

**Fifth Session - Thirty-Ninth Legislature**  
**of the**  
**Legislative Assembly of Manitoba**  
**Standing Committee**  
**on**  
**Public Accounts**

*Chairperson*  
*Mr. Leonard Derkach*  
*Constituency of Russell*

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**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Ninth Legislature**

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**LEGISLATIVE ASSEMBLY OF MANITOBA  
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**Tuesday, November 23, 2010**

**TIME – 7 p.m.**

**LOCATION – Winnipeg, Manitoba**

**CHAIRPERSON – Mr. Leonard Derkach (Russell)**

**VICE-CHAIRPERSON – Mr. Gregory Dewar (Selkirk)**

**ATTENDANCE – 10 QUORUM – 6**

*Members of the Committee present:*

*Hon. Ms. Wowchuk*

*Mr. Borotsik, Ms. Braun, Messrs. Derkach, Dewar, Mrs. Driedger, Messrs. Jha, Martindale, Ms. Selby, Mrs. Stefanson*

**APPEARING:**

*Mrs. Mavis Taillieu, MLA for Morris*

*Ms. Carol Bellringer, Auditor General*

**WITNESSES APPEARING:**

*Mr. John Clarkson, Deputy Minister of Innovation, Energy and Mines*

*Mr. Jeff Parr, Deputy Minister of Labour and Immigration*

*Mr. Doug Sexsmith, President and Chief Executive Officer, Workers Compensation Board*

*Mr. Milton Sussman, Deputy Minister of Health*

**MATTERS UNDER CONSIDERATION:**

*Auditor General's Report—Operations of the Office for the fiscal year ending March 31, 2009*

*Auditor General's Report—Operations of the Office for the fiscal year ending March 31, 2010*

*Auditor General's Report—Follow-up of Previously Issued Recommendations—A Review, dated March 2010:*

*Section 16—Audit of the Pharmacare Program*

*Section 22—Information Technology Organization*

*Section 23—Computer Security Incident Response Capability*

*Section 26—Review of the Workers Compensation Board*

\* \* \*

**Mr. Chairperson:** Good evening, ladies and gentlemen. Will the Standing Committee on Public Accounts please come to order. I apologize for the late start this evening. We did have a bit of delay in our pre-meeting, so I apologize for that.

This meeting has been called to consider the following Auditor General's reports: Operations of the Office for the fiscal year ending March 31st, 2009; Operations of the Office for the fiscal year ending March 31st, 2010; Follow-up of Previously Issued Recommendations—A Review, dated March 2010: Section 16—Audit of Pharmacare Program, Section 22—Information Technology Organization, Section 23—Computer Security Incident Response Capability, Section 26—Review of the Workers Compensation Board.

Before we get started then, are there any suggestions from this committee as to how long we should sit this evening?

**Mr. Doug Martindale (Burrows):** I understand we've agreed to sit until 10 o'clock tonight. I would recommend that at 9 o'clock we review our progress and see how much longer we need to sit, and I also have some suggestions about the order of the agenda.

**Mr. Chairperson:** Thank you. Let's deal with the first one first. Is it agreed that we should sit till 9 o'clock and then reassess whether we should sit till 10 o'clock this evening or not? Is that agreed? [Agreed]

Now, Mr. Martindale has suggestions as to the order in which we should consider these reports. Continue.

**Mr. Martindale:** I would recommend that we consider the section reports first while the ministers and deputies and their staff are here so that they don't have to sit through the Auditor General's reports. So I would recommend that we do section 22 and section 23 first, section 26 second, and section 16 third, and then deal with the other matters under consideration as they appear on the agenda.

**Mrs. Heather Stefanson (Tuxedo):** We don't have an issue with that. We're fine to go with the departments first. I do, however, I would like to add to that, that in dealing with the Auditor General's report the Operations of the Office for the fiscal year ending March 31, 2010, I think, given the fact that this was just put on our agenda as of 4:20 this afternoon, that and just sort of the lateness of this coming forward to this meeting, that I would request that the committee also agree to set this report aside and not pass it this evening and deal with it at another meeting.

**Mr. Chairperson:** That process will evolve as we go through it and we'll call the 2010 report, and if the committee then chooses to lay it over to another meeting they simply—you simply don't have to pass it this evening. Okay? But I note your comments and I thank you for them.

Ms. Wowchuk, you had your hand up.

**Hon. Rosann Wowchuk (Minister of Finance):** Yes. My comments were going to be similar to yours to say that the report is on the list, so if people choose not to finish it tonight it will carry over. But there should be the opportunity to speak to it as well tonight because it's on the list and it was requested.

**Mr. Chairperson:** Yes. But it should be noted that it was not the—this committee that set the agenda late for this particular item. It was House leaders, who have responsibility to call items on the agenda, who did not inform us until 4:20 this afternoon. So we'll proceed from there.

\* (19:20)

So we will call section 22 and section 23, Information Technology Organization and Computer Security Incident Response Capability.

I'll ask the minister and the deputy to come forward, please.

Mr. Clarkson, before I ask you to introduce staff and the minister, I am going to, first of all, ask the Auditor General for an opening statement.

**Ms. Carol Bellringer (Auditor General):** I'm joined this evening by two members of my staff, Phil Torchia, who is an audit principal in the office who is responsible for our follow-up process, and Norm Ricard, who is the executive director of Strategic Initiatives. He's here actually in support of the Operations of the Office reports.

The follow-up report—I'm just going to speak briefly to the process by which this report is pulled together each year. And the one before the committee is the second annual follow-up report issued in this format.

We highlighted last year that we decided to continue an annual follow-up process. We request management for a status update and we conduct a review, rather than an audit, of the information that they provide to us. This gives a moderate rather than a high level of assurance that management's representations accurately and completely reflect the status. As an example, when they do indicate that a recommendation has been implemented, we would look for some evidence that that's the case but we don't reaudit the area.

We also noted last year that we would work with the Public Accounts Committee, central government and the organizations we audit to strengthen the follow-up process. I'd like to indicate that each of those groups has definitely shown an interest in that same goal, but we're continuing the process as we currently are doing it.

We conduct the follow-up for the first time three years after our audit report has been issued and then every year thereafter until the recommendations have been implemented. The three-year period was selected because we think it's a sufficient time for the majority of recommendations to have been carefully considered by the organizations we audit and either implemented or some alternative developed by that organization.

This year's follow-up report reflects the status updates for 555 recommendations from 27 reports issued from 1997 to 2006. The vast majority of those recommendations, 464 of them, representing 84 per cent of the total, can be considered cleared. Only seven of those reflect recommendations which management indicated they do not intend to

implement, and work continues to implement the remaining 91 recommendations.

**Mr. Chairperson:** Thank you, Madam Auditor General.

Welcome, Mr. Chomiak, Mr. Minister, Mr. Clarkson.

Mr. Clarkson, I'm going to invite you to make an opening statement and to introduce your staff, please.

**Mr. John Clarkson (Deputy Minister of Innovation, Energy and Mines):** I have with me Gisela Rempel, who is our assistant deputy minister of Business Transformation and Technology in the Department of Innovation, Energy and Mines.

I just want to thank you for the opportunity of being here and to let you know that I think we do understand the complexities of managing the large volume of data that the government holds and that is entrusted to government on—for various different reasons.

And we actually appreciate the efforts that the Auditor General and her office and staff have gone through in terms of reviewing our applications, our systems and our approaches to how we manage those over time and the outcomes that have come out of that review. We've worked very collaboratively with the office of the Auditor General and appreciate the approach that they have taken to help in terms of ensuring that we have a secure and robust system for government to be able to undertake the necessary activities that they undertake.

We have developed a number of new processes and procedures and supported by new organizations as we've moved forward and we certainly see that as being an important step in terms of ensuring secure access to information and protection of information. But we know that there is still work to do and we appreciate the efforts of the Auditor General and will continue to work with the office of the Auditor General to ensure that we have appropriate systems and processes in place to protect the information and data that we have.

**Mr. Chairperson:** Thank you very much, Mr. Clarkson.

The floor is now open for questions.

**Mr. Rick Borotsik (Brandon West):** Thank you, Mr. Clarkson. Just a question about your just recent comments. You said you're prepared to work with the office of the Auditor General to improve upon

the new procedures and processes. How do you propose to do that? Do you talk to the Auditor General on a fairly regular basis?

**Floor Comment:** Staff in—

**Mr. Chairperson:** Mr. Clarkson.

**Mr. Clarkson:** Sorry, staff in our department work closely with staff in the Auditor General's office on a collaborative basis to review and develop plans to undertake the work that's required and then collaboratively work together to ensure that that work is done in an appropriate fashion.

**Mr. Borotsik:** There were a couple of recommendations in the follow-up report, both of them have—are a work in progress as such. One of the first recommendations that the Auditor General have is that you develop a performance measurement system for IT. What progress have you made on that particular recommendation?

**Mr. Clarkson:** We've been working towards the establishment of a performance measurement system. We've been looking at currently benchmarking where we at in a number of different areas related to our critical systems and the activities related to them, our network and how it performs on a regular basis, the availability of our systems and data related to that. We also look at, now, our projects and our status of our project activities, activities related to the productivity that comes out of those and value and cost.

So we are moving towards setting up a system based on a balanced scorecard approach as recommended by the Auditor General but, currently, the activities we're undertaking right now is to be able to benchmark where we are so that we can then start the process of examining what our performance should be and the targets in terms of how we would get there.

**Mr. Borotsik:** In fact that was one of my questions. And please, excuse me, I'm not as literate, perhaps, as maybe yourself or the minister in this particular case. *[interjection]* I had a Commodore 64. I bought my sons a Commodore 64 when they first came out, I'll tell you, and that was the best thing that ever happened because they are now computer literate.

However, what is a balanced business scorecard?

**Mr. Clarkson:** When one looks at a balanced business scorecard one would undertake the—a measurement of the activities first of all you have to

do to be ensuring that you're performing appropriately. So you would look at how often your system is up and running, for example. How is your network available for people to undertake the work that they need to do? And you would match that against the value of that service to somebody. So, if it's a low-value service, then you may not have the same performance measures as you would on a service that you require, say, 24 hours a day, seven days a week, 365 days a year, like a health system, or a police, kind of, system, maybe.

And then you would also examine that versus the actual costs of undertaking the work that you do. And so, in a balanced scorecard approach, what you're trying to do is maximize the value that comes out of the different measures that you're using.

**Mr. Borotsik:** Just a minute. The—can you explain the control objectives for information-related technology, COBIT?

**Mr. Clarkson:** COBIT is one of the various different methods that exist to help you govern your overall IT activities more appropriately. And, essentially, it's broken down into different categories of areas that you would like to concentrate on, and organizations go through those categories and examine the ones that are appropriate to them to ensure that they have proper methods and standards in place to be able to demonstrate and perform in an appropriate way around their information technology area.

So they will look at things related to planning and designing of your activities. They will look at how you then perform against that plan that you put in place. They will look at how you report on that and how you hold yourself accountable to those kinds of activities. And so you would take those major activities that you have under COBIT and you would divide up in terms of your own activities the things that you need to do in each one of those kinds of categories.

\* (19:30)

**Mr. Borotsik:** And is your department actually accomplishing those tasks through COBIT?

**Mr. Clarkson:** We've adopted COBIT as the standard that we are using. We have put that in place, and now we are in a continuous education and training program with staff to ensure that we are meeting those standards on a regular basis.

**Mr. Borotsik:** How do you identify whether you are meeting those standards or not? Is there a benchmark that you use as to how you're supposed to achieve that particular standard?

**Mr. Clarkson:** Within the COBIT system there are benchmarks that you put in place based on, again, your performance measurement criteria that we had talked about earlier, and then you monitor and report on your activities against those criteria that you put in place.

