

Third Session - Fortieth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Reg Helwer
Constituency of Brandon West

Vol. LXVI No. 4 - 2 p.m., Thursday, June 26, 2014

ISSN 0713-9462

MANITOBA LEGISLATIVE ASSEMBLY
Fortieth Legislature

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

Thursday, June 26, 2014

TIME – 2 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Reg Helwer (Brandon West)

VICE-CHAIRPERSON – Mr. Matt Wiebe (Concordia)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Messrs. Allum, Gerrard

Messrs. Briese, Cullen, Helwer, Jha, Marcelino, Saran, Schuler, Wiebe, Ms. Wight

Substitutions:

Hon. Mr. Allum for Hon. Ms. Howard

Mr. Saran for Mr. Dewar

Mr. Cullen for Mr. Friesen

Mr. Briese for Mr. Pedersen

APPEARING:

Mr. Brian Wirth, Assistant Auditor General–Investigations

WITNESSES:

Hon. Steve Ashton, Minister of Infrastructure and Transportation

Mr. Doug McNeil, Deputy Minister of Infrastructure and Transportation

MATTERS UNDER CONSIDERATION:

Auditor General's Report–Annual Report to the Legislature, dated January 2013

Chapter 2–Citizen Concerns–Part 2–Disaster Financial Assistance

Auditor General's Report–Annual Report to the Legislature, dated March 2014

Chapter 9–Northern Airports and Marine Operations

Auditor General's Report–Report to the Legislative Assembly: Performance Audits, dated December 2010

Chapter 1–Managing Climate Change

Auditor General's Report–Follow-up of Previously Issued Recommendations, dated March 2011

Section 18–Maintenance Enforcement Program

Auditor General's Report–Annual Report to the Legislature, dated January 2013

Chapter 3–Information Technology (IT) Security Management

Chapter 4–Manitoba Early Learning and Child Care Program

Chapter 5–Manitoba eHealth Procurement of Contractors

Chapter 8–Senior Management Expense Policies

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Mr. Chairperson: Good afternoon. Will the Standing Committee on Public Accounts please come to order.

This meeting has been called to consider the following reports. But first I'll ask the minister and the deputy to join us at the end of the table, and then we'll go over the reports.

So the following reports will be considered: Auditor General's Report–Annual Report to the Legislature, dated January 2013–Chapter 2–Citizen Concerns–Part 2–Disaster Financial Assistance; Auditor General's Report–Annual Report to the Legislature, dated March 2014–Chapter 9–Northern Airports and Marine Operations; Auditor General's Report–Report to the Legislative Assembly: Performance Audits, dated December 2010–Chapter 1–Managing Climate Change; Auditor General's Report–Follow-up of Previously Issued Recommendations, dated March 2011–Section 18–Maintenance Enforcement Program; Auditor General's Report–Annual Report to the Legislature, dated January 2013–Chapter 3–Information Technology (IT) Security Management, Chapter 4–Manitoba Early Learning and Child Care Program, Chapter 5–Manitoba eHealth Procurement of

Contractors, Chapter 8—Senior Management Expense Policies.

For the committee's information, as a result of Mr. Whitehead's recent resignation, I would like to welcome Mr. Marcelino as the new PAC member.

Committee Substitutions

Mr. Chairperson: Also, pursuant to our rule 85(2), I would like to note the following substitutions for this afternoon's meeting: Honourable Mr. Allum for Honourable Ms. Howard; Mr. Saran for Mr. Dewar; Mr. Cullen for Mr. Friesen; Mr. Briese for Mr. Pedersen.

* * *

Mr. Chairperson: Prior to dealing with this afternoon's business, I'd like to inform those who are new to this committee of the process that is undertaken with regard to outstanding questions. At the end of every meeting the research officer reviews the Hansard for any outstanding questions that the witness commits to provide an answer and will draft a questions-pending response document to send to the deputy minister. Upon receipt of the answers to those questions, the research officer then forwards the responses to every PAC member and to every other member recorded as attending that meeting. At the next PAC meeting, the Chair tables the responses for the record.

Therefore, I am pleased to table the responses provided by the Deputy Minister of Municipal Government to all the questions-pending responses from the January 13th meeting. Those—these responses were previously forwarded to all the members of this committee by the research officer.

Are there any suggestions from the committee as to how long we should sit this evening—or this afternoon?

Mr. Cliff Cullen (Spruce Woods): I know we have some other engagements later on in the afternoon, but maybe we could sit until the work of the committee is complete or 'til 3:30, whichever comes first.

* (14:10)

Mr. Chairperson: Is that the will of the committee, sit 'til 3:30 or earlier for—if we determine? *[Agreed]*

Now, are there any suggestions as to the order in which we should consider the reports, given that there are a series of reports that we have dealt with prior to this meeting and we do not anticipate

questions being asked? I'd suggest that we consider accepting those reports first and then go into the two other reports.

Mr. Ron Schuler (St. Paul): As you suggested.

Mr. Chairperson: Okay. Then, before we get into opening statements, I shall have some questions for the committee here.

Does the committee agree that we have completed consideration of Chapter 1—Managing Climate Change, of the Auditor General's Report: Performance Audits, dated December 2010? *[Agreed]*

Auditor General's Report—Report to the Legislative Assembly: Performance Audits, dated December 2010—pass.

Does the committee agree that we have completed consideration of Section 18—Maintenance Enforcement Program of the Auditor General's Report—Follow-up of Previously Issued Recommendations, dated March 2011? *[Agreed]*

Auditor General's Report—Follow-up of Previously Issued Recommendations, dated March 2011—pass.

