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Main points

Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) regulates the Saskatchewan beverage liquor and gaming industries. It also operates retail liquor stores, video lottery terminals (VLTs), and owns and manages slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos.

During 2003, Liquor and Gaming continued to work towards setting spending and casino operating policies for safeguarding public money under SIGA's control. However, progress is slow. So far, Liquor and Gaming has approved only a few of SIGA's spending policies such as promotion and sponsorship. Near the end of the year, or shortly after, SIGA proposed most of its spending and operating policies to Liquor and Gaming. At mid-October 2003, Liquor and Gaming has not approved any of these policies. Management told us that Liquor and Gaming has not done so because it asked SIGA to revise the policies.

In our 2000 Fall Report – Volume 2, we said Liquor and Gaming should recover any of SIGA's expenses that are not reasonable (i.e., those expenses that do not comply with policies that Liquor and Gaming approved for SIGA). During the last two years, Liquor and Gaming audited SIGA and identified expenses that did not comply with the approved policies. However, Liquor and Gaming has not recovered those expenses. Liquor and Gaming needs to establish a process to recover expenses that do not comply with the approved policies.

In May 2003, Liquor and Gaming told the Standing Committee on Public Accounts that it expects to implement all of our past recommendations by Spring 2004.

Introduction

The Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) operates under *The Alcohol and Gaming Regulation Act, 1997*. The mandate of Liquor and Gaming is to develop, support, operate, and regulate the Saskatchewan beverage liquor and gaming industries. The mandate also requires Liquor and Gaming to maximize public benefit through high quality services and products, and encourage responsible consumption of beverage alcohol and participation in gaming.

Liquor and Gaming operates retail liquor stores and video lottery terminals. It also owns and manages the slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos. Under *The Criminal Code of Canada*, only the Government can own and manage slot machines in Saskatchewan. The Government decided to use SIGA to operate the slot machines under Liquor and Gaming's direction. Under the current casino operating arrangements, SIGA must pay Liquor and Gaming the revenues from the slot machines. Also, SIGA must follow policies that Liquor and Gaming approves for incurring casino operating expenses. Liquor and Gaming allows SIGA to deduct expenses that comply with the approved policies from the slot machine revenues. Accordingly, SIGA's revenue and expenses that comply with the approved policies are Liquor and Gaming's revenues and expenses. Liquor and Gaming includes those revenues and expenses in its financial statements.

In 2002-03, Liquor and Gaming had revenues of \$662 million, expenses of \$337 million, and net income of \$325 million. Liquor and Gaming's Annual Report 2002-03 includes its financial statements.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2003:

- ◆ **Liquor and Gaming's financial statements are reliable;**
- ◆ **Liquor and Gaming had adequate rules and procedures to safeguard public resources except for the matters described in this chapter; and**

- ♦ **Liquor and Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters described in this chapter.**

Expenditure without authority – Saskatoon casino

During the year, Liquor and Gaming authorized SIGA to spend \$446,000 to promote the establishment of a casino in Saskatoon. As stated earlier, SIGA's expenses are Liquor and Gaming's expenses. SIGA spent \$446,000 plus salaries of some of its senior staff to promote the establishment of a casino in the Saskatoon market. By allowing SIGA to spend public money to promote the establishment of a casino in Saskatoon, Liquor and Gaming became involved indirectly in promoting the establishment of a casino in Saskatoon.

Order in Council # 399/2002 dated June 11, 2002 authorized the Government to make the 2002 Framework Agreement with the Federation of Saskatchewan Indian Nations (FSIN). The 2002 Framework Agreement states that the Government does not intend to promote the establishment of a casino in Saskatoon. Under the Agreement, the FSIN is responsible for developing any casino in Saskatoon. The Agreement requires the FSIN to participate in community consultation and obtain the approval of Saskatoon City Council for any proposed casino. Through the Order in Council and the Agreement, Cabinet made the public aware of the Government's intention of not promoting the establishment of a casino in Saskatoon.

