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Executive summary

This chapter includes the results of our audit of Saskatchewan Gaming Corporation (SGC) for the year ended March 31, 2001.

Overall, SGC has done a good job of managing its affairs. SGC's financial statements are reliable; SGC complied with authorities governing its activities; and SGC had adequate rules and procedures to safeguard and control its assets, except for the recommendations we make in this chapter. The following recommendations are intended to help SGC to improve its practices.

- ◆ SGC should establish an appropriate conflict of interest policy for the Board of Directors.
- ◆ SGC should establish a code of conduct policy for the entire organization including the Board of Directors.
- ◆ SGC should establish rules and procedures to monitor compliance with its established conflict of interest and code of conduct policies.
- ◆ SGC should work with Saskatchewan Liquor and Gaming Authority (SLGA) to establish standards for the testing of slot machines by independent gaming laboratories and ensure the laboratories that test slot machines for SGC use those standards.
- ◆ SGC should periodically monitor the actual house advantage for table games. Alternatively, SGC should discuss with SLGA other means of monitoring the table games.
- ◆ SGC should establish rules and procedures to ensure only authorized employees receive tips from the gaming public (patrons).

Glossary

Chip – a small disc with a designated monetary value, redeemable for cash, which is issued by a casino to a player for use in playing table games.

Token – a small disc with a designated monetary value, redeemable for cash, which is issued by a casino to a player for use in playing slot machines.

Fill – a transaction in which a supply of chips, tokens, or coins is transferred from a casino's cashier to a gaming table or to a slot machine.

Hopper – a container in a slot machine in which tokens or coins are retained by the slot machine to automatically pay accumulated credits/coins.

House advantage – a mathematical calculation of the amount, expressed as a percentage of total money wagered, the casino expects to retain over time from gaming public (patrons) betting on table games.

Jackpot – any money, merchandise, or item of monetary value that is awarded to a player as the result of a specific combination or combinations of characters indicated on a slot machine or under the rule of a mystery jackpot system or as specified under the rules of a table game.

Progressive jackpot – a jackpot that increases in value as a result of cumulative play at independent slot machines, linked slot machines, or one or more table games.

Pay out percentages (slot machines) – the theoretical amount that a slot machine pays out over time reflected as a percentage of the total amount wagered.

Gaming supplier – a person who supplies gaming services to another for the conduct and management of licensed gaming operations

(excluding a landlord who has no interest in the conduct or management of gaming operations).

Gaming services – the sale, rental, lease, gift, exchange, loan, printing, publication, distribution, or manufacturing of any gaming supplies including any lot, card, ticket, paper, slip, symbol, token, coin, machine, device, equipment, or game to operators of gaming establishments (casinos); or the provision of: gaming employees; or promotional, financial, or management services to the operators of casinos.

Gaming employee – a person who is employed by a person licensed to operate a gaming establishment.

Dealer – a person who operates gaming tables.

Table supervisor – a person who is responsible for supervising dealers and monitoring table game operations.

Pit manager – a person who is responsible for supervising table supervisors and dealers and monitoring table game operations.

Table games – games that are played at a table in a casino and involve one or more players usually wagering against the casino bankroll.

Surveillance staff – people who are responsible for monitoring all activity within a casino through observation or the use of cameras.

Introduction

Saskatchewan Gaming Corporation (SGC) manages and operates Casino Regina. Casino Regina is a full service casino that has 620 slot machines and 37 table games.

Casino Regina began operations in January 1996. Since Casino Regina began operations, SGC's gaming revenue from Casino Regina has increased significantly from \$12 million in 1996 to approximately \$59 million in 2001. In 2001, SGC earned approximately \$50 million revenue from slot machines and approximately \$9 million revenue from table games.

In 2001, SGC had total revenue of \$63 million, expenses of \$40 million, and net income of \$23 million. At March 31, 2001, SGC held assets of \$48 million. SGC's *Annual Report 2000-2001* includes its financial statements.

Our audit conclusions and findings

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

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

Code of conduct and conflict of interest policies

SGC needs to establish an appropriate code of conduct for the entire organization including the members of the Board of Directors. Also, SGC needs to establish an appropriate conflict of interest policy for the Board of Directors.