**Mr. Borotsik:** Last question. This is an ongoing process. This is a ever-accelerated process, if you will, as you get more involved in your own department. I guess that's positive—very positive—because you're always trying to improve yourself and improve your system and improve your staffing.

Is there any point in time where you have achieved everything that you set out to achieve?

**Mr. Clarkson:** My interpretation of COBIT, or any of these kinds of standards, is that you never finish. These are a continuous improvement process and are important in that way, because as we are managing information and more information, we learn better about it and we have to continue to improve.

So it's one of these ones that the recommendation to adopt something is the critical part of what we've done, but the process is a continuous and ongoing basis.

**Mr. Chairperson:** Any other questions?

Section 23. Are there any questions on section 23?

**Mrs. Stefanson:** Just if the deputy minister could—there's obviously some—in all of these areas—I think the original date of the report was March 2004. So we're six years later. We're finding that, as of 2009, there's still a number of areas that are still a work in progress, and I'm wondering if the deputy minister could just indicate what is still—are they all still a work in progress, and at what stage are they at in being implemented and completed? And what steps is the department taking to ensure that that happens?

**Mr. Clarkson:** Yes, I can go through the recommendations that are outstanding in the section 23 or go through each one of the ones that were in the report there that we were dealing with today.

The first one, recommend implementing an arrangement to ensure that security updates are applied on a timely basis to computers. We consider

that one to be completed, in that we have implemented a desktop refresh activity now. We are—by the end of year, we will have new computers and laptops throughout the managed environment, and within that process on a routine and regular basis, there are updates to the security virus activities that's required. And there's also scheduled and routine updates to the Microsoft environment as part of that, and also if any emergency activities take place, those are automatically dealt with, as well, too. And so that puts our security on our desktop side updated.

And we're in the process of consolidating all of our servers into two locations that will then provide secure and dedicated processes around our security related to our servers, as well, too. And so those items that we believe have been addressed.

The second area dealt with technology infrastructure plans and the specific technologies that are suitably matched to the strategic nature of information technology and these, again, are being addressed through our server consolidation activities and through our desktop initiatives and the application reviews that we're doing as part of that.

And just to give you an example: We have been through 14,000 applications that are contained in desktops around the government. We have narrowed that down to 7,200 that we're going through testing on. The others were deemed not acceptable to be tested and departments have worked with us on that. We are going to, through this process, and have already identified 5,600 of those to be retired of the 7,200, and so we will be down to 1,600 applications by the time we're finished this process, which dramatically reduces the risks that we have in this area and much—is a much better linkage now between the technology we've established through our desktops and our server consolidation activities and our regular server update activities with the applications that we can support as we go forward. So, as we finish this process, that one then will be addressed as well too.

The next item dealt with our computer system logging and monitoring of security-relevant activities. In this area, with our server consolidation activities, we have implemented a standard process in terms of logging activities around the security-related activities. By centralizing the activities, we've taken the responsibility away from the individual departments and now have that responsibility located with trained staff in locations

that are fit for having server activities as part of them, instead of having those in government offices, broom closets and other activities where we have found some of the servers.

We have put intrusion software in place now that does a 24-by-7 monitoring of all of the activities that go on, provides a regular report to us for follow-up on activities, and that includes both internal inappropriate activities as well as external appropriate activities. And right now, we have over one million security events that have been identified through our intrusion activities, none of—one million, and those are then followed up based on the severity and type of activity that takes place, moving us forward in this area to ensure that we have proper activities going on. We still have work to do in this area to ensure that it's fully compliant and complete with the recommendations, but a great deal of progress has been made related to the activities of the desktop refresh, the server consolidation activities that we've undertaken and the process related to our capital planning and improvements. And so those ones will get addressed as we move forward to finish those ones.

Recommendation—or item No. 5 dealt specifically with the intrusion detection analysis, and I've already spoke to that one as part of the previous activities. And we consider this one to be complete because of the activities we put in place in terms of our intrusion monitoring activities.

And the last one in the risk management activities, working with the office of the Auditor General, we've broken this down into three separate issues: one dealing with the policy related to risk management, one dealing with our business continuity planning and one dealing with disaster recovery planning.

We have drafted our policy around risk management and are now testing that out in three different areas and just about completing that. And, as we get through that completion process, we will then roll that out across government on a regular and routine basis.

Our second one, we believe, of that category, the business continuity planning, has been completed in that it's been brought into the appropriate responsibilities under The Emergency Measures Act and therefore a requirement of departments to ensure that they have appropriate business continuity plans

in place and that IT will support them in those kinds of activities that they require.

The third area, which is the area of disaster recovery planning, we are making progress in this area. Our server consolidation activities has disaster recovery improvements built into it. Our desktop initiative has disaster recovery improvements built into it, but we still need to work on this area and this is one of the ones that we will be concentrating on as we go forward.

**Mrs. Stefanson:** Thank you very much for that update, and just a couple of follow-up questions.

In recommendation No. 2, I believe you mentioned you were down from 14,000 to 1,600 applications over the time, and you said—or it should be down to 1,600 applications by the time the process is finished, I believe is what you mentioned. What is the time frame for the completion of that process?

**Mr. Clarkson:** Yes, the time frame for the completion of that is the end of March 2011, so this fiscal year.

\* (19:40)

**Mrs. Stefanson:** Just a quick question for the Auditor General. There's a couple of recommendations that you made in your report that the department has indicated that his—that they feel they have completed them, recommendation No. 1, I believe, and No. 5. No, I believe No. 5 was—but I'm wondering if the—certainly on No. 1, anyway, if the auditor could indicate, has your department or have you followed up—has your office followed up with the department, and are you satisfied with the answers that you received that your recommendation has been completed?

**Ms. Bellringer:** I'm not actually finding the one you're referring to. I just—there were—

**An Honourable Member:** Page 71, No. 1.

**Ms. Bellringer:** That one's still in progress. *[interjection]* Oh—

**Mr. Chairperson:** Sorry. Ms. Stefanson and Madam Auditor General.

**Ms. Bellringer:** We—we're looking at the March 2010 report, so we'll—we will be—we are in the process right now of preparing the 2011 report. So I don't have that information with me yet, but that will be—we'll be looking at that this time round.

It wasn't at the time that we did this audit, so I don't know the answer to that right this minute, and we may or may not have actually done that work quite yet.

**Mrs. Stefanson:** Okay, but the deputy minister just indicated that it's completed and gave a reason for how they have completed it. So is that reason or is—you know, for the department having seen this as being completed, is that satisfactory to you?

**Ms. Bellringer:** When we go to do the follow-up of a recommendation that has been implemented, we actually go into the department and look at some kind of evidence, if you will. So that's why we—until we actually say to you, yes, we've gone in and looked at it and concur with what they are saying is now implemented, I just can't answer the question.

**Mrs. Stefanson:** Okay, so just—I mean, the reason that they gave tonight for this being completed, normally what you would do is, regardless of what they may say in committee, you would still follow through beyond what is said in committee this evening, you know, and follow up on that further than just what is said in this—in the committee.

I mean, I would sort of say, if the department believes that they have completed it, they're going to be going no further, they've given an indication of how they have completed it and the steps that they took to complete it, I mean, I guess I would just ask, I mean, are those the steps that you would be looking for in your follow-up? Would that satisfy what you were looking for in terms of this recommendation?

**Ms. Bellringer:** Okay, so on the first recommendation—okay, I'm just—we're—we actually wouldn't—we wouldn't just rely on what was said in the committee. We would actually go in and look at things. So in that particular one we want to see that—I'm just, sorry, I'm just looking at some fairly technical detail here for a second. Okay, we're saying—some of the comments we have in our own file was that we would consider it implemented when the servers have either been aggregated or assessed and remediated with a plan in place to regularly update the security for those servers.

So what we would do when we go in to do the audit is look for that—we would actually look at the plan itself, and until we see it and see that there is indeed a plan—it's not that we don't believe them; it's just that that's—when we do an audit that's what we do.

**Mrs. Stefanson:** I guess I would just ask the deputy minister: Is that what the department has done?

**Mr. Clarkson:** I believe that that is what we have done, but what we really want to see is that work with the Auditor. It's important for us to ensure that we've done these in an appropriate way. So we actually support the concept of us doing the work and then having them come back and review it to make sure it's done in an adequate and appropriate way, because that's the way we ensure that these things are moving forward in a correct fashion.

So we believe that we have addressed it. We will work with the auditor's office to ensure that we are in full compliance of what's being asked for.

**Mrs. Stefanson:** In recommendation No. 4, you indicated there was one million security intrusions. Can you just elaborate? What exactly does that mean? And you mentioned beyond that that there's more work to do and, if there's more work to do, what is the go-forward plan to ensure that this is fully implemented?

**Mr. Clarkson:** My one million intrusions are security events that were analyzed. That was traffic that relates to the monitoring system that is on our network and our servers, and the switches that are related to it. Those activities are then examined to make sure that they are appropriate in terms of the activities that we were expecting. Those ones that seemed to come through that review as saying there is something inappropriate here, we would then follow up on those individually, and there are mechanisms for doing that. For example, they could be an external attack on the system that got failed, and we have those on a regular basis: 98 per cent of the emails that come into the government's environment are stripped and sent away because they're not appropriate emails.

Another thing that can be happening is that with the number of servers that are out on networks who are just sending out signals, those can be items we pick up and we can ensure that we're handling those in a—appropriate fashion.

Another example, though, could be a switch in the network itself that is malfunctioning, and therefore it's through the intrusion kinds of activities, we can pick those things up.

The further work that we need to do is ensuring that we are picking up the appropriate ones, that we are managing those in an appropriate way and handling the follow-up activities on those in an

appropriate way. And that is the area that we will continue to work at monitoring over the next short time frame and ensure, by the end of the fiscal year, that we have most of these addressed in a consistent and concise fashion.

This is one area, though, that is of a continuous improvement nature on an on-going basis because, as we figure out new ways to try to identify people who are coming into the systems inappropriately, they are figuring out new ways to get into the systems on an inappropriate basis, so we will be on this one on a continuous and on-going basis.

**Mrs. Stefanson:** Excuse me. And I appreciate that. I know new things are coming forward all the time.

Just in the one million security intrusions: Is that for the whole year? Is that in a month or is that one given time? Can you give us sort of a sense of time frame?

**Mr. Clarkson:** So, on a regular basis, that million figure is actually on a monthly basis, and we then filter those out on a regular basis to look at what those things are and send through the appropriate ones that need to go through and follow up on the ones that are significantly inappropriate, but it's a monthly statistics that's there.

**Mrs. Stefanson:** Okay, thank you very much for that.

I just have another quick question regarding recommendation No. 6, where it says: We recommend that the risk management policy include specific requirements for risk assessments to be performed et cetera, et cetera. When you mention the policy, you mention that you just sort of, as I read what you said, you just now have come up with the policy for this and, as I understand is, this was a recommendation that was made six years ago. What would take so long to come up with this risk management policy?

**Mr. Clarkson:** I think, in examining this recommendation, it was that we first wanted to work at breaking it down into the appropriate categories, which we undertook first, and then looked at the critical areas of disaster recovery and business continuity planning as the critical priorities within that recommendation. And so our efforts were put in place to ensure that we have appropriate backup procedures through our business continuity plan for the continuous and ongoing operations of government and that we then have programs in place

to start to address the disaster recovery as the second place.

\* (19:50)

Risk management, we felt, was a much more complex exercise that we needed to really understand some of the issues related to that and, therefore, worked on that one as a third category so we could have appropriate policies that reflect on risk management, in that true fashion, in that when you are managing risk, you are having to understand what those risks are as well, too, and then developing appropriate approaches to undertake that.

