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## **Main points**

In this chapter, we report the results of our audit of the Saskatchewan Gaming Corporation (SGC) for the year ended March 31, 2006 including SGC's project management processes.

We report that SGC needs to improve its human resource plan and promptly establish revised rules and procedures when it changes its systems. Also, SGC needs to follow its approved rules and procedures relating to marketing and promotion, confirmation of compliance with SGC's code-of-conduct, and completion of all employees' performance evaluations.

SGC implemented a new casino management system. We concluded that SGC had adequate project management processes to implement this system except that it needs to improve three things. First, it needs to improve project reporting to senior management and the Board. Second, it needs to monitor and track the achievement of the benefits it set out for the project. Lastly, it needs to document the results of testing the new systems and the follow up of all risks before the new systems become operational.

## **Introduction**

Saskatchewan Gaming Corporation (SGC) manages and operates Casino Regina and Casino Moose Jaw under the regulatory authority of the Liquor and Gaming Authority. *The Saskatchewan Gaming Corporation Act, 1994* established SGC.

Casino Regina is a full-service casino and entertainment centre. The casino has 788 slot machines, 34 table games, a full-service restaurant, and a show lounge. Casino Moose Jaw is also a full-service casino that has 207 slot machines and 6 table games.

SGC also owns SGC Holdings Inc. (SGC Holdings). SGC Holdings is a corporation registered under *The Business Corporations Act (Saskatchewan)*. SGC Holdings purchases capital assets and leases them to SGC for the operation of the above casinos. SGC's financial statements include the financial results of SGC Holdings.

SGC's consolidated financial statements for the year ended March 31, 2006 report net revenues of \$94.6 million, expenses of \$65.4 million, net income of \$29.2 million, and assets of \$72.7 million. *Saskatchewan Gaming Corporation-Annual Report, 2005-2006* includes SGC's consolidated financial statements.

## **Our audit conclusions and findings**

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

- ◆ **SGC had adequate rules and procedures to safeguard its public resources and those of SGC Holdings except for the matters described in this chapter**
- ◆ **SGC complied with authorities governing its activities and the activities of SGC Holdings relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- ◆ **the consolidated financial statements for SGC and the financial statements for SGC Holdings are reliable**

This chapter also includes the results of our audit of SGC's project management processes.

## **Compliance with policies and procedures needed**

SGC's Board of Directors needs to ensure management and employees comply with established policies and procedures.

To help ensure they have effective controls to safeguard public resources, public agencies provide guidance to their employees. SGC's Board of Directors has established appropriate guidance for its employees to follow. However, employees did not always follow those policies as described below.

We also reported these matters in our 2005 Report – Volume 3 to the Legislative Assembly.

### ***Employees' performance evaluations***

SGC's performance evaluation policy requires supervisors to evaluate employees' performance annually. Performance evaluations help ensure employees perform their duties as expected. Senior management also needs this information to develop adequate training plans to help ensure the employees have the necessary competencies to do their assigned work.

Employees did not always follow the performance evaluation policy. Nearly 60% of the employees' files did not include completed performance evaluations.

### ***Code of conduct***

SGC's code of conduct policy sets out its shared ethical values and expectations concerning employee behaviour. The policy requires that, upon hiring and annually, employees complete a questionnaire (form). The employees confirm that they have read and understood the code of conduct and that they agree to abide by the code. Employees are expected to confirm this during their annual performance evaluation.

Because SGC did not complete annual performance evaluations for most of its employees, many employees did not complete the form and reconfirm their understanding of the code of conduct. Failure to complete the code of conduct form may indicate that employees are not aware of SGC's expectations concerning their behaviour. When employees do not know an agency's expectations, there is a risk that they may make inappropriate decisions or take inappropriate actions.

### ***Marketing promotions (promotions)***

SGC's promotions policy requires that all promotions be properly supported, approved, and adequately monitored. The approved policy specifically requires that:

- ◆ promotion proposals must contain required information and must be approved in accordance with the approved signing authority
- ◆ a timely and documented evaluation of each completed promotion event must be completed

Employees, however, did not always fully comply with all the approved policies. We found some promotion proposals were not complete and did not have a complete budget. Nor did these proposals document measurable targets. Also, employees did not always complete a post-event evaluation for all promotions. For example, 89% of proposals did not have an adequate post-event evaluation. Thirty-three per cent of those proposals had no post-event evaluation and 56% had incomplete evaluations. As a result, SGC could not determine if it achieved its objectives for all of its promotional activities.

