

Liquor and Gaming Authority



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Executive summary

This chapter describes the results of our audit of Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) for the year ended March 31, 2001. The chapter also describes progress Liquor and Gaming has made to address recommendations we made in our 1999 Spring Report and 2000 Fall Report – Volume 2.

For the year ended March 31, 2001, Liquor and Gaming's financial statements are reliable. Liquor and Gaming needs to continue to strengthen its rules and procedures to safeguard and control public money. Liquor and Gaming complied with authorities governing its activities except for the registration of gaming suppliers.

Liquor and Gaming has made significant progress in improving the management of public money under control of Saskatchewan Indian Gaming Authority Inc. (SIGA). Liquor and Gaming is working with SIGA to implement our recommendations. SIGA now has a new Board of Directors and has established appropriate governance practices. SIGA has also hired a permanent Chief Executive Officer, and a person to provide internal audit services. However, Liquor and Gaming needs to continue to carefully monitor SIGA's management practices. While much has been done to improve management practices at SIGA, much remains to be done. We recognize that it will take time to make all the necessary improvements.

Introduction

The Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) operates under *The Alcohol and Gaming Regulation Act*. The mandate of Liquor and Gaming is to support, develop, and regulate the Saskatchewan liquor and gaming industries. Also, the mandate requires Liquor and Gaming to maximize public benefit through high quality services and products.

Liquor and Gaming operates retail liquor stores and video lottery terminals, and owns and operates the slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos. SIGA's slot machine revenues and expenses are included in Liquor and Gaming's financial statements. In 2000-01, Liquor and Gaming had revenues of \$633 million and net income of \$319 million. At March 31, 2001, Liquor and Gaming held net assets of \$1 million. Liquor and Gaming's financial statements are included in its Annual Report.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2001:

- ◆ **Liquor and Gaming's financial statements are reliable;**
- ◆ **Liquor and Gaming had adequate rules and procedures to safeguard and control its assets, except for the matters described in this chapter; and**
- ◆ **Liquor and Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matter described in this chapter.**

In this chapter, we also report our assessment of Liquor and Gaming's 2000 Annual Report.

Liquor and Gaming needs to manage public money under SIGA's control

Liquor and Gaming needs to continue to strengthen its rules and procedures to manage public money under SIGA's control.

On February 10, 1995, the Government of Saskatchewan and the Federation of Saskatchewan Indian Nations (FSIN) made an agreement, commonly known as the Framework Agreement, that permitted the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. To implement the Framework Agreement and because under *The Criminal Code of Canada* only provinces have the authority to conduct and manage electronic gaming devices, Liquor and Gaming and SIGA signed the Casino Operating Agreement on November 24, 1995.

The Casino Operating Agreement permits SIGA to manage slot machines at SIGA's four casinos. Under the Agreement, the revenue and expenses related to the slot machines (electronic gaming device) belong to Liquor and Gaming. The Agreement also addresses the management of table games. SIGA has the right to deduct reasonable table games losses from the net profits from the slot machines.

Also, under the Agreement, Liquor and Gaming has the right to determine what expenses SIGA can reasonably incur and deduct from slot machine revenues, to decide SIGA's operating policies, and to approve SIGA's financial plans. These authorities are necessary because the expenses SIGA incurs to operate slot machines are Liquor and Gaming's expenses.

In our 2000 Fall Report – Volume 2, we made recommendations for Liquor and Gaming to strengthen management of public money under SIGA's control. We recommended and continue to recommend:

1. **Liquor and Gaming determine what SIGA payments to date are not reasonable deductions from public money and recover that money as provided by the agreements;**
2. **Liquor and Gaming should:**
 - **ensure SIGA implements the recommendations we make in our 2000 Fall Report; and**
 - **ensure it has necessary resources to frequently audit SIGA;**
3. **Liquor and Gaming should frequently audit SIGA's operations to ensure:**

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- SIGA complies with the Framework and Casino Operating Agreements; and
 - SIGA incurs and deducts only reasonable expenses from public money;
4. Liquor and Gaming should recover any expenses that are not reasonable; and
 5. Liquor and Gaming should make public a list of persons who received public money from SIGA following the Standing Committee on Public Accounts' recommendations.