The 2002 Casino Operating Agreement allows SIGA to permit its employees to take leaves of absence to work for others, such as the FSIN, if SIGA ceases to pay salaries or benefits to such employees. SIGA allowed its employees to work with a Tribal Council to promote a casino in Saskatoon. However, SIGA continued to pay the salaries and benefits to those employees. We cannot determine the dollar value of the time SIGA's employees spent promoting the proposed casino in Saskatoon because SIGA does not have a record of the time spent by those employees promoting the Saskatoon casino.

By allowing SIGA to spend public money to promote the establishment of a casino in Saskatoon, Liquor and Gaming did not comply with Order in

Council #399/2002. We did not find another Order in Council specifically allowing Liquor and Gaming to promote the establishment of a casino in Saskatoon. Accordingly, the expenditure of \$446,000 plus the salaries paid to some of SIGA's senior staff to promote the establishment of a casino in Saskatoon is without authority. Our lawyer supports this position.

Management told us that under the Framework and Casino Operating Agreements, Liquor and Gaming has the authority to approve SIGA's expenses relating to the promotion and development of a Saskatoon casino proposal and that employees paid by SIGA can be involved in the promotion and development of the casino. Liquor and Gaming's lawyer supports this position.

Management of public money under SIGA's control needs improvement

Liquor and Gaming needs to continue to strengthen its management of public money under SIGA's control.

To implement the Framework Agreement¹ and because *The Criminal Code of Canada* gives only provinces the authority to conduct and manage electronic gaming devices, Liquor and Gaming and SIGA signed the Casino Operating Agreement². The Casino Operating Agreement permits SIGA to operate Liquor and Gaming's slot machines at SIGA's four casinos.

Under the Casino Operating Agreement, the revenue and expenses from the slot machines belong to Liquor and Gaming. In addition, Liquor and Gaming has the right to set SIGA's operating policies, determine what expenses SIGA can reasonably incur and deduct from the slot machine revenues, and approve SIGA's financial and business plans. These authorities are necessary because the expenses SIGA incurs to operate the slot machines are Liquor and Gaming's expenses.

Since November 2000, we have made recommendations for Liquor and Gaming to strengthen its management of public money under SIGA's control. Liquor and Gaming has made some progress, but much more

¹ A new Framework Agreement was signed in June 2002 – see Chapter 5B on page 146.

² A new Casino Operating Agreement was signed in June 2002 – see Chapter 5B on page 146.

work is needed. The Exhibit at page 140 lists the recommendations and their status at March 31, 2003.

In our previous reports, we said Liquor and Gaming needs to ensure SIGA complies with the Casino Operating Agreement and incurs and deducts only reasonable expenses from public money. To do so, Liquor and Gaming must:

- ◆ define reasonable expenses by setting SIGA's spending policies;
- ◆ set SIGA's casino operating policies;
- ◆ ensure SIGA has adequate processes to comply with the approved policies;
- ◆ frequently audit SIGA's operations to ensure:
 - SIGA complies with the approved operating policies and the Casino Operating Agreement;
 - SIGA incurs and deducts only reasonable expenses from public money; and
- ◆ recover any expenses that do not comply with the approved spending policies.

Liquor and Gaming decided to have SIGA propose its spending and operating policies to Liquor and Gaming. Liquor and Gaming would then review, amend if necessary, and approve those policies. By year-end or shortly thereafter, SIGA had proposed most of its spending and operating policies. At mid-October 2003 Liquor and Gaming has not yet approved any of these policies. Management told us that Liquor and Gaming has not done so because it asked SIGA to revise the policies.

We describe below the areas where Liquor and Gaming needs to do more work to ensure the proper management of public money under SIGA's control.

Setting spending policies and casino operating policies

In our past reports, we said that if SIGA is to continue to operate slot machines in its casinos for Liquor and Gaming, Liquor and Gaming must ensure SIGA uses good practices to manage public money. We made recommendations to improve SIGA's practices (Exhibit 1 on page 165). Those recommendations require SIGA to establish appropriate operating

policies and procedures, get Liquor and Gaming's approval, and then ensure that the staff follow those policies and procedures.

