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Main points

Saskatchewan Indian Gaming Authority (SIGA) is making progress towards addressing all our past recommendations. During the year, SIGA proposed most of its spending policies to Saskatchewan Liquor and Gaming Authority (Liquor & Gaming) for approval. We commend SIGA for doing so. However, because SIGA's spending policies were not in place until close to the year-end, it continued to make payments without due care during the year and the weaknesses we reported in our prior reports continued during the year.

Liquor & Gaming told us that at year-end or shortly after, it had approved all spending policies for SIGA. SIGA now needs to train staff so that they can comply with the approved policies. SIGA needs to pay more attention to ensuring compliance. Some of SIGA's approved spending policies have been in place for more than three years, but SIGA's compliance with those policies is poor.

Liquor & Gaming recently completed a review of SIGA's spending on staff travel, sponsorship, and promotion and determined that SIGA incurred expenses totalling \$480,000 that do not comply with approved policies or are unreasonable. Liquor & Gaming is recovering its portion of these expenses from the First Nations Trust Fund. First Nation people bear the cost of SIGA's misspending because SIGA belongs to them.

Introduction

The Saskatchewan Indian Gaming Authority Inc. (SIGA) is a non-profit corporation established under *The Non-Profit Corporations Act, 1995*. The members of SIGA are the Federation of Saskatchewan Indian Nations (FSIN), the Tribal Councils of Saskatchewan, and independent First Nations. SIGA is licensed to operate four casinos (Northern Lights Casino in Prince Albert, Gold Eagle Casino in North Battleford, Painted Hand Casino in Yorkton, and Bear Claw Casino at the White Bear reserve) in Saskatchewan. Those casinos provide table games, slot machines, and other hospitality services (ancillary operations) to the public.

Saskatchewan Liquor and Gaming Authority (Liquor & Gaming) licenses SIGA to conduct and manage table games. SIGA is required to use the net profits from the operations of licensed table games for First Nations' charitable or religious purposes.

As required by section 207 of *The Criminal Code of Canada*, Liquor & Gaming owns the slot machines located in SIGA's casinos. The revenue from the slot machines belongs to Liquor & Gaming and is, therefore, public money. SIGA is allowed to deduct reasonable costs of operating casinos, as determined by Liquor & Gaming, from the slot machine revenues. SIGA is required to remit the remainder to Liquor & Gaming.

Under the 2002 Casino Operating Agreement¹, SIGA is also entitled to recover, in any year, any net loss from the operation of licensed table games and ancillary operations from the net income earned from the operation of slot machines.

For the last five years, SIGA reported the following net casino profits and losses for Liquor & Gaming. The casino operations include slot machines, table games, and ancillary (i.e., gift shops, restaurants and lounges).

¹ The 2002 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.

Table 1 – Net profits (losses) from SIGA’s casinos

Segment	2004	2003	2002	2001	2000
(in thousands)					
Slot operations	\$ 35,843	\$ 32,146	\$ 26,855	\$ 21,290	\$ 15,705
Ancillary operations	(1,976)	(1,742)	(1,400)	(2,009)	(1,830)
Table operations	(687)	(1,036)	(620)	(638)	(491)
Total	<u>\$ 33,180</u>	<u>\$ 29,368</u>	<u>\$ 24,835</u>	<u>\$ 18,643</u>	<u>\$ 13,384</u>

Table 1 shows that over the last three years the net profits from slot operations increased by about \$9 million. The net profits from slot machines increased because over the last two years, Liquor & Gaming has installed more slot machines in SIGA casinos. Slot machines in SIGA casinos increased from 620 in 2002 to 995 in 2004. The total slot machine revenue increased from \$68 million in 2002 to \$89 million in 2004. For the same period, SIGA’s slot machine expenses increased from \$41.2 million to \$52.7 million in 2004.

Background

In February 1995, the Government of Saskatchewan and the FSIN made an agreement called the 1995 Framework Agreement that permitted the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. The 1995 Framework Agreement expired, and on June 11, 2002, the Government of Saskatchewan and the FSIN signed a new Framework Agreement (2002 Framework Agreement²) effective from June 11, 2002 to June 11, 2027.

