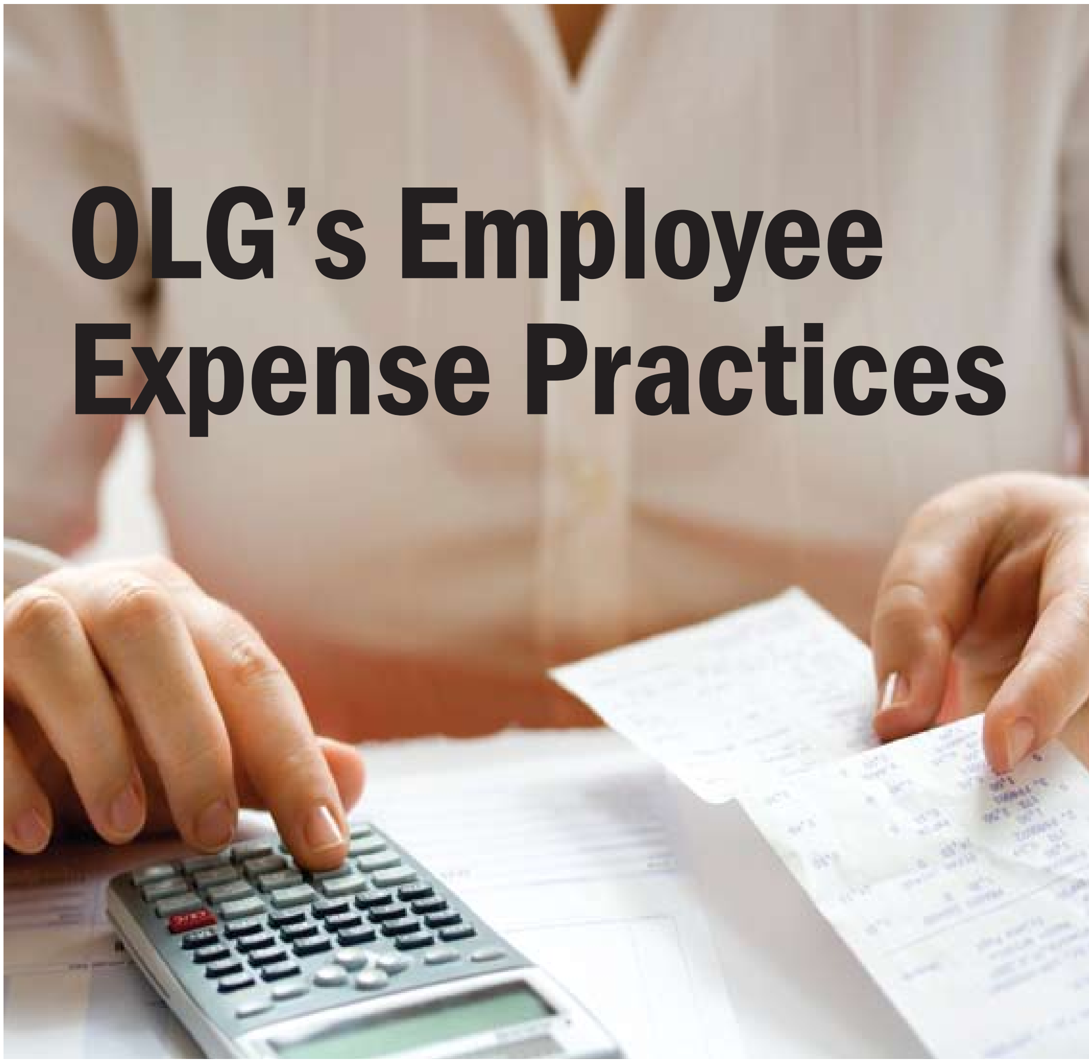
Special Report

June 2010



OLG's Employee Expense Practices

Office of the Auditor General of Ontario

Office of the Auditor General of Ontario

To the Honourable Speaker
of the Legislative Assembly

I am pleased to transmit my Special Report on The Ontario Lottery and Gaming Corporation's Employee Expense Practices, which the Minister of Finance requested pursuant to Section 17 of the *Auditor General Act*

Jim McCarter
Auditor General

June 1, 2010

Ce document est également disponible en français.

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Background

The Ontario Lottery and Gaming Corporation (OLG) was established on April 1, 2000, when the *Ontario Lottery and Gaming Corporation Act, 1999* (Act) merged two Crown agencies—the Ontario Casino Corporation (est. 1994) and the Ontario Lottery Corporation (est. 1975). OLG's lottery division markets a range of national and provincial lotteries, such as *Lotto 6/49* and *Lottario*, as well as a variety of instant and sports game tickets. The gaming division is directly responsible for 22 gaming sites, including five casinos and 17 slot facilities at horse racing tracks. OLG also has operating agreements with private enterprises (who employ their own staff) at four Ontario resort casinos (Fallsview Casino Resort, Casino Niagara, Casino Rama in Orillia, and Caesars Windsor) and the slot operations at Great Blue Heron Charity Casino in Port Perry.

