newfoundland and Labrador Farm Products Corporation

In October 1997, the operations of Newfoundland and Labrador Farm Products Corporation in St. John's were privatized and Integrated Poultry Limited (IPL) became the operator. In February 2000, IPL went into receivership and in March 2000, the assets were sold by the receiver to Country Ribbon Inc.. As part of this sale, in March 2000 the Province entered into an agreement with Country Ribbon Inc.. This agreement had a number of conditions, including one that stated that the company would not seek any loan guarantees, grants or other forms of financial assistance from the Province in respect of the purchase of the business or in respect of the operation of the business to the end of the agreement on 9 March 2005.

However, in March 2003 Government gave approval for Country Ribbon Inc. to assign chicken quotas as security for raising long-term capital, in July 2003 Government provided a loan of $1.9 million for the purchase of grain, and in November 2003 Government provided financial assistance of $2.6 million. The $2.6 million was provided in exchange for shares in the company and at the same time, the $1.9 million loan from July 2003 was converted into shares.

2.14 Newfoundland and Labrador Liquor Corporation

The Newfoundland and Labrador Liquor Corporation (the Corporation) is an agency of the Crown incorporated under the *Liquor Corporation Act* of the Province of Newfoundland and Labrador. In 2003, the Corporation paid $93 million to the Province's Consolidated Revenue Fund.

Financial Position and Operating Results

There is 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. This would suggest that the inventory level maintained by the Corporation is much too high or that the Corporation maintains a considerable amount of slower moving stock. Inventory levels and turnover has been considered by the Corporation and a new point of sale system is expected to help determine the types and optimum levels of inventories.

Renovations

As of 18 November 2003, the renovations at the Corporation's Head Office were still ongoing and actual costs totalled approximately $2.57 million. Corporation officials indicated that the renovations are expected to be completed on schedule at an expected cost of approximately $3.14 million.

The Corporation's Board did not approve 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. For example, furniture for one of the executive offices cost approximately $31,000 and "high-end" audio visual equipment costing approximately $180,000 was purchased for the boardroom and training room.

Public Tender Act

The Corporation did not always comply with the requirements of the *Public Tender Act* as follows:

- There were 5 instances totalling more than $1.9 million where the Corporation did not call public tenders for goods and services.

- Change orders for increases in the original contracts were not approved in accordance with the requirements of the *Public Tender Act*.

Marketing

During the fiscal year ended 31 March 2003 the Corporation spent approximately $987,000 on marketing its products. Marketing expenditures include such items as advertising and marketing campaigns, hosting the annual wine show, participating in a rum festival, maintaining the Mile One Corporate Box, provincial and national sales agents, and the annual golf tournament. Our review indicated issues with these expenditures as follows:

- The Corporation does not call public proposals for its various marketing campaigns. Instead, Corporation officials indicated that proposals are requested from firms they consider would be qualified to complete the required work. It was further indicated that while strengths and weaknesses of proposals received are considered, no formal process is in place to evaluate, rank and select proposals received for marketing campaigns.

  Furthermore, there are no contracts in place to outline the role, responsibilities and accountabilities of these firms.

- In June 2001, the Corporation entered into a four year contract for a Corporate Box at Mile One Stadium in St. John's. During the year the Corporation spent $66,551 relating to the use of this Box. There was no cost-benefit analysis prepared to support the need for the Box, there was no reference to the Box in the Corporation's 2002-03 or 2003-04 Business Plans and the Corporation has not established any goals and objectives relating to the Box.

  The records maintained by the Corporation for the Corporate Box do not indicate specifically who attended a given event. Of the 108 events attended during 2002 and 2003, 44 were attended by either members of the Board of Directors, Corporation Executive or Corporation staff. It is not clear how usage by those groups contributes to the Corporation's marketing strategy.

- The Corporation uses the services of Provincial and National sales agents as well as sales agents in other provinces. During the year ended 2002-03, these agents were paid a total of $186,000. We found that the Corporation is not calling for proposals for the provision of these services and there were no signed contracts in place for any of these sales agents.

Agency Stores

The Corporation issues a public proposal call for the selection of agency store operators. Although the proposals relating to agency stores are reviewed by two regional managers and the Corporation's internal audit group, we were informed by officials that they were directed not to make any recommendation to the Board of Directors as to the ranking of each bid and which bid Corporation officials felt was the most appropriate based on the analysis completed.

Instead, the Board is provided with information on all applicants and the financial analysis that results from the review process, and it makes a decision based on this information which is then forwarded to the Minister of Finance for final approval. The reasons for the Board's selection are not documented. As a result, the selection process used by the Corporation is not transparent and is 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 stores that were opened in St. John's, Mount Pearl and Stephenville during the period of our review. Corporation officials indicated that the decision to open new retail stores is generally initiated by the Corporation's Executive based on their knowledge.

Payments made by the Corporation under lease agreements for the three new stores were not consistent with the terms contained in the successful tender bids. As a result, the Corporation was paying approximately $37,000 per year in excess of the amounts specified in the tender bids. The Corporation has since ceased paying these additional costs.

Other Expenditure Issues

There were a number of issues identified during our testing of expenditures as follows:

- Entertainment expenses totalling $19,900 claimed by the President and $8,400 claimed by the Chief of Operations did not have sufficient documentation to demonstrate that the expenses claimed were for Corporation business.

- Contrary to it's travel policy, the Corporation paid $3,552 for the spouses of the President and the Chair of the Board of Directors to attend a wine show in New York City and also paid for various conference registration fees for these spouses as well as the spouse of the Director of Enforcement. The Corporation was reimbursed an amount of $990 relating to the cost of the airline ticket for the President's spouse to attend the wine show.

- The Corporation has been using the services of the same engineering firm since the early 1980's to assist in the management of the Corporation's capital construction and renovation projects. The Corporation has not called for proposals since that time and there are no current terms of reference and no current contract in place. The firm was paid approximately $338,000 for the year ending 31 March 2003.

Board of Directors Expenditures

- Contrary to Government's policy for remuneration for Board members, during the year, liquor or other alcoholic beverages with a retail value of approximately $11,500 was provided to the Board. Although a portion of this total relates to an annual Christmas party for the Board, officials could not provide the amount spent for this purpose. We were informed, however, that Board members are provided with a Christmas package that would include these products. Furthermore, much of the liquor or other alcoholic beverages provided were premium brands, some having a retail value of $197 per bottle.

- Of payments totaling $31,920 to the Chairperson of the Board of Directors for the period 13 May 2000 to 31 March 2003, payments of $10,830 were not in accordance with the policies of both the Provincial Government and the Corporation relating to remuneration of board members.