**Mr. Chairperson:** Thank you. Are there any further questions?

**Mr. Borotsik:** Just for my own curiosity, when you talk about one million intrusions over a one-month period, I assume, maybe I'm wrong but I should ask, that some of those would be spam. You say 98 per cent of emails coming forward usually are—would you consider those to be intrusions?

**Mr. Clarkson:** They would fall into that intrusion category. Viruses would fall into that category. Other inappropriate Web browsing that may take place that would fall into that category. There could be people that are trying to—there's new systems out today where people will go in and get access to your email and use your email address to broadcast out to people. Those kinds of things will detect and pick out as well, too, so there's various different activities.

**Mr. Borotsik:** Yes, I just didn't want to be that fearful. I mean, a million, it's not all that serious and, in fact, I would suggest the majority of them are, as I said, not that serious. They're more spam-related, and they're just intrusions that you would identify.

I'd like to just understand the process a little bit better, and I know that your department certainly is very professional and they try to work and implement the recommendations that are put forward by the Auditor General, but you also said earlier in one of my questions that you do have an ongoing relationship, an ongoing working relationship, with the Auditor General's staff, so as you are—and you just simply said, we want to make sure that we try to comply with the request of the Auditor General and what they see as being necessary going forward, so I assume this is an ongoing process. You don't live in a vacuum. As you're dealing with the improvements that have been asked for, you're communicating with Auditor General staff, are you not, so that you really

do know that you're doing what they're wanting you to do going forward?

**Mr. Clarkson:** I believe that we are working very collaboratively together to ensure that we are—understand the requirements together and that we have plans of action that go forward to ensure these are addressed in an appropriate way.

**Mr. Borotsik:** Yeah, and the reason I say that is I know the Auditor General obviously has a lot of staff and a lot of people working on a lot of recommendations, so she's not expected to know of what's happening on all of those recommendations, but these recommendations are six years old. Where you are today is certainly where I'm sure the Auditor General's department would want to see you to be and again, I don't want to put words in your mouth but I would hope that you're in a position now where the Auditor General's department would want you to be with the follow-up, and once they look at these recommendations the next time, if they are and have been implemented properly, then they're just going to fall off the table, and then they'll go on to the next recommendations that the Auditor General may well have for your department.

I guess, more than an editorial, a comment: Do you in your heart feel that you are now at the place where the Auditor General wanted you to be six years ago with these recommendations?

**Mr. Clarkson:** I believe in the ones that we have indicated that are complete that we are at where the Auditor General would like us to be. I believe, on the other ones, we still have work to do, and we've indicated that the majority of those we believe we will get done by the end of this fiscal year. I also believe that there will be a continuing, ongoing need to have recommendations related to how we manage our information technology and that we will be continuing to seek improvements in that area.

**Mr. Borotsik:** Last comment, I don't think you need, Mr. Clarkson, the Auditor General telling you where to go forward with respect to security measures and implementation of new processes and procedures in your own department. I think that you probably are already heading in that direction without having the Auditor General to tell you what you should be doing.

**Mr. Clarkson:** I don't think it's actually an issue of somebody telling us the direction we go. I think that we do have exceptionally good people who are working on these things. I think the issues are to be

able to understand the best practices and the necessities and how to implement those best practices, that the role that the Auditor General's office plays in that is absolutely critical for us so that we can ensure that we're all concentrating on the right activities.

**Mr. Borotsik:** I'm sure the Auditor General appreciates those comments. Thank you, Mr. Clarkson.

**Mrs. Stefanson:** Just two more quick questions with respect to recommendation No. 6.

You mention that a risk management policy has been developed, and I'm wondering if you can indicate whether or not it includes specific requirements for risk assessments to be performed as part of strategic and business planning, which is part of the recommendation.

**Mr. Clarkson:** Yes, it does.

**Mrs. Stefanson:** And the other quick question: What action is being taken to develop disaster recovery business continuity plans? And, specifically, what groups are involved in this process with you?

**Mr. Clarkson:** So, in terms of the groups involved with us, all of the government departments are engaged with us in the discussions around disaster recovery, to ensure that we are 'prioritizing' that in an appropriate way. In our server consolidation exercises, the disaster recovery is built into part of our planning related to that, and our actions that we're implementing to ensure that we have backup processes, that we have recovery processes to all of the applications, as we move the servers over and then go through a process of, essentially—what we've called it, is CAT, which is to capture and protect and preserve the servers and then move them over in an appropriate way, and then transform them into the appropriate operating systems in new technologies that they need to be in. And the departments are a critical piece of undertaking that and ensuring that we have appropriate recovery and disaster planning related to each of those.

Within our new desktop contract, which we are starting to roll out now in our refresh activities, the actions that are controlled through the desktops in terms of our productivity suites or office suites, there is a disaster recovery approach that's being implemented as part of that initiative, as well, too. And that should be completed within the next fiscal year.

**Mr. Chairperson:** Thank you. Seeing no other questions, I'm going to suggest that the committee is now concurred in section 22 and 23, and I'm going to thank the minister and the deputy and his staff for their attendance.

And we're going to move on to section 26, Review of the Workers Compensation Board. And I'm going to ask the minister and her deputy to come forward.

Oh, pardon me. And we're going, of course, we're going to ask that the CEO of the Workers Compensation Board come forward as well.

Welcome to the minister, the deputy and the CEO of the Workers Compensation Board.

Mr. Deputy Minister, do you have an opening statement?

**Mr. Jeff Parr (Deputy Minister of Labour and Immigration):** Actually, I'll defer to the CEO.

**Mr. Chairperson:** Thank you very much.

Mr. Sexsmith, please proceed.

**Mr. Doug Sexsmith (President and Chief Executive Officer, Workers Compensation Board):** First of all, I'd like to introduce staff that are with me here today.

First of all, Lori Sain is our corporate secretary and general counsel, and Lynne McCarthy is our director of investments.

**Mr. Chairperson:** Thank you. Welcome.

**Mr. Sexsmith:** I do have just several brief comments that I'd like to make to the committee.

**Mr. Chairperson:** Proceed, Mr. Sexsmith.

**Mr. Sexsmith:** As I think as everybody knows, there were recommendations made by the Auditor General in three areas. We found on the whole these recommendations, as we worked through them, were very constructive and helpful, and I think we've made a good deal of progress in a number of areas. They covered board governance, human resources and investment management, mainly around private equity investments. We spent a great deal of time working through all of the recommendations in a very serious way. We reported regularly to our audit committee, who oversaw the implementation of the recommendations.

\* (20:00)

In the board governance area, all of the recommendations are noted as implemented or resolved. There were a number in this area, as well—there were a number of very constructive recommendations, and I think it's fair to say the board is now functioning in a very effective way with three committees: an Investment and Finance Committee, a Policy, Planning, Governance and Service Committee, and an Audit Committee, doing very good work in support of the board's overall activities.

There were a number of recommendations made in the human resources area. Again, those recommendations are noted as implemented, resolved. And, again, we feel we've done a good deal of hard work in this area to create a very positive HR climate at the board. There's been a good deal of work done in areas such as Respectful Workplace, ethics and code of conduct and diversity.

We would like—we feel that we've come a long way, done a lot of constructive work since—I guess it was about 2004 that the audit first started. We regularly survey our staff and we've been getting very positive feedback in most of the areas in terms of their attitude towards the organization.

Investment and management: in that area there are a number of recommendations that are noted as action no longer required. And that area is a little different in that the board—following the audit, the board made a decision that there would be no further investments in the private equity area, and so that impacted the implementation of a number of the recommendations. And that's why a number of them are noted as action no longer required, and the board is now winding down its activities in the private equity area.

There's one recommendation that was noted as do not intend to implement. And that was the only one with that label. And I think the Auditor General provided a fairly good summary in the audit document of the reasons behind that, but I'd be pleased to take questions on that or anything else.

So with that I'd like to thank the Auditor General and her staff for the follow-up report and for the good work that we've done with them.

**Mr. Chairperson:** Thank you very much, Mr. Sexsmith. The floor is now open for questions.

**Mrs. Mavis Taillieu (Morris):** I just appreciate the opportunity just to ask a few more questions in regard to the review of the Workers Compensation

Board because I understand that this will be the last opportunity to do so, so just bear with me, I have a few questions.

But the first one, I want to direct to the Auditor General. And I'm going to go to page 82, 1b, and the recommendation is: That consideration be given to the development of whistle-blowing legislation to protect employees of public sector organizations from retaliation for raising concerns or reporting wrong-doings of an organization's senior officers, its board of directors, or its employees.

And I see that the status of that is implemented or resolved. I'm wondering, though, could the Auditor General provide an updated evaluation of the legislation, given past issues with the implementation and application of the act?

**Ms. Bellringer:** We most certainly didn't do an evaluation of the legislation. There is legislation in place. It's managed, if you will, most closely by the Ombudsman. And so I—I'm not sure what specific areas you're asking my view on, but I have not done a full evaluation of it other than to say that it is there and it is available and the process in—that's embedded within the legislation, within the whistle-blower protection act, does provide people with a very clearly laid-out process that they can follow in the event that they're in a situation that would be parallel to that, which was uncovered in the situation at the Workers Compensation Board.

**Mrs. Taillieu:** Thank you, and I didn't mean to imply that you had done an evaluation, I'm simply asking you how is it—in your view, how is this working?

**Ms. Bellringer:** I don't—I haven't actually looked at it from that perspective; I don't have an answer for you.

**Mrs. Taillieu:** It's my understanding, then, that a lot of these issues get directed to the Ombudsman, and then if the Ombudsman chooses to direct them to you, but is there something in legislation that is restrictive for you or you would like to see for your office to proceed with some of these things that are referred to you?

**Ms. Bellringer:** The—in fact, this is something that's mentioned in the operations report that we'll—is the next item on the agenda, but in the event that the Ombudsman feels that it's an item that our office is more appropriately—in a place to follow up more appropriately, she's able to forward a whistle-blower complaint to our office.

The only limitation to The Auditor General Act is there are no complaint mechanisms or parallel clauses within The Auditor General Act that really define how we would then follow it up in the event that it's provided to us. And there is no sort of blanket assumption that we would follow any of the provisions that are set out in the whistle-blower protection act other than the actual protection of the employees. That stays with the complaint if it's moved over to us.

But it moves over under The Auditor General Act, and so we, then, would follow up any of those complaints. In the context of The Auditor General Act, we don't add in any other specifics that were contemplated when the whistle-blower protection act was put in place. In particular, one of those items would be expediency. There's nothing specified like that in The Auditor General Act, and I would suggest that that has become, in the past, an issue for us. There has only been one whistle-blower complaint that has been forwarded to our office.

**Mrs. Taillieu:** Okay, thank you for that.

**An Honourable Member:** Mr. Chairman, I was—

#### Point of Order

**Mr. Chairperson:** On a point of order?

**An Honourable Member:** Yes, I'm just looking to you for guidance.

**Mr. Chairperson:** Oh, Mrs. Wowchuk, carry on.

**Ms. Wowchuk:** I'm just wanting to ask you whether the questions that are being asked are within the scope of this report, or are they outside the scope? And I look to you as Chair for guidance on that.

**Mr. Chairperson:** Thank you, Mrs. Wowchuk. Yes, the questions are within the scope of the recommendations made. The last question—I—was on the borderline. I did look at the Auditor General. She indicated she's prepared to answer that question, and so we allowed that question to go ahead. Okay? Thank you.

\* \* \*

**Mrs. Taillieu:** Thank you, Mr. Chair.

Also, on page 83, it's recommendation No. 6: the legislative requirement that the Deputy Minister of Finance serve on the WBC's investment committee is reviewed. Whenever a senior government officer—official is a member of a board or board committee, it raises issues as to the role of fiduciary

responsibilities of that individual and whether there should be, or there is expected to be, reporting back to the Province from a monitoring perspective.

