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Jeudi 13 avril 2006

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public accounts**

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Ministry of Government Services

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Thursday 13 April 2006

Jeudi 13 avril 2006

The committee met at 0949 in committee room 1, following a closed session.

2005 ANNUAL REPORT, AUDITOR GENERAL

MINISTRY OF GOVERNMENT SERVICES

Consideration of section 3.03, charitable gaming.

The Chair (Mr. Norman W. Sterling): Good morning. My name is Norm Sterling. I'm the Chair of the public accounts committee. Our normal procedure is to give the deputy minister an opportunity to make a statement and introduce the people who are sitting with her at the table. If other people come to the table to answer questions of the committee, perhaps you would introduce them at that time. I turn it over to you.

Ms. Michelle DiEmanuele: Thank you, Mr. Chair and members of the committee. My name is Michelle DiEmanuele and I am the deputy minister for the Ministry of Government Services. I'm pleased to be here today and have the opportunity to speak on the findings of the Auditor General as they relate to Alcohol and Gaming Commission activities in Ontario.

Joining me today is Robert Dowler, who is the assistant deputy minister in this area, and Jean Major, who is the chief executive officer of the Alcohol and Gaming Commission of Ontario. I have a brief statement to make, and then I would like Mr. Major to make a statement as well, as he deals with the day-to-day operational concerns of the commission.

Before I start, let me say in general that as deputy minister of the Ministry of Government Services, my senior management team and I take very seriously the recommendations of the Auditor General on this and any other recommendations or review he does. In other areas in the past we've had, I think, tremendous success in being able to respond to the Auditor General's reports, and in particular, most recently, reports in the area of the Office of the Registrar General, the human resources management area and the consumer protection area. I think these reports have served as important benchmarks in improving public services.

To that end, the government invests the Alcohol and Gaming Commission with significant authority to ensure the honesty and integrity of all aspects of commercial and charity casinos, slot operations at racetracks, and charitable gaming.

This is a fairly recent model. Ontario has not always operated under this current system. At one time, gambling was prohibited under the Criminal Code of Canada, leaving no role for the provinces.

In 1969, that changed after the Canadian Parliament amended the Criminal Code to allow provincial governments to operate lotteries. The following year, Ontario put in place a lottery licensing system that recognized the role of municipalities. Over the next few years, this approach was refined so that the province took responsibility for licensing lotteries offering larger prizes, while the municipalities were given authority over charitable gaming operations up to a certain value, which is currently \$5,500.

In 1993, provincial gaming saw a number of significant reforms. The Gaming Services Act was brought into force, requiring all goods and services suppliers to be registered with the Ministry of Consumer and Commercial Relations, which was a predecessor to the Ministry of Government Services. At the same time, the province's focus changed to concentrate on larger commercial operations.

In 1994, the Gaming Services Act was amended and its name was changed to the Gaming Control Act. This new act gave broader regulatory responsibilities to the newly created Ontario Gaming Control Commission.

Finally, in 1998, the Alcohol and Gaming Regulation and Public Protection Act combined the Gaming Control Commission with the Liquor Licence Board of Ontario to create the Alcohol and Gaming Commission of Ontario, bringing us up to the present day.

Today the AGCO is a quasi-judicial, arm's-length agency whose job is to ensure that casino and charitable gaming is conducted in the public interest by people with integrity, and in a manner that is socially and financially responsible. Accordingly, the ministry neither directs nor controls the commission's day-to-day operations. Rather, the ministry focuses on setting the commission's policy mandate and monitors it to ensure it fulfills the government's intended role that it has set out.

We do this in a number of ways, including a signed memorandum of understanding, a requirement to file business plans and annual reports and a regular set of update meetings between the assistant deputy minister and representatives of the commission or with myself or with the minister. However, even though the ministry has delegated appropriate authorities to the commission, we

absolutely have accountability and share a responsibility with the AGCO and its partners for effective delivery.

The commission's role is to regulate the gaming industry in Ontario, and it is not responsible for issues, such as maximizing revenues or profitability—something that the Auditor General himself pointed out in his annual report.

However, the commission must also balance its regulatory responsibilities with charities' needs to have a flexible fundraising option with fewer administrative burdens to comply with regulation.

Just as we are making steady progress on improving public services and making them easier to access for the public in other areas, we must continue to do so in this area as well.

In fact, the commission has been making a concerted effort to modernize charitable gaming regulation in the province—something Mr. Major can speak about.

Generally, the ministry believes that the AGCO has been effective in meeting its regulatory objectives. But as a public service, we must continue to strengthen our practices and streamline where appropriate. The auditor's report provides valuable advice in this area and is proving to be very helpful in focusing our attention on other particular areas.

One key area for the ministry to review is the AGCO mandate and how it particularly relates to oversight, which was mentioned in the report.

The current division of power in regulating gaming in Ontario is intended to give municipalities a great deal of control over whether and how charities in their region raise money through lotteries. The underlying belief is that elected and accountable bodies such as municipal governments are in the best position to understand local interests and make decisions according to community needs. The order in council was written to reflect this belief. As a result, municipalities are given a strong role over how licences are issued and to whom.

The AGCO retains authority to set policy, ensure its consistent application and, if absolutely necessary, cancel a licence. These powers are consistent with a broader vision for the provincial government and its agencies in relation to municipal governments, which is to delegate authority while retaining a failsafe role. That is to say that while the province delegates authority to municipal councils, it retains the power to overturn a decision in extraordinary circumstances.

For example, under the Health Protection and Promotion Act and the Building Code Act, the province gives considerable public safety powers to municipalities, giving them significant authority over building code or public health issues. But in both cases, the province retains the power to override decisions.

In these cases, as with the AGCO, the province can overturn a decision made by the local council, but it has no ability to take action against the body that issued the licence; namely, the municipal government.

For its part, the ministry recognizes—and I just want to repeat—the ministry does recognize that the order in council needs to be reviewed and will be doing so.

In fact, we have a draft terms of reference today that we'd like to circulate for the committee's information and we hope we'll have some further discussion on this point. The ministry will also be sharing this draft terms of reference with municipalities in the next short while.

Mr. Major will speak to the recommendations related to day-to-day operations, as were pointed out in the auditor's report. But let me state again that we take these recommendations very seriously and have begun to work with the commission to implement them. We're also looking forward to continuing our work with municipalities and will move forward on improving the charitable gaming regulation with an eye always to balancing effective regulation with charities' needs to having a flexible fundraising option with fewer administrative burdens.

Before turning it over to Mr. Major, if I can have the indulgence of the Chair, I would just like to thank Mr. McCarter for his years of service to the people of Ontario and specifically to thank him for his two years of service with me as the Deputy Minister of Government Services. We've definitely benefited from his support. He's an outstanding public servant, so thank you.

Mr. Jean Major: Mr. Chair, members of the committee, my name is Jean Major. I am the chief executive officer of the Alcohol and Gaming Commission of Ontario. I am pleased to be here today to discuss the Auditor General's report and to comment on the progress we've made in implementing some of his recommendations.

As the deputy has already touched on, the regulatory structure currently in place for charitable gaming is both complex and unique. The authority to allow charities to fundraise through lottery events emanates from the Criminal Code of Canada, and in Ontario the authority to license lottery events is granted through an order in council. Eligibility criteria for licensing are established based on common law principles and are outlined in some detail in our lottery licensing policy manual. Terms and conditions govern the conduct of lottery events, and they are important because they establish the rules of the lottery scheme. They also outline the responsibilities of the charity and the reporting requirements necessary to ensure accountability in the system.

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Unlike other jurisdictions in Canada, Ontario delegates authority to municipal councils to issue lottery licences. Since 1969, when charitable lotteries were first allowed, municipalities have issued the vast majority of these licences.

An added check and balance to the regulatory system in Ontario is the requirement for the commercial sector, which provides goods and services to charities, to be both registered and regulated. This is accomplished through the Gaming Control Act, which is provincial legislation administered by the AGCO.

So essentially we have two distinct yet complementary approaches which regulate the charitable gaming industry in Ontario. We have the issuance of licences to charities

to conduct lottery events, 95% of which are issued and regulated by municipalities, and we have the registration and regulation of the commercial sector, bingo hall owners being an example, administered by the AGCO through the Gaming Control Act.

Over the last decade, many changes have been made to our policies and terms and conditions. However, much of the foundation of the current regulatory framework was developed in the early 1990s, when market conditions were very different than today's. Clearly, the industry has been struggling over the last few years, and for a variety of reasons. This is why in November 2004 we initiated a complete review of this framework with a view to modernize the charitable gaming industry.

We started our review by consulting with the industry, fundamentally asking them the basic question, "What can we change in our regulations and policies that will help the industry thrive without compromising our regulatory objectives?" The response was tremendous, and a significant number of ideas were exchanged.

Using this feedback, we developed a document called Directions and Priorities for the Modernization of Charitable Gaming, which maps out a plan to tackle the changes identified.

One of our goals was to find ways to reduce the regulatory burden and to provide more flexibility to the charities, while at the same time maintaining high standards of accountability, honesty and integrity within the industry. Recognizing that charities are largely volunteer-based, it is also very important to ensure that charity volunteers would be able to meet any administrative or reporting requirements we'd impose. Finding the right balance between these types of competing interests and priorities is not easy.

Our plan is strongly supported by the industry, and we have begun to deliver on a number of these priorities. For example, an interim revenue and expense model for the bingo industry was approved earlier this year to provide short-term relief for this sector. We have also conducted training sessions for our municipal partners on the updated policy manual, which was sent to all municipalities in the spring of 2005. There are many other examples. I would like, however, to discuss the report's findings with you and describe how the modernization initiative can assist us in implementing these recommendations.

We do appreciate the comments in the report identifying those areas where the AGCO was found to be performing well. For example, the Auditor General found that the standards, criteria and regulations established for the commercial sector under the act were sufficient to ensure the honesty and integrity of the industry. Although our upfront processes are working well, we recognize that improvements can be made in how we follow up with registrants to ensure they are in compliance with the terms of their registration.

Let me briefly touch on some of the operational points that were identified in the report and highlight some of our accomplishments.

First, we have developed a formalized file management system where core documents of charitable li-

censees are housed in order to assist us to more critically assess the eligibility of organizations, as recommended in the report.

A corporate risk-based enforcement strategy which will better utilize our resources in this area has been developed. The strategy is being implemented in phases. Our initial focus is on the Liquor Licence Act, and we expect to have charitable gaming enforcement fully integrated into this strategy by the end of the year.

