

Main points	168
Introduction	169
Our audit conclusions and findings	169
Audit findings for the year ended March 31, 2005	170
Better recovery of expenses needed	170
Better control over bank accounts needed	171
Security policies for information technology (IT) needed	172
Business continuity plan needed	173
Investigation of alleged misuse of money	174
Background	174
What happened	176
Biggar store	176
La Loche store	176
Objectives of our work	177
Part 1—Loss of public money	177
What we did	177
What we found	178
Part 2—Conditions that allowed loss of public money	179
Inadequate direction to employees	180
Lack of compliance with established policies	181
Poor communication	182

Main points

In this chapter, we report the results of our audit of the Liquor and Gaming Authority (Liquor & Gaming) for the year ended March 31, 2005 and our investigation of alleged misuses of money at two liquor stores.

Liquor & Gaming completed its audit of SIGA's expenses for the year ended March 31, 2005 and based on the information available identified expenses totalling nearly \$1.2 million that Liquor & Gaming considered unreasonable or did not comply with approved policies. However, it has not yet recovered money from the First Nations Trust Fund as allowed under the 2002 Framework Agreement. Also, Liquor & Gaming needs to:

- ◆ control its bank accounts
- ◆ prepare an information technology strategic plan, and information technology security policies and procedures
- ◆ prepare a complete business continuity plan

Our investigation of alleged misuses of public money shows that Liquor & Gaming incurred a loss of public money totalling at least \$247,000 at two of its liquor stores. Liquor & Gaming needs to:

- ◆ provide more direction and training to employees to do assigned tasks properly
- ◆ ensure compliance with established policies to control its bank accounts
- ◆ better communicate critical information amongst its various branches

Improving the above controls would help detect any misuse of public money sooner.

Introduction

The 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.

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. In Saskatchewan, the Government uses SIGA to operate the slot machines under Liquor & Gaming's direction. Liquor & Gaming signed a Casino Operating Agreement with SIGA. The Casino Operating Agreement expires on June 11, 2027. Under the Casino Operating Agreement, the revenues from the slot machines belong to Liquor & Gaming.

SIGA must also 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 2004-05, Liquor & Gaming had revenues of \$740 million, expenses of \$378 million, and net income of \$362 million. At year-end, Liquor & Gaming held total assets of \$171 million and had an accumulated deficit of \$0.5 million. Liquor & Gaming's *Annual Report 2004-05* includes its financial statements.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2005:

- ◆ **Liquor & Gaming had adequate rules and procedures to safeguard public resources except for the matters described in this chapter**

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

In this chapter, we report our audit findings and the results of our investigation of alleged misuses of public money at Liquor & Gaming’s liquor stores.

Audit findings for the year ended March 31, 2005

Better recovery of expenses needed

Since 2002, we have recommended that Liquor & Gaming should audit SIGA’s expenses frequently and recover money for expenses that do not comply with approved spending policies or are unreasonable. The 2002 Framework Agreement¹ allows Liquor & Gaming to recover such money from the First Nations Trust Fund because SIGA has no money of its own.

In 2003-04, Liquor & Gaming established a policy to frequently audit SIGA’s expenses, determine expenses that it considers unreasonable, and recover those expenses from future payments due to the First Nations Trust Fund. In our 2004 Report – Volume 3, we said we would assess next year how well Liquor & Gaming applies the new policy.

In January 2005, Liquor & Gaming completed an audit of SIGA’s spending for the 6 months ended September 30, 2004. Based on the information available, the audit identified expenses totalling approximately \$1 million that either did not comply with approved policies or were not reasonable. After the year-end, Liquor & Gaming completed another audit in June 2005. The audit examined SIGA’s spending for the 6 months ended March 31, 2005 and based on the information available identified further expenses totalling nearly \$0.2 million that either did not comply with approved policies or were not reasonable. At September 30, 2005,

¹ **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.

Liquor & Gaming has not recovered any money from the First Nations Trust Fund.

Timely follow up and recovery of unreasonable expenses would help ensure that SIGA does not incur such expenses again. Also, it would help SIGA to identify and provide necessary training and counselling to those employees who disregard the approved policies.

We reported this matter in our 2003 Report – Volume 3. The Standing Committee on Public Accounts (PAC) considered this matter in June 2004 and agreed with our recommendation.

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

On October 31, 2005, management told us that Liquor & Gaming has begun the process of recovering SIGA's unreasonable expenses for the year ended March 31, 2005 from the First Nations Trust Fund. Management also told us that Liquor & Gaming expects to recover such expenses by December 31, 2005.