I just want to clarify that—how this recommendation was actually resolved.

**Mr. Chairperson:** Mrs. Taillieu, are you asking that question of the deputy or the CEO?

**Mrs. Taillieu:** I'm—no, I'm asking that of Mr. Sexsmith, please.

**Mr. Chairperson:** Mr. Sexsmith, please continue.

**Mr. Sexsmith:** Yes, thank you. The legislation set out the members of the investment committee and it no longer includes the Deputy Minister of Finance, the legislation that was introduced on January 1, 2006.

**Mrs. Taillieu:** Thank you, I just wanted to clarify that.

And my next question is on page 88, No. 26a, that the Workers Compensation Board develop a comprehensive investment strategy for the private placement investment program.

Now, I know that you've said before that no new private investments are undertaken. But I'm wondering if this investment strategy should be implemented for existing private placement investments. I know you said you're winding down on that, but you still have some, and whether or not this investment strategy should be applied to these ones.

\* (20:10)

**Mr. Sexsmith:** No, we didn't think so. The strategy that we took really was a strategy of winding down—as I mentioned earlier—winding down the private equity. We haven't made any new private equity, so what we've done is look for an exit—an appropriate exit for each one of these investments.

It's gone and it has—and the portfolio has been winding down so we didn't undertake a large strategy to—which would've really gone into areas such as where do we want these private equities to be, what would be the composition of them, et cetera.

We did look at that very carefully. Our investment committee discussed it, and we decided the most practical strategy was a—you know, a divestiture strategy. So that's the strategy we've been following.

**Mrs. Taillieu:** Then how many of these private investments do you still have and what was your exit strategy? How did that—were you able to sell off these investments?

**Mr. Sexsmith:** We now have 12 of these investments left. At one time we had 17 of these investments. And there's a variety of ways in which we get out of them. Most of these—because they're private equity and these are not investments in securities, for example, the trade on exchange, they're not generally that liquid. So we have to look for the best opportunity that we can to exit from them in a way that maximizes the benefit to the WCB. So it does take a little bit of time.

**Mrs. Taillieu:** I guess these would be mostly properties then?

**Mr. Sexsmith:** No. In fact, the ones that we have exited so far, none of them have been properties. The private equities that I was referring to, actually none of them were properties, I believe. I'm getting a nod, yes, yes, that's correct.

**Mrs. Taillieu:** I'm just curious if you can explain why the WCB was involved in private investment programs in the first place? What was the purpose of that?

**Mr. Sexsmith:** Private equity is an area where if you're interested in investing over the long term and you can tolerate some volatility within there, then you can at times receive outsized, I guess I would call it, returns.

The private equity within the WCB's investment portfolio, because it's a higher risk area, was a very small portion of the portfolio, between 4 and 5 per cent, I believe, but anyway that's why the board—I wasn't around actually when they first did this, so I'm telling you what I think is the logical answer to this—they were looking for an opportunity to increase the return.

**Mrs. Taillieu:** And if I can just go back a bit to the investment that the Workers Compensation Board made with the True North centre, the \$2-million limited partnership units from 2002. I believe those were to mature in 2010. Can you just give a status of what—where that's at?

**Mr. Sexsmith:** We no longer hold that investment. We sold that.

**Mrs. Taillieu:** Well, thank you. Can you share who you sold it with—or to who? Can you share with us that?

**Mr. Sexsmith:** We sold it to Osmington, Inc.

**Mrs. Taillieu:** And what was the return on investment for the Workers Compensation Board?

**Mr. Sexsmith:** That's a tricky one. Actually, you asked me that question a year or two ago and the way I answered it, I think—we didn't pay anything for that investment so we got a \$2-million equity position by way of providing a standby line of credit when the MTS Centre was in its infancy.

So it depends on how you calculate that, but on our books we had it there at \$2 million. We sold it for \$2 million. So we paid nothing—we didn't pay anything for it but got two million—got a \$2-million return on it.

**Mrs. Taillieu:** So then you do not have any equity position then with True North centre anymore?

**Mr. Sexsmith:** That's correct.

**Mrs. Taillieu:** Next question: I'm going to go to page 92, No. 38, that the chief investment position be filled as soon as possible with someone with significant investment experience, and you did not intend to implement this one.

Would you just—I think you did explain this, but would you just explain it one more time for me, please?

**Mr. Sexsmith:** Sure, and that's a very good question because we do have a very large investment portfolio. So a recommendation that we have a CIO in place is not something that would not seem like a good idea on the face of it, but—and we did take that recommendation very seriously. What we did is we had a look at the way we operate in the board and we also engaged our investment consultant to have a look at how we're set up, what the mandate is, what is the role of the staff within the organization, how do we compare to other organizations of a like size and whatnot.

The recommendation that came back from that was that we're fine the way that we are, given the mandates that we have, and the fact that we do not make any—we do not make internal security purchase decisions within the board. All of our decisions of that nature are farmed out to investment managers that we hire, and I think you also have to consider that that recommendation also was made in the context of private equity—a group of private equity recommendations as well, and we're also not doing that any further. So that's the thinking behind.

**Mrs. Taillieu:** So who manages the existing investments then at the Workers Compensation Board if you don't have a chief investment officer?

**Mr. Sexsmith:** The day-to-day operations, any work that needs to be done on a day-to-day basis within the board, it's handled by our director of investments, who reports to the chief financial officer.

**Mrs. Taillieu:** Now I'm just curious, was there funding put in place to hire a chief investment officer and, if so, what other use was for that—what did you do with that funding, if there was funding for a chief investment officer?

**Mr. Sexsmith:** We didn't budget for a chief investment officer. We had made the decision not to do that.

**Mrs. Taillieu:** Still on page 92–41, the recommendation was that the CIO and/or the director of investments consider the benefits of joining and participating either or both of the Canadian venture capital association and the Institutional Limited Partners Association. Now it says no—action no longer required, but I'm wondering why there would be no action required on that. Have you joined those organizations, or why was it no action required?

**Mr. Sexsmith:** That recommendation, again, was made in the context of private equity, and so we do certainly make training and development available to our director of investments. But we haven't chosen to do it in this area, given that we have an exit strategy in place from the private equity.

**Mrs. Taillieu:** Yes, I can appreciate that but I think this review began in 2004; it's now 2010 and you just told us there were originally 17 and you're down to 12. So you still have a significant number of private equity investments; it's taken that long to divest yourselves. So there seems that it would still be a number of years to divest yourself of the 12 that you still hold. So do you not think that it might be good practice to participate in these organizations?

**Mr. Sexsmith:** Well, you know, that's a fair question, and we've chosen not to do that. We've chosen to put our time and effort elsewhere, given that we do have an exit strategy. We do report regularly on these investments, and so I'm not sure that I can add much more to that other than, you know, we have discussed this with our investment and finance committee and this is the route that we've chosen to go.

\*(20:20)

**Mrs. Taillieu:** Well, just one more question. I'll ask the auditor, then, what are her thoughts on this when it's no action, no longer required, and the fact that there are still 12 private placement—private equity investments and there has been some divestiture but there's still 12 there. And it seems it would take a number of years for that to get down to a position of none.

**Ms. Bellringer:** It's quite true that the recommendation was made in the context of quite a great, you know, a great deal of activity taking place, including additional investments being contemplated and considered and so on. I think the greatest value to joining an association like that would be if it was an ongoing activity.

So I accept the comment that it would indeed be up to the board and the investment committee to decide whether or not the mix of activities and the kind of training activities that they're engaging in is appropriate or not under the current circumstances. There is clearly less expertise required to go through that process of exiting than there would be if you were considering all of the various options out there and deciding which investment to get into. There's, in fact, a fairly substantive difference between the two.

Would we make that same recommendation today? We may. If we were looking at the current portfolio, we may still make the same suggestion, but I don't think it's an unreasonable thing for the organization to decide to use the resources in a different way.

**Mr. Chairperson:** Thank you very much.

**Mrs. Stefanson:** My questions are also for Mr. Sexsmith.

With respect to the private placement holdings within the portfolio, what percentage of the overall portfolio are currently made up of private placement holdings?

**Mr. Sexsmith:** It's slightly less than 3 per cent now.

**Mrs. Stefanson:** And when it—what would the dollar figure be? What are—what's the value placed on those private placements now?

**Mr. Sexsmith:** At the end of June of this year, it was approximately \$28.5 million.

**Mrs. Stefanson:** How does that compare to the original—I know there were 17, I guess, originally.

Now, there is 12, but of these 12 holdings, how would that value compare to what they were when they were initially invested in?

**Mr. Sexsmith:** Well, I can tell you that—I'm not sure I'm answering your question exactly as posed, but I can tell you that at the end of 2005, they were—the value was approximately \$36.3 million.

**Mrs. Stefanson:** These private placement holdings, are they all equity?

**Mr. Sexsmith:** There was a combination of debt and equity.

**Mrs. Stefanson:** Can you indicate what the holdings are right now? What the investments are and which are equity and which are debt?

**Mr. Sexsmith:** Yes, I think I can if you just bear with me for a moment.

**Mr. Chairperson:** Mr. Sexsmith, proceed.

**Mr. Sexsmith:** I'll read you out a list here. CentreStone Ventures Limited Partnership, ENSIS Investment Limited Partnership, Frontier Capital Partners Limited Partnership, Manitoba Capital Fund, Manitoba Science and Technology Fund, RFG Private Equity Partners, Western Life Sciences Venture Fund, Crocus Investment Fund, ENSIS Corporation, Lumira Capital Corp., North West Company Trust units, and Smartpark advisory note. And they would all be equity except for the last one which would be—which was a bond.

**Mrs. Stefanson:** So none of them are considered real estate investment trusts, or would those be considered equity?

**Mr. Sexsmith:** None of them are real estate investment trusts.

**Mrs. Stefanson:** With respect to—how—you mentioned that there's a director of investments that currently reports to the CFO. Is that right?

**Mr. Sexsmith:** That's correct.

**Mrs. Stefanson:** Okay, is—and that's the day-to-day monitoring of these private placements. Is that the whole portfolio as it stands or is it just for the private placements?

**Mr. Sexsmith:** If you're referring to the whole investment portfolio, there are a number of measures in place to monitor performance. We have a consultant, actually, who we hire to—who reports—who assists the director of investments and who

provides us with regular reporting on the performance of the portfolio overall and who assists the board with hiring investment managers and other—and provides other advice and or related projects related to the investment portfolio.

**Mrs. Stefanson:** Can you indicate who this consultant is, and how much they get paid?

**Mr. Sexsmith:** Yes, the consultant is a—well, the person who works for us—his name is Peter Hayes. He works for Eckler associates—or Eckler, yeah, and I just have to—if you bear with me for a minute, I'll find what the budget is for him.

**Mr. Chairperson:** Continue.

**Mr. Sexsmith:** We spend about \$50,000 a year on regular monitoring of the portfolio that he does, plus he also will do special projects for us.

**Mrs. Stefanson:** Can you indicate how long he has been acting as a consultant?

**Mr. Sexsmith:** Since 2002.

**Mrs. Stefanson:** Can you indicate what sort of a process Workers Compensation Board went through in to—in order to choose this person for this position?

**Mr. Sexsmith:** We've used a competitive process.

**Mrs. Stefanson:** How often is that process renewed or this the is—how long—I guess, how long is the contract for this person right now?

**Mr. Sexsmith:** The contract is for five years.

**Mrs. Stefanson:** Is that automatically renewed after five years or do you go through another competitive process?

**Mr. Sexsmith:** We would be going through another competitive process.

**Mrs. Stefanson:** What is the criteria used, though, in order to decide that this is the particular—what credentials are you looking for from a person that would advise you with respect to this portfolio?