In our 2000 Fall Report – Volume 2, we also said Liquor and Gaming needs to do more work to fully implement the recommendations we made in our 1999 Spring Report (Exhibit 1).

Exhibit 1

In our 1999 Spring Report, we recommended and continue to recommend Liquor and Gaming should:

6. prepare a formal training plan for its employees and should co-ordinate work among its branches;
7. work with SIGA to establish appropriate governance and conflict of interest policies for SIGA casinos;
8. ensure inspection/audits are completed as planned or document why the plan was changed;
9. document procedures for reporting and following up its audit/inspection findings with SIGA;
10. receive and formally approve SIGA's casino operating policies and procedures on a timely basis;
11. work with SIGA to establish an internal audit function at SIGA;
12. receive SIGA's external auditor's report on the adequacy of SIGA's internal controls within 90 days of SIGA's year end and follow up on any matters reported in that report;
13. receive and approve SIGA's budget on a timely basis and should have procedures for approving changes to the budget.

Liquor and Gaming started to implement our recommendations. To ensure the effective implementation of our recommendations, Liquor and Gaming set and communicated the following priorities to SIGA.

- ◆ Acceptance and implementation of a new SIGA board structure mandated by Liquor and Gaming.
- ◆ Training and orientation of SIGA board members.
- ◆ Acceptance and implementation of new policies and procedures mandated by Liquor and Gaming.
- ◆ Acceptance and implementation of the audit and finance committee of the SIGA board.

- ◆ Appointment of an external provider for the internal audit function.
- ◆ Acceptance of the Provincial Auditor as SIGA's auditor.
- ◆ Monthly meetings between SIGA's board and Liquor and Gaming.
- ◆ Liquor and Gaming participation in the selection of a permanent Chief Executive Officer and Chief Financial Officer.

Liquor and Gaming and SIGA have made significant progress toward achieving those priorities except for the new policies and procedures for SIGA.

On January 12, 2001, SIGA's membership appointed the Provincial Auditor as the auditor of SIGA. In February 2001, SIGA's Board of Directors was recomposed. The Board now includes three members nominated by Liquor and Gaming and four members nominated by SIGA's membership. Recently, SIGA has also appointed a new Chief Executive Officer. SIGA has not yet hired a new Chief Financial Officer. Because SIGA has not yet hired a new Chief Financial Officer, relevant policies and procedures have either not yet been established or not yet fully implemented.

While Liquor and Gaming has made significant progress in improving the management of public money under SIGA's control, more work is necessary. In our 1999 Spring Report and 2000 Fall Report – Volume 2, we made several recommendations for Liquor and Gaming to improve its management of public money under SIGA's control. Liquor and Gaming should set out a detailed plan that will ensure the full implementation of our recommendations. Such a plan should include a timeline showing when the required policies and procedures will be established and fully implemented. We recognize it will take more time and resources to improve the management practices at SIGA.

We summarize below the progress Liquor and Gaming has made in addressing our recommendations to strengthen management of public money under SIGA's control and other matters.

Audit and inspection services

Liquor and Gaming continues to improve training plans for its audit and inspection staff. Currently, Liquor and Gaming is assessing the work of its audit and inspections branches to ensure better co-ordination among its

employees. The assessment will address formal yearly audit plans, the process for documenting departures from approved audit plans, and timely follow up of audit and inspection findings with SIGA.

During the year, the audit and inspection branches directed their efforts towards ensuring that SIGA was moving toward the priorities that Liquor and Gaming had established.

Governance and conflict of interest policies

Liquor and Gaming worked with SIGA to ensure SIGA has appropriate governance and conflict of interest policies. SIGA has established those policies. Next year, we will assess SIGA's compliance with those policies.