To implement the 1995 Framework Agreement, Liquor & Gaming and SIGA signed a Casino Operating Agreement in November 1995. The Casino Operating Agreement expired with the 1995 Framework Agreement. On June 11, 2002, Liquor & Gaming and SIGA signed a new Casino Operating Agreement (2002 Casino Operating Agreement) effective from June 11, 2002 to June 11, 2027.

² The 2002 Framework 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.

SIGA operates four casinos under the terms of the 2002 Casino Operating Agreement. All four casinos are located on reserves. Liquor & Gaming is responsible for the overall conduct and management of the slot machines in those casinos as required under *The Criminal Code of Canada*.

Liquor & Gaming expects SIGA to propose spending and casino operating policies for Liquor & Gaming's approval. Under the 2002 Casino Operating Agreement, SIGA is entitled to deduct the casinos' operating expenses, incurred in accordance with the operating policies and directives approved by Liquor & Gaming, from slot machine revenues. SIGA is required to deposit the remainder into a trust account for Liquor & Gaming in accordance with the process specified in the 2002 Casino Operating Agreement.

When Liquor & Gaming determines that any expenses that SIGA has incurred are not reasonable (i.e., expenses that did not follow the approved policies and directives), it recovers such expenses from future amounts due to the First Nations Trust Fund (formerly, First Nations Fund). Liquor & Gaming does so because SIGA has no money of its own. SIGA has no money of its own because revenues from the slot machines belong to Liquor & Gaming and SIGA must use any net income from the licensed table games for charitable or religious purposes. As a result, First Nations people bear the cost when SIGA incurs unreasonable expenses because SIGA belongs to them.

We audit SIGA for the Legislative Assembly because SIGA handles public money for Liquor & Gaming. Also, Liquor & Gaming directed SIGA's members to appoint the Provincial Auditor as SIGA's auditor. SIGA's members did so.

Our audit conclusions

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

- ◆ **SIGA's consolidated financial statements are reliable;**
- ◆ **SIGA did not have adequate rules and procedures to safeguard public resources because of the matters reported in this chapter; and**

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

Safeguarding public money

In our 2000 Fall Report – Volume 2 and later reports, we made several recommendations to strengthen SIGA's rules and procedures to safeguard public money. SIGA accepted our recommendations.

In November 2000, to ensure effective implementation of our recommendations, Liquor & Gaming set and communicated priorities (Directives) to SIGA. One of those Directives requires SIGA to accept and implement new policies and procedures mandated by Liquor & Gaming. The 2002 Casino Operating Agreement requires SIGA to comply with those Directives by August 15, 2005. The Agreement also requires SIGA to sustain that compliance for at least two consecutive years. If SIGA does not meet these conditions, Liquor & Gaming may not allow SIGA to continue to operate Liquor & Gaming's slot machines.

At March 31, 2004, SIGA has not fully addressed all of our past recommendations. As we state later, Liquor & Gaming approved most of SIGA's spending policies close to the year-end. Because SIGA's spending policies were not in place until close to the year-end, SIGA continued to make payments without due care and the weaknesses we reported in our prior reports continued. The Exhibit on page 175 summarizes our past recommendations and the status of the implementation of those recommendations as of March 31, 2004. The Exhibit shows that many of our recommendations are still not fully implemented.

Liquor & Gaming expected SIGA to propose spending policies for Liquor & Gaming's approval. SIGA has worked actively to propose policies to address our past recommendations. Liquor & Gaming told us that at year-end or shortly after, SIGA proposed and Liquor & Gaming approved all spending policies for SIGA. We commend SIGA for doing this. Now, SIGA needs to train staff so they can comply with those policies. Also, SIGA needs to ensure all staff comply with the approved policies and take appropriate action when they do not.

SIGA needs to pay more attention to ensuring compliance. Some of SIGA's approved spending policies have been in place for more than three years, but SIGA's compliance with those approved policies is poor.