As of July 2009, OLG had about 7,700 full- and part-time employees. Its board of directors oversees its operations and reports to the Minister of Finance. The Act requires that profits generated by OLG go toward various public purposes such as health care and the promotion and development of physical fitness, sporting, recreational, and cultural activities throughout the province. OLG also directs over $100 million a year to the Ontario Trillium Foundation to go to charitable and non-profit organizations.

Audit Objective And Scope

On August 31, 2009, the Minister of Finance (Minister) asked the Auditor General of Ontario to undertake a special assignment under Section 17 of the *Auditor General Act*, "to conduct a review of the employee expense practices with respect to the Ontario Lottery and Gaming Corporation, including the approvals process, and to provide us with your assessment of whether such expenses were incurred in accordance with established policies." The Minister's request followed the release of employee expense reports for a number of OLG's senior executives through a freedom of information request, and the subsequent dismissal of OLG's chief executive officer and resignation of the entire board of directors.

OLG and the government have acknowledged that some of the expenses reported in the media were indeed questionable. Accordingly, we focused our audit not on these individual expenses but on a more broad assessment of whether employee expenses in general were being incurred in accordance with the appropriate policies and procedures, as was requested by the Minister.

We developed audit criteria and discussed them with OLG's interim chief executive officer. We focused primarily on expenses for travel, business meetings, and hospitality incurred by OLG employees in the 18-month period from April 2008 to September 2009. In addition, we reviewed two other areas of employee-related expenditures: employee rewards and recognition programs, and vehicles. We did not examine expenses at the four resort casinos and Great Blue Heron slot facilities because their employees work for contracted casino operators.

We conducted our audit at OLG's offices in Toronto and Sault Ste. Marie. Our approach included reviewing the policies and procedures for employee expenses in place at OLG, comparing them to the Management Board of Cabinet directive for Ontario ministries, and examining a fairly extensive sample of employee expense reports, payment records, and other relevant documents. We also interviewed staff and management within OLG, as well as both the current and former chairs of the board.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OLG's internal audit department has conducted a number of expense-claim reviews on selected departments and the board of directors' expenses in recent years that we found helpful in determining the scope and extent of our work. We would also like to acknowledge the excellent co-operation of OLG staff throughout our audit.

Summary

In our *2009 Annual Report*, we reminded government ministries and agencies that they should be spending public taxpayer dollars with the same care they would take in spending their own money. Because OLG receives its revenues from commercial activities, the province has allowed it considerable flexibility in making financial, human resource, and administrative decisions. At the same time, OLG is a public agency, and it is therefore reasonable to expect it to manage public resources prudently in meeting its business objectives.

Our review of OLG's employee expense policy *(Business Travel)* indicated that, for the most part, it was reasonably comparable to Management Board of Cabinet's directive *(Travel, Meal and Hospitality Expenses Directive)* established for the Ontario Public Service. With respect to compliance, we did note a lack of detailed receipts or written explanations for some expenditures, but for the most part there was general compliance with such policies.

However, certain types of expenses were not covered by OLG's policy, such as the allowable dollar limits for meals at employee meetings and for hotel rates when travelling outside the province. In these situations, we found that prudent spending practices were frequently not being followed.

If OLG's expense-claim approval process had been operating effectively, we would have expected that claims without the required documentation, or those that appeared excessive or unusual, would have been flagged for follow-up. Yet such employee expense reports were routinely approved, which indicated the approval process was not operating as effectively as it should have been.

Some of our specific observations included:

- *Lack of detailed receipts/explanations*—We noted a number of instances where neither detailed receipts nor explanations were attached to employee claims for transportation-related expenses, such as taxis, tolls, and parking. In addition, OLG senior employees commonly incurred meal expenses for employee meetings and hospitality, but more than 20% of the claims we examined for such meals had no itemized receipts and 10% had no list of attendees as required by OLG's policy.
- *Accommodation*—For the most part, OLG employees made economical arrangements for accommodation during travel. But we did find

recurring instances of claims being approved for payment without written explanation, even where hotels had charged more than the OLG-negotiated rates or staff had chosen to stay at more expensive hotels.

- *Expenses for employee meetings*—OLG senior staff often incurred expenses related to meetings held in-house or off-site at restaurants and other locations. The bulk of the expenses incurred was for meals while the remaining costs related to booking meeting rooms, audio-equipment rentals, and so on. OLG did not have a policy spelling out how much is reasonable for meeting-related meals. However, when compared to the amount of the meal allowance in OLG's travel policy, many of the meals provided at these meetings cost significantly more. The combined total for such meetings and hospitality expenses was approximately $1 million in the 2008/09 fiscal year, but because OLG did not track these expenditures separately from hospitality expenditures, there was not enough information to determine how much was spent on meal expenses for employee meetings.
- *Corporate and divisional meetings*—OLG spent more than $1 million on corporate and divisional meetings and incurred excessive costs for some of these events. For example, a four-day gaming conference for about 250 senior gaming employees held in 2009 at one of the resort casinos cost approximately $551,000, plus travel. We also noted some team-building gatherings that were held at spas and resorts, at an arcade entertainment complex, and on a boat cruise.
- *Hospitality*—The lottery division bought season's tickets and corporate boxes at sporting events for entertaining OLG's key retailers. This cost more than $100,000 per year, not including the cost of food and drink, which regularly exceeded $100 per person. There was no evidence that less costly venues for entertaining would not have been suitable, especially considering that OLG is essentially the only large-scale provider of retail lottery tickets in Ontario. We were also concerned that extending this type of hospitality to some retailers might be seen as unfair, particularly given the nature of the lottery business.
- *Purchasing cards*—OLG had effective controls in place over the use of corporate credit cards and purchasing cards.