- 1. We recommend that the Saskatchewan Gaming Corporation comply with approved policies relating to employees' performance evaluations, code of conduct, and marketing promotions.**

## **Better human resource plan needed**

SGC needs to improve its human resource plan. Rigorous human resource plans help ensure agencies have the right number of employees, with the right competencies, at the right time.

SGC has prepared a human resource plan. The plan includes some information about SGC's key human resource risks, but it does not analyze or prioritize the identified risks (i.e., likelihood, nature, and consequences of risks).

Also, the plan does not identify SGC's future human resource needs to meet its goals and objectives. Because SGC has not completed a profile of its current workforce and has not determined its future human resource needs, it has not identified and analyzed shortfalls or surpluses of its human resources (gaps). Although the plan identifies a risk of human resource shortages because of gaming expansion and increased competition, it does not describe how SGC would address that risk. SGC could address that risk through succession planning. Succession planning would help ensure SGC has adequate human resources with relevant competencies to meet its future needs.

- 2. We recommend that the Saskatchewan Gaming Corporation improve its human resource plan by prioritizing its key human resource risks, analyzing human resource gaps, and setting out plans to address human resource gaps.**

## **Better monitoring of slot machines needed**

SGC needs to strengthen its rules and procedures to ensure it receives and correctly records all slot machine revenues.

SGC has established processes to ensure it receives and records all slot machine revenues. It also has processes to ensure the integrity of games and safekeeping of public resources. Generally, employees of the slots, surveillance, and finance departments perform these processes.

During the year, SGC implemented a new slot machine operating system. We expected that SGC would establish and communicate revised rules and procedures when it implemented the new system. However, SGC did not promptly revise its control processes to reflect the new system.

For example:

- ◆ employees did not regularly analyze the actual and expected slot machine revenues and overall performance throughout the year

- ◆ surveillance employees did not complete appropriate checklists during their review of slot machine transactions for part of the year
- ◆ finance employees did not leave adequate evidence of their verification of slot machine revenue transactions for part of the year

Because SGC did not complete all the established procedures to monitor slot machine revenue, it does not know if it received all slot machine revenues during the year. As a result, we cannot determine if SGC had any loss of slot machine revenue during the year.

Lack of timely monitoring of revenues increases the risk agencies may not receive and record all revenues. The risk of loss of revenue is even higher in the gaming industry because the majority of transactions are cash.

**3. We recommend that the Saskatchewan Gaming Corporation promptly establish and communicate revised rules and procedures when it makes changes to its systems.**

## **Information technology plan needed**

SGC needs to prepare an information technology (IT) strategic plan.

SGC operates in a highly computerized environment. Most of its gaming activities are controlled and monitored through electronic means.

An IT strategic plan would help ensure that management has addressed all the threats and risks to SGC's IT systems. Also, an IT strategic plan would help relevant employees to understand SGC's IT goals. When employees know the goals that an agency needs to achieve, they can contribute more effectively towards achieving those goals.

Management needs to prepare and document SGC's IT strategic plan and ensure the plan is consistent with SGC's overall strategic plan. Also, SGC's Board of Directors must approve the IT strategic plan. SGC should then communicate the approved IT plan to relevant employees.

We also reported this matter in our 2005 Report – Volume 3 to the Legislative Assembly and earlier reports.

Management told us that SGC has hired a new manager in the IT area who is starting to work on an IT strategic plan.

We continue to recommend that the Saskatchewan Gaming Corporation's Board approve an information technology strategic plan.

## **Project management system**

In 2005, SGC began replacing its electronic gaming systems to allow for the use of Ticket in Ticket out (TITO) technology and for better customer service for slot machines and table games. With TITO technology, gaming patrons do not need coins. Instead, patrons can insert cash or a ticket in the slot machine. When patrons finish playing slot machines, the slot machine will print out a ticket that patrons can exchange for cash at the casino or insert into another slot machine.

SGC made an agreement with a gaming software supplier to provide a complete new casino management system (CMS). The CMS includes a slot machine system, table games system (including a table games accounting module), player club system (casino players' reward system), and data warehouse system (to gather, store, and analyze data).

