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## Main points

In this chapter, we report the results of our audit of SIGA's project management processes for the Dakota Dunes Casino for the period ending December 31, 2006.

We report that SIGA had adequate project management processes to manage the Dakota Dunes Casino project except that SIGA needs:

- ◆ adequate project plans and financing prior to starting major work on construction projects
- ◆ adequate dispute resolution processes with its key partners on these projects
- ◆ to improve construction progress reports it provides to the Board

We make four recommendations to help SIGA improve its project management processes.

## Introduction

The Liquor and Gaming Authority (Liquor & Gaming) is a Crown corporation that operates under *The Alcohol and Gaming Regulation Act*. In addition to operating liquor stores and video terminals in the Province, Liquor & Gaming owns and manages the slot machines at the Saskatchewan Indian Gaming Authority Inc.'s (SIGA) casinos.

We reported the results of our audits of Liquor & Gaming and SIGA for the year ended March 31, 2006 in our 2006 Report – Volume 3. This chapter describes the results of our audit of SIGA's project management processes for the Dakota Dunes Casino project.

## Background

SIGA is a non-profit corporation established by the Federation of Saskatchewan Indian Nations (FSIN) to operate casinos established pursuant to the 2002 Framework Agreement between FSIN and the Government of Saskatchewan. Under *The Criminal Code of Canada*, only governments can own and manage electronic gaming devices (slot machines). The Government uses SIGA to operate its slot machines at FSIN's casinos under the Liquor & Gaming's direction.

The 2002 Casino Operating Agreement between SIGA and Liquor & Gaming entitles SIGA to deduct, from the slot machine revenues, the casinos' operating expenses incurred in accordance with the operating policies and directives approved by Liquor & Gaming. SIGA must remit the remainder of slot machine revenue to Liquor & Gaming in accordance with the formula described in the 2002 Casino Operating Agreement.

Under the 2002 Framework Agreement, SIGA had the sole right to establish a casino in the Saskatoon area for a specific time period. In 2003, SIGA announced its plans to establish the Dakota Dunes casino at the Whitecap Dakota First Nation (Whitecap) near Saskatoon. In July 2004, the Government approved SIGA's plan. At the end of 2004, SIGA made an agreement with the Saskatoon Tribal Council (Tribal Council) for the construction and lease of a casino building at Whitecap. The Tribal Council agreed to construct a building shell (i.e., base building without any interior finishing) and lease the building and related land to SIGA. SIGA also agreed to pay to the Tribal Council up to the amount by which

the direct building costs exceed the net proceeds available to the Tribal Council from its own financing. SIGA will complete the leasehold improvements necessary for a casino operation.

Work on the Dakota Dunes project began in 2005. SIGA expects the building shell to be completed by March 2007 and the leasehold improvements by August 2007. SIGA plans to open the Dakota Dunes Casino in September 2007.

The Dakota Dunes Casino is a significant project. The new casino will have a floor space of approximately 80,000 square feet housing approximately 20 table games, 550 slot machines, and dining/entertainment facilities. The total budgeted cost for the project is approximately \$62 million excluding the cost of slot machines supplied by Liquor & Gaming. SIGA expects the casino to generate annual net income of approximately \$18 million and create about 350 jobs.

Large construction projects are inherently risky. These risks fall into three broad categories:

- ◆ Economic risks – e.g., cost overruns, access to financing
- ◆ Capacity risks – e.g., availability of staff and contractors with needed capabilities, inadequate needs analysis
- ◆ Construction risks – e.g., construction quality, changing project scope, safety and environmental concerns

Sound project management processes can reduce these risks and increase the likelihood of a project's success.

In our 2006 Report – Volume 3, we reported our plan to assess the adequacy of SIGA's project management practices for the Dakota Dunes Casino project.

Our plan was to examine SIGA's project management processes in two phases. In the first phase, we planned to develop and agree with management on suitable criteria. We also planned to examine SIGA's processes for the project work up to December 2006. The second phase will cover the project work done from January 1 to August 31, 2007. We plan to complete the second phase of our work before the casino opens.

