

# PRINCE EDWARD ISLAND LEGISLATIVE ASSEMBLY



Speaker: Hon. Francis (Buck) Watts

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## Standing Committee on Public Accounts

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**DATE OF HEARING:** 31 MARCH 2017

**MEETING STATUS:** PUBLIC

**LOCATION:** COMMITTEE ROOM, J. ANGUS MACLEAN BUILDING, CHARLOTTETOWN

**SUBJECT:** JOINT AUDIT OF THE ATLANTIC LOTTERY CORPORATION

**COMMITTEE:**

James Aylward, MLA Stratford-Kinlock [Chair]  
Jordan Brown, MLA Charlottetown-Brighton [Vice Chair]  
Dr. Peter Bevan-Baker, Leader of the Third Party  
Kathleen Casey, MLA Charlottetown-Lewis Point (replaces Hon. Sonny Gallant, Minister of Workforce and Advanced Learning)  
Bush Dumville, MLA West Royalty-Springvale  
Jamie Fox, Leader of the Opposition (replaces Darlene Compton, MLA Belfast-Murray River)  
Chris Palmer, MLA Summerside-Wilmot

**COMMITTEE MEMBERS ABSENT:**

Darlene Compton, MLA Belfast-Murray River

**MEMBERS IN ATTENDANCE:**

none

**GUESTS:**

Auditor General's Office (Jane MacAdam, Barbara Waite)

**STAFF:**

Ryan Reddin, Clerk Assistant (Research, Committees and Visitor Services)

Edited by Parliamentary Publications and Services

The Committee met at 1:30 p.m.

**Chair (Aylward):** Ladies and gentlemen, I'd like to call this meeting of the public accounts committee to order. It's been a couple of weeks since we've met, March 8<sup>th</sup>. I know a few people had a little bit of travel during that time. I hope you had a relaxing period and enjoyed some family time.

What I'd like to do now is just ask for an adoption of the agenda.

**Leader of the Opposition:** So moved.

**Chair:** Okay. Thank you very much, Jamie.

When we last left off, my records indicate that we had finished questions – Jane has finished, or completed her presentation, first and foremost. We had completed questions on section 2, and we were going into section 3, which is titled: Non-Governance.

I guess we'll go from there and if –

**Leader of the Opposition:** I'd like to ask a question prior to –

**Chair:** Go ahead, Jamie.

**Leader of the Opposition:** Thank you, Chair. Thank you, Jane for coming.

I'm trying to play a little bit of catch up here on what has been in the report as I haven't here before. I have one question I'm interested in. I'm curious about the ratio split between provinces on ALC, that revenue back.

Has that been reviewed frequently, or are we getting our fair share in comparison to other provinces, or how's that?

**Jane MacAdam:** We did note in the report that that has not been reviewed on a regular basis. The unanimous shareholder agreement is what you're talking about?

**Leader of the Opposition:** Yeah.

**Jane MacAdam:** One aspect of the unanimous shareholder agreement is the allocation of costs, like general overhead and those kinds of costs. That's certainly one thing that could be looked at when it is reviewed on a regular basis.

We have a recommendation, I'm just – we have a recommendation, recommendation 2.2 on page 20: Shareholder governments should periodically review the Unanimous Shareholder Agreement and Corporate By-Laws and revise as warranted.

That was a recommendation that we did make.

**Leader of the Opposition:** So are they required, Jane, to do it every so often or are they –

**Jane MacAdam:** It's every three years.

**Leader of the Opposition:** Every two years?

**Jane MacAdam:** Three years, I believe.

**Leader of the Opposition:** With the changing climate could you give an opinion on whether we should be doing that more often, more frequent?

**Jane MacAdam:** It's the agreement that they've all signed –

**Leader of the Opposition:** Okay.

**Jane MacAdam:** – onto. So, it would be up to them –

**Leader of the Opposition:** To sign –

**Jane MacAdam:** – maybe as part of their review of that agreement they might decide that we're going to look at it more frequently, but –

**Leader of the Opposition:** Okay. Thank you, Chair.

**Chair:** Peter Bevan-Baker.

**Dr. Bevan-Baker:** Sorry, Chair, I too missed the last meeting. I just – reading through the transcript, I had a couple of questions I'd like to ask if I may.

**Chair:** Yeah, go ahead.

**Dr. Bevan-Baker:** The first one is, Jane, you mentioned, at one point in the last meeting, that the mandate of the Auditor Generals in the other Atlantic Provinces is

different from yours in some respects. In fact, you had to receive permission from the Legislative Audit Committee in order to participate in this performance.

Can you just explain what the function of that committee is?

**Jane MacAdam:** I did – I got two separate approvals, really. I got approval from the Legislative Audit Committee to report outside my annual reporting cycle. The *Audit Act* talks about an annual report, and it's to be provided to the Speaker by March 15<sup>th</sup>.

With this joint audit, the other AGs in Atlantic Canada, in conjunction with them we knew that the report would be ready sooner than March. So we wanted to report it sooner, so I got permission from the Legislative Audit Committee to report in October. This was released in October and not – didn't wait until March.

**Dr. Bevan-Baker:** Yeah.

**Jane MacAdam:** The other part of the approval, though, was there is – the Atlantic Lottery Corporation has a bylaw where shareholder governments may request an audit by their Auditor General. They mandate the Auditor General to examine the books and records of ALC.

Because the *Audit Act* did not have a direct mandate for me to audit the ALC, I sought approval from the lotteries commission pursuant to that Atlantic Lottery Corporation bylaw to do the work with my colleagues in the other Atlantic Provinces.

**Chair:** Peter.

**Dr. Bevan-Baker:** Jane, are there any other ways in which the mandate of the PEI Auditor General differs from the other Atlantic Provinces?

