

**Main points** .....234

**Introduction** .....235

**Our audit conclusions and findings** .....236

    Better control over bank accounts needed.....236

    Security policies for information technology (IT) needed.....237

    Business continuity plan needed .....238

    Employees need better training and direction .....239

    Compliance with established policies needed.....239

**Succession planning** .....240

    Our audit objective.....241

    Our criteria .....241

    Our conclusion .....242

    Key findings and recommendations (by criterion) .....242

        Support long-term strategic direction.....242

        Evaluate human resource capacity against needs .....243

        Design strategies to address competency gaps .....245

        Monitor and evaluate progress.....247

**Selected references** .....248

## Main points

Succession planning is critical to ensure an effective workforce is ready to assist the agency to achieve its objectives. We report that the Liquor and Gaming Authority (Liquor & Gaming) needs to document and communicate potential competency gaps, document employees' career goals and action plans, and document and monitor the progress of its succession strategies.

We also report that Liquor & Gaming needs to better control its bank accounts. In addition, Liquor & Gaming needs to prepare a business continuity plan and ensure its employees understand and comply with the code-of-conduct and conflict-of-interest policies.

## 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 beverage alcohol and the gaming industry in the Province.

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

Under *The Criminal Code of Canada*, only governments can own and manage slot machines. Saskatchewan Gaming Corporation, a Crown corporation, operates slot machines in its casinos in Regina and Moose Jaw. Also, the Government uses SIGA to operate the slot machines at four casinos throughout Saskatchewan under Liquor & Gaming's direction. Liquor & Gaming signed a Casino Operating Agreement with SIGA. Under the Casino Operating Agreement, the revenues from the slot machines belong to Liquor & Gaming. The Casino Operating Agreement expires on June 11, 2027.

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 2005-06, Liquor & Gaming had revenues of \$745 million, expenses of \$394 million, and net income of \$351 million. At year-end, Liquor & Gaming held total assets of \$165 million and had an accumulated deficit of \$0.8 million. Liquor & Gaming's *Annual Report 2005-06* includes its financial statements.

## Our audit conclusions and findings

In our opinion, for the year ended March 31, 2006:

- ◆ **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 also include the results of our audit of Liquor & Gaming’s succession planning processes.

### **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 and review of recorded bank balances to the bank’s records provides a check that all charges to the bank accounts 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 promptly.

Employees did not prepare and approve timely bank reconciliations for the first nine months of the year. During the last three months of the year and at year-end, Liquor & Gaming reconciled all bank balances to the bank records and management approved these reconciliations on a timely basis.

We reported this matter in our 2005 Report –Volume 3 and our past reports. 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 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, integrity, and availability of information systems and data. For example, good security processes ensure only authorized people can access an IT system. Without adequate IT policies and procedures, 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. During the year, staff revised these IT security policies and procedures. Liquor & Gaming's staff also prepared a draft IT strategic plan for 2006-07. At March 31, 2006, management and the Board had not approved the plan or the policies and procedures.

Liquor & Gaming's Board should do so and communicate the approved IT plan, and policies and procedures to all employees. Liquor & Gaming should then begin monitoring compliance with these IT policies and procedures.

We reported this matter in our 2005 Report – Volume 3. PAC considered this matter in May 2006 and agreed with our recommendations.

We continue to recommend that the Board of Directors of Liquor & Gaming approve the information technology strategic plan.

We continue to recommend that the Board of Directors of Liquor & Gaming approve the information technology policies and procedures.

Management informed us that the Board approved the IT strategic plan in June 2006. Management also informed us that in June 2006 it approved the IT policies and procedures and presented the approved policies to the Board.

## **Business continuity plan needed**

Liquor & Gaming needs a written, tested, and approved business continuity plan<sup>1</sup> 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
- ◆ 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 (e.g. backup processes for data). During the

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<sup>1</sup> **Business Continuity Plan** – 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 a computerized system (also known as Contingency Plan or Disaster Recovery Plan). A contingency plan is only one component of the Business Continuity plan.

year, Liquor & Gaming began the important step of developing a threat and risk assessment for its critical IT functions.

We reported this matter in our 2005 Report – Volume 3. PAC considered this matter in May 2006 and agreed with our recommendation.