Organizations should have a code of conduct (shared ethical values) and communicate that code to their employees. Organizations need a code of conduct because it influences all behaviour in the organization. An organization's code of conduct provides its employees the organization's expectations concerning behaviour. The organization's code of conduct should extend not only to specific areas where society's expectations are included in the law, but also to issues of general morality¹. The organization should then ask its employees periodically to confirm their understanding and compliance with the code of conduct.

The Board functions as the guardian of the organization's values and as its conscience. Accordingly, directors should pay attention to any discomfort about behaviour and proposals, particularly if the discomfort relates to executive management or fellow directors. If behaviour or a proposal is not consistent with the directors' sense of what is right, it may also breach the organization's code of conduct. Appropriate behaviour and proposals are important especially when there are perceived or real conflicts of interest.

To fulfil their fiduciary obligations to SGC, Board members must avoid any real or perceived conflicts of interest. They must understand that their primary duty is to act in the best interest of the Corporation. Board members must place the interests of SGC ahead of their own interests or interests of any associate. Part VI of *The Crown Corporations Act, 1993* (Act) applies to SGC. Part VI of the Act sets out rules similar to what we describe above for directors' and officers' duty of care and conflict of interest.

SGC has established an appropriate conflict of interest policy for its employees. However, it did not have a conflict of interest policy for the Board of Directors. Nor did it have a code of conduct for its employees and the Board of Directors. SGC should establish a conflict of interest policy for the Board of Directors and a code of conduct for the entire organization.

Also, the Board's minutes should document the nature of any Board member's conflict of interest and how the Board resolved it. Such documentation would be helpful for maintaining public confidence especially in case of controversy about the Board's actions.

¹ Guidance for Directors – Governance processes for Control by The Canadian Institute of Chartered Accountants.

To ensure it deals with all conflicts and perceived conflicts, the Board should adopt a policy requiring the declaration of conflicts at each meeting before the agenda is approved. The Board should then document in the minutes whether or not it faced any conflict of interest issues and how it dealt with them.

1. We recommend that:

- ◆ **SGC should establish a conflict of interest policy for the Board of Directors;**
- ◆ **SGC should establish a code of conduct for the entire organization including the Board of Directors; and**
- ◆ **SGC should establish rules and procedures to monitor compliance with its conflict of interest and code of conduct policies.**

SGC told us that the Board of Directors has approved a code of conduct including conflict of interest guidelines for the Board members. SGC also told us that the new code of conduct and conflict of interest guidelines took effect on April 1, 2001.

Integrity of gaming operations

As stated earlier, since opening of Casino Regina, SGC's gaming revenue has increased significantly from \$12 million in 1996 to approximately \$59 million in 2001. In 2001, SGC earned approximately \$50 million revenue from slot machines and approximately \$9 million revenue from table games.

Saskatchewan Liquor and Gaming Authority (SLGA) regulates all gaming activities in the province.

In 1999, SGC identified the key risks² that it must manage well to ensure the continued success and long-term viability of Casino Regina. One of those risks relates to integrity (fairness and legality) of games. SGC views its systems and practices to ensure the integrity of gaming operations as

² Saskatchewan Gaming Corporation – *Annual Report 1999-2000*.

important. To maximize revenue, SGC must maintain the confidence of the gaming public (patrons) in the integrity of gaming operations, so that patrons continue to visit the casino. This year, we examined more closely SGC's systems and practices to ensure the integrity of its gaming operations. SGC's Board of Directors, management, and staff co-operated with us throughout the audit. We appreciate their support and thank them.

Audit criteria

Auditors need criteria to evaluate the matters that they audit. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of systems and practices.

We developed the criteria after reviewing relevant literature on integrity of gaming operations. We discussed the criteria with SGC's management, made necessary changes, and obtained management's agreement that the criteria are reasonable and attainable.