In addition to travel, meetings, hospitality, and employee use of purchasing cards, we reviewed two other employee-related expenditures:

Rewards, recognition, and other employee programs—Over the years, OLG has introduced a variety of programs. Some forms of employee recognition were not handled consistently from department to department, while some rewards were routinely given out to all employees rather than in recognition of outstanding performance. We were concerned that these practices could be perceived as unfair and at the same time could create a sense of expectation. We also questioned the continued need for a subsidy OLG introduced in 2001 that offered employees up to $500 every three years towards the purchase of a new computer for personal use.

Executive vehicles—OLG leased an executive fleet of vehicles for 26 senior employees, and another 16 executives opted instead for an allowance that ranged from $17,000 to $24,000 a year. OLG informed us that this arrangement was part of the executive compensation package that was introduced when the Ontario Casino Corporation and the Ontario Lottery Corporation merged in 2000. This compensation arrangement is vastly different from that at Ontario ministries, where only deputy ministers are provided with vehicles. Also, the allowable cost for the (non-hybrid) executive vehicles that most senior OLG employees drove ranged from $41,519–$57,512—significantly higher than the maximum of $30,000 set by the Province for deputy ministers' (non-hybrid) vehicles.

We also reviewed work done by OLG's internal audit department on the expenses of the board of directors and concurred that board expenses were incurred in compliance with OLG policy and guidelines.

OLG has started to make changes, including the adoption of Management Board of Cabinet's travel expense policy, and its lottery division no longer purchases season's tickets and corporate boxes for sporting events. We make one detailed recommendation at the end of this report, which is intended to complement the changes already under way to improve OLG's employee expense practices.

OVERALL ONTARIO LOTTERY AND GAMING CORPORATION RESPONSE

The Ontario Lottery and Gaming Corporation (OLG) has reviewed the Auditor General's Special Report on OLG's Employee Expense Practices and acknowledges its findings. OLG appreciates the Auditor General's efforts to undertake a process of examination that is both fair and balanced while making valuable recommendations on areas that would benefit from a greater, systematic review.

The Auditor General's report has revealed a number of areas in which OLG could make significant improvements. Indeed, since October 2009, OLG has made a number of prudent changes to its internal expense policies and guidelines, and has fully adopted Management Board of Cabinet's *Travel, Meal and Hospitality Expenses Directive*. OLG has also identified other savings through the dismantling and phasing out of several programs.

OLG's current policies and guidelines are consistent with its role as an agency of the government of Ontario engaged in the commercial enterprise of gaming and operating within a competitive environment. In carrying out its mandate, OLG seeks to follow the internal directives and best-practices approach adopted by the government to meet the expectations of public disclosure and transparency.

The Auditor General's findings will inform the actions of OLG's new board in undertaking future and ongoing improvements to accountability and in controlling expenditures within the agency.

Detailed Observations

AGENCY–MINISTRY ACCOUNTABILITY

Management Board of Cabinet's *Agency Establishment and Accountability Directive* (Directive) classifies agencies established by the government of Ontario into various categories according to the nature of their operations and lays out the accountability requirement that governs them. Under the Directive, OLG is classified as an "operational enterprise," which is defined as an agency that receives revenues from its commercial activities and, accordingly, has historically had considerable flexibility in making financial, human resource, and administrative decisions. Nonetheless, a key principle of the Directive is that agencies will manage public resources wisely and prudently in achieving their mandates.

The extent of an agency's power and the province's expectations of it are usually further clarified in a memorandum of understanding with the responsible minister. The memorandum addresses various areas, including an agency's mandate; its financial, human resource, and administrative arrangements; and its reporting requirements. It also specifies the Management Board of Cabinet (MBC) expenditure directives that will apply to the agency.

In May 2007, for the first time since it was established in 2000, OLG entered into a memorandum with its then-responsible ministry, Public Infrastructure Renewal. According to the memorandum, OLG was to follow the *Travel, Meal and Hospitality Expenses Directive* that MBC had established for ministries and designated agencies, which covers transportation, accommodation, and meal costs incurred by employees as well as hospitality extended to non-employees. OLG had been operating under its own business-travel policy at that time.

In January 2008, OLG applied to be exempted from the MBC travel directive. Its rationale was that as an arm's length agency, its existing policy was better suited to its business and was already effective in controlling travel and related expenses. The then-responsible Ministry of Public Infrastructure Renewal did not respond to OLG's request, and OLG interpreted this as the government accepting its request. In effect, OLG never adopted MBC's travel policy directive and the appropriateness of it choosing to apply its own policy was never addressed by its responsible ministry.