SGC estimated that the cost for fully implementing the CMS would be \$8 million. Accordingly, the CMS is a significant investment in information technology (IT). Large IT projects are inherently risky. Strong project management controls and processes can reduce these risks and increase the likelihood of a project's success. These controls can help ensure the project:

- ◆ is done on time (time management)
- ◆ is done on budget and includes all costs (cost management)
- ◆ meets SGC's and its clients' needs (scope management)
- ◆ uses quality standards including independent quality reviews (quality management)

We decided to examine SGC's project management processes so that the Legislative Assembly and the public know how well SGC is managing this significant project.



## Our objective and criteria

Our audit objective was to assess whether SGC had adequate project management processes for the year ended March 31, 2006 to implement its new casino management system.

Exhibit 1 sets out the criteria that we used to audit SGC's project management processes to implement the CMS. We based the criteria on international standards, literature, and reports of other auditors (see selected references). We discussed the criteria with SGC's management. Management agreed that the criteria are reasonable and attainable.

### Exhibit 1 - Audit criteria

To implement the project to replace its gaming systems, SGC should have:

1. adequate processes to maintain management and stakeholder commitment to the project
2. adequate processes to track and report on the realization of the project's benefits
3. adequate project management practices and reports

*Adequate project management practices include integration management, scope management, time management, cost management, quality management, human resource management, communications management, risk management, and procurement management (see Exhibit 2 on page 284).*

## Our findings and recommendations

We found that SGC had adequate project management processes to implement CMS except for the matters covered by our recommendations below.

- 4. We recommend that the Saskatchewan Gaming Corporation provide complete and accurate reports on the project's progress to senior management and the Board of Directors.**
- 5. We recommend that the Saskatchewan Gaming Corporation establish a process to monitor and track how well it achieved the benefits it set out for the project.**

- 6. We recommend that the Saskatchewan Gaming Corporation establish a process to document the results of testing of new systems and to track and document the follow up of all risks before systems become operational.**

We describe below our detailed findings together with our expectations (in italics) for each criterion.

***Criterion 1 – Maintaining management and stakeholder commitment***

*We expected SGC to have project management processes to obtain and maintain strong senior management commitment to the project. We expected senior management would:*

- ◆ *ensure that the project fits within SGC's strategic plan*
- ◆ *be accountable for the success of the project*
- ◆ *establish a strong project team with adequate resources to carry out the project*
- ◆ *have clear communication and reporting throughout the project*

SGC has adequate processes to maintain management and stakeholder commitment except it needs to improve its management reporting and monitoring of the project. SGC prepared and provided progress reports to senior management and the Board. However, those reports did not clearly compare the actual and budgeted costs. Also, the reports included only the actual costs for the acquired items and services that have a future benefit (capital). The reports did not include the costs SGC incurred that were not of a capital nature. For example, the reports did not include costs for training, travel, information surveys, miscellaneous equipment, and supplies. Accordingly, the reports did not show the total costs of the project.

Also, progress reports to senior management and the Board did not show the impact of the significant changes the project team made to the project. For example, the project team decided not to implement a significant part of the originally approved project. The project team could not provide us with evidence of senior management's approval of the change and a revised budget. The reports continued to compare the actual cost of the revised project with the approved original budget. In

addition, the project team provided senior management and the Board with an initial assessment of the project risks. However, progress reports to senior management and the board did not include an updated analysis of project risks.

To properly monitor the project, senior management and the Board need complete and accurate reports on the status of the project including an analysis of project risks. Without complete and accurate reports, senior management and the Board may not be able to take corrective action to help ensure the success of the project.

***Criterion 2 – Tracking and reporting on the realization of the project's benefits***

*We expected SGC to:*

- ◆ *have a process to quantify and track project benefits throughout the project and after implementation*
- ◆ *base these benefits on a strong business case that is consistent with its vision, strategic goals, and objectives*

*The benefits outlined should be measurable and management should report regularly on the achievement of the benefits. The business case should outline the full costs of the project and compare the costs to the expected benefits. A project is not complete until the benefits are realized.*

SGC did not have adequate processes to track and report on the realization of the project benefits. SGC outlined in its project plan (project charter<sup>1</sup>) the expected benefits of the project but did not set up a process to track and monitor the realization of the benefits. SGC did not specifically assign responsibility for monitoring the expected benefits. Also, because a number of the benefits outlined in the project charter did not include criteria for measuring those benefits, SGC may not be able to determine if it achieved the benefits.