We noted many instances where managers approved transactions (e.g., sponsorship requests, promotion requests) that did not comply with the approved policies or were inappropriate business expenses. Managers knew, or should have known, that the proposed transactions did not comply with the approved policies or were inappropriate business expenses. However, managers routinely approved those transactions. This sends a message to staff that non-compliance with approved policies is acceptable. We also noted instances where senior officials approved middle managers' expense claims that did not comply with the approved policies. Such approvals encourage managers to tolerate non-compliance with the approved policies.

On November 9, 2004, management told us that SIGA has now clarified spending policies to staff and has taken steps to ensure staff comply with those policies. We will report next year how well SIGA's staff comply with the approved spending policies.

Liquor & Gaming has now completed a review of SIGA's spending for 2003-04 on staff travel, sponsorship, and promotion. Liquor & Gaming determined SIGA incurred expenses totalling \$480,000 that do not comply with the approved policies or are unreasonable. Liquor & Gaming is recovering its portion of these expenses from the First Nations Trust Fund.

In the rest of this chapter, we provide examples of those expenses.

Staff travel and business expenses

SIGA has established a travel and business expense policy that Liquor & Gaming has approved. The policy sets out authorized rates for meals, transportation, and hotels. Staff often did not comply with the approved travel and business expense policy. As a result, SIGA spent approximately \$70,000 for travel and business expenses that did not comply with the approved policy or were unreasonable.

For example, SIGA's travel policy requires staff to stay in standard rooms at non-luxury hotels at corporate rates. We found many instances where staff stayed in suites and/or non-standard rooms without prior approval. Also, staff claimed and received meal expenses in excess of approved rates and without proper approval.

In addition, staff did not always document the business purpose for their travel. For example, SIGA paid approximately \$7,000 for hotel rooms, meals, and concert tickets for a trip to Calgary for seventeen senior staff. SIGA also paid approximately \$2,500 in hotel and ticket costs for eight senior staff to attend the Canadian Country Music Awards in Calgary. SIGA could not provide us a business purpose for these expenses.

Also, senior management often paid and claimed reimbursement for entertaining others at various clubs and restaurants without documenting the business reasons for such meetings.

Marketing, promotion, and sponsorships

An organization's marketing plan would include strategies and action plans to maintain or enhance its market share, and to introduce new or changed products to the public. Marketing plans include an organization's public relations and publicity strategies. Marketing activities can be directed toward the public at large, specific individuals or groups of individuals, and to fulfil the organization's responsibility as a good corporate citizen. These activities are called general marketing, promotions, and sponsorship respectively. Organizations expect spending on general marketing to enhance their revenues. However, spending on promotion and sponsorships are not always expected to result in increased revenues.

Liquor & Gaming approved SIGA's general marketing and promotion policies near the year-end. However, Liquor & Gaming provided a policy for sponsorship in November 2000. SIGA did not always comply with that policy. Because during the year SIGA did not have approved marketing policies, it incurred unreasonable expenses. We provide below examples of spending on event tickets, golf events, promotional merchandise, and sponsorship that did not comply with approved policies or were unreasonable.

Event tickets

In 2003-04, SIGA purchased approximately 3,500 tickets for various events such as concerts, sporting events, and fundraising events. SIGA also paid for food and beverages at many of these events.

At times, members of SIGA's senior management, selected guests, and customers attended those events. SIGA could not always provide us documented evidence of who attended those events and the business purpose for attending those events. As a result, SIGA incurred unreasonable expenses totalling approximately \$112,000 in 2003-04 for such events, including food and beverages.

Golf events and promotional merchandise

Generally, the gaming industry uses promotional merchandise to promote or market gaming products and casinos. Casinos keep track of such promotional items given out. SIGA also uses promotional merchandise to promote its casinos. However, SIGA could not always tell us who received the promotional items it gave away and why. Also, SIGA could not tell us the reason for buying golf clubs for staff.

As a result, the following expenses for 2003-04 are unreasonable:

- ◆ Approximately \$95,000 for golf tournament entry fees, and golf promotional merchandise.
- ◆ Approximately \$20,000 for golf clubs for a former general manager and other staff members.
- ◆ Approximately \$81,000 for leather jackets, fleeces, and t-shirts.

Sponsorships

SIGA has established a sponsorship policy that Liquor & Gaming has approved. However, staff did not always comply with the approved sponsorship policy. As a result, SIGA spent approximately \$100,000 in 2003-04 for sponsorships that did not comply with the approved policy.