**Jane MacAdam:** I haven't done a comprehensive review. I know there are some differences, but I wouldn't say substantial differences.

**Dr. Bevan-Baker:** Okay.

**Jane MacAdam:** I know some Auditor General Offices have more mandate with regards to effectiveness than others,

meaning that we can determine whether any entity is achieving its purpose; not all AG offices have that mandate.

There are some differences, but their mandate to do audit work on ALC was much more clear than mine.

**Dr. Bevan-Baker:** Okay.

One final question –

**Chair:** Yeah, go ahead –

**Dr. Bevan-Baker:** – please, Chair.

**Chair:** – Peter.

**Dr. Bevan-Baker:** Thank you.

Do you think it's time for us to review the mandate of the – of your role here on Prince Edward Island? Is that something which has been done recently?

**Jane MacAdam:** That's something that I've been, you know, sort of compiling a list of things that I think would be warranted with a review of the *Audit Act*. I think it's time. Like I said, I've been sort of making notes. These two things, that we're talking about right here, would certainly be two items that I would want to make clear in any amendments to the *Audit Act*.

**Dr. Bevan-Baker:** Thank you, Chair. Thanks, Jane.

**Chair:** Thank you, Peter.

So, again, we're open to questions for section 3 of this report.

Jamie.

**Leader of the Opposition:** I'm interested, on page 42, we talk about "...large increases in compensation were awarded to executives beginning in 2014..."

My understanding, that's a recommendation by somebody into the board, and the board approves it, and the compensation packages are put out.

I'm concerned that, if you take this province as an example, we've had deficits, basically, over the last 12 years. Giving that financial

situation of the province, how do we justify – can you put any light on how we'd ever justify giving compensation packages to a commission when the province is receiving deficits?

The prime example would be the losses in GeoSweep, or – how can we justify these?

**Jane MacAdam:** That's one of the issues that we did raise in the report, is that we would have expected consultation with the shareholder governments before these increases are agreed to.

We made a recommendation that the board of directors, it's on page 46, recommendation 3.1: "Atlantic Lottery's Board of Directors should get direction from the four shareholder governments on the Corporation's approach to its compensation packages, including salaries, bonuses, pensions, and other benefits, to determine if it is aligned with shareholder expectations."

So it's really consultation with shareholders, in terms of what's reasonable given the circumstances in each shareholder jurisdiction.

**Chair:** Jane, just on that, because I know it talks a lot about the percentages and, "The increases in base salary ranged from 20 to 40 percent, while increases to the maximum annual bonus ranged from 50 to 220 percent."

**Leader of the Opposition:** Yeah.

**Chair:** It almost sounds like they're starting to talk about Bombardier or something like that here.

But if we look at page 46 where you have recommendation 3.1, it has a very good table laid out there, as far as the base salary; the maximum annual bonuses, so then, totals; various other benefits, and then total compensation for three of the senior officials, or executives with Atlantic lottery.

Can you explain exactly how they came to get these numbers? Was there a comparison done with what other jurisdictions, other provinces and gaming organizations –

**Jane MacAdam:** We talk about that in paragraph 3.7. So in 2013-14 they hired a

consultant, and it was the Hay Group, to complete a –

**Chair:** Sorry, the Hay Group?

**Jane MacAdam:** The Hay Group –

**Chair:** Okay, yeah.

**Jane MacAdam:** – was the name of the consultant to complete a compensation review for both executives and non-executives. So for the executives, the comparator market that they used was a national comparator market and it was based on 75% public sector and 25% private sector. For the non-executives, they used the Atlantic region as the comparator market. That's what the consultants used.

**Chair:** For the executive, they used –

**Jane MacAdam:** For the executive, they used the national market –

**Chair:** Right, okay.

**Jane MacAdam:** – and for the non-executive they used the Atlantic market –

**Chair:** Okay.

**Jane MacAdam:** – as the comparative group.

**Chair:** Okay. I guess my question then would centre around obviously the executive group, because that seems to be where the major increases came from. So if the Hay Group did a report or a comparison on national average with other organizations, did they take into account the differences in revenues?

Like if you looked at the Ontario lottery gaming commission and compared their annual revenues to the Atlantic Lottery Corporation, I would suspect that you're going to see quite a comparison there; but then if they're just looking at the compensation for an executive director, chief executive officer for the Ontario lottery gaming commission versus the Atlantic Lottery commission – did you have that intel provided to you?

**Jane MacAdam:** I'm not sure to what extent they would have looked at the actual gaming corporation and its revenue.

**Barbara Waite:** (Indistinct) compensation (Indistinct)

**Jane MacAdam:** Yeah, it's more the compensation and the job responsibilities, but in 3.11 we did have an issue with the use of the national comparator market. We said it wasn't well supported, the rationale for using the national comparator market, and Atlantic Lottery indicated that they were having challenges in attracting and retaining executives but they did not have analysis to support that. So we did question the use of the national comparator market.

**Chair:** I have a hard time believing that you'd have a hard time recruiting a CEO with a 260,000-plus base salary, plus-plus-plus.

In any event, I guess that's one of my major concerns is how this analysis was done. Again, if you want to look at the BC gaming commission out there and compare the cost of living in BC compared to Moncton, St. John's, Halifax or even Charlottetown, there's going to be quite a wide spread, too.

Did you get feedback immediately on your recommendation or your concern that you addressed around this compensation package?

**Jane MacAdam:** Yes, we did. The summary of the comments – on page 38, I believe it is – the first recommendation there, 3.1, we have the response back.

**Chair:** Okay.

**Jane MacAdam:** It says: "The Board will continue to fulfill its governance responsibility in this area. It will seek input and counsel from Shareholders annually and ensure that they are appropriately informed. The Board will ensure that compensation reflects economic and market conditions. It will rely on expert, external advice based on appropriate comparator groups and will also continue to employ a rigorous performance management system as part of the science supporting ALC's total rewards program." So they agree with the recommendation and they're going to take action.