Internal audit function at SIGA

Liquor and Gaming worked with SIGA to establish an internal audit function at SIGA. SIGA has hired a person to provide internal audit services. The internal auditor is currently planning audit work for next year.

Receiving and approving SIGA's budget

Liquor and Gaming has provided guidelines for preparing and receiving SIGA's budget. We think those guidelines are appropriate. SIGA did not comply with those guidelines for preparing its 2000 – 2001 budget. In December 2000, Liquor and Gaming received and approved SIGA's 2000 – 2001 budget.

We think Liquor and Gaming needs to do more to ensure SIGA prepares an appropriate business and financial plan and to establish procedures for approving changes to the financial plans.

Recovery of unreasonable expenses

In our 2000 Fall Report – Volume 2, we recommended Liquor and Gaming should determine what SIGA expenses to date were not reasonable and recover that money as provided by the Agreement dated December 1, 1995 between the Government and the Federation of Saskatchewan Indian Nations. The Agreement provides that Government

can recover unreasonable expenses incurred by SIGA by deducting money from future payments due to the First Nations Fund.

The Government retains a portion of profits from SIGA's casinos and distributes the remainder between the First Nations Fund and the Community Development Fund (previously called Associated Entities Fund). When SIGA deducts unreasonable expenses from slot machine revenues, it reduces profits available for the Government and for others receiving a share of SIGA's profits.

In March 2001, Liquor and Gaming determined that \$2.3 million of SIGA's expenses for the period from November 1997 to June 2000 were not reasonable. On March 12, 2001, Liquor and Gaming informed SIGA about the final calculations of SIGA's unreasonable expenses. Under the profit sharing arrangements set out in the Framework Agreement, the Government is entitled to recover \$1.36 million of the \$2.3 million of unreasonable expenses.

The Government plans to recover the \$1.36 million from future payments due to the First Nations over the next two years.

Liquor and Gaming's audit services

In our 2000 Fall Report – Volume 2, we recommended that Liquor and Gaming should ensure it has the necessary resources to frequently audit SIGA's operations.

Liquor and Gaming continues to improve the capacity of its audit services division. During the year, the audit services division directed its efforts towards ensuring that SIGA was moving towards the priorities that Liquor and Gaming had established.

Public Accountability

In our 2000 Fall Report – Volume 2, we also recommended that Liquor and Gaming should make public a list of persons who received public money from SIGA following the Standing Committee on Public Accounts' recommendations. We made this recommendation because the revenues and the expenses of the slot machines belong to Liquor and Gaming.

Neither SIGA nor Liquor and Gaming has made public a list of persons who received public money from SIGA. Liquor and Gaming told us that it could not make the list public because of the advice it received from the Department of Justice. Liquor and Gaming also told us that a list of persons who received money from SIGA will be made public upon the completion of the police investigations currently underway.

Current contingency plan needed

The Liquor and Gaming and its contractors need written and tested contingency plans to ensure continuous operations if computer processing is interrupted.

We reported this matter in our 1999 Fall Report - Volume 2 and previous reports. The Standing Committee on Public Accounts (PAC) considered this matter in January 1999 and concurred with our recommendation.

We continue to recommend that the Liquor and Gaming should update its written contingency plan and test the plan.

Management told us that they are continuing to develop contingency plans for computer processing and information system activities.

Documented rules and procedures for computer system operations needed

Liquor and Gaming needs to fully document its rules and procedures for its computer system operations including security and to ensure the staff understand the rules and procedures.

We reported this matter in our 1999 Fall Report - Volume 2 and previous reports. PAC considered this matter in January 1999 and concurred with our recommendation.

We continue to recommend Liquor and Gaming should fully document its rules and procedures for its computer systems operations and to ensure that the staff understand those rules and procedures.

Management told us that Liquor and Gaming continues to improve and refine its computer operating rules and procedures.

Registration of gaming suppliers

Liquor and Gaming did not register all gaming suppliers as required by *The Alcohol and Gaming Regulation Act (Act)*.