Does the committee agree that we have completed consideration of chapters 3, 4, 5 and 8 of the Auditor General's Report—Annual Report to the Legislature, dated January 2013? *[Agreed]*

So, now then, we will consider Chapter 2—Citizen Concerns—Part 2—Disaster Financial Assistance, of the 2013 report, and we'll start with that report.

Does the deputy minister have an opening statement?

Hon. Doug McNeil (Deputy Minister of Infrastructure and Transportation): Yes, I do, Mr. Chair.

Mr. Chairperson: All right. Mr. Deputy Minister, please proceed.

Mr. McNeil: Thank you. Let me introduce myself. I am Doug McNeil, Deputy Minister of Manitoba Infrastructure and Transportation, and I'll just proceed with reading my opening statements about the January 2013 auditor's report with respect to disaster financial assistance.

In the spring of 2012, the Emergency Measures Organization received a complaint from the RM of Dauphin and a complaint from another consultant

that the EMO employee was in a conflict-of-interest position. He had offered consulting services to the RM of Dauphin while being employed as a disaster financial assistance team leader with EMO. EMO management investigated immediately, and, although it was determined that the employee had not actually assisted any municipality, the employee was dismissed within two weeks.

The employee appealed on the basis of wrongful dismissal, but the employee dropped the appeal in September 2012 after the grievance hearing.

As a result of this occurrence, in the fall of 2012, Emergency Measures Organization established an internal guideline on conflict of interest for employees of the DFA program who may be dealing with DFA claims. This is actually in addition with the Province's current conflict-of-interest policy. EMO supervisors ensure that existing staff and new hires read and understand the policy and the guideline. The guideline states that employees are responsible to disclose to their manager a familiar relationship with the DFA claimant. Applications with a potential conflict are appropriately flagged and dealt with in a manner to prevent a conflict of interest or a possible perception of a conflict of interest. Employees sign a form acknowledging these points.

Mr. Chairperson: Thank you, Mr. McNeil.

Does the assistant auditor general wish to make an opening statement?

Mr. Brian Wirth (Assistant Auditor General—Investigations): Yes, I do.

Mr. Chairperson: Mr. Wirth.

Mr. Wirth: Issues are brought to our attention throughout the year by concerned members of the public, the Legislature or government employees. Our act does not include a complaint mechanism and we are not obliged to follow up these issues; however, we choose to do so. We conduct preliminary examinations of all such issues, decide which ones are within our mandate and which ones are better investigated by another organization.

In this particular issue, we were provided with information about an employee in the disaster financial assistance claims area. The allegation was that the employee was in a conflict-of-interest position as he was also offering consulting services and was assisting rural municipalities with their claim submissions.

We discussed the matter with officials and concluded that the department took prompt and appropriate action, and we did not make any recommendations in this report.

Mr. Chairperson: Thank you, Mr. Wirth.

So, just to be clear, we are dealing with the Auditor General's Report—Annual Report to the Legislature, dated January 2013—Chapter 2—Citizen Concerns—Part 2—Disaster Financial Assistance.

And, before we get into questions, I would like to remind members that questions of an administrative nature are placed to the deputy minister and that policy questions will not be entertained and are better left for another forum. However, if there is a question that borders on policy and the minister would like to answer that question or the deputy minister wants to defer it to the minister to respond to, that is something that we would consider.

The floor is now open for questions.

Mr. Stuart Briese (Agassiz): Somebody's got to start off with something, I guess. So my understanding that you've, from your report, that you've set up an additional conflict in addition to the Province's conflict-of-interest policies, but this was a case where someone actually working for DFA went out and did some consulting.

Are there other areas that could be similar but not necessarily working for EMO, but in—possibly in something very closely related that has a close relationship to the municipalities where there could be some problems? Or would—you know, like, I think of someone possibly being an EMO employee, even, that might be on a municipal council somewhere or something like that, whether that—whether your conflict-of-interest guidelines now would have some impact on something keeping something like that from happening.

Mr. McNeil: First of all, I'm not aware of that kind of a situation existing in EMO at the present time, and would the guidelines take care of it? They would have to be done on a case-by-case basis. We're also further developing and going to implement a declaration form in addition to the provincial one, the standard one, for DFA employees.

When we have a disaster, typically, we don't have all these DFA staff. We have one director of DFA. It's permanent. We go and hire on a term basis all the officers, the team leaders that we need to

handle all the DFA claims. For example, following the 2011 flood, I think we had up to 100 people working in the DFA program. I think we're down to about 20 or so now, because that program is almost finished.

So, when we hire people, they're typically retirees. A lot of them have actually been retirees from the City of Winnipeg assessment department. I'm not aware if we've in the past hired other municipal people, whether they're currently working on a council or an administration. This is a small province. I can imagine that maybe we have. But I would expect that if we hired somebody from one particular area, say, southwestern Manitoba, that they wouldn't be working on any cases in that particular area where they would know people and whatnot if—you know, to provide that separation.

But I'm just—that's hypothetical in terms of what I would expect my staff, how my ADM and the executive director would deal with it.

Mr. Briese: Just simply a comment: Through the 2011 flood and on, I, obviously, from background, having a lot of municipal ties out there, and the work that DFA did through that flood and in the recovery of that flood was really pretty phenomenal. They did a good job. And I had that report back time and time again. So there's always some glitches. There's always some mistakes. But they did a pretty fair job of it.

So I think you've addressed what needed to be addressed here. And so I thank you for that.

Mr. Cullen: Just if you could speak briefly about the training that your new employees have. And is the conflict-of-interest issue, is that part of that training package?