**Chair:** Okay. Moving forward they're going to take action, but not retroactively.

**Jane MacAdam:** No, that's certainly not what they –

**Chair:** All right.

**Jane MacAdam:** – mentioned (Indistinct)

**Chair:** Thank you.

Chris Palmer was on the list here as well.

**Mr. Palmer:** Thank you, Chair.

Jane, it may be in here, but can you point me to the Atlantic Lotto operating results that would warrant these bonuses that were paid to the executive group? Because I'm assuming, based on any inducement, behaviour that is rewarded is repeated, so I'm assuming that the reason these senior executive had a bonus is because lotto did very well that year, even considering the \$7 million write-down or whatever they had on GeoSweep.

Is there something in here that suggests that their performance was better year over year? Is that what prompted the bonuses?

**Jane MacAdam:** Well, the exhibit on page 27, certainly there's year-over-year profits here. The average year-over-year presented to exhibit 2.4 is -1.1%. So I'm not sure, really, how they arrived at all the awarding of the bonuses, but we do have an issue here.

In 3.17 we talk about a specific example where one member of the executive team had a negotiated employment contract, and we had an issue that there was nothing to state what level of bonus would be awarded based on the individual's performance score. So there's no real clear-cut criteria for determining whether a bonus would be awarded and if so, what that bonus would be. We do point that out here as one example for one executive.

**Mr. Palmer:** Chair.

So I assume that overall, though, we would expect an organization with better performance would trigger any kind of

bonuses, but I would to go along with that, an organization that has a decrease in profits, I would think that wouldn't trigger bonuses; but it appears in this case it has?

**Jane MacAdam:** I'm not sure what the criteria are. It might not all be about profits. It might be about other factors. I'm not sure.

**Mr. Palmer:** Is that maybe a recommendation we should make, is that maybe it should be about profits? Because that's ultimately why we have them there, I think, is to generate revenue. Is that board approval required for those bonuses to be paid out?

**Jane MacAdam:** I'm not sure.

**Mr. Palmer:** Okay.

**Jane MacAdam:** I think it would be, certainly, for the CEO but I'm not sure about the (Indistinct) –

**Mr. Palmer:** Oh, right, because the CEO could approve everybody else's, but –

**Jane MacAdam:** It's possible (Indistinct) –

**Mr. Palmer:** – (Indistinct) but ultimately the chairman –

**Jane MacAdam:** Yeah, I'm not sure. I don't have that information.

**Mr. Palmer:** Okay. All right. Thank you. I think that's a good spot for us to, or a good piece for us to kind of carry forward as recommendations that maybe it should be performance-based as opposed to some arbitrary decision that those folks might need more money or (Indistinct) –

**Chair:** Jordan wanted to make some comments on that as well.

**Mr. Palmer:** Okay, yep, I'm finished.

**Mr. J. Brown:** So yeah, I agree. I, like Chris, think that there should be a performance-based aspect to the bonuses. The only thing I would point out is that with an organization like this, and given the kind of responsibilities they have to their various shareholder governments, performance may look different than just profits. Noting that profits are most likely coming out of our

pockets and just being redistributed, I think we have to be very careful about how we kind of optimize profits, I guess, if you will. So –

**Leader of the Opposition:** It's one part of that.

**Mr. J. Brown:** Yeah. So it should, for sure I would think, be one part of it, but I think there should be a policy with probably a strong list of objective factors in it that you can point to and say there's a measurable difference in it and something that we can go back to in terms of accountability and say: You got a \$25,000 bonus, you probably should have gotten it because profits are up and reports of addictions are down and all that kind of thing factored in means you did a good job.

**Jane MacAdam:** I do think that's covered off in the recommendation, too, where we talk about consultation with shareholder governments regarding their expectations for salaries but also benefits and bonuses, so that would be part of that recommendation.

**An Hon. Member:** Yeah.

**Jane MacAdam:** But also we do note in the audit that salaries and bonuses were paid according to ALC policies, so whatever the policy did say about the bonuses, we observed they were paid in accordance with the policy.

**Chair:** Okay. Actually, Jamie, you're next on the list.

**Leader of the Opposition:** Thanks, Chair.

Talking about bonuses and compensation, when you look at page 48, section 3.20, I'm curious (Indistinct) that yes, the assets might exceed the liability, because a \$79 million shortfall is down to 60 million. How long is that – I guess that'd be the first question – how long has that been accumulating? That shortfall?

**Jane MacAdam:** Well, it was – there was a plan evaluation done in 2014, and it was – it stood at 60 million at that time.

**Barbara Waite:** (Indistinct).

**Jane MacAdam:** So, there were a couple of factors. There was – they switched their accounting framework to IFRS, and I think that was around 2012. So, there was a combination of the deficit – there was a deficit in the pension – and then there was the switching to the IFRS accounting framework and that created a deficit, really an accumulated deficit that had to be funded by each province, and this chart here indicates the total amount by province.

For PEI it was 10.6 million. It was first recognized on the financial statements in 2012 at the lotteries commission, I believe. That's the first year, and it was reflected in the opening balances in 2012.

**Leader of the Opposition:** So, (Indistinct) there's another thing Chair and Jane. If these deficits are here, I'm sort of wondering why they wouldn't be looked at from before issuing a compensation or a bonus if you can't get the deficit under control.

**Jane MacAdam:** That's certainly something that would be covered in our recommendation in terms of each shareholder government, currently outlining their expectations for salaries and salary increases.

So it's all connected to, for instance, the salaries that are paid to other public sector employees in their jurisdiction, plus other factors like the profitability of the organization and these pension deficits that are being funded.