We continue to recommend that Liquor & Gaming prepare and the Board of Directors approve a complete business continuity plan.

## **Employees need better training and direction**

Liquor & Gaming needs to provide better training and direction to employees to help establish a culture of fraud awareness.

Many agencies provide fraud awareness training to their 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.

We reported this matter in our 2005 Report – Volume 3. PAC considered this matter in May 2006 and agreed with our recommendation.

Liquor & Gaming improved its employee-training program relating to assigned tasks and the importance of doing these tasks properly and promptly. At March 31, 2006, Liquor & Gaming had designed fraud-awareness training materials but had not provided training to employees. Liquor & Gaming told us it will provide fraud awareness training to its employees in 2006-07.

We continue to recommend Liquor & Gaming train its employees to help establish a culture of fraud awareness.

In September 2006, management informed us that Liquor & Gaming has now completed fraud awareness training for certain employees.

## **Compliance with established policies needed**

Liquor & Gaming needs to ensure employees understand and comply with the established code-of-conduct and conflict-of-interest policies.

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 understand and abide by these policies.

We reported this matter in our 2005 Report – Volume 3. PAC considered this matter in May 2006 and agreed with our recommendation.

During the year, Liquor & Gaming developed a policy requiring all employees to sign a declaration indicating they understand the code-of-conduct and conflict-of-interest policies. Liquor & Gaming told us that it plans to begin obtaining these declarations from employees in 2006-07.

We continue to recommend that Liquor & Gaming require all employees to confirm they understand and comply with its code-of-conduct and conflict-of-interest policies.

In September 2006, management informed us that all full-time employees of Liquor & Gaming have now completed a code-of-conduct declaration form.

## **Succession planning**

At December 31, 2005, Liquor & Gaming had 910 employees in 64 communities throughout Saskatchewan. Almost 700 of Liquor & Gaming's employees are employed in the distribution of beverage alcohol and over 200 head office employees are involved in the distribution, control, and regulation of liquor and gaming industries in Saskatchewan. Nearly 90% of employees are unionized.<sup>2</sup> Forty-nine percent of Liquor & Gaming's employees are over the age of 45 and 31% are over the age of 50.

Succession planning is part of overall human resource planning. It addresses the risk of changing demographics, the unpredictability of workforce impacts such as short and long-term leaves of absence, and the increasing competition for human resources. Effective agencies use

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<sup>2</sup> Saskatchewan Liquor & Gaming Annual Report 2004-05



succession planning to help them ensure they have the right people, with the right skills, at the right time. It is a process requiring attention from legislators, managers, and employees and not left solely to the human resource function.

Succession planning requires an agency to assess its key competency needs based on its long-term strategic direction. Key competencies needed to sustain an agency include management, operational, technical, administrative, and leadership knowledge and skills. Untimely loss of key employees may create weak links in critical systems and significantly affect the ability of an agency to achieve its objectives.

Succession planning at Liquor & Gaming is critical to ensure an effective workforce is ready to help achieve its objectives. Without employees with the required skills, Liquor & Gaming's risk of not achieving its objectives increases. To ensure an effective workforce, Liquor & Gaming needs to recruit and retain people with the required skills and create opportunities for employee career development. Also, as a Crown corporation, Liquor & Gaming is responsible to build a representative workforce and engage youth in the workplace.

## **Our audit objective**

The objective of our audit was to assess whether Liquor & Gaming had adequate succession planning processes at March 31, 2006.

## **Our criteria**

To assess the adequacy of the Liquor & Gaming's processes, we used the criteria summarized in the Exhibit below. To do this work, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

We developed the criteria based on our review of the relevant literature, international practices, and the work of other legislative audit offices. Liquor & Gaming agreed that the criteria (our expectations) were reasonable and attainable. Our key findings include our expectations in more detail (*in italics*) for each criterion.