* (14:20)

Mr. McNeil: Yes, the conflict of interest is part of that training. The other part of that training is how to assess claims, how to meet with people, how to deal with them. You can imagine that because we pick up people on a temporary basis or a term limit to deal with each and every event, that not everybody is at the same level of competence. And, of course, we do have glitches, as Mr. Briese had said, and—but we try as best as we can to give them the appropriate training right up front. Obviously, they're—you know, officers, if they have issues, they have a team leader or they have a supervisor or they have the director to bring other issues back to, and that's what they're encouraged to do if they feel they don't have the

training or the knowledge or experience to deal with any specific instance.

Mr. Cullen: In terms of the—this guideline on conflict of interest that you've developed, would you be able to share a copy of that with the committee?

Mr. McNeil: Yes, I can.

Hon. Jon Gerrard (River Heights): In your letter you refer to the guidelines, use the word familiar relationship with the claimant. Now, I mean, does that mean that somebody has been friends with the claimant or somebody has a business relationship with the claimant? What's included in that word?

Floor Comment: All of the above.

Mr. Chairperson: Mr. McNeil, sorry, I have to recognize you before you speak so that Hansard can record who you are.

Mr. McNeil: Yes, and more, whether there's, you know, it's a relative or a friend of a relative or whatever the case may be, we want to know if there's any connection between the officer the claimant.

Mr. Gerrard: I mean, does this mean somebody who's casually met the claimant or what's the—where's the guide—where's the boundary here?

Mr. McNeil: I would say that somebody that they've casually met at a party or something wouldn't cross that line. But, again, it would be up to the supervisor to make that decision and, obviously, the supervisors have to inform the employees—ask them to make sure that they inform them of the potential for that conflict.

Mr. Gerrard: If there is a conflict or a potential for the conflict, what—are there guidelines for what procedures are to be taken?

Mr. McNeil: You know, I'm not sure about that. I think it's at the call of the supervisor or the director or even the ADM.

Mr. Gerrard: I think because there is a potential for a wide variety of individual responses to the presence of a conflict, that it might be smart to have some sort of a general approach at least.

Mr. McNeil: I agree, and to be more specific, I don't know if DFA has a specific policy with regard to that, but we rely on the government of Manitoba policies in all these situations as the backdrop.

Mr. Gerrard: And what would the Manitoba policy say about this?

Mr. McNeil: That, specifically, I can't answer.

Mr. Ted Marcelino (Tyndall Park): It's a very specific question that you may answer or not, but do you think that the employee who was dismissed and who appealed and whose appeal was later on dismissed by him, was he treated fairly?

Mr. McNeil: I believe because he went through that process that he should've been dealt with fairly. So, yes, but I don't—I was not participating in that process, so I did not witness it for myself.

Mr. Chairperson: Other questions?

Seeing no further questions for this particular report, does the committee agree that we have completed consideration of Chapter 2—Citizen Concerns—Part 2—Disaster Financial Assistance, of the Auditor General's Report, Annual Report to the Legislature, dated January 2013? *[Agreed]*

We will now move into consideration of the Auditor General's Report, Annual Report to the Legislature, dated March 2014, Chapter 9—Northern Airports and Marine Operations.

And I will note that it is usually a recommendation of the Chair that we leave electronic devices to be used in the loges, shall we say, or the chairs at the back of the committee room, but I understand the minister is dealing with floods right now, and I will allow some latitude with your issues that you have going on right now.

Hon. Steve Ashton (Minister of Infrastructure and Transportation): If I could explain why, there's a briefing going on concurrently, and my apologies for being a bit late, and I'm actually texting one of the reeves that had asked a question just as it hit 2 o'clock to ask him to give me a call afterwards. So—

Mr. Chairperson: That's fine.

Mr. Ashton: —I appreciate the situation with the committee, and normally I wouldn't be on my BlackBerry. But I can assure members it's directly related to the flood briefing.

Mr. Chairperson: That's all right. Thank you, Mr. Minister, and I will allow, given that we are in a different situation at the point right now.

So we do need to now, then, consider this report and we will—sorry—we now have opening statements and we will start with Mr. Wirth.

Mr. Wirth: On August 29, 2012, the minister of Finance requested that we conduct a forensic review

of the procurement card purchasing activity by staff in the northern airports office. This request was made after inappropriate procurement card purchasing activity was found by the director of Northern Airports and Marine Operations.

On August 30th, 2012, we wrote a letter to the minister of Finance accepting this request. We completed our audit in December 2013 and forwarded our detailed audit findings to the ministers of Finance and Infrastructure and Transportation, as required by section 16(2) of our act. Procurement card systems by their nature are vulnerable to financial loss. Non-compliance with established policies, procedures and inadequate internal control leaves an organization susceptible to the risk of asset misappropriation and unauthorized use of public funds.

The objectives of our audit were to determine the extent of funds reimbursable to the government by two staff of the northern airports office and to determine why these inappropriate transactions occurred without detection.

The two staff included in our audit were the former financial clerk and the former manager of northern airports who the clerk reported to. These two staff have resigned.

We found that many receipts were missing from department records. We contacted suppliers and they were able to provide us copies of some of the missing receipts. We were unable to audit about \$22,400 of receipts.

For the records we were able to audit, we found financial irregularities of over \$80,000. We believe the clerk incurred personal expenses of over \$39,000 on government purchasing cards. We classified these expenses as personal because in our view they had no legitimate business purpose. For many of the personal expenses incurred, our findings indicated that the clerk misrepresented what was purchased on the purchasing card log.

In addition to making inappropriate purchases, the two staff did not follow the government's purchasing card guidelines. Because the manager failed to exercise appropriate oversight and clerical checks were inadequate, the inappropriate transactions occurred without detection over several years.