Liquor and Gaming issues licenses to gaming establishments. Under the Act, gaming establishment means any premises in which a lottery scheme is licensed to operate. The terms and conditions of those licenses require the licensees to ensure all their employees and those who provide gaming services hold a certificate of registration (license) from Liquor and Gaming. Liquor and Gaming currently licenses all employees who work in gaming establishments.

The Act requires that all gaming suppliers to the licensed gaming establishments (gaming operators) must hold a valid certificate of registration (license) from Liquor and Gaming. Such a license provides assurance to the gaming operators that Liquor and Gaming is satisfied about the character and capability of the gaming suppliers.

The Act requires that those who lease premises to gaming operators and who have an interest in the management of gaming operations must hold a certificate of registration (license) from Liquor and Gaming. The Act also requires that gaming suppliers who provide promotional, financial or management services must hold a certificate of registration (license) from Liquor and Gaming.

Liquor and Gaming, however, did not have rules and procedures to ensure that all gaming operators deal only with licensed suppliers.

Liquor and Gaming did not provide adequate guidelines to gaming operators for the registration of all gaming suppliers. Liquor and Gaming defines gaming suppliers as only those who provide supplies directly related to gaming devices.

Liquor and Gaming did not register all suppliers providing premises to gaming operators and who have an interest in the management of gaming operations. Nor did Liquor and Gaming register all those suppliers providing promotional, financial or management services to gaming operators.

Although, the gaming operators must ensure that all their gaming suppliers hold licenses as required by law, Liquor and Gaming is responsible to ensure all gaming operators comply with the law. To do so, Liquor and Gaming must have a registry of licensed gaming suppliers in the Province.

We also reported this matter in our 2000 Fall Report – Volume 2.

14. We continue to recommend that Liquor and Gaming establish rules and procedures to register all gaming suppliers as required by *The Alcohol and Gaming Regulation Act*.

In April 2001, Liquor and Gaming began drafting guidelines for registration of gaming suppliers. Liquor and Gaming distributed those guidelines to gaming operators. Also, Liquor and Gaming required gaming operators to send a list of gaming suppliers that require registration. Liquor and Gaming has begun reviewing the lists of suppliers provided by the gaming operators.

Annual Report needs improvement

The Tabling of Documents Act, 1991 requires Liquor and Gaming to give its 2000 Annual Report, including its financial statements, to the Assembly by October 27, 2000. Liquor and Gaming gave its Annual Report including its financial statements on June 27, 2001. Accordingly, Liquor and Gaming has not complied with *The Tabling of Documents Act, 1991*.

Liquor and Gaming's Annual Report has improved over the last few years. However, the Annual Report needs further improvement to make it a better report on Liquor and Gaming's performance.

To assess the performance of a public sector agency, Members of the Legislative Assembly and the public need to know how the agency is managing its key risks. They also need information about the agency's goals and objectives and how successful the agency has been in achieving those goals and objectives. Good annual reports provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. In addition, to

ensuring that the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year end.

Liquor and Gaming's 2000 Annual Report provides limited information on how Liquor and Gaming measures its performance. Future reports should include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of Liquor and Gaming's plans and the actual results would help readers assess Liquor and Gaming's performance in achieving its goals. Liquor and Gaming's 2000 Annual Report does not provide the intentions or outlook of Liquor and Gaming. Future reports should include a discussion of Liquor and Gaming's future directions. Such a discussion would help readers to understand how Liquor and Gaming intends to achieve its goals. Liquor and Gaming's 2000 Annual Report does not explain the key risks that Liquor and Gaming needs to manage well to be successful. Future reports should describe the key risks Liquor and Gaming faces and how it manages those risks. We think this information will help readers better understand and assess Liquor and Gaming's performance.

Liquor and Gaming's 2000 Annual Report is written clearly.

We also reported this matter in our 1999 Fall Report – Volume 2.

- 15. We continue to recommend that Liquor and Gaming should continue to improve its annual report.**
- 16. We recommend that Liquor and Gaming should provide its Annual Report to the Legislative Assembly by the date required by law.**

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