**Exhibit – Audit Criteria**

Liquor and Gaming’s succession planning processes should:

1. support long-term strategic direction
2. evaluate human resource capacity against needs
3. design strategies to address competency gaps
4. monitor and evaluate progress

**Our conclusion**

**At March 31, 2006, Liquor & Gaming had adequate succession planning processes except Liquor & Gaming needs to:**

- ◆ **establish a process to document and communicate potential competency gaps**
- ◆ **incorporate documented employees’ career goals and action plans into its staff performance and development process**
- ◆ **document and monitor the progress of its succession strategies**

**Key findings and recommendations (by criterion)**

***Support long-term strategic direction***

*To support long-term strategic direction, we expected Liquor & Gaming to:*

- ◆ *align succession planning with long-term strategic direction through human resource strategies*
- ◆ *keep overall succession planning strategies transparent*

Liquor & Gaming has aligned its human resource strategies that support succession planning with its long-term strategic direction. Liquor & Gaming has identified human resource strategies to retain employees, develop skills, and create a representative workforce to support and address demographic challenges and planned corporate initiatives. For example, Liquor & Gaming strategies include harassment and violence awareness training, conducting employee satisfaction surveys,

developing an in-scope classification plan, and setting targets for a representative workforce. These strategies support Liquor & Gaming's vision to become an employer of choice.<sup>3</sup>

Liquor & Gaming does a good job of providing information about its succession planning strategies to its employees. For example, Liquor & Gaming communicates its employment equity strategy to employees on an ongoing basis and in a variety of ways. It uses information workshops across the Province to outline the objectives of the employment equity strategy. In addition, it distributes posters and publishes articles in the employee newsletter, *The Winning Spirit*. Also, job opportunities are made available to all employees via email.

### ***Evaluate human resource capacity against needs***

*To evaluate human resource capacity against needs, we expected Liquor & Gaming to:*

- ◆ *identify key competencies to meet current and future demand*
- ◆ *assess key competencies available in the current workforce*
- ◆ *analyze gaps in capacity*
- ◆ *communicate gaps*

Key competencies are the knowledge, skills, and behaviours essential to perform jobs that keep an agency operational. Liquor & Gaming adequately identified competencies it expects to meet current and future demand for all in-scope positions<sup>4</sup>. In 2004, Liquor & Gaming reviewed and reclassified all in-scope positions. This included a review of job requirements including responsibilities, skill, effort, knowledge, and working conditions.

Liquor & Gaming is developing key competencies for all out-of-scope positions using the Saskatchewan Public Service Management Classification Plan (MCP). Liquor & Gaming told us it expects to complete and roll out its MCP in early 2007.

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<sup>3</sup> 2006-2007 Saskatchewan Provincial Budget, Performance Plan, Saskatchewan Liquor and Gaming Authority. pg 7

<sup>4</sup> Liquor & Gaming employees in a union are in-scope.

Assessing the supply of key competencies is done to some extent throughout Liquor & Gaming. The Human Relations Division maintains workforce statistics related to retirements, turnover, and employment equity. Its division heads (vice presidents and executive directors) maintain open lines of communication with their employees and are generally aware of impending retirements within their divisions. In many cases where retirements are anticipated, division heads have informal plans to develop candidates with required competencies. However, Liquor & Gaming needs to complete its documentation of future competency needs and formally document potential gaps throughout the agency to help it determine how to address the gaps.

In the past, Liquor & Gaming has informally identified competency gaps and has strategies to address those gaps. For example, when it identified a knowledge gap between store managers and regional managers, it developed an Assistant Regional Manager Program. It created the assistant regional manager position and an assistant regional manager development plan to address the gap. The Assistant Regional Manager Program has provided 12 individuals with the opportunity to obtain leadership training, mentorship opportunities, and exposure to organization-wide processes, issues, and challenges.

Liquor & Gaming uses various methods to communicate competency gaps throughout the agency. For example, the vacancy posting process lists the skills and knowledge required for vacant positions and the employee intranet indicates the degree of employee diversity in the current workforce. When Liquor & Gaming has fully documented the required key competencies, it should formally identify potential competency gaps and ensure its employees are aware of those gaps. An inability to access information about potential competency gaps within all divisions may impede employees' career and professional development action plans. Also, Liquor & Gaming may not have staff with the necessary competencies to achieve its objectives.