We have now completed the first phase of our work. We expect our recommendations will help SIGA to manage the construction of two other upcoming projects, a new casino in Swift Current and a replacement casino in Yorkton.

## **Our audit objective**

The objective of the first phase of this audit was to assess SIGA's project management processes for the Dakota Dunes Casino project for the period from April 1, 2005 to December 31, 2006.

We followed *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants. This included developing suitable criteria, reviewing and evaluating relevant processes, and obtaining sufficient and appropriate audit evidence to support our conclusions.

## **Our criteria**

We used the following criteria to assess the adequacy of SIGA's processes. We based these criteria on a review of available literature, work of other auditors, prior audit work of our Office, and discussions with management. SIGA accepted the criteria as reasonable standards for assessing its processes.

To have adequate project management processes for the Dakota Dunes Casino project, SIGA should:

- ◆ establish requirements for the construction project
- ◆ monitor the status of the project
- ◆ address concerns

We describe the criteria more fully under key findings by criteria.

## **Our conclusions and recommendations**

**We conclude that SIGA had adequate project management processes for the Dakota Dunes Casino project for the project work up to December 31, 2006 except for the matters covered by our recommendations below.**

- 1. We recommend that the Saskatchewan Indian Gaming Authority have adequate project plans before starting major construction projects.**
- 2. We recommend that the Saskatchewan Indian Gaming Authority finalize financing arrangements before starting major construction projects.**
- 3. We recommend that the Saskatchewan Indian Gaming Authority have dispute resolution processes with its key partners before starting major construction projects.**
- 4. We recommend that the Saskatchewan Indian Gaming Authority provide the Board of Directors complete and accurate progress reports on major construction projects.**

## **Key findings by criteria**

In this section, we describe what we expected (in italics) and our findings for each of the criteria.

### **Establish requirements for the project**

*To ensure the project meets its established requirements, we expected SIGA to have processes to ensure:*

- ◆ *project specifications meet SIGA's identified needs*
- ◆ *key project milestones are set for the project*
- ◆ *the Board approves the total cost and costs by key stages*
- ◆ *the Board approves the financing arrangements*
- ◆ *the project team members have appropriate qualifications*
- ◆ *the Board and management have sufficient information to monitor the project*
- ◆ *appropriate tendering processes are followed for selecting contractors*
- ◆ *its key partners know and agree with their respective responsibilities specifically for project changes, cost overruns, and dispute resolution*

SIGA had adequate processes to establish requirements for the project with the following exceptions. SIGA needs to seek timely Board approval

of complete project plans, finalize financing arrangements prior to commencement of construction, and establish formal dispute resolution processes with its project partners.

SIGA's Board approved a complete project plan (charter) in May 2006. The charter included a description of the project, the project scope, and the general responsibilities of the project team. The project charter also outlined key phases of the project including project integration, construction, casino interior finishing, casino staffing, and casino marketing. The project integration phase required management to develop a detailed project management plan (including work breakdown, detailed project schedule, detailed budget, and reporting requirements), a risk management plan, a quality management plan, a communications plan, and a procurement plan.

Although the Board had approved the project in principle and the project capital budget in 2005, a complete project plan was not approved until May 2006. However, work on the project began in the summer of 2005. By May 2006, project expenditures totalled approximately \$10 million. Incurring significant costs prior to formal approval of a complete project plan increases the risk that the work done may not meet the desired quality or design requirements. This could result in additional costs and/or delays in project completion.

SIGA followed its established processes to select a lending institution to help finance the project. In January 2006, SIGA signed a letter of intent with a bank setting out the general terms of financing with a view to negotiate a complete financing agreement later. In July 2006, SIGA obtained interim financing of \$9.6 million for the project. In November 2006, SIGA obtained additional interim financing of \$10.4 million. SIGA has not yet concluded, and the Board has not yet approved, a final financing agreement with the bank. Lack of a formal lending agreement increases the risk of higher borrowing costs and could result in cash flow difficulties.