We have also taken several steps to address deficiencies regarding how information technology projects have been managed. We have established terms of reference with ministry internal audit to involve them in the development of the new lottery system to ensure we are complying with government directives.

We are working on establishing more meaningful performance measures to better assess our operations.

We have also introduced audit requirements with manufacturers of break-open tickets to verify that the proper amounts are being collected for the provincial fee.

Finally, as I mentioned, many of the Auditor General's other recommendations have been or are being addressed through the modernization initiative, some through the recent training session on the policy manual, where over 65% of the municipalities participated. These sessions provided information on our modernization initiatives and also served as a forum for the AGCO to address a number of the report's recommendations. For example, we were able to reinforce the need for municipalities to verify the validity of registrations for service providers being used by charitable licensees. We were also able to provide information to municipalities on methods they could use to ensure that charities that receive proceeds from bingo sponsors' associations are used for approved purposes.

Although much progress has been made, there is still much more to be done. Through the modernization initiative, we will continue to work with our industry stakeholders to ensure that concerns raised in the report are addressed. Longer-term initiatives such as developing an industry-wide compliance strategy, delivering more effective and more frequent education programs to support our municipal partners, and developing internal procedures to more effectively administer the registration program will all be implemented by the end of this year. We also continue to work with the Association of Municipal Managers, Clerks and Treasurers of Ontario to discuss innovative ways of providing educational programs and on information-sharing initiatives.

I would like to thank the Auditor General for his recommendations. The report will assist us in making our operations more efficient. The improvements will help us fulfill our goal of enhancing honesty and integrity in the industry, and at the same time provide opportunities for charities to raise funds through the conduct of lottery events.

The Chair: Does Mr. Dowler have anything to say?

Ms. DiEmanuele: Not yet.

Mr. Rob Dowler: Just that the remarks of my colleagues and the deputy are available. If committee

members would benefit from those being distributed, we're happy to do that.

The Chair: Thank you. Mr. Zimmer, you have asked—

Mr. David Zimmer (Willowdale): Yes. Let me get to the core of my concerns here. At page 1, the whole idea of the—

Mr. Peter Kormos (Niagara Centre): Page 1 of what part? The auditor's—

Mr. Zimmer: Yes, under the paragraph "Main Audit Points."

The Chair: This is a document that you don't have. It's what the researcher has prepared for us.

Mr. Zimmer: The whole concept of the lotteries is to get monies into charities so they can do good things for the province. So everybody has an interest in maximizing the monies that the charities get that they are going to use for good projects in Ontario. That's the fundamental reason we are in the lottery business.

The auditor says the following, and this goes to the oversight issue: "Senior management at the commission did not believe it has the legislative authority to oversee municipal licensing activities and, therefore, had not established any processes for doing so."

What's the basis for that feeling, that you had no responsibility to oversee?

Mr. Dowler: Maybe I can start, and then Mr. Major may have additional comments.

The order in council, which the deputy indicated in her remarks we will be reviewing over the coming year, does set out the relationship between the alcohol and gaming commission and the province, as well as between the alcohol and gaming commission and municipalities. While the document clearly gives the AGCO and the director at the AGCO the ability to prescribe the form of certain documents that municipalities use in their licensing activities, it doesn't actually set up a regulatory regime between the AGCO and the municipality like we would have in the Consumer Protection Act or some of the other statutes that our ministry would be familiar with. For example, there aren't investigative powers provided to the alcohol and gaming commission authorities. They don't have the ability to require the production of books and records from municipalities without a search warrant. They don't have the—

Mr. Zimmer: So there's no oversight?

Mr. Dowler: There is oversight. Certainly, many of the things that are referred to in the Auditor General's report are areas where I think the current OIC would suggest there is a role to be played, and the AGCO has been increasing its role. Municipal training, for example: Clearly there is a relationship there. The lottery licensing policy manual that Mr. Major referred to in his remarks has been refreshed and provided to municipalities. Training sessions have—

Mr. Zimmer: In your opinion, the way things are presently operating, is there adequate oversight of lottery operations?

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Mr. Dowler: I think our response to the member's question would be that there are many areas of the auditor's report where we think we can do better. The AGCO has increased its activity, especially in regard to municipal training and in regard to the ground rules, the running rules that are supplied to municipalities. The lottery licensing policy manual is an example of that. More steps have been taken to improve the rules.

I think this is really the central question behind review of the order in council. In terms of whether we set up the AGCO to actually be an inspector or an auditor of municipalities, that's really a question where we're going to have to look at the advice and the recommendations of the Auditor General, and we're going to have to look at the extent to which municipalities have controls within their own operations that would go to that direction.

Mr. Zimmer: Whenever there's some oversight regime set up, that oversight is guarding against certain mischief. What do you think the principal mischief is that the oversight of lotteries should sort of drill in at? What principal mischief has to be addressed in the oversight regime? And I'm using "mischief" in the technical, legal sense.

Mr. Dowler: From a provincial policy perspective, the Gaming Control Act would want to ensure that charitable gaming is operated with honesty and integrity, and the Criminal Code, the federal guiding legislation, would want to ensure that bona fide charities are making use of the proceeds. These are charities as defined in section 1 of the Criminal Code. Those are the two main focal points.

Mr. Zimmer: Do you have any sense of what sort of detail or things may be going on that ought not be going on, other than that general statement?

Mr. Dowler: I think that would be a question for the enforcement authority, which would be Mr. Major.

Mr. Zimmer: I'm interested now in actual things that you think enforcement should be looking at.

Mr. Major: One of the things that's important to emphasize is that from the get-go in 1969, there was a deliberate public policy decision to decentralize the regulation of charitable gaming. So we have 445 municipalities, and for the lottery licensing component of it, we in effect have 445 regulators to issue licences. In 1993, there was a deliberate decision by the provincial government at the time to move and focus our energies on the commercial sector and regulate it in that way.

The primary areas that we investigate in enforcement are related to fraud or theft—misuse of lottery funds, as an example. Approximately 90% of the investigations that we conduct at the provincial level are matters that are referred to us or where we're asked for assistance by municipalities.

Mr. Zimmer: Do you have any sense, in this vast lottery regime, of the size of this problem?

Mr. Major: In the last two years, we investigated or had 25 complaints of misuse of lottery funds.

Mr. Zimmer: There are, what, 43,000 lotteries going on in the province?

Mr. Major: Approximately, yes.

Mr. Zimmer: There's a lot of opportunity for mischief there.

Mr. Major: There is, but there is a fairly sophisticated oversight regulatory structure in place, both at the municipal level and at the provincial level, where we control and regulate the operators. So it's fairly tight because we—

Mr. Zimmer: But I thought the whole thing was that there wasn't enough oversight of the municipalities, if you will, because you've delegated this down to the municipal level and that's where the mischief is. So who makes sure that the municipalities are minding the store?

Mr. Major: The municipal councils by themselves are responsible to make sure that they're administering their program properly. They're accountable, whether it be under the Municipal Act or other legislation, to make sure that they're complying with provincial requirements.

Mr. Zimmer: I understand that one of the principal mischiefs is this business of the direct costs of lotteries the operator can charge off for operating the lottery, but the operator ought not to move those funds over to his general overhead costs. Is that right?

Mr. Major: One of the things that's important to understand in charitable gaming is that the charities are legally responsible for managing and conducting the event. The bingo hall owner does not pay the charity, the manufacturer of the break-open tickets does not pay the charity; it's the other way around, and that's a requirement of the Criminal Code. Charities have to manage and conduct the event. They pay the supplier.

Mr. Zimmer: But they're only to deduct their direct cost of the lottery operation from the lottery proceeds. Is that correct?

Mr. Major: That's correct.

Mr. Zimmer: I understand, or I'm led to believe, that the real mischief is charging other indirect costs, if you will, and collecting those indirect costs from the lottery proceeds. So that money is not going to the charities. Is that a principal mischief?

Mr. Major: It could be, but we have no evidence of that kind of activity.

Mr. Zimmer: Why don't you? Do you have evidence that it's not going on or do you just not have any evidence as to what's going on?

Mr. Major: No. We audit the hall owners in terms of what they receive. Municipalities receive lottery reports in terms of how much money was raised at a particular bingo event and what was deducted from that. That money has to go into the bank account of the charity and be used for charitable purposes.

Mr. Zimmer: You think there are about 25 situations that have been investigated. Do you have any sense of how many situations municipalities have investigated?

Mr. Major: No, I don't.

Mr. Zimmer: Do you have any anecdotal sense of how many situations municipalities investigate? You do 25; do they do in the order of 100 or 1,000 or 20?

Mr. Major: It's difficult to speculate. I know that the Auditor General identified a couple of examples where municipalities ordered audits and found misuse of funds.

Mr. Zimmer: Do you have a sense of how many of those audits the municipalities have—

Mr. Major: No, I don't.

Mr. Zimmer: How many municipalities have you delegated?

Mr. Major: The delegation is issued to all municipal councils.

Mr. Zimmer: All municipalities in Ontario, and all we know is that we have 25 complaints that have been investigated in this vast scheme?

Mr. Major: That's correct.

Mr. Zimmer: Thank you.

Mrs. Liz Sandals (Guelph-Wellington): As somebody who comes from local governance, it seems to me that this whole issue around municipal responsibility is the structure that we see in all sorts of things—the Education Act, the Municipal Act and various acts—where once the authority is assigned to the municipality, absent some evidence that the municipality or the school board is misbehaving, as it were, the province has set up the regulatory structure, but then it's up to that lower-tier government to carry out the responsibility that has been assigned to them. Am I reading this legislative relationship correctly?

Mr. Major: Yes.

Mrs. Sandals: So this would be no different than—I don't know—municipalities being responsible for municipal roads and you don't have the province second-guessing whether the municipality correctly fixed the bridge. Is it that same sort of relationship?

Mr. Dowler: I think that's a reasonable way of characterizing the current order in council. The deputy, in her remarks, referred to the Building Code Act. It is the responsibility of every municipality to do inspections and to issue building permits. The standards are set by the province, much like Mr. Major's organization would set the lottery licence policy manual. Those standards are set by the province. In the Building Code Act, there is a fail-safe role for the province. In the case of a dire circumstance where something really goes wrong, the province could step in and review a particular file. But the province doesn't have the ability to basically pull a municipality's ticket like they would with a licensee. A similar kind of regime exists in the case of the current order in council.

Mrs. Sandals: However, I take it, then, that there's some agreement between the AGCO and the auditor that where the AGCO should be taking responsibility, or can at least be supportive, is around the whole area of policy manuals and training. I wonder if you could provide us with some sort of more detailed update on what you've done recently in response to the auditor's report in that respect.