**Mr. Sexsmith:** You know, I don't have the criteria in front of me, but I'll tell you in a general way the kinds of skills that we would be looking for, and we would generally be looking for someone with a thorough background in the investment area. As it happens, this person is a chartered financial analyst and he's also an actuary, so—and he has many years of experience in reviewing investment portfolios and investment processes. That's the type of person we'd be looking for.

**Mrs. Stefanson:** So when is this contract up for renewal again?

**Mr. Sexsmith:** We're uncertain on the exact date. We're estimating 2012 or '13. We'd have to check the contract to be sure.

**Mrs. Stefanson:** I guess, does the department believe that without a chief investment officer—well, is the—I'll ask Mr. Sexsmith first. Is the Workers Compensation Board satisfied that you've got the internal expertise without—I mean, I guess you obviously do, without a CIO, otherwise you'd be hiring a CIO. But what sort of—does this—I guess my question would be, does this person, this consultant that's hired, is he also hired to advise on divesting of these other 12 private equity holdings?

\* (20:30)

**Mr. Sexsmith:** There were several questions there. I think if I can remember I'll go back to the first one and that—well, let me start with the last one because I remember that one for sure. No, he hasn't really been involved in the private equity divestiture. That is something that we thought was straightforward enough that we can handle through our director in investments.

And I guess I would add, on the divestiture of the private equity, it's not as though we're making individual decisions around the timing of buying and selling individual securities there. In almost all of the cases, we were hiring an investment manager. There would've been an investment manager running a fund that we were investing in, for example. A number—most of those examples that I read out to you there were funds.

**Mr. Chairperson:** Thank you.

**Mrs. Stefanson:** So is there any outside or external advice at all to the Workers Compensation Board with respect to these private equity and, I guess, debt holdings? Are there—is there any external advice that the Workers Compensation Board seeks, or does the board only rely on the director of investments for this?

**Mr. Sexsmith:** There's a number of things that we rely on here, actually, and I guess—first of all, as I mentioned earlier, there's—in almost every case, there's a fund manager in place, and so we would work in conjunction with that fund manager to find an appropriate way for us to exit.

We certainly could call on our consultant if we chose to. We don't generally do that with the private

equity. We also have the authority under the act to hire additional investment expertise on our investment committee, which we can use to provide further advice and oversight in this area, and in fact we have done that. We do have a retired former vice-president, I guess I would call him, from Investors Group sitting on our investment committee.

And I would also add that we are currently in the process of hiring two more advisers for our investment committee, which we hope to have in place sometime over the next couple of months. And so, on that—just to elaborate on that a little bit and getting back to—I think I'm getting back to what you asked earlier. We are comfortable that we have the expertise in place that we need or that we will in any particular situation—we will seek out expertise if we feel that we don't have it.

And I guess I would assure you that, if I thought hiring a CIO or any other staff person would either reduce the risk or increase the returns that we get on our investment portfolio, we would readily do that because we are dealing with a large—very large investment portfolio and so we are—we want to be comfortable that we're investing wisely and managing it appropriately.

**Mrs. Stefanson:** It says in your response to the Auditor General's recommendation about the CIO position, it says it's—that it's the decision to not seek further private placement investments. Does that also preclude the Workers Compensation Board from further investing in these existing ones?

**Mr. Sexsmith:** No. The position that we took was that if we've made commitments within these investments that we'll honour any commitments we have but we—but, nevertheless, you know, we're looking to exit them, and I—there are not many left where we have further commitments to make. So, yes, so that's the answer.

**Mrs. Stefanson:** So could it be possible that further investments could go into these 12 private placements, the current holdings, I guess, if that's part of the agreement, or if there is further opportunities, I guess, within those funds, would the director of investments advise the board or would the board be in a position to put further money into these investments?

**Mr. Sexsmith:** There wouldn't be any further money going in unless we'd already made a commitment to—for example, hypothetically here, if we'd committed \$5 million and we'd contributed 4 and they were

asking for the other million dollars to finish the investment and we'd made a commitment earlier, we would honour that. But we wouldn't be making any new investments, if I can put it that way. We discuss every one of these investments. We review quarterly with our investment committee and we talk about where we're at with them, what's the return, where are we at with the exit strategy. So I guess I can give you some assurance that there's a pretty thorough oversight of them.

**Mr. Martindale:** I've been on many boards, but I've only been on one investment committee. So I'll ask a question about board governance.

The Auditor General made recommendations about term limits, board training, updating manuals, reviewing conflict of interest policies. Could Mr. Sexsmith tell us how these changes have strengthened board governance, please?

**Mr. Sexsmith:** Well, I think that, as you alluded to now, board members are now appointed for a maximum of four years. They can be renewed. Our board members are staggered, and I think that having set terms like that and staggering the board members is a very positive thing for a board, especially one like ours that has significant financial responsibilities and other responsibilities, of course, because it allows for continuity. And so I think that's been a very—from that perspective that's been a very constructive move. I hope that answers your question.

**Mr. Chairperson:** Thank you. Seeing—oh, Mr. Borotsik.

**Mr. Borotsik:** Just a couple of questions, intriguing questions more than anything else. You say that you do review the private placement investments on a quarterly basis through your investment committees. Do you do an annual evaluation or a valuation of those 12 outstanding private placements?

**Mr. Sexsmith:** I think the answer to that is yes in that we value them at whatever we can determine to be the market value.

**Mr. Borotsik:** The market value that you identified was 28.5 million. That was the market valuation that you gave this committee just recently just in your last answer. That 28.5 million that was as at when that valuation was done?

**Mr. Sexsmith:** That was as of the end of June of this year.

**Mr. Borotsik:** Again, I go back to the quarterly review. Would you then have—July, August, September would've given you another quarter—do you have an evaluation at the end of September or do you anticipate you'll have another evaluation at the end of December?

**Mr. Sexsmith:** Well, we do—yes, we do look at their value regularly and, yes, we would report changes in the value every quarter to the investment and finance committee. There aren't a lot of changes, you know, month by month to them because some of them are not—as I mentioned earlier—are not that liquid and they don't trade that much. So, you know, we have to do an—we're doing a constant estimate of the value, yes.

**Mr. Borotsik:** Yes. Just one more question. You'd mentioned Smartpark was one of the private placements. You'd also said that it was a debt vehicle. Can you tell me which debt vehicle and for how much and for what security there is on that debt vehicle?

**Mr. Sexsmith:** That was a bond. It's guaranteed by the University of Manitoba and it was for 1.2 million.

**Mr. Borotsik:** Is there an expiry of the bond? Is there a point in time when that bond matures and comes due so that you, in fact, can—what is the rate of return of that bond?

\* (20:40)

**Mr. Sexsmith:** January 22nd, 2014, and we get 5.5 per cent—5.95 per cent interest.

**Mr. Chairperson:** Thank you.

**Mrs. Stefanson:** Sorry, just a quick question. With respect to—I know Crocus is one of the holdings—what is the value placed on the Crocus right now within the portfolio?

**Mr. Sexsmith:** Yes, we use the share value published by the receiver there, and just let me look for it here in my notes. I believe it's in the—yes, it's in the range of \$90,000.

**Mrs. Stefanson:** And so it's—is it—is Workers Compensation Board part of the settlement? Like, will you—will the Workers Compensation Board receive monies like everybody else has? There's no special—

**Mr. Sexsmith:** The short answer is yes, we will. We have received some payments so far.

**Mr. Chairperson:** Okay, seeing no other questions, then I will declare that section 26 of the Workers Compensation Board has been concurred in, and I would thank the minister, the deputy and the CEO for your participation here tonight. Thank you very much.

We will now deal with Section 16, Audit of the Pharmacare Program, and I would ask the minister and the deputy minister to come forward please, as well as staff of the deputy minister's.

We'll just take a 2-minute break and then we'll be back at this particular section.

*The committee recessed at 8:42 p.m.*

*The committee resumed at 8:46 p.m.*

**Mr. Chairperson:** I will call the committee back to order and I will ask the deputy minister to perhaps introduce his staff and begin with an opening statement, please.

**Mr. Milton Sussman (Deputy Minister of Health):** I'd like to introduce Kim Sharman, who is the assistant deputy minister for provincial programs and services within Manitoba Health. And her portfolio includes the Pharmacare program.

Good evening, I'm very pleased to be here tonight to discuss the progress that the department has made in responding to the Auditor General's recommendations regarding the Pharmacare program.

The report was originally issued in 2006 and was discussed by this committee, I think, 18 months ago. The Auditor General's Report contained 23 recommendations. The department has been working to address all 23 recommendations. Only eight of the recommendations have work remaining to be completed and our efforts are ongoing to continue to resolve those remaining recommendations. Those efforts, we feel, have been very successful in reducing the annual increase in the Pharmacare costs from a double-digit increases that they were to be—in the neighbourhood of between 2 per cent and 5 per cent annually. And we've done that at the same time that we've introduced a number of new drugs, and have not been reducing any kind of benefit to Manitobans.

Some of the work that has been undertaken includes the restructuring of the provincial drug program to establish three separate functional units to aid in setting and achieving strategic objectives.

To address the auditor's recommendation to manage the promotion and appropriate prescribing a measure of health outcomes and facilitate the utilization of the most cost-effective products, we have tried to shift the program's focus from supply-side initiatives to demand-side initiatives.

In 2007, Manitoba Health and Healthy Living, at the time, introduced utilization management agreements or UMAs as a key component to managing Pharmacare expenditures. UMAs are now a standard part of the drug submission and decision-making framework for all new products. The manufacturers must demonstrate the value that the product offers over other products. The price of the product may be negotiated, as well as the manner in which the Province will be reimbursed if government's actual expenditures exceed those estimated by the manufacturer. Manufacturers are also required to describe how they plan to ensure appropriate utilization and how health outcomes will be measured.

In February 2007, we launched the deductible instalment payment program for Pharmacare. This program assists eligible individuals and families who have experienced cash-flow challenges with high drug costs relative to their income by allowing them to pay their deductible in monthly instalments.

In November 2007, we introduced new generic products submission requirements to obtain more equitable generic drug prices for Manitoba and ensure adequate supply for pharmacists.

In 2008, we were recognized by the Competition Bureau as the first jurisdiction to take action in response to their 2007 study on generic drug prices.

\* (20:50)

And, in 2009, we revamped the deductible structure to introduce more income bands and to ease the impact of changes in deductible rates when income increases.

Over especially the last—especially in the last three years, we've been very successful in eliminating overall expenditure growth in the provincial drug program while adding a significant number of new drugs to the formulary to treat conditions as—such as cancer, MS and macular degeneration. These actions demonstrate our commitment to implementing evidence-based policies and procedures for a sustainable, cost-effective and efficient Pharmacare program.

The rate—the remaining eight recommendations that are not yet completely concluded mainly involve the continued development of performance reporting, which is an area that is under development all the way across government. We are committed to continuing our work on these last eight recommendations with the goal of seeing them noted as implemented or resolved within the next year.

Thank you.

**Mr. Chairperson:** Thank you very much, Mr. Sussman.

The floor is now open for questions.

**Mrs. Myrna Driedger (Charleswood):** I would ask Mr. Sussman, if the changes they're making right now to Pharmacare where they are showing only growth of 2 to 5 per cent increase every year instead of double-digit numbers, is he attributing all of the efforts they are making now to that change? Because I notice it's happening across the country, too, and some of the research I've been doing, it has indicated that right across Canada the growth in Pharmacare has basically dropped, I guess, in most other provinces.

So are you—like, is there something bigger going on as well?