Better control over bank accounts needed

Liquor & Gaming needs to follow its rules and procedures to control its bank accounts.

Liquor & Gaming's procedures require employees to agree (reconcile) its recorded bank balances to the bank's records each month. They 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 account are proper, and all money has been received and deposited in the right account. It also provides a check on the accuracy and reliability of Liquor & Gaming's accounting records. Furthermore, timely bank reconciliations help detect errors or misuse of money quickly.

In 2004-05, Liquor & Gaming did not reconcile its bank accounts promptly. It did not complete and review some bank reconciliations for almost three months. By October 2004, Liquor & Gaming began doing

timely bank reconciliations. At year-end, Liquor & Gaming had reconciled all bank balances to the bank records.

In 2005, Liquor & Gaming reported liquor sales of approximately \$384 million. The liquor sales for the year from all its stores totalled approximately \$250 million. The average daily sales from all stores amounted to approximately \$846,000.

At March 31, 2005, the bank reconciliation identified sales totalling approximately \$974,000 that some liquor stores had not deposited in the bank. Such differences can be normal due to night deposits and credit card sales. The accounting employees must analyze all differences to ensure they are not indicative of any impropriety. However, accounting employees considered all those outstanding deposits as normal. We did not see any evidence of what work accounting employees did to conclude so.

After the year-end, Liquor & Gaming found that some of the outstanding deposits represented the amounts that two store managers had allegedly misused. For further details see the section in this chapter entitled *Investigation of alleged misuse of money*.

We reported this matter in our 2004 Report – Volume 3 and our past reports. 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.

Security policies for information technology (IT) needed

Liquor & Gaming needs to establish IT security policies and procedures.

IT security policies and procedures help ensure the confidentiality, privacy, integrity, and availability of information systems and data. Without adequate IT policies, employees may not know the rules to protect Liquor & Gaming's systems and data. Also, management may not know if it has addressed all the threats and risks to Liquor & Gaming's security. An IT strategic plan can help management do so.

In 2003, Liquor & Gaming drafted an IT manual that includes IT security policies and procedures. However, management has not yet approved the manual and provided it to all staff. Also, Liquor & Gaming staff prepared a draft IT strategic plan. Management has not approved the plan.

Liquor & Gaming's Board must approve the IT strategic plan and the IT policies and procedures. Liquor & Gaming should then communicate the approved IT plan, and policies and procedures to all employees.

1. **We recommend that the Board of Directors of the Liquor and Gaming Authority approve the information technology strategic plan.**
2. **We recommend that the Board of Directors of the Liquor and Gaming Authority approve the information technology policies and procedures.**

Business continuity plan needed

Liquor & Gaming needs a written, tested, and approved business continuity plan² to help ensure that it can continue to deliver its programs and services in the event of a disaster.

Liquor & Gaming delivers a number of programs and services to the residents of Saskatchewan as part of its mission and mandate. It must carry out its mandate, even if a disaster disrupts its ability to deliver its programs and services in the usual manner. Without an adequate business continuity plan, Liquor & Gaming is at risk of not being able to deliver its programs and services in a timely manner.

A good business continuity plan must:

- ♦ have management support including making the required resources available to create and maintain the business continuity plan
- ♦ be based on a threat and risk assessment including identifying and ranking Liquor & Gaming's critical functions

² **Business Continuity Plan** by an organization to respond to unforeseen incidents, accidents, and disasters that could affect the normal operations of the organization's critical operations or functions including normal operation of computerized system (also known as Contingency Plan or Disaster Recovery Plan) A contingency plan is only one component of the Business Continuity plan.

- ◆ set out the plan activation and notification procedures, emergency procedures that would be used in the event of a disaster, and steps for the recovery and restoration of key programs and services
- ◆ be documented, approved by management, and easily accessible when the plan needs activation
- ◆ be tested initially and on an ongoing basis
- ◆ set out policies for ongoing maintenance and updating of the plan

Liquor & Gaming does not have a complete and tested business continuity plan. However, it has developed some procedures for some of its critical business functions. It has also appointed a project leader and developed terms of reference for a business continuity planning project.

In our 1998 Fall Report – Volume 2, we recommended that Liquor & Gaming update its written contingency plan and test that plan. PAC considered this matter in January 1999 and concurred with our recommendation.

As stated earlier, a contingency plan is only one component of a business continuity plan. To ensure they can respond to unforeseen incidents without significantly affecting the normal operations, well-managed agencies now prepare a complete business continuity plan.