We recommended that the minister of Finance forward our detailed audit findings to Civil Legal Services. In addition, we recommended some

changes to the government's purchasing card guidelines to help strengthen the system.

This report illustrates the consequences to an organization when there is insufficient oversight by the manager and when established government guidelines are not followed.

Mr. Chairperson: Thank you, Mr. Wirth.

Does the deputy minister wish to have an opening statement?

Mr. McNeil: Yes, I do. In the summer of 2012, after several months' review, the director of Northern Airports and Marine Operations, also known as NAMO, confirmed that there was an inappropriate procurement card purchasing activity.

It was immediately reported to the Provincial Comptroller, and it was recommended to the minister of Finance that the office of the Auditor General be requested to conduct a forensic review.

* (14:30)

The department also immediately made interim procedural changes and moved the oversight of procurement card purchasing activity from the Thompson office to the Winnipeg head office.

In September 2013, a purchasing card working group, or a p-card WG, was formed to review the 2001 guidelines. This working group is chaired by Procurement Services Branch of MIT and is represented by five other departments.

The proposed new guidelines include: one, clearly defined roles of executive financial officers of every department, program managers, card co-ordinators and cardholders; also includes EFO approval for obtaining a purchasing card or procurement card; three, cardholder-agreement form must be signed by the cardholder to indicate they have read, understood and will adhere to the rules of the guidelines. Any increase in transaction limit from \$2,500 must be approved by the EFO and there's a new corrective action policy. These are to name a few.

This past spring, the department received the Auditor General's detailed findings on the audit of NAMO. Government has decided that criminal action for the alleged fraud and civil action to recoup Manitoba's costs should be pursued. The department has contacted the RCMP and Civil Legal Services of Manitoba Justice respectively for these actions. Thank you.

Mr. Chairperson: Thank you, Mr. McNeil.

The floor is now open for questions.

Mr. Schuler: Yes, if I could ask, first of all, I understand that \$39,000 was assessed as personal expenses. Is that correct?

Mr. Chairperson: Mr. Schuler, the question is to the deputy or to the Auditor General?

Mr. Schuler: I'm sorry, to the Auditor General.

Mr. Chairperson: To the assistant auditor general?

Floor Comment: Yes, that's correct.

Mr. Chairperson: Okay.

Mr. Schuler: Also correct that \$7,800 of that was deemed as prohibited expenses?

Mr. Wirth: The \$7,800 isn't included in personal expenses, but it is a prohibited expense in accordance with the purchasing card guidelines where it states that items like office furniture, IT, software and hardware are not allowed to be purchased with p-cards.

Mr. Schuler: Correct, \$39,000 was assessed as personal and \$7,800 as prohibited. Is that correct?

Mr. Wirth: Yes.

Mr. Schuler: Are we also to understand that \$22,400 was unable to be audited due to lack of receipts?

Mr. Wirth: That's correct.

Mr. Schuler: Is any of that \$22,400 allocated to the \$39,000 of personal expenses?

Mr. Wirth: No, it isn't.

Mr. Schuler: Is any of the \$22,400 allocated to the \$7,800 of prohibited expenses?

Mr. Wirth: No, it isn't.

Mr. Schuler: So the \$22,400 is over and above the \$39,000 of personal expenses and \$7,800 of prohibited expenses?

Mr. Wirth: That's correct.

Mr. Schuler: We understand that receipts were not available or could not be provided by vendors or by the individuals involved, so there was no way of allocating the \$22,400. Is that correct?

Mr. Wirth: That's correct. We—one of our objectives was to determine the amount reimbursable to the government, so because we had no idea to determine

how much of those were personal, we merely had to classify them as missing.

Mr. Schuler: Yet there would've been an indication where the purchase was made. Would that be correct?

Mr. Wirth: Yes, that's correct.

Mr. Schuler: So, when the audit was done, were the individuals involved asked about the \$22,400 and where conceivably that might have been spent?

Mr. Wirth: We did not talk to the two staff. They were already—had already resigned at that time.

Mr. Schuler: Individuals who might have been left in that department, was there any indication that other furniture or computer equipment might have been purchased out of that \$22,400?

Mr. Wirth: We were unable to determine if any of that such type of equipment was for their own benefit.

Mr. Schuler: Was it—was the audit available to identify that maybe some of the \$22,400 was to the benefit of the office?

Mr. Wirth: Well, we don't know what was purchased, so we can't assess—make that assessment.

Mr. Schuler: So, conceivably, the \$39,000 of personal expenses could actually be \$22,400 higher.

Mr. Wirth: That's correct.

Mr. Schuler: So the recommendation is that \$39,000 be what the government should look at to recapture. What happens to the \$22,400 which seems to be unaccounted for?

Mr. Wirth: Well, that would be up to the government to decide how much they're going to pursue. Our—we can't make an assessment of what we don't know was purchased, whether that's personal or not, so we couldn't put an amount.

Mr. Schuler: So the recommendation of the auditors to the department is that they proceed on trying to get back the \$39,000, or is it just the auditor's recommendation that the government try and get back X amount of dollars?

Mr. Wirth: Our recommendation was just that they forward our findings to Civil Legal Services.

Mr. Schuler: And, obviously, a very good recommendation because they've taken you up on that, from what we hear from the deputy minister.

Mr. Chairperson: Go ahead, Mr. Schuler.

Mr. Schuler: My question to the deputy minister is—and I suspect this might be out of his scope, but maybe there's somebody at this table who does know—how many of these purchasing cards have been issued by the Province of Manitoba.

Mr. McNeil: Sorry, that question I cannot answer, but we can find out for you, in our department and across government.