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Mr. Major: Good question. We have updated the lottery policy manual. It's a fairly extensive document.

It's a guide for municipal councils on how to assess the eligibility of a charity, what's an appropriate use of proceeds and what kind of processes they should put in place when issuing a lottery licence. We conducted 10 fairly extensive training sessions with the Association of Municipal Clerks and Treasurers and we received feedback forms from them rating the seminar. We have a variety of municipalities—

Mrs. Sandals: If you had 10 sessions, I presume that different people came to each session. So how many municipalities would that have reached?

Mr. Major: About 65% of them. Of those, we have municipalities that are very engaged and very sophisticated in their lottery licensing program—Toronto, Windsor, Ottawa—and they issue a large volume of licences. You have other municipalities that may issue one or two licences a month. So we have to gear our training programs to meet the various needs.

In addition to those sessions, we also do one-on-one training sessions with municipalities and charities. We've conducted about 32 of those in the last two years. Last year, we did 10 of the larger training sessions plus eight individual sessions, where we go up and talk to the municipal clerks or the municipal council, and invite the charities as well, to explain roles and responsibilities. In addition, we are in the process of developing a compliance strategy, which is a guide to assist municipalities in the compliance area to make sure the charities are following the rules.

We met with the AMCTO in January to discuss different ways of getting to the municipalities and getting the information they need. That kind of support function is what we're focusing more on. We've done it a lot in the last several years, but I think we can do better and more.

Mrs. Sandals: I'll come back later with some more questions when you go around again.

The Chair: Okay, sure.

Mr. Kormos, do you have some questions?

Mr. Kormos: I want to thank Mr. David McIver for the valuable package of material. It's very helpful to us. Make sure Hansard got that: David McIver for the very valuable material that he produced for us. We appreciate it.

I want to join others in thanking Jim McCarter, the auditor, for his incredible service. Inevitably, the auditor is more delightful to members of the opposition than he is to members of government, but that's the nature of the beast.

Mr. Richard Patten (Ottawa Centre): No, no, not at all.

Mr. Kormos: What goes around comes around, and just as some of the Liberals here had the opportunity as opposition members to delight in the auditor's reports, I'm confident that other Liberal members will, at some point in their careers, have an opportunity to delight in the auditor's reports. I do want to thank the auditor. Thank you, folks.

Just anecdotally, let's talk about bingos for a bit, because bingos are the big cash industry, right? It's a

tough one in terms of keeping track of the numbers, isn't it?

Mr. Major: It is cash-intensive, yes.

Mr. Kormos: Just anecdotally, my sense is that folks who go to bingos like where I come from down in Welland don't say, "Let's go to bingo tonight because the money's going to Big Brothers." They go to bingo to play bingo, huh?

Mr. Major: I think that's fair, yes.

Mr. Kormos: So then what incentive is there for municipalities to proactively supervise, as compared to reactively in terms of responding to complaints from let's say a member of the board of Big Brothers who says, "Hey, we're getting stiffed. I volunteered that night, and that smoke-filled joint was full of daubers"? As compared to being reactive, what incentive is there for a municipality to be proactive?

Mr. Major: From my experience and discussions with municipal councils, they are very passionate about making sure that charities make as much money as possible. It's beneficial for their communities, and they want to make sure that the money that's supposed to go to them actually goes to the right places because, at the end of the day, it's in their best interests.

Mr. Kormos: In the breakdown, 5,500 bucks is the cut-off point for municipal licensing, and from that flows supervision?

Mr. Major: That's correct.

Mr. Kormos: Over \$5,500, provincial licensing and provincial supervision?

Mr. Major: That's correct.

Mr. Kormos: Which implies that there's no provincial supervision of payouts of under \$5,500?

Mr. Major: Whoever issues the licence is responsible.

Mr. Kormos: Gotcha. Is responsible or has the capacity?

Mr. Major: Is responsible.

Mr. Kormos: But not necessarily having the capacity?

Mr. Major: No, but that's when they would ask us for assistance, and we either provide it in the form of training or compliance and enforcement.

Mr. Kormos: Sure. When the \$5,500 cut-off point was created, was the consideration the prospect of a revenue source for municipalities or were there other issues as well?

Mr. Major: There was a very complex—you may recall, in the early 1990s—

Mr. Kormos: Oh, I do.

Mr. Major: I know you do. There was a document called Putting the Charities Back in the Driver's Seat that led to the more substantive reforms of charitable gaming in the history of Ontario, and that's the framework that we're reviewing now, once again. There was a process of refunds of provincial licences. Municipalities were only permitted to issue licences up to \$3,500, and the province had a complicated formula of providing rebates back to municipalities for a portion of the fees. The strategy was

that we would increase the level of authority for municipalities from \$3,500 to \$5,500. At that time, anything over \$5,500, as it is today, would be considered what they call a special bingo or a monster bingo. In exchange for that, we would stop providing the refunds to municipalities.

The context back in the early 1990s was very different than today. Bingo was booming, and you may recall as well, there was a moratorium in place. We had over—

Mr. Kormos: I'm Catholic. I know bingo from my earliest days.

Interjection: During catechism.

Mr. Kormos: During catechism, yes.

Mr. Major: The bingo industry moved from the church basement, where it was in the 1960s and 1970s, into a commercial operation. At this time in the early 1990s, there was no regulation of the bingo hall owner and, while there was a legitimate role for them to play, they grew substantially. This is when the whole thrust of putting charities back in the driver's seat was to get hold of the commercial operators to make sure that the rules were followed and that the charities were optimizing their profits.

Mr. Kormos: Of course, this was all in the context of the aggressive development of state gaming here in the province of Ontario.

Mr. Major: The government didn't start until 1993. That was the first casino.

Mr. Kormos: I remember that well, too. But this is all in the context of major state-sponsored casino gaming.

Mr. Major: Actually, the framework was developed without the knowledge that there were going to be casinos at the time in the early 1990s; at least not to my knowledge.

Mr. Kormos: I beg to differ. Floyd Laughren had a far different perspective.

The other interesting comment you made was that charities are required to run the event. They pay the supplier. That's exactly where this contentious legal opinion comes from in terms of the legality of the province's casinos, isn't it, in terms of whether or not it's the province of Ontario that should be running the casinos? You're familiar with the various legal opinions that have been rendered?

Mr. Major: Yes, I am.

Mr. Kormos: Is that the premise that those legal opinions are based on?

Mr. Major: I'm not going to get into manage and conduct of the OLGC issue, but the manage and conduct issue is the same for both: The Criminal Code requires that the province manage and conduct; the Criminal Code also requires that the charities manage and conduct.

Mr. Kormos: And must be questioned, of course, at the provincial casino level as to whether the province is really managing and conducting.

Mr. Major: That's my understanding, yes.

Mr. Kormos: Do we regulate what the—I found the phrase in the gaming commission's material—prize board is for bingos?

Mr. Major: The order in council sets maximums only. It's up to municipal councils to set lower limits if they wish, but ultimately the charities are the ones that determine what prize board they want to give out within those limits.

1030

Mr. Kormos: So we have no authority or control over, let's say, setting the minimum prize board?

Mr. Major: The municipalities have the authority to do so, if they want to pass a bylaw and do so, but they can't go over \$5,500.

Mr. Kormos: Does the province regulate the minimum prize board for provincially regulated and licensed charity gaming?

Mr. Major: On the bingo side, I'd say 99% [*inaudible*].

Mr. Kormos: Do we regulate it?

Mr. Major: Yes, in terms of [*inaudible*].

Mr. Kormos: But we set the minimum prize board.

Mr. Major: Well, it's 50-50, so it's—

Mr. Kormos: Okay, 50-50 in terms of net revenues.

Mr. Major: Right.

Mr. Kormos: What about the big-ticket raffles? I confess, I buy those. The fancy brochures, the concept—the prospect of a Porsche Boxster being parked in parking spot 120 for me is worth 100 bucks.

Interjection.

Mr. Kormos: You should. The CNIB, the Heart and Stroke, the Princess Margaret: Those are licensed by the province.

Mr. Major: The larger ones; anything over \$50,000.

Mr. Kormos: Does the province set minimum prize payouts in those raffles?

Mr. Major: No, we don't.

Mr. Kormos: Do we control or regulate how much the charitable beneficiary—the hospital, the foundation—has to receive?

Mr. Major: No, we don't.

Mr. Kormos: Then help us a little bit because, as I say, I just spent 100 bucks on a CNIB ticket. You get filings from these operators?

Mr. Major: That's correct, and audits.

Mr. Kormos: And the CNIB would hire a commercial company to run the raffle?

Mr. Major: Some do, yes.

Mr. Kormos: What kind of percentage of total revenues ends up being allocated for the CNIB, for instance—not the CNIB specifically. Princess Margaret or Heart and Stroke or the Red Cross is another one. Give us an example. Tell us what some of the percentages of the total revenues are that end up going to the charitable organization.

Mr. Major: Of the gross revenues, it would range anywhere between 30% and 50%. Of your \$100 ticket, half of that would actually end up in the charity's pocket. The rest goes to prizes, which ranges between 40% and 50%, and expenses, which generally range around 10% or 15%.

Mr. Kormos: I'm looking at the Michigan Lottery's charitable gaming division annual report for 2004, which Mr. McIver provided us with. In reference to large raffle revenue, their report indicates—first of all, they say that raffles yield the highest margin of profit: net profit of 52%, prizes 39% and expenses 9%. I should tell you that in terms of bingos, their percentages are pretty similar to the total estimates. Of the total—and it isn't broken down in the material we have here, at least not so far as I can find it—of money, wages and charitable gaming, 14.95% is proceeds to charitable organizations, approximately 13% is payments to goods and services providers and 1% or 2% for licensing fees, which gives you a prize payout of around 70%, which is pretty significant. That's the pie chart we've got here. That's consistent with bingo revenue in Michigan, right?

Mr. Major: Right.

Mr. Kormos: But it's a little bit at odds with what you tell us in terms of the big-raffle revenue?

Mr. Patten: It's a different deal.

Mr. Kormos: Please. It's a little bit at odds with the big-raffle revenue reported by Michigan.

Mr. Major: It is. Let me touch on the bingo. There's a problem with the prize structure, the prize board in bingo. I think that a prize payout of 77% or 73% is too high, compared to other forms of lottery product. It doesn't leave enough of a margin of profit for the charity or to pay for expenses. Typically, what we'd like to move the industry towards is a 65% prize payout. It's an issue of great consternation within the industry, believe me, which is why, on the bingo side, the municipal licences tend to be more fixed-prize board. That means, if you get a bingo licence for \$5,500, whether one person shows up that night or 500, you're giving away \$5,500. The provincial games, which are share-the-wealth, share-the-risk as well, so you get half of whatever is there; if one person shows up, the prize board is only half of what they put into it.