Salaries and benefits, and marketing (including promotion) are the two biggest expenses of SIGA. During 2003, SIGA spent approximately \$31.5 million (2002-\$27.8 million) for salaries and benefits, and approximately \$5.9 million (2002-\$6.0 million) for marketing its casinos. SIGA's ancillary operation (gift shops, restaurants, and lounges) is also significant. During 2003, SIGA had ancillary revenue of \$5.0 million (2002-\$4.7 million) and expenses of \$6.7 million (2002-\$6.1 million).

At mid-October 2003, Liquor and Gaming has not yet approved policies that set out what is reasonable for these expenses. Also, Liquor and Gaming continues to work towards ensuring that SIGA has appropriate operating policies for keeping complete and accurate records.

Because Liquor and Gaming has not yet approved the spending policies for SIGA, Liquor and Gaming may have paid for expenses that are not reasonable for operating the slot machines at SIGA's casinos. We continue to recommend Liquor and Gaming approve spending and operating policies for SIGA.

We reported this matter in our 2002 Fall Report – Volume 2 and in our previous reports. In May 2003, the Standing Committee on Public Accounts (PAC) concurred with our recommendation. During the meeting, Liquor and Gaming told PAC that it expects to implement all of our past recommendations by Spring 2004.

Monitoring SIGA's operations

In our past reports, we recommended that Liquor and Gaming should ensure it has adequate resources to audit SIGA and frequently audit SIGA to ensure compliance with the approved policies.

For 2003, Liquor and Gaming had an adequate plan to audit SIGA's Head Office operations and SIGA's casinos. However, Liquor and Gaming did not fully carry out that plan. Liquor and Gaming did not audit any of SIGA's casinos during 2003. Instead, Liquor and Gaming's inspectors did some of the audit procedures during inspection of SIGA's casinos.

Accordingly, Liquor and Gaming does not know if the casino staff fully complied with Liquor and Gaming's policies.

During the last two years, Liquor and Gaming has audited SIGA's Head Office operations. Liquor and Gaming found many instances of non-compliance with the approved policies (i.e., sponsorship, promotion).

Liquor and Gaming reported the non-compliance to SIGA's management. However, the non-compliance continued and Liquor and Gaming did not recover the unreasonable expenses.

Liquor and Gaming analyzes SIGA's monthly financial reports to ensure compliance with the budget Liquor and Gaming set for SIGA. This analysis involves reviewing the detailed monthly financial reports that compare the actual expenses with planned expenses. The financial reports provide explanations of differences between the actual expenses and planned expenses. The reports are supposed to help Liquor and Gaming to monitor SIGA. However, these financial reports are not adequate because they are not accurate.

For example, as part of budget approval, Liquor and Gaming authorized SIGA to spend up to \$100,000 for market development. Liquor and Gaming told us this amount was for promoting the establishment of a casino in Saskatoon. SIGA, however, spent \$446,000 plus the salaries for some of its senior staff for promoting the establishment of a casino in Saskatoon. SIGA recorded this cost in other expense categories. Because the financial reports did not show the actual expense for market development, Liquor and Gaming could not tell from the reports that SIGA had exceeded its market development budget for the Saskatoon casino by more than 300%. Later, when Liquor and Gaming became aware of the additional costs it did not take any action. Management told us Liquor and Gaming did not take any action because SIGA had not exceeded the approved overall expense budget.

We continue to recommend that Liquor and Gaming implement all of our past recommendations. (See Exhibit at page 140).

We reported this matter in our previous reports. In May 2003, PAC concurred with our recommendations. During the PAC meeting, Liquor

and Gaming told PAC that it expects to implement all of our past recommendations by Spring 2004.

Recovering unreasonable expenses

In our 2000 Fall Report – Volume 2, we said Liquor and Gaming must recover money for expenses that are not reasonable as provided in the agreements. Because SIGA has no money of its own, the 2002 Framework Agreement allows the Government to recover money from the First Nations Fund.

We had expected that by now Liquor and Gaming would have established a process to recover any unreasonable expenses that Liquor and Gaming identifies. As stated earlier, Liquor and Gaming did not recover money for expenses that did not comply with the policies Liquor and Gaming set for SIGA.

- We continue to recommend Liquor and Gaming recover money for SIGA's expenses that do not comply with approved spending policies.**

SIGA's business and financial plan

Liquor and Gaming received and approved SIGA's budget for 2003 and 2004 without receiving a complete business plan.