Mr. Schuler: That would be very helpful because I think, from what we've seen, they do lend themselves to some degree of abuse, and I think it would be good for the committee to know how many of these have been issued by the Province of Manitoba.

At the time of the audit, what was the limit on the cards?

Mr. McNeil: The clerk had a \$5,000 limit, and I believe the manager did as well.

Mr. Schuler: When you say it was a \$5,000 limit, was that a \$5,000 per purchase limit?

Mr. McNeil: It's a \$5,000 limit per month, just like your personal credit card. Whatever limit you have on your personal card, you can't go over until you've paid some up or all of it up.

Mr. Schuler: What was the per item limit on a charge card?

Mr. McNeil: I don't believe that there is a per item limit on the card.

Mr. Schuler: So who decides what level a card is at?

Mr. McNeil: Usually, the manager decides, depending on the circumstances, and you'll see in the report here that the clerk's card originally was \$2,500, and then the manager allowed it to be increased to \$5,000. That would have been—and then that is acceptable to the EFO in the department in cases where, especially in remote locations, where it's hard for them to get services and whatnot. And, in talking to my director of Procurement Services, he said a good example of increasing a card is with the pilots that fly our aircraft, and especially with the water bombers that are often loaned out. They land somewhere that they didn't plan on landing; they need to refuel. Aviation fuel is very expensive, so they may even have a card that's higher than that.

* (14:40)

But we look at every situation specific to the office and decide, you know, if—and especially with

Northern Airport and Marine Operations, they're serving from the Thompson office 24 remote airports and five marine operations. They need a lot of repairs, equipment and whatnot that you wouldn't normally just tender for. They're—you know, things break. You can't tender for it and you need to get it fixed, and they purchase that equipment and then get it out to the remote locations. So.

Mr. Schuler: Up into the audit, who approves who gets the card?

Mr. McNeil: I believe it's the executive financial officer.

Mr. Schuler: And will that stay the policy on a go-forward basis?

Mr. McNeil: Yes, it will.

Mr. Schuler: So who approves the payment of expenses up to the time of the audit?

Mr. McNeil: The expenses submitted by an employee are approved by the manager, then the manager submits it to the procurement card officer who reviews it, who then recommends to the financial officer to pay the credit card bill.

Mr. Schuler: Is that going to continue on a go-forward basis?

Mr. McNeil: It is, but with a lot more scrutiny of the submission of the credit card bill from the bank, the log by the employee and the receipts.

Mr. Schuler: I just want to go back to the maximum purchase price per item, and, again, you made it very clear that it could actually be a \$4,999.99 purchase then, is that correct?

Mr. McNeil: That's correct.

Mr. Schuler: At which time, then, the card would be maxed out. Was it the case that in—there would be a bill submitted so that the card could be paid down so they could continue using it? Because if you use the instance of a water bomber and they fill up the card with gas, they would need to either pay it down or not fly.

So were there instances where it was paid down intermittently, even though the end of the month hadn't arrived yet?

Mr. McNeil: I'm not aware. I reviewed the records that were supplied, the forensic report by the office of the Auditor General. They're—for most part they were purchases that were anywhere from \$22 to \$800 or \$1,000 or \$1,200. If in the instance of a pilot

maxing out his card or anybody else for that matter, obviously, the bank or the vendor would not accept the card, and so it would obviously be in that person's interest to conduct their business to have that card paid off as quickly as possible.

Mr. Chairperson: Mr. Wirth has an item to clarify.

Go ahead, Mr. Wirth.

Mr. Wirth: Thanks.

On page 400 of our report, just to clarify that the purchasing card guidelines in place at the time of our audit stipulated that individual purchases are set at a maximum of \$2,500, and I believe that hasn't changed, but I'm not sure.

Mr. Schuler: So you—it's—to be very clear, you could not have a \$5,000 purchase; it would have to be \$2,500 increments?

Mr. Wirth: That's correct.

Mr. Schuler: If a aircraft was fuelling up and it was \$3,000, it would be a \$2,500 expense put on and then a \$500 expense? Would that have been allowable?

Mr. Wirth: The guidelines indicate that you can't use multiple transactions to bypass that control.

Mr. Schuler: Thank you for that.

And I'd like to go back to the department. Is it a concern to the department that \$22,400 seems to be in limbo as there were no receipts? It was spent, but even the auditors couldn't find out where it was spent on. Is there a concern there?

Mr. McNeil: I have to say that this whole matter is a concern, and when it was brought to my attention by the director and the ADM, we acted immediately on it.

This information coming out of the auditor's report is also concerning, that almost half of them—of the alleged fraud, fraudulent activity can't be substantiated. I think that we're going to be relying heavily on both the RCMP and our lawyers to pursue this matter and to try to get more answers to some of these questions.

Mr. Schuler: Is it \$22,000–\$22,400 also going to be part of that investigation?

Mr. McNeil: Yes, the—for all the unexplained irregularities, it's all part of the—our investigation.

Mr. Schuler: Is it fair to say where the auditors did not have the ability to go and speak to the individuals

involved, if it comes down to a legal investigation, they then would have that ability?

Mr. McNeil: Yes, that's my understanding.

Mr. Schuler: Will Revenue Canada also be advised, because, by the looks of things, somebody made almost \$60,000 and that's a deemed benefit? But, anyway, I'm sure the department knows exactly what they should be doing there.

My next question is: Is the Province looking at the expenses of these cards? I mean, where there's smoke there's fire, and this happened once. Just to make sure it hasn't happened again, has there been a spot checkup of cards and their expenses?