**Leader of the Opposition:** One final question, Chair.

**Chair:** Go ahead, Jamie.

**Leader of the Opposition:** I'm sort of getting my head around who actually – does the president and the vice-president and CEO and them guys say: We're looking for a \$70,000 bonus this year. And then, this guy over here on the board says: Yeah, okay, sounds good to me, here you go.

Who actually submits that number in there, or how's that actual number get to the board, I guess, before it's approved?

**Jane MacAdam:** Well, in the case of this compensation review they hired a consultant

and they produced a report, so based on that report, they – the Hay Group would have made recommendations, so the board ultimately approved.

**Leader of the Opposition:** But that wouldn't be done every year though, would it?

**Jane MacAdam:** No, it wouldn't be done every year. I'm trying to remember what year this was done.

**Leader of the Opposition:** I guess that's what I'm trying to get my head around. The years that group (Indistinct) –

**Jane MacAdam:** This was done in 2013-14, this particular one, but I don't believe they get a consultant in every year to do this. This was –

**Leader of the Opposition:** Yeah, but they get a bonus every year.

**Jane MacAdam:** The ALC policy allows for some employees to get bonuses, yes.

**Leader of the Opposition:** So, I guess that's – that would be the point. Are they recommending their own bonuses? That'd be fair to say?

**Chair:** Well, if I can interrupt for a second, I think fair (Indistinct) say would be we could request how that policy is written and the formula that it's derived as.

**Leader of the Opposition:** Yes.

**Chair:** So, we can certainly request that and go from there.

**Mr. J. Brown:** Did we request that already, or are we requesting it from Jane, or are we (Indistinct) ALC?

**Chair:** No, we'll be (Indistinct) Jane wouldn't have that anyway –

**Jane MacAdam:** No, it would be from ALC.

**Chair:** So, we'll request it directly from ALC, yeah.

Mr. Dumville.



**Mr. Dumville:** Thank you, Chair.

**Chair:** You're welcome, sir.

**Mr. Dumville:** I'll continue on with the same line of questioning as my colleagues here.

Profit was a negative 1.1. PEI's was up – compensation was up 1.5%. These guys were up 30 or 40%. It seems like the Wild, Wild West here.

Is there any way that, you know, like that there's a criteria schedule? A criteria schedule: Different levels taking into account, okay, there's a profit – there's your profit performance, this is your revenue-growth performance, this is your job growth performance as you benefit the different provinces.

It seems to me that there's no – there's nothing nailed down to hold them accountable. It just seems that, you know, like as hon. Fox has said, that they look at each other and decide back and forth whether –

And the other thing is, is when they lost all this money and got into a couple of bad schemes they still cashed their cheque. Nobody pulled a – clawed back their bonuses. I'm just wondering if the board in its wisdom made the recommendation to claw back these bonuses considered – because of poor performance.

**Jane MacAdam:** (Indistinct).

**Mr. Dumville:** So, I'm just wondering if one of our recommendations could be a nailed-down criteria schedule of this is why you received the bonus at a different level. If you meet this, you get so much. If you meet that, you can add on.

**Jane MacAdam:** Well, there is a policy on bonuses, but I'm just not sure right now what it states in terms of what the criteria are.

**Mr. Dumville:** Okay.

Thank you, Chair.

**Chair:** Yeah; and Mr. Dumville, I think you make a good point and I've heard from the

majority around the table here, either verbally or just by body language, that most people I would say are totally in agreement with that.

But again, I think it's incumbent upon us to get the research done and get that policy to find out exactly how it's derived at now, and we can move on from there.

I have Peter Bevan-Baker next on the list if you're finished, Bush?

**Mr. Dumville:** I'm done, thank you.

**Chair:** Yeah. Okay, Peter.

**Dr. Bevan-Baker:** Thanks, Chair.

I'm interested, Jane, in looking at the comparative operating costs of the various lotto corporations across Canada, and if you look at some other jurisdictions – this is not in the report, but Alberta, their operating costs represent about 25% of revenues; in British Columbia, it's 40%; in Quebec, it's 50%.

In Atlantic lotto, we're looking at 63% as a percentage of operating costs. Why do you think we have considerably higher operating expenditures than other jurisdictions?

**Jane MacAdam:** That wasn't anything that we looked at as part of this audit, so I can't really speak to what would account for that big difference.

**Dr. Bevan-Baker:** Okay –

**Chair:** Go ahead, Peter.

**Dr. Bevan-Baker:** To me, that's a big red flag, that we're so out of – well, I mean, to be fair, in Ontario, it's 60%. So, that's considerable, although they're coming in for a lot of flack, as well, about the way they recompense their upper-level managers.

The other aspect of this, and it was brought up by Jamie right at the beginning of the meeting, is PEI getting our fair share. If you look at the distribution of the profits, and I know Atlantic lotto is always saying 100% of the profits go back to Atlantic Canadians, but it's the profits of course. It's not how much money goes – comes out of Islanders' and other Atlantic Canadians' pockets.

But the profits that come back here represent about 2.5%. If you look at the chart on page 14, and (Indistinct) I brought this up at an earlier meeting, but I hadn't had the time to actually put the figures together, but the profits represent 2.5% of the revenues. And yet, our population represents six percent of the Atlantic region.

So we're getting less than half of what I would imagine we would be due, based on population, assuming that we gamble as much as any of the other provinces. Is there an explanation for that?

**Jane MacAdam:** I think that, again, it goes back to that shareholder – Unanimous Shareholder Agreement, and the fact that it needs to be looked at periodically.

But, we do have Red Shores, which, I mean, we take all of those revenues and all those expenses, and it's, you know, it's marginal. The Summerside and the Red Shores, I think Red Shores makes a marginal profit and Summerside loses money, if you look at the financial statements of the lotteries commission when there's some segmented reporting on lines of business.