For example, we found SIGA paid approximately \$7,500 to sponsor a hockey team that did not meet the conditions set out in the approved policy. We also found numerous other instances where SIGA sponsored

other teams and individuals that did not meet the conditions set in the approved policy.

We also noted many instances where the sponsorship applicants did not apply in writing or submitted incomplete applications. Nor did we always find evidence that SIGA had ensured that the money paid was used for the purposes intended.

Compliance with authorities needed

SIGA did not comply with the 2002 Casino Operating Agreement and *The Non-profit Corporations Regulations, 1997* regarding timely audited financial statements.

The 2002 Casino Operating Agreement requires SIGA to provide Liquor & Gaming with audited financial statements by June 30 each year. *The Non-profit Corporations Regulations, 1997* require SIGA to provide its annual audited financial statements in the form requested by the Director of the Corporations Branch (Director) of the Department of Justice. The Director has set July 31 each year as the due date for these financial statements.

SIGA did not provide audited financial statements for the year ended March 31, 2003 to Liquor & Gaming until July 23, 2003 and did not provide these financial statements to the Director until August 20, 2003. At November 9, 2004, SIGA had not provided the audited financial statements for the year ended March 31, 2004 to Liquor & Gaming and the Director.

Accordingly, SIGA did not comply with the 2002 Casino Operating Agreement and *The Non-profit Corporations Regulations, 1997*.

- 1. We recommend that the Saskatchewan Indian Gaming Authority Inc. provide annual audited financial statements to the Saskatchewan Liquor and Gaming Authority and the Director of the Corporations Branch in accordance with the 2002 Casino Operating Agreement and *The Non-profit Corporations Regulations, 1997*.**

Management told us SIGA has requested an extension for the year ended March 31, 2004 from the Department of Justice (Corporations Branch).

Exhibit

Status of the implementation of our past recommendations as at March 31, 2004.

Recommendations	Year First Reported	Date policy/info sent to Liquor & Gaming	Date policy/info approved by Liquor & Gaming	Implemented	Partially Implemented	Not Implemented
1. SIGA should establish a proper code of conduct and that code of conduct should be appropriate for managing public money.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	✓		
2. SIGA should document and communicate to its senior management the goals and objectives of SIGA	2000 Fall Report – Volume 2	2004 – 2007 Strategic Plan – March 2004	March 2004		✓	
3. SIGA's Board should establish an appropriate conflict-of-interest policy for Board members and management.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	✓		
4. SIGA's Board should ensure all Board members and senior management comply with the established conflict-of-interest policy.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	✓		
5. SIGA should prepare a complete business and financial plan for its operations.	2000 Fall Report – Volume 2	2004/05 business plan – March 2004	March 2004	✓		

Chapter 5B – Saskatchewan Indian Gaming Authority Inc.

Recommendations	Year First Reported	Date policy/info sent to Liquor & Gaming	Date policy/info approved by Liquor & Gaming	Implemented	Partially Implemented	Not Implemented
<p>6. SIGA's Board should define its management reporting needs and communicate those needs to management for regular reporting.</p> <ul style="list-style-type: none"> - Financial reporting - Performance reporting 	2000 Fall Report – Volume 2	N/A	N/A	✓		✓
<p>7. SIGA should establish an independent internal audit function that should report directly to the Board.</p>	2000 Fall Report – Volume 2	N/A	November 2000 Directive	✓		
<p>8. SIGA should report publicly through FSIN and Liquor & Gaming setting out SIGA's planned results and actual results.</p>	2000 Fall Report – Volume 2	N/A	November 2000 Directive			✓
<p>9. SIGA should make public through FSIN and Liquor & Gaming a list of persons (e.g., employees, suppliers) who have received money from SIGA and the amount each person received.</p>	2000 Fall Report – Volume 2	N/A	November 2000 Directive	✓		
<p>10. SIGA's Board should establish appropriate delegation of authority rules for management.</p>	2000 Fall Report – Volume 2	N/A	November 2000 Directive		✓	

Chapter 5B – Saskatchewan Indian Gaming Authority Inc.