The ideal, and this is something that I have been working on since early 1990, is to have the entire prize board on a share-the-wealth concept, but it's a very controversial issue within the industry. There's not a lot of support for that, but we're nudging the industry towards that particular direction, because ultimately, in the long term, it's in the best interest of the charities.

The raffles are structured very differently. There are approximately 13 mega-raffles; this is over \$50,000. We spend a lot of time going through the details of the lottery proposal, and there are some very, very successful ones. I know that CHEO, the Children's Hospital of Eastern Ontario, ran some very successful ones and probably was one of the earlier pioneers.

There have also been some tragedies. There have been some charities that, against our advice that "You're going to have some difficulties here because you're running against major competition," or "We don't think your structure is proper," have insisted on moving along, and they've suffered some significant losses. Thankfully, those are very few. From a percentage basis, the mega-

raffles are more profitable for charities than bingo or break-open tickets. You're looking at 10% to 14% or 10% to 15% for charities, versus the mega-raffle, where you're looking at up to 50%.

Mr. Kormos: That takes me to solvency requirements. Do you grant a licence to an organization which may not be capable? And how do you test the capacity for paying out the prizes?

Mr. Major: For any prizes over \$10,000, we require a letter of credit. We're there to make sure that the charity succeeds, but there's also a consumer protection aspect. As a consumer of that \$100 ticket, you have an expectation of making sure that the Porsche Boxster is available if you do win that ticket. If the charity cannot meet its obligations, if they didn't make the sales, it's then up to the regulator to fulfill that contractual obligation, which is effectively what you have when you buy a raffle ticket—I don't believe we've ever had to do this—to cash in that letter of credit or that security to make sure that consumers get the prizes that they were promised.

Mr. Kormos: Again, just anecdotally, the days are long gone when the local Lions Club could raffle off a 19-inch television set. That type of prize level just doesn't seem to have panache. I think I know the reason why. I'm from down in Welland. Have you been able to identify regional differences in revenue? Because, for the life of me, I can't help but believe that if people can drive 15 minutes to Casino Niagara and have a crack at the promoted big prize, why should they bother buying the Lions Club raffle ticket when that's—

Mr. Patten: The odds are better.

Mr. Kormos: Richard, if people reflected on odds, nobody would be gambling. It's the biggest scam in the world. But I ask you, are there regional differences in revenues based, amongst other things, on proximity to casinos?

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Mr. Major: Certainly I think with bingo there is, because you're probably looking at the same patron base. On raffles, my experience is that if there's a trend that's bucking in charitable gaming, it's raffles—the mega raffles, at least. They're increasingly successful and they're very profitable. But there are very few charities that have the built-in sophistication to manage them, or the resources to make sure that they're successful. There is still a market niche for your small, local Lions Club, if you wish, raffle. I think those will continue no matter how many casinos you have in Ontario because there's a connection that's made between the purchaser and the community benefit or the community charity. They don't raise a lot of money and they're licensed by the municipalities, but I think those will continue and survive.

Mr. Kormos: I did a rough calculation, based on the 2004 Ontario census, that for every resident of Ontario over the age of 15, based on the total wagered of \$1.643 billion in charity gaming, that's 160 bucks a year. I hope my math isn't—the auditor will jump on it just like that. That's 160 bucks a year for every resident of Ontario over the age of 15 on charity gaming alone. I don't have

the numbers; how does that compare to the per resident amount spent in casinos and charity casinos and slots? Do you know?

Mr. Major: I don't know that number offhand, no.

Mr. Kormos: I wonder if you could get that for us.

In your December 2005 report, Modernization of Charitable Gaming, and the earlier consultation document, you talk about advertising and the need to—again, to be fair, you're speaking in this instance solely with respect to charitable gaming—promote charitable gaming, promoting gambling. How do you do that in the context of maintaining the social responsibility that I know you're committed to—let's say governmental responsibility?

Mr. Major: That's a good question. First of all, the AGCO does not advertise or promote; we strictly regulate. What we're trying to do through these rules is provide parameters to the charities on how they can promote their own lottery events. And you're quite correct: Part of our mandate is to ensure that we regulate with social responsibility. So we would look at making sure that they don't target advertising to kids by using celebrities, for example; that they don't target or promote that their lotteries will somehow improve your lifestyle, that you could be a rich person if you buy a break-open ticket. I don't think anybody has grand views within the charitable gaming industry that people will retire by playing bingo. It's just a perception from my perspective that many view charitable gaming, particularly bingo and break-open tickets, which are the mainstay of charities, as a rather benign form of gaming. What we're trying to do here is to see whether or not the rules with respect to advertising could be clarified to assist the charities in promoting their products better.

Mr. Kormos: I don't agree with the "benign" part about bingo gambling, because it's been pretty disastrous for a whole lot of folks and a whole lot of families.

But you do tolerate, apparently, glossy lifestyle-enhancement advertising when it comes to provincial lotteries. I've seen the brochures, I've seen the television ads. It's the "Freedom 55" sort of concept. And you don't even use North American cars; you use Italian-made Ferraris and Porsche Boxsters instead of good old Corvettes and Lincoln Town Cars. Why is that tolerated with respect to provincial lotteries when you say you won't accept it with respect to charitable gaming, but you tolerate lifestyle enhancement ads?

Mr. Major: No. We don't regulate provincial lotteries; we regulate provincial casinos but not lottery products.

Mr. Kormos: What do you think about the province's lifestyle-enhancement ads?

The Chair: You know, in fairness, the Alcohol and Gaming Commission—

Mr. Kormos: These people are experts.

The Chair: Okay, but I think we're getting a little bit beyond where we—

Mr. Kormos: Let's leave it at this: What do you think, then? You don't approve of lifestyle-enhancement ads for charity gaming. Why not?

Mr. Major: Because the gaming industry is intended to be entertainment and is not intended to be a retirement plan. We do regulate commercial advertising for the casinos in that same way.

Mr. Kormos: You're then basing that on the proposition that lifestyle-enhancement advertising is contrary to the premise of being socially responsible and governmentally responsible?

Mr. Major: In the Gaming Control Act, the regulations specifically outline limitations on advertising. That is one of them, so it's part of the—

Mr. Kormos: It's part of the responsibility?

Mr. Major: Yes, it is.

Mr. Kormos: Okay.

The Chair: Could I just ask a couple questions here?

Mr. Bill Mauro (Thunder Bay–Atikokan): The clock's ticking, Mr. Chair.

The Chair: Yes, I know.

In terms of the resources of the Alcohol and Gaming Commission, how many people are involved in this particular section of it? When we're talking about charitable gaming, I think about two big pies: One is the Point Edwards- and the Gananoque-type charitable casino. Excluding that and talking about really what is included in the auditor's report here, how many people are involved in the commission in that endeavour?

Mr. Major: From the licensing perspective, we have six lottery licensing officers and a manager. From an inspection and investigation perspective, that responsibility is shared between the liquor side and the charitable gaming side. A lot of our liquor inspectors will take up enforcement. I would say from an FTE perspective, we're looking at about 10 to 14 individuals on enforcement and six on licensing.

The Chair: The revenues that you gain each year out of this side for licensing would be how much?

Mr. Major: Approximately \$11 million.

The Chair: And you have a dozen people?

Mr. Major: Approximately 12 to 15.

The Chair: At the municipal level, do you have the right to ask a municipality, "How many licences are you issuing, what is your revenue, and what are you spending on the licensing and oversight area?" Do you have the authority to ask the municipalities those questions?

Mr. Major: I think we can certainly ask, and we have asked, how many licences they've issued. The question is whether or not we can compel them if they refuse to tell us, and I don't believe we can.

The Chair: So you can't tell whether a municipality—you mentioned Windsor, Ottawa and Toronto as having essentially good organizations with regard to their licensing and oversight functions. You can't ask every municipality what they're spending and what they're collecting with regard to charitable gaming?

Mr. Major: Again, I'd say yes, we can ask, but I don't think we can force them to tell us.

Mr. Kormos: Does that mean that you have no power to inspect the records of a municipality in terms of the licences issued?

Mr. Major: For the licences that they've issued? I don't believe we do.

The Chair: I guess the other follow-up would be this: If a charity doesn't feel that they've been treated fairly at the municipal level, what avenues do they have to appeal? Their point on the roster as to whether they get into a bingo hall or get chosen for a licence—do they have any appeal mechanism?

Mr. Major: There is no formal appeal mechanism in the order in council. In the municipality, if it's the licensing authority, the authority stops at the municipal council itself, so if they wanted to appeal—and I use that term loosely because it would be an informal request—it would be to their municipal council. It does happen on occasion that a municipality will come directly to the province, but we wouldn't interfere or intervene. We may ask the municipality if they want our assistance, but we certainly would not overturn their decision.

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The Chair: Given this sort of, it seems almost like a fuzzy relationship between the Alcohol and Gaming Commission and the licensing authorities at the municipal level, does the draft order in council, which you're sharing with the committee today, address that particular issue?

Mr. Dowler: The terms of reference, which I'll ask staff to distribute to members of the committee, with your permission, Mr. Chairman, is quite general in nature, but it is intended to respond to each of the recommendations of the Provincial Auditor with respect to municipal oversight.

The Chair: But does it give power to the commission to ask, demand and investigate if in fact there's something wrong at the municipal level?

Mr. Dowler: Just to be clear, the terms of reference are for a review of the existing OIC. The question as to whether or not that sort of authority should be provided is something that the terms of reference would require us to look at. That review would be conducted between now and fiscal year-end.

The Chair: This is not a draft order in council; this is just a terms of reference to look into something.

Mr. Dowler: That's correct. What will be distributed to members is the existing order in council with the terms of reference for a review, which my division will conduct in conjunction with municipalities and the AGCO over the balance of the current fiscal year.

The Chair: What kind of order in council would be necessary to have in order for us to ensure that an operator or a charity out there would, number one, feel that they were not being ripped off, and that if a municipality was being lax in enforcing their licensing regime, the province or the gaming commission would step in? What kind of a regulation or structure would be necessary in order to reach that goal?

Mr. Dowler: That's one of the issues that we will want to be looking at over the coming year, but there would certainly be additional authorities required in the order in council. In order to act on a complaint like that,

the AGCO would require investigative authorities, so they would need to be able to require the production of books and records for the purposes of ascertaining whether the complaint was founded or not.