- 3. We recommend that the Liquor and Gaming Authority prepare and the Board of Directors approve a complete business continuity plan.**

Investigation of alleged misuse of money

Background

The Provincial Auditor Act requires our Office to investigate and report to the Legislative Assembly any losses to the Crown through the fraud, default, or mistake of any person. In September 2005, officials of Liquor & Gaming told us that they had become aware of possible misuses of public money by two liquor store employees. We have now completed our investigation of the alleged misuses of public money at Liquor & Gaming. We set out the results of our investigation below.

Liquor & Gaming owns and operates 81 stores in the province divided into 4 regions. A store manager runs each store and regional managers oversee the operations of the stores in their region. Regional managers report to the Vice President of Retail Operations. Some regional managers we interviewed told us that generally they visit stores in their regions often, discuss operational issues with store managers, check inventory status, and weekly sales. They also told us that they investigate differences between the cash sales and cash deposits greater than 10 cents for every \$1,000 in sales. However, they could not provide any evidence of such investigation. Nor could they show us the approved policy that required such investigation. We note, Liquor & Gaming has now documented its policy requiring regional managers to investigate differences between sales and deposits greater than 5 cents for every \$1,000 in sales.

Liquor & Gaming began changing its “point of sale” (POS) system for its liquor stores in March 2005. The new POS system provides daily sales reports and updates inventory records.

Prior to March 2005, liquor stores used a POS system that accumulated weekly sales and automatically updated the inventory records. Liquor & Gaming required all stores, except for the store at La Loche, to deposit daily sales receipts in local designated banks for transfer to the main bank account in Regina. The following day, Liquor & Gaming receives those deposits in its main bank.

La Loche has no bank close by. Therefore, the store manager takes the deposits to a local general store. The general store takes the deposits and gives a cheque to the store manager. The general store provides this service free and Liquor & Gaming did not have documentary evidence of these arrangements with the general store. Effective September 2005, Liquor & Gaming has documented its arrangements with the general store.

Although we could not find a documented policy, Liquor & Gaming staff told us that prior to February 2005 the La Loche store was required to deposit sales with the general store every two weeks. Now the policy requires the store to deposit sales with the general store at least twice weekly.

Prior to March 31, 2005, Liquor & Gaming required its employees to reconcile each store's accumulated sales for a period of four weeks to the accumulated deposits from that store for the same period. However, employees did not complete these reconciliations on a timely basis. Since 2003, we have reported that Liquor & Gaming needs to ensure its employees do timely bank reconciliations.

The new POS system provides daily sales for each store. Liquor & Gaming requires its employees to reconcile each store's daily sales to the daily deposit from that store. Employees did this reconciliation and identified differences. Differences generally resulted because of night deposits and credit card sales. A supervisor reviews and approves daily sales and bank reconciliations. We note that since August 2005, these reconciliations are no longer timely.

As we stated earlier, for the year ended March 31, 2005, Liquor & Gaming reported liquor sales of approximately \$384 million. The liquor sales for the year from its stores totalled \$250 million. The average daily sales from all stores amounted to approximately \$846,000.

What happened

In late August 2005 and September 2005, Liquor & Gaming informed us that it had identified financial irregularities at its liquor stores at Biggar and La Loche. Liquor & Gaming terminated the store managers in July and August 2005 respectively and reported the matters to the RCMP. We describe below briefly the results of investigations carried out by Liquor & Gaming.

Biggar store

According to Liquor & Gaming's investigation, the Biggar store did not always make the full deposits for liquor sales. Liquor & Gaming found that in December 2004 the store began depositing only a portion of cash sales. The total amounts not deposited approximate \$20,000.

La Loche store

The Liquor & Gaming investigation found that the La Loche store began delaying deposits a few years ago. The investigation found that certain

employees responsible for reconciling store sales and deposits knew about delayed deposits. According to the investigators, those employees did not report this matter to management.

Liquor & Gaming estimated that the store did not deposit at least \$227,000.

Liquor & Gaming continues its investigation.

Objectives of our work

We set two objectives for our work. First, we wanted to determine the amount of the loss of public money at the Biggar and La Loche liquor stores. Second, we wanted to determine the conditions that allowed the loss of public money to occur and remain undetected, and make recommendations for improvement.

In Part 1, we describe the work we did to determine the amount of the loss of public money. In Part 2, we describe the conditions that allowed the loss of public money to occur and remain undetected. Part 2 also includes our recommendations for improvement.

Part 1—Loss of public money

As stated earlier, regional managers of the stores are responsible to control and monitor the liquor sales and spending of their stores. Regional managers provide quarterly sales and expense reports to senior management setting out actual and planned sales and expenses and a forecast to the year-end. The reports explain significant differences between the planned and actual results.