The agreed upon criteria are that SGC should have systems and practices to ensure:

- ◆ gaming equipment, gaming supplies, and gaming staff meet regulatory standards;
- ◆ established games meet regulatory and industry standards;
- ◆ games are played fairly and consistently; and
- ◆ the security and safety of the gaming public (patrons).

Detailed findings

We provide our findings for each criterion below.

Ensuring the gaming equipment, gaming supplies, and gaming staff meet regulatory standards

We expected SGC to have rules and procedures to ensure that:

- 1. all gaming equipment is purchased from registered gaming suppliers;*
- 2. all gaming equipment is tested before use;*
- 3. slot machine pay out percentages comply with the law;*
- 4. all wagers are made with coins, chips, or Casino Regina tokens;*
- 5. all table games are approved by SLGA, betting limits are clearly posted, and the rules of the games are available to players for reference;*
- 6. all gaming supplies are purchased from registered gaming suppliers; and*
- 7. all gaming employees are registered with SLGA.*

SGC had adequate systems and practices to ensure gaming equipment, gaming supplies, and gaming staff meet regulatory standards except for item 2 above (i.e., the rules and procedures to ensure all gaming equipment is tested before use). SGC does, however, ensure that the slot machines in use do pay out the percentages set out in law (i.e., minimum of 85% and no more than 100%).

SGC's policy requires that all slot machine electronic systems (software) are tested by an independent gaming laboratory prior to use. Such independent testing of software is necessary to ensure the pay out percentages of slot machines are consistent with the pay out percentages set out in law. Also, independent testing provides assurance on the technical integrity of the software (random number generation etc.).

The independent laboratory certifies to SGC that the machines have been tested in accordance with the standards set by the regulator. However, SGC does not know what standards the laboratory used to test the slot machines because SLGA and SGC have not established standards for the laboratories to test slot machines. Also, SGC does not have a formal agreement with the testing laboratory setting out what it should test and what assurance it needs to provide to SGC.

2. **We recommend that SGC should:**
- ◆ **work with SLGA to establish standards for the testing of slot machines by independent gaming laboratories; and**
 - ◆ **ensure the laboratories that test slot machines for SGC use those standards.**

SGC told us that it is currently working with SLGA to establish standards for the laboratories to test slot machines.

Ensuring the established games meet regulatory and industry standards.

We expected SGC to have adequate rules and procedures to:

1. *monitor gaming results to ensure slot machine pay out percentages comply with the law;*
2. *safeguard the slot machine software and equipment and to ensure displayed progressive jackpot amounts are accurate;*
3. *ensure all table games are approved by SLGA, betting limits are clearly posted, and the rules of the games are available to players for reference;*
4. *monitor the house advantage to ensure it is consistent with the house advantage approved by SLGA;*
5. *ensure table games are played in accordance with the rules of the game approved by SLGA; and*
6. *ensure gaming staff have adequate identification on their person at all times.*

SGC has adequate systems and practices to ensure that all established games meet regulatory and industry standards except for item 4 above (i.e., rules and procedures to monitor the house advantage on table games to ensure it is consistent with the house advantage approved by SLGA).

SLGA, as part of table game rules, approves the planned house advantage. The planned house advantage is the percentage of the

money bet by the players that SGC expects to retain over time from the gaming public (patron) if the game is played according to the approved rules.

The house advantage varies depending on the rules of a particular game and the technology used (e.g. automatic card shufflers). SGC requires all gaming staff to strictly follow the table game rules approved by SLGA. SGC's training program for dealers includes teaching them the rules of the table games. Table game supervisors and pit managers know the rules and monitor how dealers and the gaming public (patrons) play the games. In addition, surveillance staff monitor table games through cameras. Surveillance staff are required to record instances of non-compliance with established rules for management to follow up.

SGC, however, does not regularly monitor the actual house advantage. SGC told us that if the games are played according to the SLGA approved rules, it would result in achieving the house advantage approved by SLGA. We think SGC should also randomly monitor the actual house advantage for some table games in addition to ensuring that the gaming staff strictly follow the approved table game rules. Such monitoring will provide added assurance that gaming staff are generally following the approved table game rules. If the actual house advantage on the table games played is the same as approved by SLGA, it shows that the table games were generally played according to the approved rules.