Whether we could supply that in order in council or whether that would require an amendment to the Gaming Control Act—I would think it would likely require a statutory amendment, because you are basically suspending certain privacy rights and things of that nature.

In addition, as I mentioned earlier, the ability to suspend or revoke a municipality's authority to issue a licence is a fairly significant power. I don't know that that's something in law that we could delegate through order in council. It would likely require us to go back and look at the Gaming Control Act to see if we've given the director under that statute sufficient authority to act.

I think the broader policy question is, to what extent can we rely on the checks and balances that are supplied in the Municipal Act and in municipal legislation? Municipalities are duly elected. They do have to get an external audit done each year by a chartered accountant. Most of the larger ones do have internal audit functions. To what extent do we want to recreate those functions in the AGCO, because they would require taxpayers' monies to be expended in pursuing that goal? That's the policy question. I think the auditor has given us a good perspective on that, and we want to make sure that we follow up responsibly.

The Chair: The Alcohol and Gaming Commission has a quasi-judicial body already set up to deal with licensing of alcohol in this province. I presume that the commission could also deal with licensing matters in terms of appeals or in terms of gaming.

Mr. Dowler: It's possible. Again, that might require a statutory amendment. I don't know if that's something we would look at in the course of the coming year. I don't know whether it would be the commission or a body like the licence appeals tribunal, which would give a little more distance on it, but those are issues we would look at.

The Chair: Okay. Mr. Mauro.

Mr. Mauro: Mr. Major, how many years have you been the CEO or involved at the AGCO?

Mr. Major: Two years.

Mr. Mauro: I'm interested in this information in our briefing note: "In 1997, the Management Board provided funding to strengthen controls and ongoing funding to hire six staff to monitor and audit the production..." and it goes on to say that the staff were never put in place.

The sort of macro issue for our side, and I think for most, is this disagreement between the ministry and the auditor in terms of what the OIC allows you to do in terms of oversight on the municipal licensing function. It sounds to me like those six staff were intended to provide an oversight function on the break-open tickets. I would assume that the OIC applied the same to the break-opens as it did to the municipal licensing function. So my question is, if there is disagreement within the ministry in the AGCO that the OIC doesn't provide that latitude in

the first place, why would we even take that money? Why would the ministry or the AGCO even say, “We’re going to take the money that Management Board provided us because you didn’t think you could do that work anyway”?

Mr. Major: I think there are two issues. One is whether or not we have the authority to oversee municipalities—

Mr. Mauro: But, Mr. Major, and I’m sorry I have to interrupt you, it’s clearly been indicated here today that in the opinion of the ministry and the AGCO, you don’t feel you have that authority. So I go back to my question: Why then would you take money that’s intended to allow you to hire staff to perform a function that you don’t think you can do in the first place?

Mr. Major: The oversight that we’re talking about with respect to the break-open tickets is over the registrants under the Gaming Control Act, not the order in council.

Mr. Mauro: So the order in council does not apply to the break-open ticket piece?

Mr. Major: In terms of the authority to issue a lottery licence, it does. With respect to—

Mr. Mauro: Not to issue licences, but the oversight piece is the part I’m interested in.

Mr. Major: The oversight piece in all forms of gaming follows two streams: through the charity, and that’s a dual responsibility between municipalities and the AGCO with respect to who issues the licence, and through the registration process, which is under the Gaming Control Act, where we regulate the supplier. So both ends are regulated; there are two streams. There’s clear oversight responsibility and legislative accountability for the commercial sector under the Gaming Control Act. So the manufacturer, the distributor and the seller of break-open tickets are all regulated under the Gaming Control Act, but the Gaming Control Act does not apply to municipalities, and we don’t register charities under the Gaming Control Act, just the commercial private sector operators.

Mr. Mauro: I see. So what you’re telling me is there was good reason for you to take the money and hire staff to provide an oversight authority on the break-open tickets?

Mr. Major: Yes.

Mr. Mauro: I suppose the question then is, why didn’t that happen? Are you still getting that money? Is that still in your budget?

Mr. Major: There was one-time funding in early 1997.

Mr. Mauro: That’s not what we were told.

Mr. Major: And some ongoing funding.

Interjection.

Mr. Mauro: We were told the money for the operational expense—was it three years?

Mr. Jim McCarter: Yes, basically it was \$1.25 million in each of the first two years and \$1.1 million in the third year, and they indicated that they approved funding of \$0.6 million annually thereafter for the ongoing cost of

six permanent staff. However, as you go on, the money kind of gets buried in the overall funding approval from the ministry.

Mr. Mauro: So the money is still flowing for those staff, and those staff haven’t been hired, so it’s built into the budget that the oversight function on the break-open piece that these staff were intended to provide is not happening. Is that fair to say?

Ms. DiEmanuele: I’m working with the commission as we speak in terms of putting in a tracking option, so we will be reporting back as part of our response to the auditor’s report within probably the next six months.

Mr. Mauro: In 1997 the suggestion was that this needed to happen, and it’s 2006 and, I’m sorry to say, we’re working on it. There’s been funding for six staff for nine years that—

Ms. DiEmanuele: I’ll let Mr. Major speak specifically to some of the activities that the commission did engage in.

Mr. Dowler: Before Mr. Major offers his thoughts, it might be helpful to the committee just to look at the overall budget appropriation for the AGCO. I think Mr. McCarter indicated that the entire appropriation process is subject to the full review of every year’s request of Management Board. This would be considered along with any number of other projects and factors. But since 1997, the AGCO’s base in that year from estimates was \$39.2 million. The next year, it didn’t move materially. It was up to \$39.5 million, a little less than inflation.

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Mr. Mauro: Yes, but the point is that the function the money was supposed to lead to never occurred.

Mr. Dowler: That’s correct; the auditor has pointed that out. But I didn’t want to leave the committee with the impression that certain monies were obtained and the budget ratcheted up and stayed there.

Mr. Mauro: You could make the point that the budget should be lowered by the amount of those six positions. But I’m less concerned about that part of it than about the oversight function on the break-open side, which was recommended in 1997, that apparently is not occurring to this day.

Ms. DiEmanuele: I’m just waiting for options on that from the commission, and we will be putting something in place.

Mr. Mauro: So you’re suggesting that you have begun or will be beginning the review of the OIC?

Mr. Dowler: We will be completing that work by the end of this fiscal year, and the terms of reference are available for the committee.

Mr. Mauro: So it has begun or will be beginning?

Mr. Dowler: The terms of reference have been drafted and are here for the committee’s consideration.

Mr. Mauro: Okay. So that will be done by the end of the fiscal year. When it’s done, what will happen with it?

Mr. Dowler: It depends on the outcome of the review. Some steps that the auditor has recommended have already been executed on. So, as the deputy indicated, the AGCO has brought out a new lottery licence policy and

manual, increased training for municipalities—65% of municipalities have been trained—worked with the Association of Municipal Clerks and Treasurers, looking at the revenue model for certain charitable games, etc. So those things are in play right now.

In terms of the policy review, my division will be looking at the overall orders that are provided to the AGCO, and that work will be completed with the full consideration of I think the central policy issue that the Auditor General has brought to our attention, which is how much licensing oversight of municipalities the AGCO should have, to what extent we treat municipalities like licensees, because in our view—and we have kind of traded legal opinions on this—the current OIC does not provide that authority to the AGCO.

Mr. Mauro: In what year was the OIC you're working under developed? Has it always been the same?

Mr. Major: It was developed in 1993.

Mr. Mauro: Okay, and previous to that, was there a different system in place? Was the oversight function different under the previous OIC? Was there a role for the AGCO or its predecessors to perform under a previous OIC?

Mr. Major: No. The oversight role was the same since 1969.

Mr. Mauro: Okay. Thank you, Mr. Chairman.

The Chair: Mrs. Sandals.

Mrs. Sandals: First of all, could I ask you about the numbers you just gave? I thought I heard you say \$39.2 million, and then the following year, \$39.5 million. Are those the years before and after, when this extra \$1 million-plus supposedly flowed?

Mr. Dowler: I believe the auditor has indicated that the discussion of that appropriation was in 1997. So that would have been fiscal year 1996-97—I'm sorry, let me just check that. Yes, 1997 is correct. The numbers I have given you are for the last five years. Actually, I'm sorry; I'm a little later in time.

Mrs. Sandals: What I was trying to figure out was, sometimes you get management board saying, "Here is money for this," but at the same time, money for that disappeared out of the base, so when you look at the net, it's questionable whether money actually flowed at all. That's what I was trying to figure out.

Mr. Dowler: Every year; members will know.

Ms. DiEmanuele: I think the principal point is that obviously the commission is constantly looking at its pressures and making judgment calls and decisions with the board on where it needs to be dealing with priority items.

Mrs. Sandals: If we could go back on that tack then, we've talked about risk-based enforcement, but if I'm understanding the structure at AGCO properly, when you're evaluating the risk, the things that are in the hopper are the municipally issued licence for the Optimist TV raffle in Puslinch and the enforcement of the downtown bar in Guelph that spills university students onto the street—it's a 2 o'clock drunk every Thursday night, and the professional—

Mr. Kormos: Hey

Mrs. Sandals: Nobody is going to argue that I'm being accurate; it's what to do about it that's under discussion—and the commercial casinos, that when you're looking at risk base, your inspectors are looking at all the above.

Mr. Major: Absolutely. We have three lines of business, as you mentioned. There's the liquor industry, the commercial casinos and charitable gaming. Each poses a different form of risk. There is also some history, an evolution of those three industries, that needs to be taken into account. The liquor industry is by far a more mature industry than commercial gaming, which was started in 1993.

When we deploy our resources, we look at risk from a corporate perspective, and then we drill down on each one of those business lines. Corporately, if I'm going to assign a liquor inspector to go to Kenora, public safety in a bar is paramount and will take more precedence than inspecting a break-open ticket seller. So the decision on deployment of resources is based on corporate risks first. We'll say, "While you're in Kenora, visit these three establishments," because we're looking at public safety, overcrowding, drunkenness, serving minors, "and while you're there, there's a bingo hall. Could you please pass along and go take a look?"

That corporate strategy has been developed, and we focused on the liquor side first. What we've committed to doing now is drilling down to charitable gaming. The focus on charitable gaming isn't public safety so much; there are no public safety issues with respect to the sale of bingo paper. But there are issues of public perception. In gaming, whether it's charitable gaming or commercial gaming, the public perception that the games are on the up and up is very important, and that's what we focus most of our attention on: protecting the public interest and the public perception of the product itself.