OLG has since adopted MBC's *Travel, Meal and Hospitality Expenses Directive* in full, effective October 2009, as was directed by the province in September 2009. In January 2010, MBC introduced a new *Agency Establishment and Accountability Directive*, which focuses on a more risk-based approach to managing agency accountability. It calls for any deviation from directives to be explicitly stated and a rationale provided, and for ministries to ensure agencies' compliance. The new directive is expected to strengthen accountability between agencies and their responsible ministries.

TRAVEL, MEETINGS, AND HOSPITALITY

We compared MBC's *Travel, Meal and Hospitality Expenses Directive* to OLG's *Business Travel Policy* for the 18-month period to September 2009 (see Appendix 1 for an overview of this comparison). Although OLG's spending limits were higher than those allowed under the MBC Directive in certain areas (for example, meals and mileage), we concluded that OLG's policy was reasonably comparable. In any case, OLG has since adopted MBC's *Travel, Meal and Hospitality Expenses Directive* in full, effective October 2009.

OLG's former policy, which was in effect for the 18-month period examined in our audit, states that employees must consider whether expenses they are about to incur are legitimate, reasonable, and business-related. As well, employees are to make the most practical and economical arrangements possible.

Employees seeking reimbursement of travel and business-related expenses must submit a signed expense report approved by the appropriate senior staff. For the 2008/09 fiscal year, more than 13,600 expense reports totalling $5.5 million were submitted for reimbursement. In addition to employee expense reimbursements, OLG's finance department processes and pays for corporate credit-card charges and charges for corporate events.

We found that there was general compliance with OLG's expense policy, although we did note some exceptions. These primarily related to claims for transportation-related expenditures (taxis, tolls, and parking) and meal expenses for employee meetings and hospitality, which were all too often submitted without the detailed receipts and/or written explanations that the policy required. This made it difficult to confirm that those expenses were incurred for business purposes.

The other area of concern we noted related to expenses being incurred that were not specifically covered by OLG's policy, such as the amounts that could be spent on meals at employee meetings and out-of-province hotels used during business travel. In these situations, employees are expected to use their discretion and exercise good judgment, but we found that prudent spending practices were frequently not being followed. We also noted that employee expense reports were routinely approved for payment in these situations. This led us to conclude that the approval process was not operating as effectively as it should have been.

Our detailed observations were as follows.

Accommodation

OLG employees are expected to book reasonably priced hotels when they travel, and all hotel reservations are to be made through the OLG's corporate travel agent. If this is not possible, employees are permitted to reserve directly with the hotel. We noted that OLG employees usually made economical accommodation arrangements. However, we did find recurring instances of employees not choosing more reasonably priced hotels, or paying more than the negotiated rates on OLG's list of hotels, without providing written explanations with their claims.

We also noted that until recently, it was an acceptable practice for employees attending OLG-organized events to stay at the hotel where an event was held, even if they lived in the same city. For one Toronto sales meeting held in June 2009, OLG reserved rooms for about 90 employees, 40 of whom were from the Greater Toronto Area. OLG did later decide to cancel the reservations it had made for the Toronto employees, but it still had to pay over $3,600 in cancellation charges for 22 of the reservations. It has since instituted a new policy in August 2009, which states that reimbursement for overnight accommodation for staff who live in the headquarters area is not appropriate unless there are exceptional circumstances.

Transportation

OLG employees are expected to use the most practical and economical mode of transportation for business travel. This includes using rental cars when OLG-issued vehicles are not available or when a rental would cost less than mileage charges for a personal vehicle.

We found that employees generally chose economical modes of transport when they travelled. However, we noted many instances of missing receipts and inadequate support for certain other travel expenses. For travel on 407 ETR toll roads, for example, there were many cases where only the total charge from the monthly invoice was submitted. An explanation showing a breakdown of locations and distances travelled is usually necessary to demonstrate that travel is business-related.

We also found a number of exceptions where the expense incurred was apparently not the most economical choice and no justification for it was provided. For example:

- OLG policy states that when using a rental vehicle, every reasonable effort must be made to return the vehicle with a full tank. Yet we noted that refueling charges, which are more costly, were routinely being incurred without justification.
- With regard to airport parking, we found that employees typically did not provide explanations for not choosing lower-cost alternatives, such as an off-site parking lot or taking a taxi to and from the airport. In one case, $261 was spent on airport parking without providing a detailed receipt. We reviewed the employee's claim and it appeared that this amount was for three to four days of parking.

Expenses for Employee Meetings

Senior OLG staff often incurred expenses for meetings held both in-house and off-site, at restaurants and other locations, for which they were reimbursed or which were billed directly to OLG. The bulk of these expenses was for meals with the other costs being incurred for meeting-room bookings, audio-equipment rentals, and so on. The combined total for such meetings and hospitality expenses was approximately $1 million in the 2008/09 fiscal year, but because OLG did not track these expenditures separately from hospitality spending, there was not enough information to determine how much was spent on meal expenses for employee meetings.