But, I'm wondering: Are you using the 10 million when you –

**Dr. Bevan-Baker:** I am, yes.

**Jane MacAdam:** Okay, so the 2015-16 profit of – would be 17.9 million, so it's up significantly and the reason why is because that \$4.3 million loss on Geonomics is reflected in 2014-15.

**Dr. Bevan-Baker:** Okay, yeah –

**Jane MacAdam:** So, the loss is in there, right?

**Dr. Bevan-Baker:** That makes a lot more sense now.

**Jane MacAdam:** There was 535,000 of the loss reflected in 2013-14, and the remainder of the 4.3 million was reflected in 2014-15, so based on the 2015-16 financial statements, it's more like 17.9 million, so it's higher.

**Chair:** Peter?

**Dr. Bevan-Baker:** Thanks, Chair.

And, of course, there are many, many ways that those who wish to do so can spend their gambling dollars; and increasingly here on the Island, we have things like Chase the Ace that are creating very effective fundraisers for organizations and I have no doubt they operate at a much lower overhead than Atlantic Lotto does, and those profits stay – to a much larger extent – in the communities in which they come from.

Given that, and the fact that the discussion that we just had about the disproportionate amount of profits that stay in Prince Edward Island, do you think a case could be made that PEI needs to reconsider its whole involvement in Atlantic Lotto?

**Jane MacAdam:** Well, I think the first couple of recommendations in the governance section, are that shareholder governments need to establish a clear mandate for Atlantic Lottery Corporation and they've agreed to that recommendation and said they will establish a high-level mandate.

I think implementation of that recommendation is where any shareholder government would give that consideration. I think it's up to the shareholder governments to decide, but it's clear, based on our work, that the mandate of ALC is not clear, and it needs to be looked at by shareholder governments.

**Dr. Bevan-Baker:** Thank you.

Thank you, Chair.

**Chair:** Okay. Thank you.

Jamie?

**Leader of the Opposition:** Thanks, Chair.

I'd like to move up to page 51, and we're talking about: in the time of your audit, there was approximately \$4 million spent on travel, hospitality and board expenses over the audit period. Well, if I remember, your audit period was pretty short, but they spent \$4 million dollars?

You cited 59 expense items there and numerous other things. I'm wondering if these faults, or non-compliance – did they involve the exact same people? Was it the same people that were always found in non-compliance?

**Jane MacAdam:** I don't necessarily think it was the same people. It was the issues that we were looking at, in terms of the weaknesses. In 3.29, we summarized, really, the results of our sample. Fourteen of 59 were not appropriately approved, 17 of 59 were missing appropriate receipts, 38 of 59 did not have adequate descriptions of the rationale to support the expense. So, I don't think you could say it was any one person, or group of people –

**Leader of the Opposition:** In your opinion, Jane, does \$4 million dollars in that type of expenses seem excess? To me it does. Maybe I don't know what was involved in them, but to spend \$4 million dollars over the time you did the audit, that seems like a lot of money to be wasted on travel, hospitality and drinks and everything else.

**Jane MacAdam:** This was over a 29 month period, before my (Indistinct). That was our scope period, was 29 months; but in some cases it non-compliance with policy. In some cases we know that the policy just didn't exist.

**Leader of the Opposition:** So would they have a policy on-hand that – what they're allowed to expense or that they can use an ALC credit card for? Are there policies and guidelines involved in that?

**Jane MacAdam:** There are policies around, you know, travel and hospitality; but we point out some weaknesses in that policy. For example, if you go to paragraph 3.27, it does not identify when alcohol might be an appropriate expense; and then in 3.28, it allows employees to be reimbursed for reasonable meeting expenses, but the policy does not require that expenditures be pre-approved. So, there are some weaknesses in the policy that we identify.

Again, down in 3.32, instances where expenses incurred by the chief executive officer were approved by an Atlantic Lottery manager. So we say the board chair should

approve board remuneration and the board chair should approve the CEO's expenses.

There are instances where the policies need to be strengthened, but there are also instances where the policy that exists was not complied with. There's a combination.

**Leader of the Opposition:** Thanks. Okay.

**Chair:** 3.33, where you say: appropriate receipts were not included for 17 of the 59 samples tested totaling approximately \$15,000. While there were a number of smaller expenses included in this total, there were also larger expenses for which we'd expect to see itemized receipts.

Okay, now I'm seeing here that you do have where they've based it down as restaurant expenses. Were you able to ascertain whether or not any of these expenses that were missing receipts were for alcohol?

**Jane MacAdam:** Well, no. There weren't any receipts, so we couldn't tell exactly what they were for.

**Chair:** Okay.

Jamie?

**Leader of the Opposition:** Chair, thanks.

In that section, 3.33, there was approximately \$8000 reimbursed without a receipt. Any idea what that \$8000 was used on?

**Jane MacAdam:** We say: Included in this total there was \$5400 –

**Leader of the Opposition:** Yeah.

**Jane MacAdam:** – for a deposit on a group of hotel rooms, along with other expenses for accommodations and rental cars.

And the remaining seven – that was \$5400 of the \$8000, then there's another \$7000. That included \$3000 for restaurant expenses for a dinner for Borden executive members as part of the 2013 annual general meeting.

So, those were some of the larger items that are highlighted. There were some smaller items as well.

**Leader of the Opposition:** Do you have any other details about that?

**Jane MacAdam:** No, I don't have any other details.

**Leader of the Opposition:** I guess, at the end of that, I'm just wondering – you go to a restaurant and you buy whatever you want, don't worry about it. Give me the lobster.

**Jane MacAdam:** Yeah. I mean, the issue there is that there should have been supporting documentation prior to the payments being approved.