SIGA's agreement with the Tribal Council sets out the overall responsibilities and financial obligations of each party for the project. SIGA uses regular communications and project team meetings with the Tribal Council to ensure both parties understand and accept these responsibilities. However, the agreement with the Tribal Council does not

include a process for resolving disputes. The agreement covers both the construction and long-term lease of the facility. Absence of a formal dispute resolution process increases the risk of delays in completion of the project resulting in additional costs.

## **Monitor the status of the project**

*To adequately monitor the status of the project, we expected SIGA to have processes to:*

- ◆ *monitor the actual project status compared to the approved plan and develop/revise action plans if needed*
- ◆ *prepare reports for the Board comparing the actual project status (both costs and stage of completion) to the approved plan with explanations of significant differences*
- ◆ *review the status of key risks identified for the project*
- ◆ *assess the reliability of information provided by key partners*
- ◆ *verify reported information, where necessary*

SIGA had adequate processes to monitor the status of the project except that it needs to improve its progress reports to the Board.

SIGA developed a detailed budget for the project in 2005. In September 2005, SIGA's project team began providing SIGA's Board with monthly project status reports. These reports included a summary of project progress and any issues that the project team faced. These reports also included a summary of planned and actual capital costs with a brief explanation of any significant differences.

However, the reports were not adequate because they did not include information on all of the non-capital planned and actual project costs (e.g., salaries, legal fees, consulting, rent, etc.). Also, the reported costs did not agree to SIGA's accounting records and the reports did not include a comparison of planned and actual dates for each phase of the project.

In May 2006, management revised the project status reports it gave to the Board. Starting in July 2006, the reports to the Board included a summary of the project status, project schedule, project capital costs, project risks, project management issues, and project change requests. The reports



also included a comparison of planned and actual dates for key phases of the project with explanations for significant differences.

In December 2006, management improved its reports to the Board to include a comparison of non-capital planned and actual project costs and an explanation of significant differences. SIGA continues to work on improving these reports to ensure planned amounts reported agree to detailed approved budgets and actual amounts reported agree to SIGA's accounting records.

## **Address concerns**

*To ensure that potential problems on the project are adequately managed, we expected SIGA to have processes to:*

- ◆ *identify key risks and action plans to manage those risks*
- ◆ *regularly assess the status of the project's risks*
- ◆ *approve change requests that meet defined criteria*
- ◆ *communicate required actions to affected parties*
- ◆ *take appropriate action*

SIGA had adequate processes to properly address any potential problems to ensure the project continued as planned. SIGA identified and evaluated key risks to the project in its risk management plan. When SIGA determined that identified risks were above an acceptable level, management prepared a plan setting out actions needed to address the risks including any project change requests. SIGA's project team communicated required actions to the appropriate parties and was responsible to ensure appropriate action was taken.

For example, SIGA determined that exceeding the overall project budget was a key risk that it must manage. SIGA's strategies to reduce this risk included approving the Tribal Council's building contractor selection (for the building shell construction) and the significant terms of the construction contract. Also, to help avoid any cost overruns, SIGA monitored construction progress, construction quality, and compliance with approved specifications prior to approving progress payments.

SIGA's delegation of authority policy sets out who can approve project change requests. All change requests (regardless of amount) must go to

SIGA's Board. Significant change requests require Board approval. SIGA's Board approved all significant project changes.

## **Next phase of our work**

As noted previously, we plan to complete this audit in two phases. The second phase of our audit will cover the project work from January 1, 2007 to August 31, 2007. We plan to complete the second phase before the casino opens to the public.

## **Selected references**

Project Management Institute. PMI Standards Committee. (2004). *A Guide to the Project Management Body of Knowledge*. PMBOK® Guide. Third Edition. Newton Square, Pennsylvania: Project Management Institute.

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