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## Main points

Saskatchewan Liquor and Gaming Authority (Liquor & Gaming) has now revised its policies to address all of our past recommendations to strengthen its management of public money under Saskatchewan Indian Gaming Authority's (SIGA) control. SIGA proposed and Liquor & Gaming approved all of SIGA's spending and operating policies near the year-end. In addition, Liquor & Gaming established a process to determine if SIGA's expenses are unreasonable and to recover the expenses it considers unreasonable.

Liquor & Gaming reviewed SIGA's expenses for staff travel, promotion and sponsorship to assess the reasonability of those expenses and to ensure compliance with policies Liquor & Gaming approved some three years ago. Liquor & Gaming determined that \$480,000 in expenses for 2003-04 did not comply with approved policies or were not reasonable. Liquor & Gaming has begun to recover those expenses.

We continue to recommend that Liquor & Gaming reconcile its recorded bank balances to the bank's records promptly and prepare a complete and appropriate contingency plan.

## Introduction

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

Liquor & 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 governments can own and manage slot machines. The Government decided to use SIGA to operate the slot machines under Liquor & Gaming's direction. Under the current casino operating arrangements, the revenues from the slot machines belongs to Liquor & Gaming. Also, SIGA must follow policies that Liquor & Gaming approves for incurring casino operating expenses. Liquor & Gaming allows SIGA to deduct expenses that comply with the approved policies from the slot machine revenues. Accordingly, SIGA's expenses that comply with the approved policies are Liquor & Gaming's expenses. Liquor & Gaming includes those revenues and expenses in its financial statements.

In 2003-04, Liquor & Gaming had revenues of \$737 million, expenses of \$378 million, and net income of \$359 million. At year-end, Liquor & Gaming held total assets of \$187 million and had an accumulated deficit of \$2 million. Liquor & Gaming's Annual Report 2003-04 includes its financial statements.

## Our audit conclusions and findings

**In our opinion, for the year ended March 31, 2004:**

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

- ◆ **Liquor & Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.**

## **Management of public money under SIGA's control needs continued careful monitoring**

Liquor & Gaming needs to continue to monitor management of public money under SIGA's control.

Under the Casino Operating Agreement<sup>1</sup>, the revenues and expenses from the slot machines belong to Liquor & Gaming. The Casino Operating Agreement provides Liquor & Gaming the authority to set SIGA's operating policies, determine what expenses SIGA can reasonably deduct from the slot machine revenues, and approve SIGA's financial and business plans.

Liquor & Gaming decided to have SIGA propose its spending and operating policies to Liquor & Gaming. Liquor & Gaming would then review, amend if necessary, and approve those policies. SIGA has proposed all of its spending and operating policies. At year-end, Liquor & Gaming completed its review and approved all of these policies. Now Liquor & Gaming needs to ensure that SIGA complies with the approved policies.

The Exhibit on page 163 lists the recommendations we made for Liquor & Gaming to strengthen its management of public money under SIGA's control and their status at March 31, 2004. We are pleased that at year-end, Liquor & Gaming revised its policies to address all of our past recommendations. Next year, we will assess Liquor & Gaming's compliance with these revised policies.

We describe below what Liquor & Gaming has done to ensure the proper management of public money under SIGA's control for the year ended March 31, 2004.

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<sup>1</sup> The Casino Operating Agreement is an agreement between Liquor & Gaming and SIGA setting out terms and conditions for operating SIGA casinos. The Agreement expires on June 11, 2027.

**Setting spending policies and casino operating policies**

In our previous reports to the Legislative Assembly, we said that if SIGA is to continue to operate slot machines in its casinos for Liquor & Gaming, it must ensure SIGA uses good practices to manage public money. We made recommendations to improve SIGA's practices (The Exhibit on page 175). Those recommendations require SIGA to establish appropriate operating policies and procedures, get Liquor & Gaming's approval, and then ensure that the staff follow those policies and procedures.

As stated earlier, at March 31, 2004, SIGA has proposed and Liquor & Gaming has approved all of SIGA's spending and operating policies. Because Liquor & Gaming approved those policies near the end of SIGA's fiscal year, Liquor & Gaming could not ensure that SIGA followed those policies during the year. Accordingly, Liquor & Gaming may have paid for expenses that are not reasonable for operating the slot machines at SIGA's casinos.

**Recovering unreasonable expenses**

In our 2003 Report – Volume 3 and previous reports, we recommended that Liquor & Gaming audit SIGA's expenses frequently and recover money for expenses that do not comply with approved spending policies. In June 2004, PAC agreed with our recommendation. Because SIGA has no money of its own, the 2002 Framework Agreement<sup>2</sup> allows the Government to recover money from the First Nations Trust Fund (formerly, First Nations Fund).

We are pleased that Liquor & Gaming has now established a policy to more frequently audit SIGA's expenses, determine expenses that it considers unreasonable and to recover those expenses from future payments to the First Nations Trust Fund. Next year, we will assess how well Liquor & Gaming implements this new policy.