Mr. McNeil: Yes, there has, and I—in my department we've reviewed this at the executive level and I've asked all my division managers to ensure that their staff understand what the existing purchasing card guidelines are, and that working group, which is represented by many departments, have come up with some improvements to those guidelines and they're planning to roll them out sometime this year.

Mr. Schuler: Within your department, were there any other irregularities that you found?

Mr. McNeil: Not that I'm aware of, no.

Mr. Schuler: Within the government with the use of the purchasing cards, were there any irregularities found?

Mr. McNeil: I'm not aware of any, but I can ask our Procurement Services Branch.

Mr. Schuler: That would be appreciated and, again, to be very clear, it is the intent of the government to, if you will, protect the taxpayer and, this is always the taxpayers' money, by attempting to get the personal expenses paid back. That is in the works, I take it?

Mr. McNeil: Yes, it is. As is mentioned earlier, this is a very serious matter, we take this very seriously and, yes, we are the keepers of the public purse. But also, you know, fraudulent activity is intentional. It's hard to determine, you don't know what people are thinking often and not only do we want to get this money back, but we also want to send a very strong message to anybody else that might be thinking of this kind of activity that we take this seriously and we will act accordingly.

Mr. Schuler: Yes, I want to conclude as well, because I—this is important that everybody know that if you're caught, and chances are you will be caught,

that there is a cost to this and I think it's important to make an example of individuals, and I think it is very important, not just on the \$39,000 but the \$22,400 has to be explained.

One way or another either they take this income, or whatever the case be, because that is egregious what took place here and we certainly appreciate that the department has taken it serious and certainly from the words from yourself and we appreciate the auditors who did a very good job on this, and I know the committee appreciates the work that was done and the recommendations and—to the department the fact that this is being taken very seriously.

I've been abroad where this kind of stuff is rampant and it is a cancer that will eat—eat away at a democracy if it's not dealt with in a very serious fashion and it becomes almost a malaise within the jurisdiction. So we look forward to hearing what happens in this case and I'm sure not just us but others will be interested in knowing what transpires. So I understand there are other colleagues, but I do want to just take this time to thank the auditor and his staff and yourself for having taken this as serious as you have.

* (14:50)

Mr. Cullen: Mr. McNeil, in your statement here, you talked about the purchasing card working group. Could you give us a bit of a status in terms of where that working group is at? Are they still meeting, trying to iron out these guidelines?

Mr. McNeil: Yes, and, in fact, just recently, on June 17th the working group did make a presentation to all the executive financial officers across government about, well, some of the background on the purchasing card, the existing guidelines and, also, I did mention in my opening statement what they're proposing for new additional or revamped guidelines for purchasing cards specifically.

They say that their next steps are to roll out the new guidelines in the next few weeks. One of the things that they're waiting to finalize on is the corrective action policy. They're waiting for government as well as Labour Relations to review and approve the correction action policy and they're also—we—I don't know if you're aware or not, but the purchasing—the procurement card is with the National Bank and—sorry. We have another card. I'm just trying to find it—oh, travel card is with American Express, and we're seeking approval to combine both cards into one and go out for an RFP which will

make tracking much more—will be easier to detect these kinds of situations. And the reason that I say that is that there is access online to how the banks report the purchasing activity and we're—and this committee is also working with the National Bank to improve that reporting activity on the website so that the financial people in the departments that review the purchasing activity have better information for them that can help them spot improper use.

So these are the things that they're working on and hoping to roll them out in the next few weeks.

Mr. Cullen: Yes, in the letter here it's indicated that there's also five other departments on this committee. So is the intent here to develop the framework and the guidelines and then have it pass to each of the other departments in government?

Mr. McNeil: Yes, it is, and that's why the working group did present to all departments, their executive financial officers on June 17th, to apprise them of the changes that are coming to the policy. In the copy of the policy here, you know, it is already almost 14 years old. So it's about time that this was done.

And so the other departments in the working group were Conservation Water Stewardship, Justice, Jobs and the Economy, Family Services, and then Housing and Community Development as well as internal audit, and my staff from the Procurement Services Branch chair that committee.

Mr. Cullen: Yes, when the guidelines are complete, would you be able to share those guidelines with the committee?

Mr. McNeil: Absolutely, probably be about the same time that we post them on the government website.

Mr. Gerrard: Let me start by getting a little bit of clarification on the sort of chain of supervision here. It went from the clerk, to the manager, to the card co-ordinator, to the department's financial officer and, I presume, then to the deputy minister and the minister. Is that the—as the chain would look?

Mr. McNeil: Are you asking about a normal approval of a monthly credit card bill?

Mr. Gerrard: Well, I—the monthly credit card bill, I would presume, would be signed off by the chief financial officer for the department. But the overall chain of supervision would then extend up to the deputy minister and the minister, is that right?

Mr. McNeil: The EFO nor the—an ADM nor the deputy see monthly claims for the bills from every employee. So, no, that doesn't happen.

When instances like this occur, absolutely, yes, they do. The bill with the log and the receipts are to go to the manager who would then sign off and send it to the card co-ordinator, who would ensure that everything's in place, who would send it to somebody in Financial Services, who would then make payment to the bank. That's the normal process.

Mr. Gerrard: In terms of supervision, is there somewhere—someone between the financial officer who would examine those accounts centrally and the deputy minister, is there an ADM there?

Mr. McNeil: No, review and approval by those levels is not in—as part of the process at this time.

Mr. Gerrard: No, I'm not actually talking about individually signing off on forms, but the overall authority and supervision would follow that chain. Is that not correct?

Mr. McNeil: I'm sorry, Dr. Gerrard, I still don't quite understand your question.