Liquor and Gaming must ensure SIGA prepares appropriate business and financial plans. SIGA did not prepare a business plan for 2003. Management of SIGA could not do so because SIGA's Board of Directors had not prepared and communicated SIGA's strategic direction. Without a business plan, Liquor and Gaming cannot approve a proper budget because Liquor and Gaming does not know what SIGA wants to achieve, how it will do that, and what resources SIGA needs to achieve its objectives.

We reported this matter in our previous reports. We recommended that Liquor and Gaming ensure SIGA's Board prepares and communicates its strategic direction to management, and prepares complete business and financial plans. In May 2003, PAC considered this matter and concurred with our recommendation.

On March 29, 2003, SIGA's Board completed and communicated its strategic direction to management. Liquor and Gaming should ensure SIGA's strategic direction is consistent with Liquor and Gaming's direction.

We continue to recommend that Liquor and Gaming ensure:

- ◆ SIGA's Board prepares and communicates its long-term strategic direction to management; and
- ◆ SIGA prepares and submits for approval a complete business and financial plan setting out performance targets.

Management told us that Liquor and Gaming received SIGA's strategic plan on April 11, 2003 and that SIGA would prepare its business plan for 2004-05 by January 2004. Management also told us that in June 2003 Liquor and Gaming reviewed SIGA's strategic plan and provided comments to make SIGA's plan consistent with Liquor and Gaming's goals. At mid-October 2003, the strategic plan was not yet approved.

Electronic gaming devices need proper testing

Liquor and Gaming must establish standards for testing electronic gaming devices (slot machines and video lottery terminals) before making them available for public use.

Establishing standards for independent testing laboratories is important. Without such standards, the independent laboratories cannot provide assurance that the slot machines and VLTs they test for public use in Saskatchewan comply with Saskatchewan's gaming rules.

We also reported this matter in our 2002 Fall Report – Volume 2. In May 2003, PAC considered this matter and concurred with our recommendations.

We continue to recommend that Liquor and Gaming:

- ◆ establish standards for independent testing laboratories to use when testing slot machines and VLTs; and
- ◆ ensure that the laboratories use those standards to test Liquor and Gaming's slot machines and VLTs.

Management told us the Liquor and Gaming has drafted standards for testing slot machines and VLTs. Management told us that Liquor and Gaming is currently in the process of approving these standards.

Better monitoring of table games needed

Liquor and Gaming needs better rules and procedures to monitor table games at casinos.

Liquor and Gaming approves the rules of all table games played in Saskatchewan casinos. Table game rules include a planned house advantage. The planned house advantage is the percentage of the player's bet that the casino should retain over time if the game is played according to the approved rules. Monitoring house advantage for table games is cumbersome. For this reason many table game operators establish a range of expected "hold" for approved table games. Expected "hold" represents the revenue from table games that operator can expect to achieve. Gaming operators then monitor the actual hold on table games to the expected hold to ensure table games are generating revenue as expected.

Although Liquor and Gaming's staff observe table games to ensure gaming staff comply with approved rules, Liquor and Gaming does not have processes to regularly monitor gaming operators' house advantage or "hold" for table games.

Monitoring house advantage or the expected "hold" would provide added assurance that table games are played in accordance with the approved rules.

We reported this matter in our 2002 Fall Report – Volume 2. In May 2003, PAC considered this matter and concurred with our recommendation.

We continue to recommend that Liquor and Gaming establish processes to monitor regularly the actual house advantage or the expected "hold" for table games.

Management told us that gaming operators have begun monitoring the actual "hold" for table games. Management also told us that Liquor and Gaming is developing procedures for its inspectors to monitor house

advantage and/or “hold” for table games. In addition, management told us that Liquor and Gaming expects its inspectors will begin using these procedures by Spring 2004.

Better control over bank accounts needed

Liquor and Gaming needs to improve its control over its bank accounts.

Liquor and Gaming’s established rules require staff to agree (reconcile) its recorded bank balances to the bank’s records each month. The established rules also require management to review and approve the reconciliations. Regular reconciliation of recorded bank balances to the bank’s records provides a check that all charges to the bank accounts are proper. It also provides a check on the accuracy and reliability of Liquor and Gaming’s accounting records.