What we did

We examined Liquor & Gaming's plan to investigate the loss of public money. Liquor & Gaming's objectives were to determine:

- ◆ if there was a misuse of public money by the suspected employees, and if so, the extent of the misuse and how it was carried out

- ♦ if its processes need strengthening to prevent or detect such misuse of public money

Liquor & Gaming's investigation plan was reasonable to achieve the above objectives. Liquor & Gaming did most of the work. We did tests and other procedures as we considered necessary to ensure that Liquor & Gaming's work was adequate for our purposes.

We considered the risk of misuse of public money high for those liquor stores that regularly showed large amounts of outstanding deposits. For this assessment, we used the sales and deposits reconciliations for each store. All stores, except for Biggar and La Loche, had explainable and supported reasons for any significant outstanding deposits, e.g., night deposits, deposits on weekends.

The two stores where the alleged misuses occurred had large outstanding deposits for an extended period. The table below shows outstanding deposits for all the stores combined and the two stores under investigation. The table shows that outstanding deposits increased steadily from 2002 to 2005 at the La Loche store. At March 31, 2005, almost one-third of all the outstanding deposits belonged to the store at La Loche.

Table (\$ in thousands) – Outstanding deposits

Year ended March 31	All stores	Store at Biggar	Store at La Loche
2002	\$3,460	\$23	\$130
2003	624	3	152
2004	692	1	258
2005	974	34	338

What we found

Misuse of public money is difficult to detect because the acts are designed to conceal the misuse. Even an audit of every transaction might not reveal all misuse of money if it is concealed by false documentation or collusion with other persons.

We determined that for the period from April 2002 to August 2005, Liquor & Gaming incurred a loss of public money totalling at least \$247,000.

We found that Liquor & Gaming did not receive deposits totalling \$20,016 from the sale of liquor at its Biggar liquor store. Outstanding deposits increased from \$5,412 in December 2004 to \$37,246 in June 2005. The outstanding deposits consisted of cash and cheques. After June 2005, the manager of the Biggar store gave some of the cheques included in the outstanding deposits to Liquor & Gaming investigators. Liquor & Gaming deposited cheques totalling \$17,230 in its bank account. Accordingly, Liquor & Gaming recovered \$17,230 of the total outstanding deposits of \$37,246.

We also found that Liquor & Gaming did not receive deposits totalling \$227,121 from the sale of liquor at its La Loche liquor store. Outstanding deposits increased from \$129,922 in March 2002 to \$351,591 in August 2005.

While we have completed our work to fulfill our responsibilities to the Legislative Assembly, Liquor & Gaming continues its investigation. Also, we understand that a police investigation is on going independent of our work.

Part 2—Conditions that allowed loss of public money

No system to safeguard public money can prevent or detect all fraudulent acts because the acts are designed to conceal the fraud and may involve collusion with others. A sound system to safeguard public money creates an environment where errors or frauds are either less likely to occur, or if they occur, are more likely to be detected. Through diligent planning and oversight, an agency's senior management reduces the risk of errors and fraud.

Liquor & Gaming incurred a loss of at least \$247,000. This resulted from the following:

- ◆ inadequate direction to employees
- ◆ lack of compliance with established policies
- ◆ poor communication amongst various divisions

We describe below our findings for each of the above conditions.

Inadequate direction to employees

Liquor & Gaming requires its supervisors and managers to supervise the work of employees. However, Liquor & Gaming needs to provide more guidance to help them supervise. Liquor & Gaming needs to improve how it communicates to its employees on how and when they must inform senior management if they suspect any wrongdoing.

Liquor & Gaming requires its regional managers to supervise operations of its many liquor stores. The regional managers have no written direction on what procedures they must follow and how often to achieve this objective. Regional managers we interviewed told us that they generally visit stores in their area often. They also told us that resolving human resource issues is generally the main purpose of their visits. While they look at the periodic sales and expenses reports, they do not inquire if the store managers are up-to-date with their deposits. In addition, they maintain only some written evidence of their work and conclusions.

Liquor & Gaming should require its regional managers to review, discuss, and document the status of any outstanding deposits during their store visits. Also, the regional managers could count inventory during their store visits and agree their counts with inventory records.

Also, Liquor & Gaming requires its supervisors in the Financial Services Branch to ensure employees agree (reconcile) the recorded bank balances to the banks' records regularly. Liquor & Gaming also requires its supervisors to review and approve those reconciliations. The purpose of the review is to ensure the accuracy and proper documentation of those reconciliations. As we report earlier, the employees did not do those reconciliations promptly. However, employees completed all reconciliations by March 31, 2005 and identified outstanding deposits totalling \$974,000, but provided no explanation. The supervisors reviewed and approved those reconciliations.

