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## Main points

In this chapter, we report the results our audit of the Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) for the year ended March 31, 2007.

Liquor and Gaming needs to improve its training and guidance to liquor store employees so they understand and follow established policies and procedures. Also, Liquor and Gaming needs to follow its approved information technology policies and procedures and prepare a complete business continuity plan.

## Introduction

The Liquor and Gaming Authority (Liquor and Gaming) is a Crown corporation that operates under *The Alcohol and Gaming Regulation Act, 1997*. The mandate of Liquor and Gaming is to develop, support, operate, and regulate the beverage alcohol and gaming industries in the Province.

Liquor and 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. 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 and Gaming's direction. Liquor and Gaming signed a Casino Operating Agreement with SIGA. Under the Casino Operating Agreement, the revenues from the slot machines belong to Liquor and Gaming. The Casino Operating Agreement expires on June 11, 2027.

SIGA must also follow policies that Liquor and Gaming approves for incurring casino operating expenses. Liquor and Gaming allows SIGA to deduct from slot machine revenues properly supported expenses that comply with the approved policies. Accordingly, Liquor and Gaming is accountable for SIGA's expenses that have proper support and comply with the approved policies. Liquor and Gaming includes slot machine revenues and expenses in its financial statements.

In 2006-07, Liquor and Gaming had revenues of \$789 million, expenses of \$419 million, and net income of \$370 million. At year-end, Liquor and Gaming held total assets of \$158 million and had an accumulated deficit of \$0.6 million. Liquor and Gaming's *Annual Report 2006-07* includes its financial statements.

## **Our audit conclusions and findings**

**In our opinion, for the year ended March 31, 2007:**

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

We also provide an update on the status of other recommendations previously made by the Standing Committee on Public Accounts that are not yet implemented.

### **Continual monitoring of SIGA operations needed**

Under the Casino Operating Agreement<sup>1</sup> (Agreement), the revenues and expenses from the slot machines in SIGA casinos belong to Liquor and Gaming. The Agreement allows Liquor and Gaming to set SIGA’s operating policies and determine what expenses SIGA can reasonably deduct from slot machine revenues. Accordingly, Liquor and Gaming is accountable for SIGA’s expenses that have proper support and comply with approved policies.

Liquor and Gaming audits SIGA’s compliance with the approved operating policies and directives on an ongoing basis. Liquor and Gaming also audits SIGA’s expenses regularly and recovers those expenses that it considers inappropriate (expenses that do not have adequate support and/or do not comply with approved policies) from future payments to the First Nation Trust Fund.<sup>2</sup>

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<sup>1</sup> The Casino Operating Agreement is an agreement between Liquor and Gaming and SIGA setting out terms and conditions for operating SIGA casinos. The Agreement expires on June 11, 2027

<sup>2</sup> First Nation Trust Fund established under the 2002 Framework Agreement between the Federation of Saskatchewan Indian Nations (FSIN) and the Government of Saskatchewan, receives and distributes all gaming revenues for and on behalf of FSIN.

Liquor and Gaming completed its audit of SIGA for the period from April 1, 2006 to March 31, 2007. Liquor and Gaming concluded SIGA needs to do more work to fully comply with the approved marketing and promotions policies. Management told us Liquor and Gaming plans to continue to monitor SIGA's operations closely.

## **Employees need better training and guidance**

Liquor and Gaming needs to improve its training and guidance to liquor store employees so they understand and follow established liquor store operating policies.

Liquor and Gaming operates 80 liquor stores in 64 communities throughout the province. In 2006-2007, Liquor and Gaming had liquor store sales of \$398 million.<sup>3</sup>

Liquor and Gaming has developed a detailed policy and procedures manual. The manual sets out detailed processes that employees must follow when doing their assigned tasks. Liquor and Gaming audits liquor stores to determine how well employees follow the established processes.

