
MINISTRY OF CONSUMER AND BUSINESS SERVICES

4.05—Liquor Control Board of Ontario

(Follow-up to VFM Section 3.05, 1999 Annual Report)

BACKGROUND

The Liquor Control Board of Ontario (LCBO) is a government enterprise incorporated under the *Liquor Control Act* to regulate the production, importation, distribution and sale of alcoholic beverages in Ontario. At the time of our 1999 report, the LCBO reported to the Minister of Consumer and Commercial Relations (now the Minister of Consumer and Business Services).

The LCBO operates about 600 stores that are supplied by five warehouses. In partnership with the LCBO, established retailers operate approximately 100 agency stores in communities where the populations are not large enough to support regular LCBO stores.

The LCBO employed over 4,500 permanent and casual staff in 1998/99 and over 5,000 in 2000/01, providing consumers with over 11,000 products. For the 1998/99 fiscal year, sales were approximately \$2.3 billion; by 2000/01, sales were \$2.7 billion. Net income was \$809 million for 1998/99 and \$876 million for 2000/01, with the LCBO remitting, respectively, \$776 million and \$850 million of its profits to the Consolidated Revenue Fund.

On the basis of our audit, we concluded that, in most respects, procedures were adequate to ensure that the development of store facilities and store operations were carried out economically and efficiently. However, we made a number of recommendations for improvement, to which the LCBO responded with commitments for corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information that we received from the LCBO, some action has been taken on all of the recommendations that we made directly to the LCBO's senior management and that were referred to in our 1999 report. The current status of action taken on each of our recommendations is as follows:

- *With respect to store planning and the justification for capital projects, we recommended that the LCBO develop policies and requirements for marketing studies, financial analyses, and post-implementation reviews to ensure that capital project decisions are based on timely, relevant, and consistent information.*
- The LCBO has taken some action to ensure that capital project decisions are based on timely, relevant, and consistent information. According to information provided to us by the LCBO, the LCBO made improvements to the accuracy of financial analyses to support its capital project decisions and performed post-implementation reviews on all 11 projects for the 1998/99 fiscal year with approved capital expenditures of over \$100,000 each. The LCBO also informed us that it has developed formal policies for financial analyses and post-implementation reviews. We were informed by the LCBO that, although formal policies for market studies have not yet been developed, market studies are performed as a matter of

practice. For the 2000/01 fiscal year, five of ten market studies scheduled had been completed as of August 2001.

- *Regarding contractor selection and management, we recommended that policies and procedures be developed for evaluating contractor performance and for justifying situations where single-sourced contracts are used in order to ensure that qualified contractors are selected through a transparent, competitive process.*
- Continuing action was required for our recommendation regarding contractor selection and management. According to information provided to us by the LCBO, the LCBO requires that a Post Construction Project Survey—used to evaluate contractors and suppliers with respect to their workmanship, professional standards, and ability to meet budgets and deadlines—be completed for all major construction projects. The LCBO informed us in August 2001 that the survey had not yet been completed for projects in 2000/01 because it normally takes three to four months after a store is opened to rectify all the construction deficiencies. As a result, it may take up to seven months after a store opening to complete the survey. As for justifying the use of single-sourced contracts for construction projects, the LCBO has developed a draft policy outlining circumstances where the practice of sole sourcing is permitted. We were informed that this policy had been in use since January 2000, although final management approval of the policy was still pending at the time of our follow-up.
- *In the area of store performance, we recommended that the LCBO refine the indicators used in assessing store performance. We also recommended that the LCBO review the ongoing viability of certain of its smaller stores.*
- Continuing action was required for our recommendation that the LCBO refine the indicators used in assessing store performance. The LCBO informed us that it refines the performance targets set initially each year as part of the budget process by negotiating with the store manager and district manager based on individual store characteristics. The LCBO further indicated that, in 2000, it launched a pilot project at selected stores to improve inventory turnover and planned to expand the project to other stores. The LCBO acknowledged that there were alternative solutions that would enhance profitability in small stores with marginal performance; however, these alternatives were restricted by collective agreements and would require government approval.
- *In our review of store staffing, we recommended that the LCBO minimize staffing costs by more carefully analyzing factors affecting store operations and monitor and follow up on discrepancies in staffing levels among stores with similar characteristics.*
- Continuing action was required for our recommendation regarding store staffing. The LCBO informed us that it was developing a computerized staff-scheduling application and was expecting to use the scheduling tool to facilitate control of casual hours and to minimize unnecessary overtime. The target implementation dates were January 2002 for head office/warehouses and April 2002 for stores. The LCBO advised us that, in addition, it was developing more definitive store staffing guidelines based on sales volume, store format, seasonality, and physical plant limitations; however, before such guidelines can be finalized, the computerized staff-scheduling application would have to be implemented.

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- *In our review of the Vintages program, we recommended that the LCBO monitor and assess the benefits of the program to ensure that it justifies its lower income contribution relative to the contribution of regularly listed products.*
 - Continuing action was required for our recommendation regarding the Vintages program. The LCBO informed us that it had conducted a review of the Vintages program and had made recommendations to the government on modifying the pricing policies to deal with declining margins. The LCBO also indicated that the Vintages program, initially addressed in the Supply Chain Project, was now being dealt with in a separate, long-term, logistics-strategy consultant study.