As mentioned earlier, SGC did not track the full cost of the project. Without tracking all of the costs, SGC cannot determine if it has met the planned return on its investment over the period specified in the project charter.

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<sup>1</sup> A Project Charter sets out project information such as the project's objective, team, budget, risks, benefits, and reporting structure.

The project team told us that the team plans to report to senior management on how well the project achieved the benefits set out at the start of the project.

We plan to follow up and report on SGC's progress on measuring, tracking, and reporting the benefits of CMS.

***Criterion 3 – Project management practices and reports***

*We expected SGC to have good project management systems and practices to control the implementation of the project as outlined by the nine areas in Exhibit 2.*

*Good project management practices include planning and reporting progress against the plan. The project teams should collectively have the necessary experience, skills, and leadership to manage the project including managing risks and quality of work and communicating progress and successes. Good project management systems and practices help ensure that project teams meet deadlines, contain costs, and meet requirements.*

SGC did not adequately develop and maintain a detailed project plan outlining the steps needed to complete the project. If management does not regularly update the project plan, it may not be able to assess if the project is progressing as planned. Also, an up-to-date project plan allows the project team to highlight issues and recommend corrective actions to address those issues. As mentioned on page 276, SGC did not promptly revise its control procedures for the new system. An adequate project plan could assist in ensuring that control procedures are revised for the new system.

As we mentioned earlier, the project team did not adequately monitor and track the project costs. Without complete and accurate cost information, it is difficult to assess if the project is on budget.

The CMS project team structured the project in a way to allow staggered implementation of the new system. This gave the project team sufficient time to resolve any significant problems or issues before beginning to implement the next part of the project. The project team also planned for the new system to become operational at a date that was not critical. This

allowed the team to make any necessary changes in the event that issues arose during the implementation. The team decided to delay the implementation of one part of the system. However, the team did not reflect this decision in the reports that compared the actual costs to the budget which were provided to senior management and the Board.

Quality management helps ensure projects are completed on time, on budget, and meet user needs. Quality management also helps ensure resolution of all issues and testing and implementation of the new system.

Good project management practices would include tracking and monitoring issues and problems that may arise during the life of the project. Such practices would include processes to prioritize the issues identified and their resolution before the system becomes operational. Although SGC's project team documented many issues using several different methods, the project team could not provide us evidence that it resolved all identified issues before it implemented the new system. Nor did the team show us evidence of testing of all aspects of the new system before the system became operational. Lack of documented evidence increases the risk that SGC may not know if the system will operate properly.

SGC developed a communication plan for the project. However, it did not do all the tasks outlined in the plan or document the reasons why it did not carry out those tasks. SGC did not assign anyone the specific responsibility for the communication plan relating to the new system. Lack of adequate and timely communication to users and stakeholders can affect the success of a project. For example, employees can become frustrated over the change to the new system unless they are aware of the change and support those changes.

Large projects are inherently risky. Good project management practices require that management identify possible risks and set out processes to regularly monitor and mitigate those risks. While the approved project charter identified possible risks, SGC did not set up a process to regularly monitor and mitigate those risks.

## Exhibit 2 - Project management framework

The three general criteria of a strong project management climate are:

- ◆ management commitment to the project
- ◆ the project's ability to achieve its objectives and benefits
- ◆ good project management systems and practices

We will audit to these criteria based on the risk and scope of our project. We will use the Project Management Institute's standard titled *A Guide to the Project Management Body of Knowledge* as the management framework to support the above three criteria.

1. *Integration management* – the processes required to ensure that the various elements of a project are properly co-ordinated.
2. *Scope management* – the processes involved in determining what the users need, how the needs will be met and verifying if they are met.
3. *Time management* – the processes to plan, schedule, and control the project's activities to help get the project done on time.
4. *Cost management* – the processes to plan, estimate, and control the project costs.
5. *Quality management* – the processes needed to evaluate if the project is managed well and meets the stakeholders' needs.
6. *Human resource management* – the processes required to make the most effective use of people involved in the project, including stakeholders. This includes change management, training, and staffing.
7. *Communication management* – the processes, including the organizational structure, used to ensure the timely and complete creation, movement, and storage of information.
8. *Risk management* – the processes to identify, evaluate, plan, and respond to risks.
9. *Procurement management* – the processes to decide what to contract; for tendering and selecting the best contractor; and negotiating, managing and closing the contract.

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