**Mr. Sussman:** We think—yes, I think you're absolutely correct. The curve is going down in all jurisdictions. All jurisdictions are taking efforts to rein in drug costs. I think our initiation of our process, I think, started before a number of the other provinces engaged, and I think we've been able to demonstrate that our rate is lower than many of the other jurisdictions as well. But you're absolutely correct. Every province and every territory is been looking at their drug programs and their drug expenditures and taking efforts to reduce those costs.

And, in fact, we are working with provinces on joint initiatives. So we are partnering with a western collaborative on purchasing drugs as a way of further reducing our costs.

**Mrs. Driedger:** Can the minister indicate, is that collaborative with all the three other western provinces, and is it for all drugs or just certain specific ones?

**Mr. Chairperson:** Mr. Sussman. Mrs. Driedger.

**Mrs. Driedger:** I've—my question is directed to the deputy minister.

**Mr. Chairperson:** Thank you.

**Mr. Sussman:** It's with all four provinces, all four western provinces, and it is for the broad spectrum of drugs.

**Mrs. Driedger:** In the auditor's report that did come out on Pharmacare, there had been some serious concerns raised about the Pharmacare program and they would—some of the specific concerns were related to the lack of a plan, a comprehensive plan, and one of the recommendations was No. 1, that a comprehensive plan be developed for the strategic direction and reforms for Pharmacare.

Can the deputy minister indicate, well, where they are in terms of the development of that plan, and when he anticipates that it might be completed?

**Mr. Sussman:** Oh, sorry. We have developed a plan for the drug—for the Pharmacare program. We—it was developed very—we set up, as I mentioned in my opening remarks, we created a Drug Management Policy Unit, which is one of the three divisions that we created to manage the drug program within Manitoba. The unit has set out a set of clear objectives that are reviewed and refined every year, and a summary of those high-level objectives are published in the supplementary information that the department has. It sets out high-level objectives and strategies that we will engage in to reach those objectives.

I think in terms of the audit recommendation, it doesn't set out the targets that I think were discussed with the Auditor General's staff. I think that is the work that still is in process and the work that we believe we will be able to complete within the next year.

**Mrs. Driedger:** Thank you. That certainly would be quite an undertaking, and I would certainly encourage the department to be moving in that direction, because I think that is something that would make a big difference here in the province.

Can the deputy indicate to us what key areas of reform—he has mentioned that there is a drug management program, that objectives have been set. Are there any others—key areas of reform for Pharmacare that is being addressed by the department?

**Mr. Sussman:** So I think some of the components that we look at are really—that we think the UMAs have really helped us look at is utilization and prescribing patterns, budget projections, what the manufacturer is supposed to detail, what they think the prescribing patterns will be, what the cost to

Manitoba will be, and so those kind of measures are the kinds of things that we have developed and that we—the kind of reforms that we have been looking at, at driving the Pharmacare program.

**Mrs. Driedger:** Recommendation No. 4 had been that a performance measurement system be developed that will provide Manitoba Health with data that relates to how efficiently and effectively Pharmacare is being delivered.

Can the minister give us—sorry, can the deputy give us an update, a status update, in terms of how far along this particular recommendation has moved?

**Mr. Sussman:** On a regular—regularly scheduled basis, we collect and review key performance metrics for the Pharmacare program. We look at expenditure trend analysis, cost variance reporting, cost driver analysis, cost projections. We look at analysis of different individual pharmacies, drug utilization and trends across the industry.

We also routinely track our progress in reducing the cost of generic drugs as compared to other jurisdictions in Manitoba. And we also look at the cost benefit analysis for each new drug therapies, beginning with the common drug review process, continuing through our own drug—the Manitoba drug and therapeutics committee that reviews new drug approvals for the Pharmacare program. And our analysis shows that we've been very successful in being able to reduce those prices.

So we—as I said, we've developed a number of the metrics, but we haven't in—very much in relation to the point I mentioned earlier. I think we now believe that there still is a further step of setting targets related to the—to some of those metrics and that is the work that continues to remain a work in progress and work that we hope to complete this year.

\* (21:00)

**Mrs. Driedger:** Can the deputy indicate how they are going about setting those targets? Is there a consultation process or is it an internal process? How do you determine what those targets are in those areas?

**Mr. Sussman:** Right now, we're working mostly within the department. We are working across other jurisdictions trying to look at what—how other jurisdictions are measuring, what targets they're establishing, so it will be work that engages the

industry but also crosses other departments across the country.

**Mrs. Driedger:** Can the minister indicate what cost drivers there are out there that, you know, are driving costs up in the system and what kind of analysis you are doing in that particular area?

**Mr. Sussman:** There are a number of cost drivers. I think, with the development of all new drugs, the research and development costs for new drugs and prescribing practices of physicians are all cost drivers to—that affect the Pharmacare program. In addition, I think there are the raw costs of the ingredients in developing or in producing the medication. Also, professional fees are a cost driver. Those are the kinds of cost drivers that we look at, and there's also issues as far as the development of new drugs, things like drug companies' desire to look at enhancing their patent or keeping their patent for a longer period of time. So there are things like the changing the time frequency in which medication is delivered, so it may be it goes from four times a day to twice a day or once a day, and that keeps the patent for an additional period of time and also, though, tends to be a driver of cost increases.

**Mrs. Driedger:** So how do you deal with something like that? And I guess if you have four provinces or more that are looking at that particular issue, I guess that might give you more clout, but is there a way to address that?

**Mr. Sussman:** There are a number of strategies that we use. There is a common review, a common drug review that all jurisdictions are involved in that looks at any new drug coming on, being presented for use in Canada, and determining the—on a cost-benefit basis whether it's appropriate for listing across provinces. Our UMA agreements with—for all new drugs, I think, are also a way of addressing that and indicating what the cost will be and how our costs will be and compared with other jurisdictions' costs, and the western purchasing program is also another way that we can look to manage the costs, and that continues to be an area that every jurisdiction are continuing to look for ways that we can co-operate and collaborate together to continue to try and control costs.

**Mr. Chairperson:** The hour being 9:05, what is the will of the committee?

**Ms. Wowchuk:** Mr. Chairman, I would suggest that we continue. We've agreed that we would review at 9 o'clock and then we're scheduled to sit 'till 10 so

we can continue until there—until 10 o'clock and—until we complete questioning.

**Mr. Chairperson:** Is that agreed? *[Agreed]*

**Mrs. Driedger:** Can the minister indicate, we've seen a number of new drugs that have come—become available in the last little while and we know that some of them are very, very expensive. When you look at cost-benefit analysis of drugs, how do you determine, I guess, through a cost-benefit analysis what drugs will be put onto a formulary?

We know some drugs, you know, while they have some benefits, may not have, you know, all the extended benefits that one would hope but when people want them they are—there's a demand for them. So, then, what—you know, how do you go about determining through a cost-benefit analysis whether or not a drug should get onto a formulary?

**Mr. Chairperson:** Madam Minister? *[interjection]*

Mrs. Driedger.

**Mrs. Driedger:** It's directed to the deputy.

**Mr. Sussman:** So the committee that I wasn't able to get the full title of is really a committee that—the Manitoba Drug Standards and Therapeutics Committee which is why I couldn't—can't get—the is comprised of both physicians and pharmacists that look at the evidence of the efficacy of the new drugs.

The common drug review program also has a mixture of pharmacists and doctors that are part of that process. So they look at the therapeutic value of the drugs and then look at what the cost and try and determine if there is a cost benefit, if there are other drugs that offer a similar kind of—whether there's an incremental value in what the new drug provides.

The other way that—the other control that we have is within our own formulary and the different listings within the formulary. So there are—there's drugs that are available that any physician can prescribe. There are other drugs that are much more controlled. They need—there has to be a specific indication that dictates that they're—the prescribing for that particular drug and then there's a much more restrictive where the doctor actually has to phone our Pharmacare program and discuss why they are making the recommendation for—to use that medication.

So those are all some of the controls that we—provinces, and Manitoba specifically, have in place.

**Mrs. Driedger:** There are a number of provinces that have looked at a lot of the same drugs that we've looked at and most of them, in fact, put their drugs on the formulary much sooner than Manitoba. If, you know, the decision is made that these drugs are going to be on the formulary, why does it take so long for Manitoba to add them then, because, you know, based on geography, then, you get some patients in other provinces benefiting a year or two in advance of Manitoba. So how does that happen then in this process?

**Mr. Sussman:** Well, I think there is a very mixed record. I think each—if you look across jurisdictions, you'll find that we are first in listing a number of drugs and other provinces are first in listing a range of drugs. So we were the first to list Intelence and Isentress, both related to HIV, and a drug called Zeldox, related to schizophrenia, and Lantus which was for diabetes, we were second.

\* (21:10)

But, in other drugs, we do come behind other provinces, and I think our approach really has been the negotiation of the utilization of management agreements. I think we want to ensure that we're using the drugs appropriately, that we've developed an actual cost projection for the new drug and that the company that's developed the new drug is committed to ensuring that how it's going to be utilized and that we will achieve the costing and the saving—or the cost projections that they've outlined. I think there's a time that—it's a balance. You want to provide the drug in the most timely fashion, but you also want to ensure that we're not giving away the farm to do that. And I think rushing into the listing of drugs has the potential of basically—and no negative intent to the drug company—they're aiming at maximizing their profit, but it plays into them charging or trying to negotiate a higher price if they think that we're not diligent in negotiating the best deal for Manitoba.

**Mrs. Driedger:** Can the deputy indicate whether Lipitor has been made generic?

**Floor Comment:** Yes.

**Mrs. Driedger:** I understand that it was some time ago.

**Floor Comment:** Yes, it is.

**Mr. Chairperson:** Mr. Sussman.

**Mr. Sussman:** Yes, it is.

**Mrs. Driedger:** The Chair needs to add some comments in this one.

And is that generic drug on Manitoba's formulary?

**Floor Comment:** Yes.

**Mr. Chairperson:** Mr. Sussman.

**Mr. Sussman:** Yes, and as I understand, we probably have the lowest price for that in Canada.

**Mrs. Driedger:** And I'm just curious, what is that drug?

**Floor Comment:** Lipitor is for high cholesterol— or which—

**Mr. Chairperson:** Mr. Sussman.

**Mr. Sussman:** Sorry. Atorvastat.

**Mrs. Driedger:** Recommendation No. 5, the auditor had recommended a well-defined protocol be developed for the collection of performance data and the preparation of performance reports. Can the minister give us an update in terms of has a protocol been developed and what strategy is being employed to collect performance data?

**Mr. Sussman:** We do have a defined protocol and time frame that has been developed for the collection of key indicators, key performance data and for the preparation of performance reports within the provincial drug program. Using an established methodology, statistical reports on utilization and expenditure by therapeutic category are periodically presented to the provincial drug program directors for review. These are—these reports are used to help manage the formulary, especially the—as I was talking about before, movement between parts 1, parts 2 and parts 3 of the formulary. And that's based on the identification of utilization criteria, any issues that have come up, and it also allows us the information to engage manufacturers in utilization initiatives.

We developed cash flow statements that are prepared by our finance department for review by the assistant deputy minister and by the provincial drug program directors and finance directors. And they look at the UMAs and policy measures are then discussed based on those. On a regularly scheduled basis, we collect and review the metrics that I outlined before in the area of expenditure trend analysis, cost variance reporting, cost driver analysis, cost projection analysis, individual pharmacy analysis and drug utilization.

We also look at the commitments that are made by the manufacturers in the UMAs. We measure them both in terms of utilization and prescribing practice and their budgetary projections, and, as part of that collection, all of the manufacturers have committed to sharing in the cost of any budget overruns that we track as—so those are some of the measures. But, as I said, I think we still believe that the next step is really to look at that and to set targets related to our performance, and that is the work that is ongoing. And part of the reason it's taking that long is drug policy and drug prescribing is a very complex environment. It—it's influenced by a host of different variables and those can include new research. It can include practice change by a—physicians. It can—it clearly is influenced by other provinces and what other jurisdictions are doing, and it is certainly affected by just new research and new technology.