OLG policy states that such expenses must be paid by the highest-ranking employee in attendance and must be supported by an itemized receipt. The policy also requires that a brief description of the purpose and justification for the meal, together with the names of the attendees, accompany the expense report. Although OLG's policy did not spell out a dollar limit for business meals, it did specify that all claims must be for reasonable amounts. "Reasonable" was defined as providing an adequate service in the most economic manner possible.

More than 20% of the claims submitted for meal expenses that we examined had total amounts but no itemized receipt, and more than 10% had no list of attendees; both are required by OLG policy. The receipts provided were often limited to credit-card slips or statements, both of which only indicate the total amount paid. Itemization is necessary for the approver of the claim to have some assurance that the expenses incurred are business-related and reasonable.

Many of the meals provided cost significantly more than the rate for meals under OLG's travel expense policy, which we felt would be a reasonable benchmark to use for comparison. For example, of the claims that were accompanied by itemized receipts, we found instances of meals at expensive venues that cost more than three times the $21 dinner rate stipulated in the travel policy. In addition, alcohol was consumed at these meals and paid for by OLG in a number of instances.

Until May 2009, expenses for alcohol consumed at OLG employee meetings were reimbursable so long as approval had been sought from the divisional vice president. This was one area where OLG's policy differed from the Management Board of Cabinet directive that the Ontario public service follows, under which alcohol is not eligible for reimbursement.

Corporate and Divisional Meetings

OLG periodically holds corporate and divisional meetings to encourage alignment with strategic priorities and create opportunities for face-to-face interaction, team development, and training. There were no guidelines or corporate policies governing this area, so OLG division managers had the discretion to determine the need, location, and venue for business meetings, as long as the expenditure was within their budget. OLG spent more than $1 million annually on corporate and divisional business meetings, a number of which were held off-site. They included an annual gaming conference, leadership/strategic meetings for senior management, and various other sales, marketing, and human resource meetings.

We noted that economical spending practices were often not followed with regard to these meetings. For example, since 2006 the annual conference for about 250 senior gaming employees cost between $551,000 and $710,000 per year plus travel expenses. The event typically included meetings, training, and an employee recognition dinner. In 2009, the event was held over four days at one of the resort casinos. A breakdown of the charges showed that meals, accommodation, and meeting facilities cost $312,000; event organization, staging, and entertainment cost $154,000; and courses and training cost $85,000. The cost per person for food and drink was, on average, $140 per day.

Approximately one-third of the total expenditure for the 2009 gaming conference was for event organization and entertainment. Until 2009, OLG engaged a consultant for approximately $130,000 per year to plan the annual gaming conference. We noted that these services were sole-sourced in three of the past four years. The consultant also received a substantial upfront payment of $100,000 upon signing the contract, but no details of the work done were provided in subsequent invoices. OLG has since begun to follow a competitive tendering process for event-planning services.

We also noted instances of meetings held at venues with packages ranging from $200 to $300 per person per day, which included not only the cost of meals and accommodation but also the use of non-business-related facilities, such as golf courses and ski lifts. OLG also held team-building events at an arcade entertainment complex, at resorts and spas, on a boat cruise, and at a paintball camp.

Hospitality

Hospitality refers to the provision of food and drink, accommodation, transportation, and other amenities to persons who are not employed by OLG, including representatives of governments and industry, other lottery or gaming jurisdictions, and suppliers. OLG policy stipulated that hospitality should be extended in an economical, consistent, and appropriate way when it would facilitate OLG's business or was a matter of courtesy. Although the policy did not specify a dollar limit for the cost of meals provided as hospitality, it stated that employees are expected to exercise good judgment and discretion when selecting the type and place of entertainment.

We acknowledge that meals are a reasonable courtesy to extend to outside parties. With respect to expenses incurred for alcohol when extending such hospitality, OLG's policy permitted reimbursement with approval from a divisional vice president. We believe that, assuming good judgment is used with respect to the cost of alcohol relative to the associated meal costs, this is not an unreasonable policy. When hosting visitors from other lottery or gaming organizations, other jurisdictions, or other external business partners, we believe this to be a reasonable courtesy.

OLG employees are typically reimbursed for hospitality expenses by filing an expense report. As indicated in the section on meal expenses for employee meetings, hospitality expenses were recorded as business meetings but OLG did not track them separately from employee meetings. Therefore, there was not enough information to discern how much OLG spent on hospitality.

We also noted that the lottery division had an arrangement for a number of years to purchase season's tickets and corporate boxes for sporting events. These tickets were used to entertain management from OLG's key retailer accounts at a cost of over $100,000 per year. The lottery division's senior management decided how and to whom game tickets would be distributed, and OLG employees usually attended the games as hosts for the evening. The costs for food and drink at these events were regularly over $100 per person.