**Leader of the Opposition:** It's actually quite shocking, to be honest with you. You know? And I'll say it: some cases I almost (Indistinct) – it was like disregard.

Thank you.

**Chair:** So, again, going back to 3.26 where we saw approximately \$4 million spent on travel, hospitality and board expenses over the audit periods: Were you able to identify if any of that \$4 million was spent on trip to London, England or the Isle of Man?

**Jane MacAdam:** I don't have that information. You mean of that \$4 million?

**Chair:** Yeah.

**Jane MacAdam:** No, I don't –

**Chair:** So, they didn't give you a full breakdown of what's the detail around the \$4 million dollars in travel expenses were?

**Jane MacAdam:** It would be – I'm sure there was information obtained during the audit, but I'm not sure what that would be, like right offhand.

**Chair:** I was just, I mean –

**Jane MacAdam:** We do say in 3.34 – we have an example of 38 of 59 did not have a description of the expenses that adequately documented the rationale in support for the expense.

**Chair:** Yes.

**Jane MacAdam:** And this was an airfare, including a flight to New York, but that's –

**Chair:** That's just – I mean, we know that there was expenses paid or covered for trips to London, England, I think – at least twice and at least once to the Isle of Man for a big conference.

But, I guess, what I'm wondering is: How many Atlantic Lottery officials went on those trips, those junkets?

**Jane MacAdam:** I don't have that information.

**Chair:** Okay.

Jamie?

**Leader of the Opposition:** Moving on to page 55 there, contract management. I'm sort of curious on the tendering. Is there a fair tendering process being done between all four provinces where PEI businesses are given the same, fair opportunity to tender on things? Can you comment on that – compared to other provinces and other companies?

**Jane MacAdam:** We say in 3.54, overall we found that Atlantic Lottery Corporation complied with its purchasing policy. We just looked at what their practices were in relation to their policy. So, we didn't have a big issue in that area.

**Leader of the Opposition:** So –

**Jane MacAdam:** We did have one sample item where it should have been publicly tendered, and it wasn't.

**Leader of the Opposition:** But when they put out a tender for whatever, are all businesses in all four provinces given the same information or allowed to tender on it, or do they advertise equally in all papers or that kind of stuff?

**Jane MacAdam:** Well it says here: Under the policy, services over \$50,000 must be purchased through a public tendering process; and at least one quote is required prior to purchasing services equal to or below \$50,000.

**Leader of the Opposition:** I guess if we're giving the – if we're looking at giving our fair share back to PEI, I wonder if we're

getting the fair amount of tendering availability?

**Jane MacAdam:** We say: With the exception of public tendering threshold for services, we did not find any significant differences between Atlantic Lottery's purchasing policy and those of the four Atlantic Provinces.

So, it's fairly consistent with the other Atlantic Provinces.

**Leader of the Opposition:** Thank you, Chair.

**Chair:** Yeah.

Any other questions?

Peter.

**Dr. Bevan-Baker:** Thanks, Chair.

Again, I'm going back through the transcript from the last meeting. There is a connection, of course, between the lotteries corporation and the e-gaming scheme and that's in the \$60,000 was supplied to MCPEI through the lotteries corporation in part to fund the e-gaming scheme.

Can you explain the connection there?

**Jane MacAdam:** The \$60,000.

**Dr. Bevan-Baker:** One of the payments that was made to MCPEI to cover the costs of –

**Jane MacAdam:** Right, at the very end –

**Dr. Bevan-Baker:** – their – yes, exactly, the last one.

**Jane MacAdam:** The bills that had to be paid.

**Dr. Bevan-Baker:** Yeah.

**Jane MacAdam:** So, in that case they were – Atlantic Lottery Corporation purchased a legal opinion that had been obtained by the confederacy, but – so they withheld \$60,000 from the profits that would go back to PEI.

**Dr. Bevan-Baker:** So that –

**Jane MacAdam:** As a result of that.

**Dr. Bevan-Baker:** Just so I understand that right, Jane, that the \$60,000 that Atlantic lotto paid was to cover a legal bill?

**Jane MacAdam:** It was for a legal opinion. The Dickinson Wright legal opinion that the confederacy had obtained with the funds from the first grant –

**Dr. Bevan-Baker:** Okay.

**Jane MacAdam:** – that they received under the e-gaming.

**Dr. Bevan-Baker:** Okay, thank you.

Thank you, Chair.

**Chair:** But again, that begs the question as to why, if it was through the first grant, through a completely different file, why did it end up showing up in this audit? I mean, I think we've asked that question inside and out. There's still lots of questions to be raised on many of these issues.

Again, on section 3 that we're focusing on right now, are there any more questions from committee members?

**Leader of the Opposition:** No.

**Chair:** Okay, so no further questions.

Jane, I'd ask if you would have any closing statements with regards to this special audit.

**Jane MacAdam:** I do think it is a good example of the four Auditors General working together on a major assignment. I think there were a lot of good findings and recommendations.

Certainly, the recommendations, the response on the recommendations is that there is agreement for the most part on all of the recommendations. I think that's very positive.

**Chair:** I guess as follow-up to that, and I know with the limited resources your office here, in our own province, has to follow up on recommendations and how they've been followed through upon annually –

**Jane MacAdam:** Yeah.

**Chair:** – is there a mechanism in place for yourself and your three counterparts here in Atlantic Canada to go back annually to ensure that some of these very serious recommendations that you've put forward are being adhered to?

I mean, everything from the alcohol policy to tickets to concerts to the extremely extravagant Christmas parties and various things like that.

I do realize they're saying that they're going to be putting a lot of this more out there for public consumption online, but it would still be, I think, incumbent upon the AGs to go back and make sure that this is being done.

**Jane MacAdam:** Each of the Atlantic AGs has a process where they do follow-up on recommendations. We will be going back and we will be following up on the implementation of these recommendations.