Recommendations	Year First Reported	Date policy/info sent to Liquor & Gaming	Date policy/info approved by Liquor & Gaming	Implemented	Partially Implemented	Not Implemented
11. SIGA should establish written policies for management and staff pay, benefits, professional development, and performance evaluation.	2000 Fall Report – Volume 2	Senior Mgt. Wage Grid – May 2003 Cell phones and Vehicles – July 2003, various other policies – March 2004	December 2003 & March 2004		✓	
12. SIGA should establish an appropriate travel policy for Board members and executive management expenses including spousal travel, business expenses, and travel advances.	2000 Fall Report – Volume 2	N/A	November 2000 Directive		✓	
13. SIGA should establish adequate policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions.	2000 Fall Report – Volume 2	September 2003 & January 2004	December 2003 & February 2004			✓
14. SIGA should establish appropriate written policies and procedures for tendering and awarding contracts.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	✓		

Chapter 5B – Saskatchewan Indian Gaming Authority Inc.

Recommendations	Year First Reported	Date policy/info sent to Liquor & Gaming	Date policy/info approved by Liquor & Gaming	Implemented	Partially Implemented	Not Implemented
15. SIGA should establish appropriate policies and procedures for its marketing, promotion, and sponsorship activities. Those policies and procedures should include a clear definition of marketing and promotion activities and an approval process for sponsoring community events.	2000 Fall Report – Volume 2	Marketing & promotion policies – March 2004 Sponsorship – N/A	March 2004 November 2000 Directive for sponsorship			✓
16. SIGA should establish rules and procedures to ensure that only authorized persons can access its financial systems.	2001 Fall Report – Volume 2	N/A	N/A	✓		
17. SIGA should properly segregate the duties of its employees.	2001 Fall Report – Volume 2	September 2003	December 2003			✓
18. SIGA should establish rules and procedures to ensure compliance with the Casino Operating Agreement.	2001 Fall Report – Volume 2	N/A	N/A		✓	
19. SIGA should incur only costs necessary to operate its casinos under the Casino Operating Agreement.	2002 Fall Report – Volume 2	N/A	N/A		✓	
20. SIGA should ensure the staff comply with the sponsorship policy.	2002 Fall Report – Volume 2	N/A	November 2000 Directive			✓

Chapter 5B – Saskatchewan Indian Gaming Authority Inc.

Recommendations	Year First Reported	Date policy/info sent to Liquor & Gaming	Date policy/info approved by Liquor & Gaming	Implemented	Partially Implemented	Not Implemented
21. SIGA should establish rules and procedures to ensure that staff comply with its delegation of authority policy.	2002 Fall Report – Volume 2	N/A	November 2000 Directive		✓	
22. SIGA should: -periodically monitor the actual house advantage for table games to ensure games are being played in accordance with approved rules; and -establish appropriate rules and procedures to monitor expected and actual revenue of table games and communicate these to casino staff.	2002 Fall Report – Volume 2	N/A	N/A		✓	
23. SIGA should comply with the terms and conditions of its gaming licence.	2002 Fall Report – Volume 2	N/A	November 2000 Directive	✓		
24. SIGA should comply with its annual report policy.	2002 Fall Report – Volume 2	N/A	November 2000 Directive	✓		
25. SIGA should amend its agreement with the internal auditor to allow us full access to the internal auditor's files and records.	2003 Report – Volume 3	N/A	N/A	✓		

Chapter 5B – Saskatchewan Indian Gaming Authority Inc.

Recommendations	Year First Reported	Date policy/info sent to Liquor & Gaming	Date policy/info approved by Liquor & Gaming	Implemented	Partially Implemented	Not Implemented
<p>26. SIGA should:</p> <ul style="list-style-type: none"> -complete and implement its human resource plan; -ensure its casinos consistently follow established human resource policies; -prepare and provide to the Board more information about how SIGA is managing its staff retention risks; -prepare and provide to the Board more information about the effectiveness of SIGA's training activities. 	2003 Report – Volume 3	N/A	N/A	<p>Not evaluated as part of current year audit because SIGA needs time to address these recommendations</p>		