Mrs. Sandals: I just wanted to make sure that we've got a clear perception of what risks you're actually evaluating when you deploy the inspectors.

We've talked about the consultation on the whole area of charitable gaming. In Guelph, the commercial bingo halls—the things where as the mom of a kid I would get called, "It's your kid's charity's turn," and you would go and staff the bingo that night—closed down when the municipality brought in a no-smoking bylaw at bingo halls; they just up and left town. There actually is no commercial bingo in Guelph, those conventional bingo halls, so bingo takes different forms.

One of the forms is a TV bingo option that one of the local charities runs on a local cable channel. They've spoken to me about this issue of having to document where the charitable proceeds are going. They were actually presenting the other perspective. Their particular charity is setting up a fund for children with special needs that's sort of like a Children's Wish Foundation model in which they help families, as requested, with extraordinary costs. Their point was that it's very hard to document extraordinary costs on demand when we go to

document that the proceeds we receive are actually going to charity.

I'm wondering what sorts of conversations you're getting into with the end charities in that, yes, we need to make sure the money is going to charity, but not make the paperwork so onerous that it actually becomes difficult for the local charity to deliver to the people in the community whom they need to deliver to.

Mr. Major: That's a constant struggle. That's the balance I was referring to earlier on. We realize that the charities are operated largely by volunteers. There are some larger charities that have full-time staff, but your grassroots charities are run by volunteers. If they're faced with a mountain of paperwork just to get the licence, and then reporting requirements afterwards, many of them just throw up their hands and say, "It's not worth it."

We are mindful of some of the principles that the Auditor General has raised on accountability, and we need to try to balance that. I don't think there's ever a point where we actually reach that. It's a continuous journey; it evolves. But again, there's also a risk management issue here. There are some charities, I think—because they're accountable under the Charities Accounting Act and the public trustee and Revenue Canada—that we can feel more comfortable about not having to require such onerous documents of because of those other oversight bodies.

Then, looking at the amount of money being generated, should we require simply compliance reports for charities that raise under \$10,000 a year and reduce the paperwork because the risk there is lower, and focus more on charities that make \$100,000 or more? Those are the discussions we're having with the charities now and, quite frankly, with municipalities, because they have to be part of the solution.

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Mrs. Sandals: Just as a follow-up to that, the other odd form of bingo that we have in Guelph, having no bingo halls, is an annual event called Black Tie Bingo. I'm sure this is one where the prize board is high enough that it's probably a licence that the AGCO issues. We have a high-end fundraiser where everybody gets done up in black tie regalia, has a very nice dinner, and we ultimately end up playing bingo. Somebody has put the fear of God into the hospital foundation that operates this that all wine must be off the tables before the bingo begins because it would be illegal to be drinking wine and playing bingo at the same time. Whatever you're doing, this regulation is religiously enforced. Somewhere out there people have caught on to the rules. Thanks.

Ms. Deborah Matthews (London North Centre): Chair, I have a question.

The Chair: There's about three minutes left in the Liberal time. We come back. Mr. Zimmer also has some questions later.

Ms. Matthews: Well, the question will be quick. We'll see how short the answer is.

The Chair: You go ahead, Ms. Matthews.

Ms. Matthews: Thank you. I want to go back to the question of complaints. You mentioned you get about 25

complaints a year. Who makes the complaints and what's the nature of those complaints?

Mr. Major: The complaints I was referring to were investigations we've initiated. Many of the investigations relate to a charity misusing funds or misappropriating funds.

Ms. Matthews: So who would have made the complaint?

Mr. Major: I'd say 90% of the time it's the municipality. They've asked us to help them investigate. A municipality may investigate on their own, and many of the larger ones do, but some of the smaller ones, particularly if it involves a potential criminal offence, would ask us to intervene and assist them.

Ms. Matthews: My concern was that we were asking charities to complain about themselves. If so, I can understand why there would be such a low number. But actually it's the municipalities where for some reason there's a flag that goes up and they're suspicious, so they ask you.

Mr. Major: That's correct.

Ms. Matthews: Then at some point it becomes a police investigation, I assume?

Mr. Major: Yes.

Ms. Matthews: That's really all I wanted to clarify.

The Chair: Do you have any questions you want to ask?

Ms. Lisa MacLeod (Nepean-Carleton): I just want to follow up with Ms. Matthews's question. So 25 is the total number that you have received from municipalities, but the number could be much higher at the municipal level across the province?

Mr. Major: Yes.

Ms. MacLeod: Do you have any indication of what that number is?

Mr. Major: No, I don't; not offhand.

Ms. MacLeod: How can we find that number?

Mr. Major: The best is to ask municipalities to submit the information.

Ms. MacLeod: So there's absolutely no mechanism in place for oversight for not only complaints but also to make sure that the money charities are raising is actually going to charities?

Mr. Major: There is an oversight, but the municipality or the municipal council is charged with the responsibility of that oversight for the licences they issue, and we're responsible for the licences we issue. What we don't have is us, as a regulator, having oversight responsibility over the municipal council's activities.

Ms. MacLeod: So we essentially only have data about 25 that could be potentially criminal. But we don't have data on, for example—I heard anecdotally today that in one municipality about \$3 million was found that was supposed to go to charities and didn't. We don't know, for example, how many millions of dollars are not actually going to charities?

I guess what I'm getting at is, do you have any recommendations for a legislative mechanism so that there are maybe spot audits of charities or municipalities to ensure

that the money that people contribute to charities is actually going to charities?

Mr. Major: The anecdote of \$3 million, in my view, is an example of how the system is working, and working well. A municipality, on its own initiative, has the responsibility to verify that charities are supposed to get the money they say they got and that it went to the approved purposes. The fact that they found it indicates that, yes, municipalities are doing what they're supposed to be doing.

Ms. MacLeod: It's one example, and I guess what concerns me is that there are probably other examples out there where that's not occurring. What I'm looking for, I guess, is a solution from you folks, if you have any ideas, on whether or not we should offer spot audits; this is the public accounts committee, and we're looking for accountability. When you hear examples like \$3 million, that is great, and I applaud that community for actually taking that initiative. But what we're hearing is that there are best practices and worst practices in this province. We're going to have to make sure that everyone is in line with best practices. I think it ought to start here at the provincial level, where those best practices are actually disseminated to the municipalities.

Mr. Major: Our recommendation would be that, first of all, we clarify the roles and responsibilities—make it clear—and provide better and more support to municipalities. It could be done in the form of training, but also by implementing a compliance strategy to, again, give the municipalities the tools, the information as to what the responsibilities are, and the assistance and support on how to properly regulate the licences they have issued.

Ms. DiEmanuele: If I could just emphasize that, it will have to be a three-pronged or graduated kind of solution. I don't think there is one particular mechanism. The terms of reference will allow us to do the role clarity piece. We're already working with the commission on the enhancement of training and the provision of information, so that municipalities are very clear about what is available to them currently and are able to carry their roles and, ultimately, whether or not there are legislative or regulatory mechanisms that can strengthen but, at the same time, achieve the balance that Mr. Major has spoken about as well.

Ms. MacLeod: Thank you.

The Chair: Mr. Kormos, do you have more questions?

Mr. Kormos: I want to follow up on the last comments by Ms. Sandals. The only time I've been to Ontario's casinos was on picket lines—OPSEU at Niagara Falls and CAW down in Windsor. I have never been inside one. Can you drink in a casino? If you're in the VIP blackjack room, can you drink at the table?

Mr. Major: Yes, you can.

Mr. Kormos: But you won't let rich folks get all drunk up when they're playing bingo in Guelph?

Mr. Major: There are restrictions under the Liquor Licence Act. In order to consume alcohol in a bingo hall, among other venues where the sale and service of liquor

is not the primary business, would require an amendment to the Liquor Licence Act regulations. That is one issue that had been raised by the industry, saying, "We'd like to have, maybe, beer and bingo." That's part of our consultation process.

Mr. Kormos: I'm not sure I'd go that far, but I'd be more than pleased to let rich folks in Guelph get all drunk up when they're spending money on bingo. I'd support that private member's bill.

But I want to tell you, Ms. Sandals: If you leave a bar at 2 a.m. and you're not drunk, you've been paying for watered-down drinks.

The Chair: Are you finished?

Mr. Zimmer, do you have some questions?

Mr. Kormos: No, I'm not finished.

The Chair: Oh, I'm sorry. I thought you were.

Mr. Kormos: I appreciate Mr. McIver's drawing our attention to the auditor's comments about the information technology project, yet another—correct me if I'm wrong—IT horror show. One of the questions that is begged, in view of the observation that the consultant was selected from an internal vendor of record established by the commission in October 2003—is that correct?

Mr. Major: An internal vendor of record from the ministry of the government.

Mr. Kormos: From MGS?

Mr. Major: Yes.

Mr. Kormos: And there was one contract with a value of \$60,000 that had been signed for that assignment?

Mr. Major: That's correct.

Mr. Kormos: And the consultant was paid a total of \$286,000?

Mr. Major: Yes.

Mr. Kormos: That indeed is far better odds than any raffle or slot machine.

And the consultant still hadn't completed his work as of his last invoice to you?

Mr. Major: That's correct.

Mr. Kormos: And the consultant was apparently fully paid before key deliverables were received?

Mr. Major: Yes.

Mr. Kormos: And the consultant didn't provide a breakdown of names and hourly rates of employees performing the services?

Mr. Major: We do have that, yes.

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Mr. Kormos: Was that after the fact, after the auditor's report?

Mr. Major: The auditors, I believe, requested it.

Mr. Kormos: And similarly, not only the names and rates of the employees but details of the work they were performing hadn't been provided until the auditor raised the issue?

Mr. Major: That's my understanding, yes.

Mr. Kormos: Nobody had asked for it?

Mr. Major: We would have asked for it. We would have had the breakdown before paying, before the completion of the project.

Mr. Kormos: But you had asked for it before the auditor noted the absence of it?

Mr. Major: I'm not sure.

Mr. Kormos: And the rates were not in compliance with the October 2003 contract that had been signed?

Mr. Major: That's my understanding, yes.

Mr. Kormos: And one of the illustrations we were given was that a \$440-an-hour rate was charged for a job that was only supposed to have been paid, my goodness, \$375 an hour?

Mr. Major: That's right.

Mr. Kormos: An overpayment of \$3,120 for that one worker?

Mr. Major: Yes.

Mr. Kormos: Well, you know the questions that begs. Why was there no business case developed for these projects?

Mr. Major: We believed we had one. Obviously, it didn't meet the guidelines of the ministry.