OLG's rationale for taking retailers to these events was that it fostered good business relationships. But there was no evidence that less costly venues could not have been just as effective for conducting business, especially considering that OLG is essentially the only large-scale provider of retail lottery tickets in Ontario. Furthermore, extending this type of hospitality to some retailers might be perceived as an unfair business practice by other retailers.

In February 2009, OLG decided to discontinue this program and re-evaluate its approach to providing hospitality.

Corporate Credit Cards

Corporate cards can be a cost-effective means of purchasing, so long as they are appropriately used. OLG uses purchasing cards to streamline the acquisition of day-to-day business necessities. It has two purchasing card programs: one gives corporate credit cards to designated employees for purchasing low-cost goods for their departments while the other uses purchasing accounts through which departments may order supplies.

As of September 2009, OLG employees carried about 90 corporate credit cards and incurred annual expenditures on them of approximately $1 million for expenses such as professional membership fees, food and caterers for business meetings, photocopying services, and purchases of small equipment and electronics. There were also more than 800 purchasing accounts set up with four authorized vendors. Annual expenditures from these accounts were approximately $4 million for expenses such as janitorial supplies, office supplies, uniforms, and printing services.

OLG's finance department independently reviews 100% of corporate credit-card transactions and 30% of purchasing-account transactions. We noted that, overall, these controls were effective and the reviews identified instances of potential impropriety, such as no receipt or justification for expenses, for follow-up. Notwithstanding our positive conclusion, however, we did note a few exceptions. Specifically, certain types of travel expenditures, such as parking and taxi expenses, were being charged to corporate credit cards. Charging these expenditures to credit cards is prohibited to ensure that detailed receipts will be attached to employee expense claims. These receipts provide a higher level of assurance that such expenses are business-related while minimizing the risk of duplicate claims (claims made first through corporate credit cards and then again with an employee expense report). We also noted a few instances of managers approving their own expenses.

OTHER EMPLOYEE-RELATED EXPENDITURES

In addition to the expenses that OLG employees incurred, we reviewed two other types of employee-related expenditures. Our observations on these areas—rewards and recognition, and vehicles assigned to employees—were as follows.

Rewards, Recognition, and Other Employee Programs

Over a number of years, OLG has introduced various corporate-wide, formal rewards and recognition programs that included symbolic rewards, like plaques, or tangible rewards, including:

- a $20 Christmas gift, typically a movie voucher, for all employees;
- $20 per year per employee for appreciation at the discretion of the department head; and
- quarterly/annual awards recognizing individuals and/or teams on their outstanding achievements—quarterly winners receive a $50 gift certificate, and annual winners receive a $500 travel voucher and are invited to an OLG gala dinner.

There was also a Service Awards Program that recognized employees who have achieved milestones in their years of service (periods of three, five, 10, 15, 20 and 25 years, plus retirement), under which the employee gets to choose a gift valued at $10 for every year of service. For example, three years of service would entitle him or her to a gift worth approximately $30, such as a crystal vase, and so on.

We acknowledge that an employee recognition program can help to foster a positive work environment that motivates people to work more effectively, increases productivity, and helps to achieve corporate goals. However, we noted that some of the rewards were routinely given to all employees and not in recognition of outstanding performance. Some OLG departments have also introduced additional informal reward programs. In 2008/09, total expenditures for rewards and recognition and other employee programs amounted to approximately $900,000. As well, the team-building events that we noted earlier could well be considered a form of employee reward and recognition.

Too many employee reward programs could create a sense of expectation and inconsistency between departments in the value and number of employee rewards given out. For example, some departments were not giving out the $20 per employee per year appreciation award while others were spending more than the allowable limit and holding various staff functions throughout the year.

Since 2001, OLG has had an Employee Computer Purchase Program that offers employees with at least six months of full-time equivalent service up to $500 every three years towards the purchase of a new home computer. From 2007 to 2010, approximately 1,200 employees participated in this program each year, at a cost of $600,000 annually. Given that the program is almost nine years old, OLG should revisit the need to continue providing this subsidy.

OLG recently conducted a review of its employee programs in December 2009 and decided to discontinue and/or amend a number of them to ensure equity and consistency.

Vehicles Assigned to Employees

As of October 2009, OLG had a fleet of about 280 vehicles. About 190 of these were assigned to employees whose jobs (for example, sales or investigations) made it likely that they would need a vehicle or would travel at least 27,000 km annually for business purposes, making it a cost-effective option. Another 60 made up a pool of vehicles used for other purposes, such as customer shuttle services. Finally, there was an executive fleet of 26 vehicles, which are part of the compensation packages of senior employees.

OLG engaged a leasing company to help manage its fleet. The company's services included vehicle leasing and selection, liaison with fuel/service repair outlets, fuel-card management, mileage reporting, and taxable-benefit calculations. Annual fleet expenditures, primarily comprised of leasing costs, fuel, maintenance, and management fees, were approximately $4.4 million.

The leasing company provided a monthly report with information such as the mileage driven on each vehicle and fuel usage. An OLG fleet review group was to examine the report, disseminate it to responsible departments, and inform them of any exceptions that needed to be followed up.