So all of those come into play and it ultimately becomes a very complex environment. And that's been, I think, part of the work that we've had to try and wrestle with had we actually set targets that are meaningful yet adapt to the ever-changing environment.

**Mrs. Driedger:** Can the deputy indicate whether or not the department monitors doctors' prescribing practices and, if you do, how you would actually go about doing that?

**Mr. Sussman:** We don't monitor prescribing of all drugs. I think, right now, we don't have the systems in place to do that. We have focused particularly on restricted drugs such as opiates. We have the Manitoba Prescribing Practices Program, which is administered by the Manitoba Pharmaceutical Association, that really looks at the prescribing of those drugs and tracks those drugs.

We are also, right now, in negotiations with the College of Physicians and Surgeons to have them reengage in the Manitoba Prescribing Practices Program to really again focus initially on the restricted drugs and particularly opiates. And the—those discussions—the college has been looking at the work that colleges in Saskatchewan and Ontario have been engaged in and are quite interested in participating with us in managing that.

I think the development of the Electronic Health Record and the viewer of DPIN, that will be part of—that will be available in the electronic medical records system that physicians have in their offices, will actually provide us with a much better

opportunity to monitor prescribing practices. I think, right now, we just don't have the systems that allow that and I think they—in a very effective way, but—and that's why we focused on these key drug areas that I think are prone to abuse.

**Mrs. Driedger:** Does the Manitoba Pharmaceutical Association share any information with you in terms of any of their monitoring of drug prescribing practices?

\* (21:20)

**Mr. Sussman:** Yes, we have regular and ongoing consultation or discussions with them and reviewing of this program, and this program that they—they're doing, they're doing on our behalf under a contract with us.

So there is sharing. There are some privacy issues that can come up, but there is good sharing of information between the department and MPhA.

**Mrs. Driedger:** If you were to find some prescribing practices that were suspect in any way, is there any corrective action, then, that you can take or that somebody can take, or how do you deal with those issues, then, if they're identified?

**Mr. Sussman:** So, if there are problems that are identified, often, if it's in the area of a pharmacy or a pharmacist, the MPhA would follow up under the authority of their act. If information comes to light that may affect another discipline, we would then refer those kinds of issues to the appropriate college.

And what it has allowed us to do, though, in addition to corrective action through the colleges, some of the work that—where problems were identified, allowed us to pull together a range of stakeholders, particularly in the inner city, to look at some of the practices that were going on in a number of pharmacies where people were believed to be getting prescriptions filled and then trying to sell them. We engaged a number of agencies—the police—and worked collectively on trying to look at solutions that could address that.

**Mrs. Driedger:** In those situations, you know, related to the Main Street issue and the allegations that were being made at the time, have you been able to verify that any of that was actually happening, that there was, you know, over-prescribing and shopping around and then selling of drugs? Were you able to verify any of that and, if you were, how were you able to rectify it or address it?

**Mr. Chairperson:** Excuse me, Mrs. Driedger, can you point out where you are in the report? We're having—I'm having some difficulty following this.

**Mrs. Driedger:** I'm basically following the deputy's line of answers, but, also, as we look at further on in terms of recommendations that they will not be following, the number would be—

**Mr. Chairperson:** That's okay, I—

**Mrs. Driedger:** No. 4. Well, recommendations not being implemented—

**Mr. Chairperson:** Okay, No. 4.

**Mrs. Driedger:** I don't know if it's No. 4 in the book. It's one of the—

**Mr. Chairperson:** Okay. Well, carry on, Mrs. Driedger, just as long as we can kind of follow along in the recommendations that either have or have not been implemented.

**Mr. Sussman:** We didn't—we weren't able to corroborate with hard evidence that the abuse was taking place. We were, though, able to educate pharmacists. We provided them with information on the kind—the concerns that the community was raising. We mobilized other community organizations to be vigilant in watching for that kind of activity. And, certainly, anecdotally, we've not had the same kind of issues going on. I think the community was quite supportive of the efforts that took place.

**Mrs. Driedger:** Recommendation No. 6 had asked for an evaluation framework to be developed. Can the deputy indicate whether that framework has been developed and implemented?

**Mr. Sussman:** This also remains a work that we're working through. The provincial drug programs, the audit and investigation function has been transitioned into the drug—the DMPU and it's really shifting its focus into a quality assurance risk management function. So working collaboratively with our—with the professional services and operational units within the Provincial Drug Programs, we're trying to shift its function more to a quality assurance role and looking to identify and resolve existing and potential risks in relation to non-compliance with legislation regulation and pharmacy policy. We're just—based on that, we're just developing the evaluation framework. And we're developing a plan which on an ongoing basis would articulate areas of risk where corrective action will be taken, where proposals that we think may require further action would be identified and

identify what those timelines would be, and identify, if we're not able to follow through on something, why we weren't able—what the rationale for not pursuing that is why we've chosen that path.

**Mrs. Driedger:** I think the deputy has probably in that answer addressed some of the recommendations and concerns raised in No. 7 as well. So that probably takes care of those two. Number 8, I believe, was the last recommendation and that was around compliance with legislation.

Can the deputy please give us a status update on this recommendation?

**Mr. Sussman:** So the drug management and policy unit, part of its function is to really evaluate the risk and ensure that service delivery is consistent with the legislation and the regulatory framework. I just mentioned the audit and investigation committee, so there's that process. As I said, this is all so very similar to the points we just discussed. We do review the pharmacy claims on a monthly basis, and using aggregate variance analysis with appropriate follow-up and we will do pharmacy—on-site pharmacy visits if there's outliers. We also do random samples that are analyzed for compliance. And, on a quarterly basis, we undertake a trend analysis and reviews to ensure that there are valid claims—claim validity.

**Mrs. Driedger:** Related to the recommendations that address the issue of DPIN, can the deputy indicate whether doctors will eventually have access to DPIN in their offices? I'll just leave it at that for now.

**Mr. Sussman:** Through the Electronic Health Record they will have access to a DPIN viewer in their office. So it will work in concert with their electronic medical record.

**Mrs. Driedger:** Is there a time frame around which this will occur, and are we talking about every doctor in the province?

\* (21:30)

**Mr. Sussman:** So we are implementing the Electronic Health Record within the next several—the first instance of the Electronic Health Record. It will be a developmental process with more pieces of the health record being added over time. It will be rolled out to some selected sites. This is really the first phase to test the system and ensure that it's working the way we want it to be, and it will include a DPIN viewer in the first release. That is imminent within the next month, or month or two.

And, once that work has been done, it will be continued to be rolled out to other family doctors. Ultimately, it will—we've also are launching an initiative to roll out electronic medical records within Manitoba. And as that program expands and more—and doctors start to take—start to implement the electronic medical record, ultimately everybody who—every doctor that participates in that program or any doctor that has access to a web browser will be able to have the DPIN viewer.

**Mrs. Driedger:** Is there a time frame on the rollout of DPIN? What is your end date that you expect all doctors in Manitoba would have access to that?

**Mr. Sussman:** It will be an ongoing process. I don't think we have an end date. I think you will see a rapid implementation of the electronic medical record by many physicians in the next couple of years. I think with the roll out of our electronic medical record plan, many doctors are very interested in implementing the electronic medical record. I think it will—there will always be those who are much, you know, are quite satisfied with their paper files and may not—it may be the next generation that fully gets an electronic medical record where every doctor has it. But I think you will see a significant number of doctors in the next—in the coming couple of years, you will see more and more family doctors implementing the EMR and the viewer will be part of that.

**Mrs. Driedger:** What percentage of family doctors now have subscribed to EMR? Is it about 25 per cent or 28 per cent?

**Mr. Sussman:** I don't have the number with me. It's not a very high percentage, but we can get that for you. We will provide it.

**Mrs. Driedger:** I'd appreciate that.

So the deputy's sounding optimistic that within a few years that this will move beyond, you know, a quarter of our doctors having an electronic medical record that you anticipate—like, I understand the goal here is for about 80 per cent of doctors to have that. So you're hoping within two years—or I guess you're keeping your fingers crossed that maybe around two years or three years, you might reach that kind of a goal?

**Mr. Sussman:** I'm confident that you will see significant engagement by doctors in this and I am hopeful that we will achieve it within two to three years. I think that, particularly new doctors who have grown up with technology and, you know, they're not

interested in going into a practice that doesn't have an electronic medical record. So we're going to be—you know, in some ways, they're chomping at the bit to get it. I think the others—I think the fact that that we are—we have a consistent EMR, that there are a couple of them—that there's not a host of ones to pick from, that they know that there are a limited number that will link to the electronic medical record, that they'll be able to access a whole range of information. I think that you're finding more and more doctors that are becoming quite enthused about accessing an electronic medical record.

**Mrs. Driedger:** The final question: I would ask the deputy minister if the department has done any kind of cost benefit analysis to determine whether the cost savings achieved through UMAs outweigh the dollars lost by delaying the list of lower priced generic drugs?

He has indicated that sometimes it has taken longer to put the drugs on the formulary, but that through the UMAs that you do save some money. The problem with that, though, is the patients then end up having to pay out of their own pocket. So the government may save some money, but patients are paying out of their own pocket.

So, just wondering what kind of a cost benefit analysis you've done on this.

**Mr. Sussman:** We haven't done the cost benefit analysis on individual drugs, and we believe that our process is yielding results for Manitoba and getting significantly cheaper prices. Some of the details of that are drug pricing is a very competitive process amongst jurisdictions and many of the manufacturers are quite reluctant to have the details of the agreements made known because they think it will disadvantage their negotiations with other jurisdictions.

So we—our analysis shows that we're getting good value. And the prices that we're getting, I think we can demonstrate that we have achieved prices that are comparable.

The other piece that the UMA really does provide, that I don't know that I've stressed, is all of our utilization management agreements really say that our costs have to be comparable or lower, either the same or lower than other jurisdictions, and, if they're not, we are able to enter into negotiations and discussions with the manufacturers.

**Mrs. Driedger:** Sorry. Something did come to mind. So this will be my final question, hopefully.

How do you address the issue of value adds in negotiating with these companies? Is there a policy in terms of how you address this, you know, the specific issue of whether value adds are in or out of the tender, or how do you manage that?

**Mr. Sussman:** We don't have value adds in the sense that the discussion may have been within other areas. We—it's—anything is part of the negotiation, so we're negotiating on the best price for the drugs. We—as part of the UMA, we look at what incremental value, as far as is there additional research or things like that, that the drug may bring to Manitoba and we may negotiate that. But what we don't—there isn't a value-add issue in the drug program.

**Mr. Chairperson:** Okay. Thank you very much.

Seeing no other questions, we will now deal with the entire report.

Auditor General's Report—Follow-up of Previously Issued Recommendations—A Review, dated March 2010—pass.

I want to thank the deputy, his staff and the minister.

And we now move to Operations of the Office for the fiscal year ending March 31st, 2009.

I'm going to ask the deputy minister if she has—oh, pardon me, the Auditor General, if she has an opening statement.

\* (21:40)

**Ms. Bellringer:** This is a report we issue every year, The Auditor General Act requires a report before August 1st on the performance of the office and also an external audit report on the accounts of the office.

We have 53 approved positions within the office, and those staff work in one of five service lines. We do financial statement audits, including information technology audits, value-for-money audits, special audits, strategic initiatives, and quality assurance and professional practices, and we have a central team in administration to support all of the audit teams.

Our budget is set by the Legislative Assembly Management committee. Is it committee or commission?