We haven't decided exactly what kind of process we're going to use for that, but we definitely will be following up on the implementation of these recommendations.

**Chair:** Okay.

Thank you very much; and Barb, thank you as well, for your time today. Appreciate it.

**Mr. Dumville:** Thank you, have a great weekend.

**Jane MacAdam:** Thanks.

**Chair:** Yeah, actually, do you want to – Jane, sorry, Ryan actually just brought up a good point just with regards to referencing a few information requests that were put forward previously, just to get an update on where we're at with those.

**Jane MacAdam:** Okay.

**Clerk Assistant (Reddin):** You mentioned a policy that – on, I think, a policy on bonuses, actually that would actually have to be requested from ALC directly.

**Chair:** Yes, we'll be putting that forward.

**Clerk Assistant:** But, just in case, the committee members have anything else that

they wanted to ask the Auditor General for. That's what I mean. That's all I have.

**Chair:** Oh, okay, sorry, I thought you were referring to some of the outstanding items that had been requested and we're still waiting for follow-up on.

**Clerk Assistant:** No.

**Chair:** Okay.

**Clerk Assistant:** I don't have any further update on that, at this point.

**Chair:** Okay.

**Jane MacAdam:** Okay.

**Chair:** Have you had any luck yet opening that – the box that you received from McInnes Cooper?

**Jane MacAdam:** We just finished our annual report for 2017, so we're going to turn our attention to it now. But we haven't –

**Chair:** Excellent.

**Jane MacAdam:** – we haven't really done any work on it, yet.

**Chair:** Thank you. Again, thanks very much for your time.

Okay, committee members, so now we'll talk about any items that we want to request. Obviously, I believe, there is overwhelming support to request directly from the Atlantic Lottery commission any documentation, policy or schedules around how they award their compensation and, in particular, their bonus structure and how that's developed and paid out.

**Leader of the Opposition:** I'm –

**Chair:** Okay, Jamie.

**Leader of the Opposition:** I'm wondering if maybe the committee would consider asking the CEO to come before the committee and –

**Chair:** Well – let's, perhaps, get this information first and disseminate it and if

there's questions arising from it, then we can certainly go there.

I don't disagree with you. I mean, that the CEO and, I think, the CFO were here back a number of years ago and they gave a presentation. That would have been, oh, 2013, 2012-2013, in that range. So it's something we could certainly go back and look at.

**Mr. J. Brown:** Here, October of 2013.

**Chair:** Okay, there you go.

The other thing that Chris had brought up, as well, with just around recommendations, and that type of thing, so I think we're going to need to start filtering some of those back to Ryan, so he can start preparing a draft report on the work that the committee has been able to do thus far.

I mean, certainly, we realize we have, still, a fair amount of work to do ahead of us, and we're going to have to start looking at a work schedule around that, as well.

Bush.

**Mr. Dumville:** I'd like to see a recommendation where we recommend a performance criteria. That it be nailed down more.

**Chair:** Yeah. I don't think you have any disagreement with that around the table, but again, I think it would be good to get the actual policy that's in place right now for the Atlantic Lottery Corporation so we have a better understanding of what guidelines they're under now.

I don't want to say, "if any" because I'm hopeful that there are some there. I hope there damn well better be.

**Mr. Dumville:** Yeah.

**Chair:** Jordan?

**Mr. J. Brown:** Yeah, I was just going to say, so, just while, when we went through that I was looking at the, basically, their website and some stories on there. It does look like there are different compensation policies related to the executive group, the board and the employees.

**Chair:** Yeah.

**Mr. J. Brown:** I think the important one that we're after is the –

**Chair:** Is the executive.

**Mr. J. Brown:** – executive bonuses, probably, in particular –

**Chair:** Yeah.

**Mr. J. Brown:** There's executive salaries and the rest of it, so, just to make sure that we – if, we're look – if we're sending a letter that we ask for what we want to get –

**Chair:** Yeah, no. Good point.

Exact, concise.

**Mr. J. Brown:** And it does not look like that's on their website, yet. Just for reference.

**Chair:** Interesting.

Okay, any other recommendations at this time or – I would strongly request you go back through your meeting materials and any notes that you made over the last number of months and if there is something there, please, once again, filter through to Ryan. He'll be compiling them, and then we'll be coming back, as we always do as a committee to have a discussion on our final report.

**Mr. J. Brown:** What is the plan, Chair? In terms of a report, do we have one, yet, or, do we have –

**Chair:** Well, I mean, we can do an interim report only on the 2016 that we've covered so far. I think we can do a report. I don't know if we want to do a separate report on – I think we should do a separate report on the e-gaming audit, and possibly a separate report on this four Atlantic Province AG report into Atlantic lotto.

Thoughts?

**Mr. J. Brown:** Do we think we're – I guess the first question I'd ask is do we think we're done of – like, recognizing that there's

still some information to come back, particularly, obviously, on this –

**Chair:** Yeah.

**Mr. J. Brown:** You know –

**Chair:** No, I don't think we're done. As I said, a little bit earlier in the meeting, that I think there's still lots of questions that need to be asked, and they will be asked, but it's hard to ask those questions until we do have the information that –

**Mr. J. Brown:** Yeah.

**Chair:** – we have requested before us so that we can review it –

**Mr. J. Brown:** I was just wondering in terms of the reports. I guess the options would be do an interim report with all three subjects addressed under a heading, you know, e-gaming, 2016 report and whatever this one is called, the joint audit of the ALC, and table that that way. Then, when we're done of each one we could, you know what I mean?