We asked the supervisor who had approved the reconciliations to explain the nature and reasons for some of the outstanding deposits. The supervisor could not give us a reasonable explanation except that such delays are usual every period. When employees do not clearly understand the reasons for the assigned tasks or the established policies, they are more likely to either ignore the policies or do their tasks

incorrectly or late. To ensure its employees perform tasks according to established policies, Liquor & Gaming should tell employees the reasons for doing certain tasks in certain ways.

Earlier in this chapter, we report that outstanding deposits from certain liquor stores increased over the past few years. Accounting employees knew about those increases but took no corrective action or questioned the reasons for increases. Liquor & Gaming needs to provide guidance to employees to help foster a culture of fraud awareness.

Many agencies provide fraud awareness training to their employees. Liquor & Gaming should provide such training to its employees. Fraud awareness training would help Liquor & Gaming in fostering a culture of fraud awareness. It would also help employees in detecting and preventing internal and external frauds.

4. **We recommend the Liquor and Gaming Authority clearly set out what work the regional managers must do and how and what they must document for their store visits.**
5. **We recommend the Liquor and Gaming Authority train and direct its supervisory staff to help supervise the work of other employees.**
6. **We recommend the Liquor and Gaming Authority train its employees to help establish a culture of fraud awareness.**

Lack of compliance with established policies

In the past, we have reported that Liquor & Gaming needs to ensure its employees comply with established policies.

Controlling the bank accounts is one of the most basic controls that agencies must exercise. Earlier we recommended Liquor & Gaming should follow its rules and procedures to control its bank accounts. Liquor & Gaming improved the timeliness of the bank reconciliations during the year. However, after the year-end, the bank reconciliations have fallen behind.

Liquor & Gaming has established a code of conduct and conflict of interest policies. Those policies require employees to work for the best interest of Liquor & Gaming. Liquor & Gaming requires its executive officials to sign a checklist confirming that they understand and abide by the code of conduct and conflict of interest policies. However, it has not set out a process to ensure that all other employees also understand and abide those policies.

Management told us that Liquor & Gaming required its managers to discuss with all employees the code of conduct and conflict of interest policies. We could not find any documentary evidence of such discussions.

Liquor & Gaming must ensure its employees follow the established policies. Also, it must inform all employees of the consequences of ignoring the policies.

7. We recommend that the Liquor and Gaming Authority require all employees to confirm they understand and comply with its code of conduct and conflict of interest policies.

Poor communication

In large agencies like Liquor & Gaming, various divisions must work together to achieve better results. Poor communication often results in duplication of work and waste of resources.

Financial Services Branch is responsible for all accounting matters relating to liquor stores. Employees of the Financial Services Branch report to the Vice President of Corporate Services. Regional managers are responsible for store operations and report to the Vice President of Retail Operations.

Although regional managers do not document their assessment of store operations, we found them familiar with the culture and environment at each store. The regional manager for La Loche knew the uniqueness of the environment at that store. La Loche has no bank close by or armoured car service. Because the regional manager visits the town frequently, he could have spoken to management of the general store in

La Loche about any problems with the deposits. The Regional manager for that store told us he was not aware of the lack of timely store deposits.

In February 2005, the Vice President of Retail Operations approved a policy requiring the La Loche store manager to deposit sales with the general store at least twice weekly. The regional manager instructed the store manager to do so but did not inform the Financial Services Branch about this change in policy. No one ensured that the store manager complied with the revised policy.

Employees of the Financial Services Branch knew about the delays in receiving deposits from the stores at Biggar and La Loche. They did not inform the regional managers about these delays. We became aware that a store manager confided the reasons for delays with staff of the Financial Services Branch. We find it troubling that staff did not inform the regional manager or senior managers about the magnitude and the reasons for delays in deposits. Earlier, we recommended Liquor & Gaming should train its employees to help establish a culture of fraud awareness.

In June 2002, Liquor & Gaming's internal auditor did an audit of the La Loche liquor store. At the time of the audit, the store had outstanding deposits of approximately \$130,000. We have seen no evidence that the auditor knew of the outstanding deposits. The auditor identified deficiencies relating to counting and depositing sales receipts. Although the auditor completed the work in 2002, the audit supervisor did not send the final report to the relevant regional manager until May 2003. We could not find any evidence of how management dealt with the deficiencies reported. Delays in resolving control deficiencies can result in loss of public money.

- 8. We recommend the Liquor and Gaming Authority establish a process to ensure its employees share pertinent operational and financial information with each other.**