During the year, Liquor and Gaming did not regularly reconcile its bank accounts promptly. Staff did not reconcile some bank accounts for five months.

Three months after the year-end, Liquor and Gaming reconciled all recorded balances to the bank’s records.

- 2. We recommend that Liquor and Gaming follow its rules and procedures to reconcile promptly its recorded bank balances to the bank’s records.**

Contingency plan needed

Liquor and Gaming needs to prepare a contingency plan for its computer systems and test the plan to ensure it works.

A contingency plan is important to Liquor and Gaming because it is dependent upon its computer systems. To provide continuous services, Liquor and Gaming must ensure its systems and data are available when needed. The contingency plan should cover all significant information technology operations based on the importance of each program and service.

A contingency plan is an important part of an agency's business interruption plans. Business interruption plans reduce the risks resulting from business disruptions due to unforeseen incidents including systems failure. Liquor and Gaming needs a written and tested contingency plan to ensure the recovery of systems and data in case Liquor and Gaming's electronic systems fail, or if key service providers' systems fail.

In prior years, Liquor and Gaming established some procedures to recover data and programs in case of systems failure. However, Liquor and Gaming does not yet have a complete and tested contingency plan. Once the plan is completed, the Board of Directors should approve it.

We reported this matter in our 1998 Fall Report – Volume 2 and in our later reports. PAC considered this matter in January 1999 and concurred with our recommendation.

We continue to recommend that Liquor and Gaming prepare a complete written contingency plan based on a risk analysis and test that plan to ensure it works.

Management told us that Liquor and Gaming continues to work toward completing its contingency plan.

Exhibit

Status of our past recommendations related to SIGA's management of public money as at March 31, 2003.

Recommendations relating to SIGA's management of public money	Year First Reported	Implemented	Partially Implemented	Not Implemented
1. Liquor and Gaming direct SIGA's Board to allow us full access to do our work directly	2000 Fall Report – Volume 2	✓		
2. Liquor and Gaming determine what SIGA payments to date (November 15, 2000) are not reasonable deductions from public money and recover that money as provided by the agreements.	2000 Fall Report – Volume 2	✓		
3. Liquor and Gaming ensure SIGA implements the recommendations we make in our 2000 Fall Report – Volume 2 ³ , and ensure it has necessary resources to frequently audit SIGA.	2000 Fall Report – Volume 2		✓	
4. Liquor and Gaming frequently audit SIGA's operations to ensure: - SIGA complies with the Framework and Casino Operating Agreements; and - SIGA incurs and deducts only reasonable expenses from public money.	2000 Fall Report – Volume 2		✓	
5. Liquor and Gaming recover any expenses that are not reasonable (on going basis).	2000 Fall Report – Volume 2			✓
6. Liquor and Gaming make public a list of persons who received public money from SIGA following the Standing Committee on Public Account's recommendations	2000 Fall Report – Volume 2	✓		

³ See Exhibit 1 on page 165 (SIGA's chapter)

Recommendations relating to SIGA's management of public money	Year First Reported	Implemented	Partially Implemented	Not Implemented
7. Liquor and Gaming prepare a formal training plan for its staff and should co-ordinate work among its branches.	1999 Spring Report	✓		
8. Liquor and Gaming work with SIGA to establish appropriate governance and conflict of interest policies for SIGA casinos.	1999 Spring Report	✓		
9. Liquor and Gaming ensure inspections/audits are completed as planned or document why the plan was changed.	1999 Spring Report		✓	
10. Liquor and Gaming document procedures for reporting and following up its audit/inspection findings with SIGA.	1999 Spring Report		✓	
11. Liquor and Gaming receive and formally approve SIGA's casino operating policies and procedures on a timely basis.	1999 Spring Report			✓
12. Liquor and Gaming work with SIGA to establish an internal audit function at SIGA.	1999 Spring Report		✓	
13. Liquor and Gaming receive and approve SIGA's budget on a timely basis and should have procedures for approving changes to the budget.	1999 Spring Report		✓	

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