Assigned Fleet

Overall, we found the controls for fleet vehicles to be satisfactory, but we noted that vehicle usage could have been better monitored. Specifically, in the 12 months ending September 2009, 60 of the 190 fleet vehicles assigned to individual employees were driven less than the 27,000-km yearly threshold. Thirteen of these vehicles had less than 20,000 kilometres on them and another seven had less than 15,000. OLG had not formally analyzed the usage trends and only maintained one year's worth of reports from the leasing company.

Executive Fleet

OLG informed us that the 26 executive fleet vehicles have been part of compensation packages since OLG's lottery and gaming entities merged in April 2000. Figure 1 shows the capital-cost limit for vehicles that OLG executives were entitled to as part of their compensation packages. In addition, 16 executives opted instead for a monthly allowance, which amounted to approximately $17,000 to $24,000 per year each. Executives may replace their vehicles when the three-year lease has expired or their mileage exceeds 90,000 kilometres.

The number of OLG executives entitled to corporate vehicles is much larger than that allowed in the Ontario Public Service, where only deputy ministers are entitled to the use of a vehicle. Also, the allowable cost for OLG's (non-hybrid) vehicles, which most executives drive, is substantially higher than the maximum of $30,000 set by the Province for deputy ministers' (non-hybrid) vehicles. As well, Ontario Public Service policy stipulates that deputy ministers may only select vehicles that are North American-built. In contrast, most of OLG's executive fleet was foreign-made, although its policy was revised in May 2009 and now requires the vehicles to have been assembled in Canada.

MONITORING EMPLOYEE EXPENSE PRACTICES

Currently, the budget is the primary tool that OLG uses to monitor employee expenses, and accountability lies with individual departments. However, a budget is only effective as a high-level expenditure control—it is not useful in detecting non-compliance or abuse.

During our review, we noted numerous instances of expenditures that had been recorded incorrectly, making it difficult to arrive at accurate totals by type of expenditure. In addition, as we have previously noted, many claims were paid even though they were submitted without adequate

Figure 1: Executive Vehicle Cost Limit as at September 30, 2009

Source of Data: Ontario Lottery and Gaming Commission

	Allowable Cost of Vehicle ($)	
Executive	**Regular**	**Hybrid**
CEO	57,512	62,512
senior vice president	52,283	57,283
vice president, executive director, regional director	41,519	46,519

support (for example, no receipts or explanation), or for amounts that appeared excessive. OLG informed us that its finance department occasionally reviewed a sample of employee-expense claims for adequacy of supporting documentation. Nevertheless, individual departments were ultimately responsible for their expenses, and claims were usually paid as long as the required approval was present.

In recent years, OLG's internal audit department has begun performing rotating audits on employee expenses by department. Although these have had some impact, our audit indicated that OLG must strengthen its process if it is to ensure that employee expenses are incurred in accordance with established policy and if they are to stand up to public scrutiny.

CHANGES UNDER WAY

While we were conducting our audit, OLG had already started to make changes that have brought it more in line with the province's and the public's expectations, including the adoption of Management Board of Cabinet's *Travel, Meal and Hospitality Expenses Directive*. In addition, a new board of directors was recently formed and the search for a new permanent CEO is under way. We anticipate that more changes at OLG are forthcoming. Our recommendation is intended to complement the changes that are already under way to improve OLG's employee expense practices.

RECOMMENDATION

To help ensure that employee and employee-related expense practices effectively meet both business objectives and public expectations, the Ontario Lottery and Gaming Corporation (OLG) should:

- work with its responsible ministry to develop an effective accountability framework that includes clear expectations and periodic reporting;
- where the current employee expense policy is silent on certain types of expenditures, develop guidelines to provide the necessary guidance to employees;
- reinforce and communicate the need for a culture of prudent employee expense practices to staff through training and leadership commitment;
- in periodic internal audits include an assessment of whether departmental managers have properly approved employee expense claims; and
- through the new board of directors, review its employee meeting and conference arrangements, employee rewards and recognition programs, and entitlement to executive vehicles in the context of OLG executive compensation arrangements.

ONTARIO LOTTERY AND GAMING CORPORATION RESPONSE

OLG is finalizing its Memorandum of Understanding (MOU) with the Ministry of Finance and expects this process to be completed by summer 2010. The MOU updates the governance and accountability framework between OLG and the government to ensure that there is clarity and consistency between internal OLG policies and all new applicable government directives, such as the January 2010 Management Board of Cabinet's *Agency Establishment* *and Accountability Directive* and its *Travel, Meal and Hospitality Expenses Directive*. OLG reports specific employee expense claims to the Integrity Commissioner and must make these reports available for public review by posting them on the OLG website.