Mr. Gerrard: Well, the chief financial officer would check the receipts, but then the reporting, in due course, not for the individual receipts, but the chief financial officer reports to an assistant deputy minister or to the deputy minister?

Mr. McNeil: The chief financial officer does not approve these monthly expenses. The chief financial officer ensures that all the staff that are in that chain of review and approval have the necessary tools and education and guidelines and rules and that they understand them so that they can do their job in approving and authorizing payment.

Mr. Gerrard: Now, in the auditor's review, just in terms of the manager's signature on the logs, right, there was a clerk's signature, and then it went to the manager. Did the manager sign those logs? And is that what is being referred to here when 13 of the 37 purchasing card logs were missing the manager's signature?

Mr. McNeil: That's what's supposed to happen. I understand that subsequently they found that the manager had signed 11 of those 13 that were missing in the report.

What's happened here is we had a breakdown in the system and it was at the manager level. Now,

there's a lot of trust put in. I mean, you're a manager because you're supposed to be able to manage your branch. There's a lot of trust and there historically has been decentralization of a lot of our functions, administratively, financially, to regional offices like Thompson. Whether this individual colluded with the clerk or just outright trusted her or was incompetent himself, we just don't know at this stage. And I'm expecting that, through the legal investigations, we hope to find out more because the RCMP have the ability to go to those individuals. We, as government, did not because one resigned and one we fired when this came to light.

Where I was going with this is that there were—and I saw some of the information that was provided by Mr. Wirth's office in the detailed spreadsheets—is that, you know, the people in Winnipeg, the card co-ordinator, did question some of the things that were coming through and there was always an excuse. And so what you have here is you have a card co-ordinator at this level in the organization and a manager in Thompson saying, you know, don't worry, I've signed off on it, you know, that kind of thing. And then they're still processing them. That kind of thing won't happen anymore. The oversight will now be in Winnipeg, will be closer to the EFO and the ADM and people will be staff in this area. And this goes for any kind of expense, whether it's your personal expense claim or a credit card or even some of our other procurement practices, is that, clearly, and especially with a department as large as MIT, we have to have more bureaucracy to oversee what's going on with taxpayers' dollars, unfortunately, because we can't trust people.

* (15:00)

Mr. Gerrard: Now, the card co-ordinator, who was then charged with looking at the cards and making sure that the details were there, was the card co-ordinator initially in Thompson and then it was moved to Winnipeg, or what was—what happened here?

Mr. McNeil: No. For the period of this investigation and for the use of the card, the card co-ordinator was in Winnipeg. There's limited staff in Thompson.

Mr. Gerrard: And the card co-ordinator was reporting to who?

Mr. McNeil: I believe the card co-ordinator reports to a manager in the Financial Services division of MIT.

Mr. Gerrard: If the card co-ordinator was raising concerns, you know, why weren't these adequately being followed up?

Mr. McNeil: That I don't know specifically, and I believe that they only had raised them on a few occasions over the several years.

Mr. Gerrard: Now, you mentioned this is forwarded to the RCMP. Has—do you know what the status of their investigation is or any legal action?

Mr. McNeil: All I know is that they've opened a file on this and I don't know where this is in the cue with all their activities.

Mr. Gerrard: In the—looking at what happened, you know, it—the guidelines, apparently, said specifically that the card co-ordinators be expected and authorized to raise anomalies to the attention of the program manager that you've said was a program manager in the financial office in Winnipeg.

Was that function happening as it should have?

Mr. McNeil: I don't believe it was, and that's what led to the situation. The—we have a fairly—and I know this isn't an excuse. But we have a fairly high turnover rate both in Northern Airports and Marine Operations and in our financial area, and, unfortunately, this is just one of those things that slipped through the cracks and went on as long as it did, I mean, several years so.

Mr. Gerrard: Was the person or the clerk and the manager, were they located at the airport itself?

Mr. McNeil: No, they're actually co-housed with the engineering and operations regional office in Thompson, which is in downtown.

Mr. Gerrard: So they would be together with the—the regional office would give us a little bit of an idea of the scope of responsibilities in that office, and the engineering component, did it report through the manager as well?

Mr. McNeil: No. The reporting relationship for the NAMO staff is to the managers to the director of NAMO in Winnipeg.

Mr. Chairperson: Other questions on this report?

Mr. Matt Wiebe (Concordia): One of the auditor's recommendations was with regards to monitoring of activity online with regards to expenses, and just wondering what sort of steps the department has taken to meet that recommendation and, you know, how—I guess how successful you think that you've

been in terms of spotting these trends or unusual transactions?

Mr. McNeil: So the online system is with the bank and certain people in the financial area have access to that system. And I have not seen it myself personally, but I do know from director of Procurement Services who is heading up this review, procurement guard–guideline review has indicated that they are talking to the bank about a better way to show the information to try to better see or capture the potential or capture misuse of the procurement cards. So I don't know if they've yet completed that with the bank, but they're working with the bank right now on that to make it more obvious if there's that misuse of the card.

And so they—you know, and this is fairly topical when these things happen. The executive financial officers meet monthly and these kinds of situations are raised so that every department is aware of what happens in one department and then reminds EFOs and—therefore, the EFOs remind their financial staff about, you know, we've got to be watching this kind of thing more closely, clearly.

But the new guidelines will help and, of course, it just will be dependent on the—or the responsibility of the EFOs to ensure that everybody's aware of these guidelines and what is allowed and what isn't allowed, and more stringent—what's the word I'm trying to look for—with these guidelines, with existing staff, with new staff, making sure that people, if they're granted a card are aware of all the rules and the consequences if they don't follow those rules.

So it's a—there's a more heightened awareness most certainly after one of these situations occurs.