Let me offer this by way of explanation, not excuse: The lottery system we had was developed, I believe, in 1990 or 1991, and it effectively replaced typewriters at the time. It was designed on a—

Mr. Kormos: A computer system?

Mr. Major: Yes. It was a not particularly sophisticated, simple database—very limited functionality—developed on software that is no longer supported. Our plan B for this was the purchase of typewriters.

We have three legacy systems: one for liquor registration, one for gaming registration and one for lottery licensing. Those three computer systems were relatively old infrastructure and don't talk to each other. The plan was to develop one comprehensive system that deals with all three lines of business, updated and upgraded, which would require quite a bit of resources and time and a re-engineering of our business process, which is a very, very lengthy process. We don't have huge databases, but our business processes are somewhat complicated.

We had been working on that particular larger, broader IT plan. What was brought to the executive's attention was that portions of the lottery system database had been corrupted. We couldn't find anyone to fix it, and it couldn't be fixed. So we were not only losing the data but we were losing the functionality, and we had to either invest immediately—depart from the broader plan and do a lottery system right now—or purchase typewriters. That was the choice the senior management team had.

Mr. Kormos: Where do you buy a typewriter nowadays?

Mr. Major: I don't know. We'd find something from archives, I suppose, somewhere.

This was identified as a risk by the ministry audit risk management team about six months prior, and there was a mission-critical issue here. We needed to have something in place.

To us, the decision was fairly obvious: We needed to have a system, and because we don't have the full picture yet, we didn't want to design a system we would later

have to throw away. So what we asked for was: "Develop a system that has sufficient flexibility, that meets government standards and that we can build upon later and add to it the satellite pieces of gaming and liquor." So we went from just replicating the existing system with limited functionality, which is a \$60,000 project, and then, when we got into the scope of the particular project, we said, "If we want to make sure we can build upon this later on, we need some additional flexibility within it, and we need to meet government standards so that we're not limiting ourselves in the future to external application of the database" to municipalities, as an example.

So the decision was made to expand the scope and also take the opportunity at that time, because we had the benefit of some of the earlier comments from the Auditor General, to incorporate some design features in our system that would accommodate some of the concerns that were raised in the report.

With respect to the individual fee paid, we are not paying more than \$286,000. While it is true that we did pay the higher rate, the \$440 versus the \$375, the overall amount of hours that were allocated to design this project were higher than what we actually paid. So the consultants put in \$292,000 worth of work, and we will bill \$286,000. The reason is that we used more of the more senior consultants and less of the less experienced and the lower-paid consultants, but overall, there was value for money.

Mr. Kormos: Nobody by the name of Jeff Lyons or Tom Jakobek was involved?

Mr. Major: Not to my knowledge, no.

Mr. Kormos: I just wonder, why would you pay apparently the final payment, \$286,000, when we're told—and if we're wrong, tell us—the key deliverables hadn't yet been provided?

Mr. Major: The short answer is, we had the money then and we didn't expect to have the money the next year.

Mr. Kormos: You mean you were in a position where you would have had to dishonour your contractual obligations to pay?

Mr. Major: Well, we had a long working relationship with Deloitte, so they were a known commodity—that was the consultant that did this—and we were able to find \$150,000, I think it was, within that fiscal year's budget, so we prepaid it.

Mr. Kormos: I think I know what you did. You had that money in the budget, so you paid up front so that you wouldn't have to lose that money out of the subsequent year's budget.

Mr. Major: That's right.

Mr. Kormos: Even though the contract hadn't been completed yet.

Mr. Major: That's right.

Mr. Kormos: Is that good business practice?

Mr. Major: No, it isn't, and we have taken steps to make sure it doesn't happen again.

Mr. Dowler: From a ministry perspective as well, the government has just refreshed its memorandum of under-

standing with the Alcohol and Gaming Commission of Ontario. That's been approved by Management Board. The relationship between the ministry and its agency does require—and the chair of the AGCO has signed on to this—that, as reported, applicable guidelines and directives will be enumerated and will be upheld. I know Mr. Major has a couple of IT projects ongoing right now. The ministry audit committee has been made aware of them and internal audit is involved. One of the auditor's recommendations was to have the engagement of the internal auditors up front. That step has been taken. So I think on a go-forward basis, Mr. Major has indicated that this was an exception. It's certainly not an indication of future practice.

Mr. Kormos: As a lawyer, I suppose it's somewhat ironic that I would criticize a \$440-hourly rate, but exactly what does one do in the context of IT to be paid \$440 an hour?

Mr. Major: I believe those rates are competitive.

Mr. Kormos: No, but what is the task?

Mr. Major: It's to actually design—what are they called? Not the framework but the—

Interjection.

Mr. Major: —the architecture of the system.

Mr. Kormos: David, let's get ourselves over to George Brown College right away and get some up-grading.

Why would you pay in excess of the \$375? Why wouldn't that have been caught, the \$440 instead of \$375?

Mr. Major: There was a decision made by the steering committee that they could save time by having a more senior consultant do more of the work, which was the one who came at the \$440, as opposed to two of the more junior ones at the lower rate.

Mr. Kormos: Didn't they think this was going to bite them on the butt when somebody like the auditor came across it?

Mr. Major: Apparently not. But there wasn't an attempt here to try to conceal it.

Mr. Kormos: Obviously not.

Mr. Major: No, and I don't think the Auditor General is suggesting that there was no value for money for the project itself, but rather that the guidelines weren't followed and the prepayment was inappropriate. We fully agree with that and we have put measures in place to make sure it doesn't happen again.

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Ms. DiEmanuele: Mr. Kormos, if I could just add, Ministry of Government Services also has responsibility for the oversight of I&IT as a whole, and you'll be aware that the ministry released, about a year ago now, in July of last year, a report on large-scale IT projects. Although focused on larger projects, I think there are many lessons to be learned for all IT project management. There were 16 recommendations contained in that report. By June or July of this year, all will have been implemented. They include things like better front-end planning, which I think this particular project could have benefited from;

better what we call "gating" in an IT project, where you have some opportunities to pause and reflect on where you're going next with a particular project and whether or not you have some risks that you hadn't thought of earlier on; score cards to really get value for money throughout this project, not just at the end of a project, to find out whether the investment delivered on what you were looking for; again, so you have a chance to calibrate and recalibrate within a project management discipline.

I could go on. But there are a good 16 recommendations. This organization certainly could have benefited from that. We will work with them, as we'll work across all of government, to improve our performance on the implementation of I&IT projects.

Mr. Kormos: You anticipated the final question, and that is, what controls haven't been implemented, and that's what you're addressing. It clearly wasn't Andersen Consulting or else it would have been millions of dollars over contract price. Thank you kindly, Chair.

The Chair: Mr. Zimmer?

Mr. Zimmer: Just very briefly, do I understand that the budget of the Alcohol and Gaming Commission of Ontario is somewhere in the high 30s?

Mr. Major: It's \$39 million, yes.

Mr. Zimmer: How many FTEs have you got working there?

Mr. Major: It's 497.

Mr. Zimmer: How many of the 497 are dedicated or assigned on an FTE basis to the charitable gaming side of things as opposed to the alcohol side of things?

Mr. Major: On the charitable gaming, six licensing officers plus a manager.

Mr. Zimmer: Sorry, just give me that again.

Mr. Major: Six lottery licensing officers and one manager. On investigations, the responsibility is shared. There are approximately—I want to be consistent with my previous on this—10 to 14, I think is what I said.

Mr. Zimmer: Shared?

Mr. Major: Yes. For example, liquor inspectors or OPP detective constables who have dual responsibility for liquor and gaming.

Mr. Zimmer: Of the 10 shared FTEs, how much of their time are they spending on gaming as opposed to alcohol matters? Do you have any sense?

Mr. Major: It depends on the function. On the inspection function, it's very small. I'd say that approximately 2% of inspection time is spent on charitable gaming. The bulk of the time is on liquor.

Mr. Zimmer: So in the summary of the high-30s budget, 597 FTEs—I'm sorry, 497 FTEs—there are six officers and one manager dedicated to gaming and 10 shared employees working gaming and alcohol, and they devote a small amount of their time to the gaming side.

Mr. Major: Just on inspections. There are police officers who do what we call due diligence investigations or background checks. On volume here, if you look at the number of registrants that we have on the charitable gaming side, it's approximately 9,000. On the commercial gaming side, it's more than double that. We have a

team of 14 OPP officers, for example, called the corporate investigations unit. Their sole task is to do background investigations, which look at criminal record backgrounds, financial history, relationships, conflicts. Their resources there—

Mr. Zimmer: But when you're back to the seven full-time and 10 shared, out of the 497, was it? That means we've got, say, 485 on the alcohol side, and seven and 10 part-time on the gaming side, and you're overseeing responsibility for 43,000 annual licences, \$1.6 billion in revenues with a net of about \$246 million that goes to the charities. How do you manage that big operation with seven full-time and 10 part-timers?

Mr. Major: It really goes back to the risk management approach that I spoke of earlier. The charitable gaming industry, at least the commercial sector, is relatively new. It evolved in the late 1980s and early 1990s and was regulated in 1993 when the Gaming Services Act was introduced, so it wasn't particularly sophisticated. It's grown significantly since then and we have a much more sophisticated network of suppliers and business models out there, similar to the commercial gaming operators. It's relatively new. Again, it's 1993 since we had our first casino, and the standards, since there was no history there for entry into casino business, were set very, very high.

Then we have the liquor industry, which has over 60 years of history and is accustomed to a particular approach to regulation. We spend a lot more time in our enforcement approach on liquor with respect to inspection because the violations are very often visual—less so on the commercial gaming side. On the charitable gaming side, one of the primary principles that we try to enforce is preventive.

Mr. Zimmer: But the thing that strikes me—one of the answers is, “The responsibility has been delegated to the municipalities,” but nobody knows what the municipalities are doing, if much. Have I got that right?

Mr. Dowler: Maybe I could speak to that. I think the comment about municipal oversight really goes back to the terms of reference that we've released, but it also goes to the question of municipal law generally. There are requirements in the Municipal Act that municipalities are obliged to uphold. It's not that they're not supervised; they have to have audits, they have to have councils, they have to have minutes, they have public meetings.

Mr. Zimmer: But you've delegated your delegation.

Mr. Dowler: That's the way the province behaves on a number of fronts.

Mr. Zimmer: Please, I don't mean this in any way personal to the commission or to any of the people involved in the work of the commission but just as a theoretical. We've got a responsibility that the commission has that has been delegated down to the province. We don't know what they're doing in terms of managing that. At the head office, if you will, we've got seven full-time and 10 part-time employees, FTEs, managing this file.