**Chair:** Yeah, no, I hear you.

**Mr. J. Brown:** Anyway, I don't know. I'm just putting that out there.

**Chair:** Chris.

**Mr. Palmer:** Follow that approach and then as amendments come up or addendums that we could add to it with, when we get more information, we could always add to that. So it could be lotto part two, or B or whatever it was. Whether it's one report and covers off those, or individual reports and then we can add to them.

I don't think it does anyone any good to be – we don't need to wait. We've got to get some of these recommendations out there and make sure they get enacted so we're not into this same thing all over again.

I suggest we do get ahead to – make those recommendations and then add to it later as more information becomes available to us.

**Chair:** Yeah.

Any other questions, concerns?

**Mr. J. Brown:** So, I guess, just to finish it out: What I was kind of wondering is, is if – like if we – I don't know, it's hard to say, right, but whether we'll have recommendations coming in relation to say, e-gaming, at this point in time, it sounds like it's pretty well done subject to whatever might come back –

**Chair:** Yeah.

**Mr. J. Brown:** – I wouldn't want to see our recommendations held up waiting for stuff to – you know what I mean?

**Chair:** Yeah.

**Mr. J. Brown:** I think if we're going to – let's just get what we can get done and, particularly, too, with the 2016 report, which we are – unless there's anything I'm not thinking of, done of, at this point in time. If there is anything else that we need out of that then –

**Chair:** I'd have to go back and look at that to see where we're at. I don't think we completely, we haven't concluded with that report.

**Mr. J. Brown:** Okay, just – you know what I mean, so –

**Chair:** Yeah. The other thing, too, that, certainly Ryan and I can do, is we can go back and again, sort of formulate a chart of what our asks have been and what is still outstanding. Then, we can communicate that to the committee members. Anything that has come back already you would have received electronically.

So, again, I'm strongly encouraging all the committee members to go back and review your information and forward any recommendations you may have to the clerk. He'll compile them.

Then, when we come together to discuss whether it's an interim report, a draft report, whatever type of report it's going to be, we can decide then. Until we have those recommendations in from our committee members it's pretty hard to develop a report.

Okay.



**Mr. J. Brown:** So second question, Chair.

I guess, just in terms of the timing, too. Are we – this is probably not going to be a short, easy report to write and get through.

Are we planning on a couple of meetings to – how do we want to structure that to try to get something in for –

**Chair:** It depends how many recommendations come forward, too, right?

I mean, depending upon how many recommendations would determine how many meetings we need to schedule to look at a report before we present anything to the Legislative Assembly.

**Mr. J. Brown:** So I guess what I'm thinking is, it would be good to get something in this sitting so –

**Chair:** That's my aim. That's –

**Mr. J. Brown:** Yeah.

**Chair:** – definitely my goal.

**Mr. J. Brown:** So, I want – how do we think we're – what's the best way to go at trying to piece that up? Like should we come back and say: Okay, let's start with the 2016 report, here's the things that Jordan would like to have, Bush would like to – whatever.

**Chair:** Yeah.

**Mr. J. Brown:** And then move on – you know what I mean? Like, how are we going to – I'm seeing that we're going need at least two meetings to – one probably to put our ideas together and another to look at a draft report. We might even need more than that and we're heading into the sitting here, so we're going to need to figure out, you know, kind of, how reasonably we can break that workload up, I think. You know what I mean?

**Chair:** Yeah, and again, that's why I'm asking committee members to submit their recommendations to do their work, review your material, put your recommendations forward electronically to Ryan. He'll compile them. Then, we'll come together as a committee to discuss the various

recommendations from the committee members and we'll develop a report from there.

But, again, I would like to see them broken out separately so that they're identified clearly, that these recommendations are specifically for the 2016 report, these recommendations are specifically for the e-gaming report, and these recommendations are specifically for the ALC report.

**Leader of the Opposition:** One report broken down into –

**Mr. Dumville:** Topics within the report –

**Leader of the Opposition:** Exactly.

**Chair:** Yeah.

**Mr. Dumville:** But as a committee we only need one report, but with different topics.

**Chair:** Right. I just don't want them convoluted all together, right? Yeah.

**Mr. Palmer:** Could Ryan, potentially, send us out a chart so that we can put it into the right places of this – here's the three different categories or whatever it is and force us to do the work, and send it back in because if we just kind of keep this kicking down the road, we're not going to get it done. Put a deadline on us and in a week from now or two weeks or whatever that timeframe is, here's what you need to submit back to me so that Ryan can get that all in together so that we can present it back to us.

**Chair:** Yeah –

**Mr. Palmer:** – get inside that timeline and –

**Mr. Dumville:** Ryan can send us a draft report of everything he's done so far.

**Chair:** But what we're looking for is the recommendations.

**Mr. Dumville:** Yeah, I know, but if he sends us out a draft report, then that will trigger some of the recommendations. He'll have a summary, save us some time because we're all in the House over there.

**Clerk Assistant:** I can do that.

**Chair:** Yeah, okay.

**Mr. J. Brown:** I think we are going to need to break it down into small enough bites –

**Chair:** Yeah.

**Mr. J. Brown:** – that we can digest it. You know what I mean?

**Chair:** I don't disagree –

**Mr. J. Brown:** It's a huge – we'd be here forever.

**Chair:** Yeah.

**Mr. J. Brown:** Just based on the – electoral reform, as an example. You had so much –

**Chair:** Yeah.

**Mr. J. Brown:** – presentation material it's impossible –

**Chair:** No, exactly.

To Chris' point, too, I don't want this kicked down the road very long because some of these recommendations that are going to be put forward are –

**Mr. Palmer:** Oh yeah –

**Chair:** – pressing –

**Mr. Palmer:** Oh, yeah, we've got to get this done.

**Chair:** Yeah.

Okay, is there any other new business? No other new business. I'd like to call for an adjournment.

Okay, thank you.

Meeting adjourned.

The Committee adjourned