**An Honourable Member:** Commission.

**Ms. Bellringer:** Commission, thank you. An auditor is appointed, an external auditor, who does look at the financial statements and issues an audit opinion

on those each year. That's included at the back of this report, and they also may be asked by LAMC to look into other matters if so requested, but, as I don't believe, I don't know if that request has ever been made, but certainly not in the last few years.

So in this report we include quite a bit of information for the members. We do talk about our role and purpose, about how we manage risk, our audit activities and outputs, how we carry out our work, and then give information on how we have performed and the financial accountability. We also have started a tradition of including a public listing of the audits that we—not only the ones that we have conducted, but also the ones that we plan to conduct at the stage that we are providing this list. It does enable the members to contact us and let us know what they might have a particular interest in so that we can build that into the terms of reference for each of the audits, and also we would love to see the discussion of the audit plan become something that the Public Accounts Committee, in the future, can provide us with additional input into establishing our audit plan.

Thank you, Mr. Chair.

**Mr. Chairperson:** Thank you, Madam Auditor General.

The floor is now open to questions.

**Mrs. Stefanson:** On page 10, the Auditor General mentions that, and I quote, the requirement to follow Civil Service Commission and Treasury Board Secretariat policies while also being their auditor, still has the potential to create a difficult environment that challenges our independence. In addition, many of our staff belong to the Manitoba Government Employees' Union, thus complicating our relationship with the CSC and the TBS, end quote.

If the auditor can just explain this. I think obviously you're talking about maybe an awkward situation that you're placed in or perhaps a conflict of interest, and I'm wondering if the auditor has any suggestions as to how we can remedy this situation.

**Ms. Bellringer:** It's been an item which has been discussed for several years. I would suggest that it was discussed prior to my arrival. It's a practical problem—or I should reverse that. It actually has not caused any practical problems, but it, fundamentally, from a framework perspective, puts us in a very awkward position. We have to go through Treasury Board approvals for the classification of our

employees, for example, and that does leave us at the mercy, if you will, of government in a formal sense.

As I say, from a practical perspective, it has not caused any significant concerns. It does require us to put a good analysis together so that we can explain why it is what we're doing. If we do get into discussions with them about matters like that, then we're able to sort it through and work it out. But it does, there's no question, there is a difficulty around the independence of our office where we are their auditors as well.

We've looked at the practices in place across the country. In fact, Norm Ricard, who is here this evening, sits on a human resource subcommittee of the Conference of Legislative Auditors, and so each jurisdiction has somebody assigned to that function who looks at such matters and we've compared practices across the country. It's pretty much different in every jurisdiction. There's different elements that are strong and other elements that need some strengthening.

Some of the ways it's been approached in other jurisdictions, there's a separate bargaining unit for the audit office, and in yet other jurisdictions, they have complete autonomy over every aspect of human resource management. So this has evolved over time from something that's been in place in Manitoba for many, many years. It's not a new creation. We certainly don't feel that our office should be awarded a unique privilege, and we're not looking for that, but we would—we are working with the Civil Service Commission and Treasury Board to see if there are ways we can increase the independence of the office through the processes, in particular, in the human resource area.

The government services side is probably less of a problem because it's actually—we did go through renovations this year. Our lease in our building was extended for a 10-year period, and the government services group does all of the on-the-ground negotiating with the landlord and all of that—the things that go into that, which just relieves us of the pressures of having to do that. They're in that business; they do that all the time, but, again, technically, we also could be in a position to go in and audit them so there is the same problem from a theoretical perspective.

**Mrs. Stefanson:** Sorry, you mentioned renovations. Who pays for those? Do you pay for that or is that a government department? Does that come out of your budget?

**Ms. Bellringer:** There's—there are two components to our budget. One is the actual rental payments each year come out of a line that is just assigned to us because it's really managed by government services. When they did the negotiating for the new space, they—the design that we wanted to put in place because we were—we just wanted to move some things around and so on, couldn't be negotiated into the actual lease agreement with the landlord and so we had an additional line in our budget that covered those additional costs.

**Mrs. Stefanson:** Okay, on page 11, it notes that, under the Special Audits, that that is decreased from '07 to—or '07-08 to '08-09 just by one percentage point and a special—the percentage of special audits has been reduced. I'm not sure whether or not that trend has continued as I have not had a chance yet to look at the 2010 report, but I am—I'm just wondering: Are there—are there specific bodies that you believe should be subject to special audits?

**Ms. Bellringer:** The special audits—this is also the case for value-for-money audits—are all selected by us. The organizations that we may conduct a special audit of, or we may conduct a value-for-money audit of are—it's quite a broad list, defined in the act. In effect, we can follow the dollar. So there isn't an—there isn't another organization that we think should be added to that potential list. Are there others that we would have chosen had we had more time? The percentage decrease is not because we put less time into it, it was because we had more time in in other areas and so it was the—from 14 to 13 is relative to the other audit areas in the office.

We've actually added a staff person in the current year in the special audit area, and that's directed to doing more work with just complaints that come in the door. We haven't identified any major special audits that we haven't been able to schedule that we think are urgent, but we have been—because we don't have any official and formal complaint mechanism, we've really been trying to work through what our responsibilities should be with regards to individual one-off complaints that come in the door, and we think we need to do more work in that area.

**Mrs. Stefanson:** For the year 2008—I'm looking at page 18 in the report. It indicates in the report that 72 per cent of the recommendations issued by the auditor's office were reported as being implemented or resolved. I'm wondering if the auditor can indicate

how that compares to other provinces, and nationally.

\* (21:50)

**Ms. Bellringer:** We have shared information like that as legislative auditors, and I can see what we have in the office that is publicly shareable and I'll provide that to you.

**Mrs. Stefanson:** Thank you. That would be great.

On page 19, the report that's provided to the ministers whose departments are affected by a specific report, is that the same report that we are provided with, or is there a preliminary one that goes to the department first and then comes back with comments?

**Ms. Bellringer:** The substance of it is similar, but it is a draft that goes to the department and then we have further discussions, and there could be modifications to that before there's a report that's provided publicly. We ask them to review it for accuracy. There are occasions when we have a discussion over certain facts, and we'll make modifications to reflect something that more accurately portrays the situation. There isn't a dramatically different report if that's—like we don't have a long report for the department and a short report that goes public in any. There are a few times where we have done that and we've indicated it in the report. For example, when we've done some work in the information technology area, we didn't want to include very sensitive information that would actually put systems at risk, so we've given longer reports to the department and indicated in the public report it's a shorter version.

**Mrs. Stefanson:** It says also that the Canadian Institute of Chartered Accountants will be adopting international standards in auditing. I know we've discussed this before. I'm wondering if the auditor could just indicate—I know there's a transition process that's taking place, and I'm wondering if there's challenges that you're finding, encountering along the way. And are there any outstanding issues with respect to the switchover to the new accounting standards?

**Ms. Bellringer:** There's changes in two areas. There's changes in the auditing side and there are changes on the accounting side. The biggest impact for our office has been a great deal of training that the staff have all had to go through, so huge numbers of hours of—we've brought people in and done the training in our office for the most part.

On the accounting side, the technical changes are extensive, and we don't directly audit any organization that's going to be impacted by international financial reporting standards. The Crown corporations that will have to use IFRS are all audited by outside firms, but, because they're brought into the public accounts, we have to understand that. So the technical training for that's been fairly extensive for a handful of staff. Not everybody has had to, but we've decided to train all of the accountants in a basic level of knowledge of IFRS. And there are other more minor but just as important from, is there an impact on the staff? Absolutely, and they've all gone through training so that we're sure they're all at the standard we need them to be at.

**Mrs. Stefanson:** And just one last question. Just on page 24, there's a discussion of the twinning projects, National Audit Office in Kenya, and I'm wondering if the auditor could indicate who picks up the cost associated with that. Does that come from your department, or is that a shared government cost for going over there and following through with this, with these projects?

**Ms. Bellringer:** The out-of-pocket costs are all covered by CIDA, which is a federal program, and they're funding it through the CCAF, which is the same organization that we work with with Geoff Dubrow and with the Public Accounts support.

Having said that, CCAF itself, by the way, is funded through the various legislative audit offices, but they don't pay for the twinning projects. It's all CIDA money. However, my time or the time of our staff is a contribution that we make, and therefore the Province of Manitoba is donating our time.

**Mrs. Stefanson:** Just out of curiosity, which office were you twinned with in 2009?

**Ms. Bellringer:** The Kenya project is a five-year commitment with the CCAF and CIDA, and we are looking at whether or not that's the best use of small offices like ours. We have 53 employees. The Kenyan National Audit Office has about 650, and yet we've had a significant impact on their forensic auditing practice, on their value-for-money auditing practice. And we're seeing some real value in—along with representatives with the federal Public Accounts Committee, the federal audit office and CCAF, we were able to bring together the national audit office of Kenya with the two, well, actually, three Public Accounts Committee representatives in a workshop

which has never been done before, and the changes in their governance practices there are fairly significant.

**Mr. Martindale:** Can you tell me if—could the Auditor General tell us if other provinces have similar twinning agreements?

**Ms. Bellringer:** Yes, I think they're at seven at the moment. It's actually an additional program. The CCAF have been bringing in fellows who are people who are being trained in value-for-money audit practices. And they've been bringing them in for—I think it's 30 years now and, if I'm incorrect on that—it's only 20 years, but it's many years and all of those students come in and train with the federal audit office. And then Québec brings in some from French-speaking countries, and Alberta has now brought some in, as has British Columbia.

The twinning part that we're involved with was introduced, I think it was three years ago because they would train these fairly young people who really didn't have a whole bunch of experience, and they came over to Canada and they live here for a year and working in the audit office. They go back to their countries. A number of them actually became the auditors general in developing countries and then they were left with no support, and so the twinning project was designed to provide the ongoing support once they go back to their countries. So they've been training auditors from Kenya for—through that whole period and they identified seven—well, it was more than that and they've brought it back down to seven, but seven countries where they're providing not only the training to the value-for-money auditors, but also something else that is strategically aligned with what the needs are in that country.

They saw the match between Manitoba and Kenya to be one of a strategic nature to help them. They've actually changed their constitution now and there have been some pretty fundamental high-level changes, whereas in New Brunswick, for example, they were twinned with Tanzania, and in Tanzania, the real challenge was getting some improvement to their value-for-money audit reports themselves. And so it depends on the country, but there is programs in—there's a Korean group. There's a—somebody got the Caribbean. We didn't have that fortune.

**Mr. Borotsik:** You had mentioned in the twinning program that the only commitment from Manitoba is

the staff time, yourself and your staff, I assume. How many of your staff are involved in the program, the twinning program?

**Ms. Bellringer:** To date, it's only been myself, and we had a group from Kenya come here. In fact, the Kenyan auditor general met with the Public Accounts Committee and then I was in Kenya delivering some workshops and courses for them. We have a group of five staff from our office going to Kenya in April to deliver training courses and do some one-on-one work with them in value-for-money, forensic, and financial areas.

**Mr. Chairperson:** The hour being 10 o'clock, what is the will of the committee?

**An Honourable Member:** The committee rise.

**An Honourable Member:** Pass the report.

**Mrs. Stefanson:** I think if you canvass the committee, there is will to pass the 2009 report and leave the 2010 report for a time when we've had more opportunity to peruse it and develop a list of questions for the Auditor General.

**Mr. Chairperson:** Thank you. What is the will of the committee then? *[Agreed]*

Auditor General's Report—Operations of the Office for the fiscal year ending March 31st, 2009—pass.

What is the will of the committee?

**An Honourable Member:** Committee rise.

**Mr. Chairperson:** Committee rise? Is that agreed? *[Agreed]*

Committee rise.

**COMMITTEE ROSE AT: 10 p.m.**

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