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<sup>2</sup> The 2002 Framework Agreement is an agreement between the Government of Saskatchewan and the Federation of Saskatchewan Indian Nations. The Agreement sets out terms and conditions for permitting the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. The Agreement expires on June 11, 2027.

Liquor & Gaming has completed a review of SIGA's expenses for 2003-04 for staff travel, promotion and sponsorship. Liquor & Gaming reviewed those expenses to assess the reasonability of those expenses and SIGA's compliance with policies Liquor & Gaming approved three years ago.

Liquor & Gaming determined that SIGA has charged Liquor & Gaming with expenses totalling \$480,000 that do not comply with approved policies or are unreasonable. Liquor & Gaming has begun the process to recover its portion of this amount.

### **Electronic gaming devices need proper testing**

Electronic gaming devices i.e., slot machines and video lottery terminals (VLTs) need proper testing before making them available for public use.

In our 2003 Report – Volume 3 and previous reports, we recommended that Liquor & 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 & Gaming's slot machines and VLTs.

PAC considered this matter in May 2003 and agreed with our recommendations.

Liquor & Gaming established and approved standards for testing electronic gaming devices during 2004. However, Liquor & Gaming did not provide these standards to the independent testing laboratories to use when testing Liquor & Gaming's slot machines and VLTs. Also, Liquor & Gaming needs to ensure that the laboratories use the approved standards to test Liquor & Gaming's slot machines and VLTs.

We continue to recommend that Liquor & Gaming ensure that the laboratories use the approved standards to test Liquor & Gaming's slot machines and VLTs.

Management told us that it provided the independent testing laboratories with the established standards in April 2004 and the laboratories are using those standards to test Liquor & Gaming's slot machines and VLTs.

## **Better control over bank accounts needed**

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

Liquor & Gaming's established rules require staff to agree (reconcile) its recorded bank balances to the bank's records each month. The 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 & Gaming's accounting records.

During the year, Liquor & Gaming did not reconcile its bank accounts promptly. Some bank reconciliations were not completed and reviewed for six months. At year-end, Liquor & Gaming reconciled all recorded bank balances to the bank's records.

We reported this matter in our 2003 Report – Volume 3. PAC considered this matter in June 2004 and agreed with our recommendation.

We continue to recommend that Liquor & Gaming follow its rules and procedures to reconcile its recorded bank balances to the bank's records promptly.

Management told us that it would ensure that staff follow the established rules and procedures to reconcile the recorded bank balances to the bank's records promptly.

## **Contingency plan needed**

Liquor & 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 & Gaming because it is dependent upon its computer systems. To provide continuous services, Liquor & 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 & Gaming needs a written and tested contingency plan to ensure the recovery of systems and data in case Liquor & Gaming's electronic systems fail, or if key service providers' systems fail.

In prior years, Liquor & Gaming established some procedures to recover data and programs in case of systems failure. During the year, Liquor & Gaming appointed a project leader and developed terms of reference for a business continuity planning project. However, Liquor & Gaming does not yet have a complete and tested contingency plan. Once the plan is completed, the Board should approve it.

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

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

**Exhibit**

**Status of our past recommendations for Liquor & Gaming to strengthen management of public money under SIGA’s control as at March 31, 2004.**

Recommendations relating to SIGA’s management of public money	Year First Reported	Implemented	Partially Implemented	Not Implemented
1. Liquor & Gaming direct SIGA’s Board to allow us full access to do our work directly	2000 Fall Report – Volume 2	✓		
2. Liquor & 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 & Gaming ensure SIGA implements the recommendations we make in our 2000 Fall Report – Volume 2, and ensure it has necessary resources to frequently audit SIGA.	2000 Fall Report – Volume 2	✓		
4. Liquor & 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 & Gaming recover any expenses that are not reasonable (ongoing basis).	2000 Fall Report – Volume 2	✓		
6. Liquor & 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	✓		
7. Liquor & Gaming prepare a formal training plan for its staff and should co-ordinate work among its branches.	1999 Spring Report	✓		
8. Liquor & Gaming work with SIGA to establish appropriate governance and conflict of interest policies for SIGA casinos.	1999 Spring Report	✓		
9. Liquor & Gaming ensure inspections/audits are completed as planned or document why the plan was changed.	1999 Spring Report	✓		

## Chapter 5A – Liquor and Gaming Authority

<b>Recommendations relating to SIGA's management of public money</b>	<b>Year First Reported</b>	<b>Implemented</b>	<b>Partially Implemented</b>	<b>Not Implemented</b>
<b>10.</b> Liquor & Gaming document procedures for reporting and following up its audit/inspection findings with SIGA.	1999 Spring Report	✓		
<b>11.</b> Liquor & Gaming receive and formally approve SIGA's casino operating policies and procedures on a timely basis.	1999 Spring Report	✓		
<b>12.</b> Liquor & Gaming work with SIGA to establish an internal audit function at SIGA.	1999 Spring Report	✓		
<b>13.</b> Liquor & Gaming receive and approve SIGA's budget on a timely basis and should have procedures for approving changes to the budget.	1999 Spring Report	✓		