- 1. We recommend that the Liquor and Gaming Authority document and communicate potential competency gaps.**

***Design strategies to address competency gaps***

*To adequately design strategies to address competency gaps, we expected Liquor & Gaming to:*

- ◆ *develop skills and opportunities for career development*
- ◆ *transfer knowledge*
- ◆ *recruit candidates with key competencies*
- ◆ *retain staff*

Liquor & Gaming provides its employees with adequate opportunities for career development. Opportunities are available for job-related training and for academic and professional development. For example, all full-time employees and certain part-time employees can access funding for training. Liquor & Gaming's programs that support employee development include the Lead Management program and Introduction to Leadership program. Although Liquor & Gaming has established policies to support employee development, it has not aligned these policies with potential competency gaps, future opportunities within the agency, and employees' career goals.

Identifying opportunities for career development and planning to address those gaps is a collaborative process between employee and manager. Liquor & Gaming sometimes documents and identifies opportunities for career development during employees' performance evaluations or through informal discussions with managers and employees. However, it does not always document employees' career plans or discussions with employees about their career interests and plans. As a part of its staff performance management process, Liquor & Gaming should ask all employees to set out their career goals and action plans to achieve those goals.

Liquor & Gaming encourages the transfer of knowledge through temporary assignments and special projects work. When Liquor & Gaming identifies special projects or temporary assignments, it requires its employees to submit expression of interests in the projects or assignments. Temporary assignments help prepare employees to take on different and greater responsibilities.

Liquor & Gaming is able to recruit candidates with required competencies through various methods. The 2006-07 Performance Plan identifies the agency's vision to become an employer of choice.<sup>5</sup> This vision is supported through strategies related to recruitment, compensation, and human resource policies that contribute to a positive work environment. Liquor & Gaming is able to select from many candidates for most of its vacancies. For example, liquor stores attract strong candidates for entry-level positions such as customer service representatives. Liquor & Gaming offers wages and benefits it considers competitive for this group of employees to ensure the positions are attractive to workers within the retail sector.

Liquor & Gaming has noticed changes in available candidates for some hard to recruit specialized positions such as designated accounting professionals and information technology professionals. It has addressed this challenge in a variety of ways including expanding its search for candidates to other jurisdictions and making sure its salaries remain competitive.

Liquor & Gaming uses several strategies to encourage employee retention. These include providing health care benefits and offering an employee and family assistance program. In addition, Liquor & Gaming told us it works cooperatively with its employees' union. This contributes to employee retention through a positive working environment.

Liquor & Gaming also provides part-time store employees in Regina, Moose Jaw, Saskatoon, and Prince Albert with opportunities to work additional hours at different store locations. Liquor & Gaming provides such opportunities for part-time employees so they can earn more seniority, gain additional seniority hours, and move from part-time to full-time sooner. Liquor & Gaming told us that moving employees from part-time to full-time sooner, helps retention within the store system.

**2. We recommend that the Liquor and Gaming Authority document employees' career goals and action plans as part of its staff performance and development process.**

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<sup>5</sup> Performance Plan 2006-2007 Saskatchewan Provincial Budget, Performance Plan, Saskatchewan Liquor and Gaming Authority. pg 24

### ***Monitor and evaluate progress***

*To adequately monitor and evaluate progress, we expected Liquor & Gaming to:*

- ◆ *report on progress to address gaps*
- ◆ *adjust plans to address gaps*
- ◆ *evaluate impact on human resource strategies*

Liquor & Gaming has processes to gather information to address competency gaps. The Human Relations Division maintains and monitors retirement statistics and historical trends related to turnover. Liquor & Gaming provides to the Board of Directors regular updates relating to succession planning strategies including human resource policy reviews and employee survey results. The Human Relations Division also maintains statistics relating to employment by equity groups and number of employees who received cultural awareness training. However, it does not fully document and monitor progress of all succession plan strategies. Liquor & Gaming needs to do so to ensure it has employees with necessary competencies to address demographic challenges it identified in its environment scan.

Liquor & Gaming adjusts its plans to address any identified gaps and evaluates the impact on other human resource strategies when developing and implementing a necessary strategy. For example, it developed the assistant regional manager position and associated development program because of an identified potential gap at the regional manager level. However, some areas of Liquor & Gaming, like regulating liquor, are at risk due to upcoming retirements and succession strategies that are not clearly documented and monitored.

- 3. We recommend that the Liquor and Gaming Authority document and monitor the progress of its succession strategies.**

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