Mr. Wiebe: But, in terms of the ability to sort of supervise or add another level of checks and balances, I would imagine that, I mean, like any banking—online banking information, we're not talking about a level of detail where you could actually see what was purchased, but simply that there was an amount purchased and, I guess, watch for any irregularities.

Do you know what that would look like? What would you be looking for in terms of irregularities?

Mr. McNeil: Well, for example, repetitive purchases of the same amount whether you're paying off an account at Staples or whatever the case may be, using your procurement card are not allowed. So this, you know, that should be fairly obvious.

As I said, I've never seen the print—the online spreadsheet, I assume, to determine—or to be able to answer your question more succinctly about, okay, so what does it show you now and what are they asking for it to show in the future? But the people who work with that system are the ones who know best how to, you know, what they'd like to see to make it easier for them to capture these kinds of situations.

Mr. Wiebe: Yes, I mean, I guess, you know, and where I'm going with this is that, you know, we see IT and some of these electronic solutions really allowing us to be a little more transparent with regards to what, you know, what others can see, and it's certainly been helpful in other areas of government and we continue to see that the technology allows that more and more.

So, you know, I certainly appreciate what the auditor has said, and if there's anything that could be done in terms of what's done internally, I think that'd be a helpful activity, as well, and certainly appreciate that, you know, the more that we use technology and the more that we use IT to help open up the curtains, so to speak, and let us see exactly what's going on, I think is a helpful thing.

So I appreciate that the auditor's made that recommendation, and I'm sure that's something that would be useful in other areas of government as well. Thank you.

Mr. Gerrard: Now, a number of years ago there was an issue in the Fire Commissioner's office, and I think it also involved, to some extent, credit cards. But I don't think it was a p-card system.

Was the Fire Commissioner at that point under MIT and EMO, or not?

Mr. McNeil: That was before my time here and I don't ever remember OFC being under MIT.

Mr. Ashton: Yes, I can confirm that OFC was never under MIT. It's always been under the Department of Labour.

Mr. Gerrard: I just wondered, in terms of reviewing this, whether you reviewed what happened with the Fire Commissioner's office to determine whether there was any similarities or differences which might be helpful in understanding how the problem arose?

Mr. McNeil: Yes, we did. As soon as we found out about that, myself and my staff, we met with the Provincial Comptroller who oversaw the OFC process, and the question came up as to whether or

not she would be pursuing the action on this file as she did on the OFC file. But we decided to leave it with MIT to pursue the legal action on behalf of government.

*(15:10)

Mr. Ashton: I can add that, if there was any comparable situation, it was the former executive director from EMO, and there were a number of claims that eventually went to court in terms of fraud. Those claims were travel related, and what the individual had done was essentially claim full fare, cash the tickets and then fly at a reduced fare and basically pocket the difference. It's—at that time that led to his dismissal and also some significant changes in the way that travel claims were dealt with. That is no longer the case, and that scenario would not happen again. But that is probably the one scenario, this Harold Clayton, the former executive director of EMO.

Mr. Marcelino: To the deputy auditor general: page 400, No. 1, financial irregularities of over 80, then it starts with in 2007 there were six payments of \$2,500 totalling \$15,000 coming from the p-card towards the house account. How come that was not caught?

Mr. Wirth: That's why we've recommended that they look at that online system, so that when—that would be a red flag by the reviewer to see those multiple transactions right at the top of the maximum; that should be a red flag that something's unusual happening and it should be looked at. *[interjection]*

Mr. Chairperson: Mr. Marcelino.

Mr. Marcelino: Sorry. If it's just a purchasing card, how come it was used to pay \$2,500 at a time, six times, if there was no good—there were no goods that were purchased it was used to pay? Is that something that maybe should have been disallowed in the first place?

Mr. Wirth: It's not allowed in accordance with the guidelines that you make payments on account; it's supposed to be made for individual purchases. The p-card itself is just for individual purchases. You're not—they opened a house account and they were allowed to make purchases and not pay at the time, and then they would submit an amount of \$2,500 to clear off the balance. But it's not in accordance with p-card guidelines.

Mr. Gerrard: Just to follow that up, why was that not picked up? I mean, if that was so clearly outside of the guidelines, you know, was it somehow not visible on the logs that were submitted or was— *[interjection]*

Mr. Chairperson: Mr. Wirth.

Mr. Wirth: It was clearly stated on the logs that it was a payment on account. So the manager, would've been his responsibility to notice that and shouldn't have allowed it. So it's a lack of oversight by the manager allowing that to happen.

Mr. Gerrard: But should that not have also been also picked up by the card co-ordinator who was checking?

Mr. Wirth: Should've been, yes.

Mr. Chairperson: Other questions? Thank you.

So, seeing no further questions, does the committee agree that we have completed consideration of Chapter 9, Northern Airports and Marine Operations, of the Auditor General's Report, Annual Report to the Legislature, dated March 2014? *[Agreed]*

So, prior to concluding, I'd like to thank the assistant auditor general at his first appearance here in the big chair, and to the minister and Mr. McNeil, the deputy minister, for joining us today and any staff he brought with us—brought with you, the clerks and research staff and, of course, our page. Thank you for being with us today and to the members of the committee.

So this concludes the business before us.

The hour being—

An Honourable Member: And the guy in the back.

Mr. Chairperson: And the Hansard staff and— *[interjection]* Yes, thank you.

This—the hour being 3:16, what is the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: Committee rise. Thank you.

Before we rise, it would be appreciated if members would leave behind any unused copies of the reports so they may be collected and reused at the next meeting.

Committee rise.

COMMITTEE ROSE AT: 3:16 p.m.

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