Mr. Major: One point that needs to be very clear here is that the delegation does not come from the commission.

Mr. Zimmer: I understand that. All right. Thank you, Mr. Chair.

The Chair: Mr. Kormos.

Mr. Kormos: I think there's just a general undercurrent of concern about this split jurisdiction, municipal-provincial, and the lack of clear interaction. One is in terms of Mr. Sterling's inquiry about—because most of us as MPPs have experienced this—what does a Lions Club or a Boy Scout group or Big Brothers do when the municipality says, “No, you're not entitled to a licence to participate in a bingo or to run a raffle”? It's very frustrating for them not to be able to access—because in many respects, you're the source of the municipality's authority, right?

Mr. Major: The order in council is, yes.

Mr. Kormos: And the order in council creates you. So it's frustrating for them not to be able to access you to get a review, let's say, of that decision by a clerk that's compelling. Is there a need for a role on your part in that regard?

Mr. Major: If we go back to 1969, the public policy decision was very deliberate in that the municipal councils were in the best position to determine what was in the best interests of their community. The province delegated the responsibility, did that with that in mind. There are some municipalities, for example, that put particular emphasis on certain charitable programs within their community, and it's not for the AGCO to second-guess that and say, “I'm sorry, we don't think you should be focusing on health-related types of charities. You should be focusing on allowing it for everyone.”

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Mr. Kormos: You've talked about the interest in educating municipalities, using forums, amongst other things. The auditor recommended a process of oversight as well as support of municipal licensing authorities. Has there been any consultation with municipalities regarding, at the very least, the sharing of information between the commission and those municipalities?

Mr. Major: Yes, there has been. We met with the Association of Municipal Clerks and Treasurers in January, and there will be subsequent meetings, to try to come up with strategies on how that information-sharing should occur.

Mr. Kormos: You talked about the educational role you perform with clerks through their association and so on. What about working or educational opportunities for members of boards of these charitable organizations: Big Brothers etc.? It's been noted that these are well-meaning people who are volunteering their time. I've seen far too often the game of gotcha—really—in terms of funding. Boards are allowed to just do their incompetent best, if I dare say that; they run afoul and all of a sudden funding is suspended. What plans are there to do specific training for board members involved with organizations that want to participate in charitable gaming?

Mr. Major: The 10 training sessions that I referred to earlier were municipal-specific, so it was only the clerks. But in addition to that, we conducted specific municipi-

pality training. We went to, say, Kenora and had a meeting with the municipality. In most cases, the charities within that area are invited to that meeting, so they get the same information the municipality has. We're going to continue to do that town-specific type of training where charities are invited.

Mr. Kormos: Bingos are vulnerable because they're cash, sometimes a lot of cash, and that can be very seductive in terms of simply shrinkage. Break-open tickets are problematic for the notorious reasons that have been publicized. Response is in some respects through your commission, but the auditor talked—can anybody buy break-open tickets? Can I go to an operator and buy break-open tickets?

Mr. Major: Yes, there are over 5,000 retail locations that sell these. You can also buy them—

Mr. Kormos: No, I'm talking about buying them from the wholesaler.

Mr. Major: Oh, no. Sorry. Only a licensed charity can. A charity has to have a licence. You take your licence to either a supplier or the manufacturer and then they can release the number of boxes that have been approved for you.

Mr. Kormos: Fair enough, yet these are—unfortunately, it's no longer in business, but we had Bazaar Novelty down in St. Catharines, which had a fair number of employees. It was a printing plant that prints these things out. If passports are easy to steal and get access to, these are like cigars out the back door of Cuban cigar factories. What controls and audits are there of manufacturers of these tickets?

Mr. Major: There had been controls in the past, but we changed the nature of our relationship with the manufacturers in May 2005. We've imposed terms and conditions on the licences of the manufacturers. Two of the requirements, among many, are an audit requirement but also the introduction of control objectives. We've set five broad control objectives over the production of the tickets: how the tickets are stored, what the internal practices are of the manufacturing plant, everything from the material that's used to produce the ticket, the ink and how it's cut, all of that. Broad control objectives have been set, and the suppliers are now required to show us how they're meeting those particular objectives through an independent assessment.

Mr. Kormos: How is that investigated? Is it a continuous reporting and supervisory process?

Mr. Major: Yes. The reporting requirement is on an annual basis. For any deficiencies that are found, we'd sit down with the manufacturer and get a plan as to how they'd address those deficiencies.

Mr. Kormos: What information do you have about the demographics? Do you know who plays break-open tickets as compared to who goes to bingo and who buys high-end, big-prize raffle tickets?

Mr. Major: We do know a bit about the bingo side and the break-open tickets. The raffles, I'm not so sure. The industry sponsored a study on the break-open ticket not too long ago to find out who buys break-open tickets,

just as any other retail sector would do to find out who your target is. There is an appeal for the break-open ticket as an impulse purchase. People typically don't buy a break-open ticket as they would a 6/49 ticket, certainly not with the same frame of mind. They'll purchase a ticket and, normally, the smaller prizes—the \$5 prize, the \$10 prize—get put back in the box and you purchase more tickets.

For some reason—I don't know why—northern Ontario seems to be more attractive for the sale of break-open tickets than the greater Toronto area. I'm not sure how that's evolved, but I know that in the early 1990s, break-open ticket locations in North Bay, for example, were outselling lottery products two to one, which is very unusual.

Mr. Kormos: I'm sure it caused the lottery corporation some concern.

Mr. Major: Yes, it did.

Mr. Kormos: What about bingo?

Mr. Major: Bingo? I can't recall the exact socio-economic demographic profile of the player, but you'll have predominantly women playing, probably 30 or 40 and older.

Mr. Kormos: Look, there's focus on the whole issue of problem gambling—that's the polite term—gambling addiction in casinos. Some of us may criticize the measures and insist that they're not progressive enough, but the fact is that there is an identification of a problem because there has been implementation of things to address it. What about the whole area of problem gambling, gambling addiction? Break-open tickets are hard to control. But with respect to bingo particularly, you know as well as I do, from a sufficiency of anecdotal news reports, the impact of gambling addiction at that level. It should cause us the same amount of concern as we have about casino gambling, shouldn't it?

Mr. Major: Yes. The government overall is developing a strategy on how to deal with problem gambling, and it will have to include the charitable gaming industry. We do require, for example, that the 1-800 problem gambling help line be printed on break-open tickets because, as you have mentioned, with the manner in which that product is distributed, it's difficult to have some control over getting that message out on that particular product. With respect to bingo halls, I think there's an opportunity there to at least increase the exposure for help for groups like the Responsible Gambling Council. In fact, in our modernization document, it's one of the initiatives that we want to discuss with the industry and with municipalities: how we can do a better job of requiring suppliers to at least give those who do have a problem some indication of where they could get some help.

Mr. Kormos: Maybe we could ration those daubers, so you only get three daubers a year—

Interjection.

Mr. Kormos: I don't know. Look, it's a serious problem. Again, we all know it in our communities. You and I both know that there may be high rollers who blow their brains out at Casino Niagara who are affluent peo-

ple. Unfortunately, there are a whole lot of poor people who do it too. But quite frankly—and your research may prove me wrong—it's lower-income, modest-income people who by and large go to small-town bingos, at least down where I come from: a whole lot of people who can ill afford to lose that money. It is a very serious problem. How seriously is the commission taking it?

Mr. Major: I think there's a dual responsibility. There is a commission responsibility in terms of ensuring that suppliers take appropriate steps to notify the patrons that they have a problem. There's also a significant responsibility on the suppliers themselves from an operational perspective, just as other suppliers of gaming products have taken the initiative to make sure that their patrons gamble in a responsible way.

This is an issue, as I said, that we're going to be discussing with municipalities and suppliers—strategies other than just putting posters in the bingo halls and whether or not there's anything else that we ought to be doing. The nature of the bingo game is not as fast-paced as the slot machine, so it doesn't bring about the same kinds of issues, and perhaps a different approach is needed to deal with that kind of clientele.

Mr. Kormos: There's not as much Pavlovian conditioning, literally, with the bells, whistles and lights.

You referred to gaming as entertainment. Did I hear you right? To me, going bowling is entertainment. You go to a bowling alley and people are interacting, they're laughing, they're cheering. But I've been in bingo parlours, and you daren't even say hello to somebody because they're obsessed. What people tell me about casinos is that when people are sitting at slots, nobody's socializing; they're fixated on that machine. Why do we persist in calling it entertainment? You're not quite as old as I am, but you're old enough to remember bowling alleys and going to the arena for family or kid's ice skating on Sunday when it's free, maybe, in small towns like where we came from or even, my goodness, a movie. Is gambling in the same category of entertainment as those things are?

Mr. Major: I really don't make a moral judgment on the value, but when I use the word "entertainment," I'm saying that's how gambling institutions want people to

view gaming, that it ought to be entertainment and not more than that. A lot of their slogans and a lot of their pitch is aimed at educated people, saying, "If you don't think it's entertainment, then you may have a problem." So yes, there are other forms of entertainment that I would personally find have more value for money than gambling, but that's a personal choice that individuals make. Some people do find bingo entertaining not only in the social context, but that the game itself is very entertaining.

Mr. Kormos: I'm wrapping up, Chair. Look, I was around here in the early 1990s during the debate on gaming. One of the things I found most repugnant about it was that the promoters of casino gaming were really marketing it as entertainment and a family activity and, "We'll have kids' playrooms in the casinos." They built them at the racetracks. I've just got to tell you, folks—we're not going to roll back the clock; I appreciate that—but for the commission itself, with respect, to persist in the myth and the marketing of this as entertainment I consider a very dangerous thing. I don't think it becomes the commission as an objective and aloof regulator of the industry—I don't think you're serving yourself well, because that's the industry's line, that's the marketing. Surely you, as regulators, could be using far more neutral language, couldn't you?

Mr. Major: Yes. Again, the context for my remark before, when I mentioned "entertainment," was in the problem gambling context. We don't market or promote or position the product in any way; we regulate it.

Mr. Kormos: I understand that, and in the course of regulating it, all I'm asking you is to please never refer to it as entertainment, because that quite frankly detracts from your objectivity and your credibility as regulators.

Mr. Major: You're right. We haven't and we don't intend to go down that road.

The Chair: No further questions? Thank you very much for your presentation. Members of the committee will remain a few minutes—I imagine there's going to be a division—and we will have a little discussion to direct the researcher with regard to writing the report. It should only take five or so minutes.

The committee continued in closed session at 1154.

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