With respect to employee expenses, OLG is fully committed to adopting business practices and policies that are consistent and comparable with all applicable Ontario Public Service practices, policies, and directives. Its board and executive management team are committed to an ongoing and rigorous examination of OLG's business mandate and practices, with a clear understanding of the need for transparent and prudent policies, especially with respect to travel, meal, and hospitality expenses. For example, OLG immediately adopted the Management Board of Cabinet *Travel, Meal and Hospitality Expenses Directive* as directed in September 2009. It also implemented a mandatory training program for all OLG managers and achieved 100% completion by February 2010. OLG is now updating the training program to reflect the April 2010 changes to the *Travel, Meal and Hospitality Expenses Directive*. In addition, OLG has developed new policies that require a comprehensive needs assessment, as well as more detailed documentation and approval processes, which employ a centralized, co-ordinated review function to evaluate and approve requests for employee meetings and conference attendance. Also, requests for travel must now be pre-approved and require a written rationale.

OLG conducts quarterly internal audits of its employees' expenses and these are now mandatory as part of the annual Audit Plan. Such audits ensure compliance with relevant policies and approval processes. In addition, OLG's external auditors will be requested to review the executive management team's compliance with the relevant policies.

Finally, OLG's new board of directors and its executive management team are committed to reviewing existing employee recognition and rewards programs to ensure they are effective, appropriate and prudent, and consistent with OLG's operational needs as well as government and public expectations. OLG has already taken action to dismantle specific employee rewards and recognition programs and executive compensation perquisites that do not meet this test; it has cancelled five programs since 2009, delivering $546,000 in savings. OLG management recently completed an additional program review and recommended further reductions totalling $400,000 to the Board, including the phasing out of the employee computer-purchase subsidy program. These recommendations, together with earlier changes implemented on January 1, 2010, will result in an overall reduction in annual OLG spending on rewards, recognition, and other similar employee programs of almost 60%, or about $950,000, by January 2011.

Appendix—Comparing Management Board of Cabinet and Ontario Lottery and Gaming Corporation Policies on Travel

Type of Expense	Management Board of Cabinet's *Travel, Meal and Hospitality Expenses Directive*	OLG's *Business Travel* policy (March 2008–September 2009)
road travel	when road transportation is most practical and economical, preference to be given to, in this order: • a government vehicle, when available • a rental vehicle • a personal vehicle	may rent vehicle if: • OLG-issued vehicle is not available and rental cars are more economical than using personal vehicles • total distance travelled for business purposes in one day is greater than 250 km • less expensive than other modes of transport (e.g., taxis, airport shuttle, car and driver) • employee is entertaining customers • more than two employees are travelling together
kilometre reimbursement for travel using personal vehicle	0–4,000; $0.40/km (in southern region) and $0.41/km (in northern region) should use rental instead of personal vehicle when distance to be driven in one day exceeds 200 km	$0.45/km (before July 2008) $0.50/km (since July 2008) reimbursement for mileage must not exceed cost of other available means of transportation (air travel, car rental)
accommodation	employees to contact the hotel directly (based on listings in MyOPS) or call the travel service provider (HRG Canada) to make a reservation single accommodation in a standard room overnight stays within headquarters area not normally authorized (except in exceptional or emergency circumstances)	employees are required to use hotels with which OLG has negotiated a preferred rate (travel service provider maintains a listing of all preferred-rate hotels located within the destination city) entitled to stay in a standard room no specific policy on overnight stays within headquarters area
per diem meal allowance	rate – $40 per day with suggested cap of $20 for any single meal rates for less than full day: • $8.75/breakfast • $11.25/lunch • $20/dinner employee must be at least 24 km from workplace original itemized receipts required alcoholic beverages not reimbursed	rate – $45 per day to a maximum of: • $9/breakfast • $15/lunch • $21/dinner employee must be at least 50 km from workplace no receipts required if within allowance
other travel expenses	reasonable gratuities for meals, bellhop, hotel room service, and taxis reimbursed—receipts not necessary	$10/day allowance for incidentals (snacks, bottled water, hotel gratuities)—receipts not necessary

Type of Expense	Management Board of Cabinet's *Travel, Meal and Hospitality Expenses Directive*	OLG's *Business Travel* policy (March 2008–September 2009)
business-related meals/hospitality	reasonable/appropriate meal expenses reimbursed if expenditure is incurred while the claimant was required to work during or through normal meal times circumstances, form of hospitality, costs to be supported by receipts, name of establishment, number of attendees, names of attendees with title and company name, and appropriate approvals may include alcohol with meal or during a reception—alcohol costs not to exceed cost of food	*business-related meals* refers to the provision of food and beverages for OLG employees during normal meal periods; *hospitality* refers to the provision of food and beverages, accommodation, transportation, or any other amenity at OLG's expense to persons not employed by OLG all claims to be supported by: brief description of purpose of activities and justification; itemized receipt detailing the amount paid for food, beverages, and other items; names, position titles, and employers of recipients, as well as their reason for attendance cost of alcoholic beverages must be approved by divisional vice president *(Note: After May 2009 alcohol was no longer reimbursable for business-related meals for employee meetings)*
calls to home	reasonable costs for necessary personal calls home each day reimbursed	30-minute daily limit for calls home reimbursed
laundry services	reimbursed if away five or more consecutive days (costs must be reasonable)	reimbursed if away three or more consecutive nights (costs must be reasonable)

Office of the Auditor General of Ontario

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2

www.auditor.on.ca

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