SGC told us that the technology is available to monitor the actual house advantage on some table games. SGC should study whether such technology is cost effective for its operation or establish other procedures to periodically monitor the house advantage on table games played. Alternatively, SGC should discuss with SLGA other means to monitor the approved table games.

3. We recommend that SGC should periodically monitor the actual house advantage for table games. Alternatively, SGC should discuss with SLGA other means to monitor the table games.

SGC told us it plans to discuss with SLGA other means to monitor the table games.

Ensuring all games are played fairly and consistently.

We expected SGC to have adequate rules and procedures to:

- 1. safeguard the slot machine software and equipment and to ensure displayed progressive jackpot amounts are accurate;*
- 2. ensure jackpot payouts and hopper fills are properly approved;*
- 3. ensure revenue recorded by the system agrees to cash received;*
- 4. ensure gaming public (patrons) do not use devices that could assist in projecting the outcome of a game;*
- 5. ensure all table games are approved by SLGA, betting limits are clearly posted, and the rules of the games are available to players for reference;*
- 6. monitor house advantage to ensure it is consistent with the house advantage approved by SLGA;*
- 7. ensure table games are played in accordance with the rules of the game approved by SLGA;*
- 8. ensure table games are opened and closed properly;*
- 9. ensure controls over cards and chips used in the table games;*
- 10. ensure patrons do not use devices to track cards that have been dealt or change the probabilities or playing strategies;*
- 11. identify and prevent cheating at play or other illegal activities by patrons or employees, and to address patrons' complaints quickly; and*
- 12. ensure a proper code of conduct for all employees and members of the Board of Directors and to avoid conflicts or perceived conflicts of interest.*

SGC had adequate systems and practices to ensure all games are played fairly and consistently except for items 6 and 12 above (i.e., rules and procedures to monitor house advantage on table games to ensure it is consistent with the house advantage approved by SLGA; and to ensure a proper code of conduct for all employees and members of the Board of Directors and to avoid conflicts or perceived conflicts of interest).

As we stated earlier, SGC needs to improve how it monitors table games. Also, SGC did not have a code of conduct for employees and Board members and a conflict of interest policy for Board members.

SGC told us that the Board of Directors has approved a code of conduct including conflict of interest guidelines for the Board members. SGC also told us that the new code of conduct and conflict of interest guidelines took effect on April 1, 2001.

Ensuring the safety and security of gaming public (patrons).

We expected SGC to have adequate rules and procedures to:

- 1. ensure the casino property is safe for the gaming public (patrons);*
- 2. ensure documented security plans exist for contingencies such as power outages, fires, robberies etc;*
- 3. ensure minors or patrons appearing unfit for gaming are not allowed in the casino;*
- 4. ensure appropriate surveillance equipment is used, properly safeguarded, and set up properly to monitor and record gaming activity;*
- 5. ensure the secured transfer of money and chips within the casino;*
- 6. have adequately trained security and surveillance staff and to ensure they are registered with SLGA;*
- 7. ensure access to sensitive areas is restricted to appropriate personnel; and*
- 8. ensure gaming staff have adequate identification on their person at all times and that only authorized employees accept tips from patrons.*

SGC had adequate systems and practices to ensure the security and safety of the gaming public (patrons), except for item 8 above (i.e., rules and procedures to ensure gaming staff have adequate identification on their person at all times and that only authorized employees accept tips from patrons).

SGC does not have rules and procedures to ensure that only authorized gaming staff accept tips from patrons. SGC has adequate rules and procedures to safeguard and control tips received, but it does not have a policy setting out who is allowed to receive tips.

To avoid the perception of unfair play, in the gaming industry, certain employees (e.g., surveillance staff, casino managers) are generally not allowed to receive tips.

SGC does have rules and procedures to ensure gaming staff have adequate identification on their person at all times.

- 4. We recommend that SGC should establish rules and procedures to ensure only authorized employees receive tips from the gaming public (patrons).**

SGC told us it plans to establish a policy that would specify all those employees who are allowed to receive tips from the gaming public (patrons).