During the year, Liquor and Gaming audited 31 liquor stores and found that employees at those stores did not always follow the established processes. For example, at some stores employees did not handle cash as policies required. At those stores, there was not always documented evidence that two employees counted and deposited cash receipts. In addition, some stores did not always complete periodic inventory counts and did not keep evidence of product disposals.

Employees do not follow the established policies and procedures when they do not understand the reasons for those policies and/or do not have adequate training to follow those policies.

Liquor and Gaming is considering the recommendations of its internal auditor to help ensure store employees follow established processes. The risk of misappropriation and loss increases when employees do not follow approved policies and procedures.

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<sup>3</sup> \$398 million excludes liquor sales to franchisees.

- 1. We recommend that Liquor and Gaming Authority improve employee training so that employees understand and follow approved policies and procedures.**

## **Compliance with approved information technology policies needed**

In our 2005 Report – Volume 3, we reported that Liquor and Gaming needed to approve its information technology (IT) policies and procedures. In May 2006, the Standing Committee on Public Accounts (PAC) considered and agreed with our recommendation.

IT security policies and procedures help ensure the confidentiality, privacy, integrity, and availability of information systems and data. Liquor and Gaming's information system contains sensitive data including credit card information.

In June 2006, Liquor and Gaming approved its IT policies and procedures. The IT policies and procedures set out strong security policies including management of physical security and granting access to systems and data. Liquor and Gaming must now ensure its employees follow those policies and procedures.

We noted employees did not always follow the approved policies for removing user accounts and monitoring network security. For example, at some retail stores supervisors temporarily delegated to other staff the authority to approve electronically employees' attendance and worksheets. They delegated this authority for the period of their absences because of vacation or other reasons. However, they did not cancel the temporary delegation upon their return to work. Delays in updating user accounts and network security increase the risk of unauthorized data disclosure, modification, or loss.

Liquor and Gaming also needs to monitor network security alerts. These alerts help agencies to detect and react to security threats quickly.

- 2. We recommend that Liquor and Gaming Authority follow its approved information technology policies and procedures.**

## Business continuity plan needed

Liquor and Gaming needs a written, approved, and tested business continuity plan<sup>4</sup> to help ensure that it can continue to deliver its programs and services in the event of a disaster.

In our 2006 Report – Volume 3 and prior reports, we recommended that Liquor and Gaming prepare and the Board approve a complete business continuity plan. In May 2006, PAC considered this matter and agreed with our recommendation.

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

Liquor and Gaming does not yet have a complete and tested business continuity plan. It has, however, begun the process of developing a business continuity plan and has completed a threat and risk assessment for its critical business processes.

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

## Status of other outstanding recommendations of the Standing Committee on Public Accounts

The following table provides an update on recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented and are not discussed earlier in this chapter.<sup>5</sup>

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<sup>4</sup> **Business Continuity Plan** is a plan by an organization to respond to unforeseen incidents, accidents, and disasters that could affect the organization's critical operations or functions including normal operation of a computerized system. A plan for recovery of a computer system is known as Contingency Plan or Disaster Recovery Plan. A contingency plan is only one component of the Business Continuity plan.

<sup>5</sup> For the definitions of the key terms used in the table, see Chapter 25 – Standing Committee on Public Accounts pages 398 to 399.

## Chapter 17A – Liquor and Gaming Authority

<b>PAC REPORT YEAR<sup>6</sup></b>	<b>OUTSTANDING RECOMMENDATION</b>	<b>STATUS</b>
2007	PAC concurs:  7-1 that the Liquor and Gaming Authority should formally assign responsibility for encouraging responsible use of beverage alcohol.	<b>Not implemented</b> (as at December 31, 2005).  Follow-up planned for 2008-09.
2007	PAC concurs:  7-2 that the Liquor and Gaming Authority should prepare a complete plan for encouraging responsible use of beverage alcohol.	<b>Not implemented</b> (as at December 31, 2005).  Follow-up planned for 2008-09.
2007	PAC concurs:  7-3 that the Liquor and Gaming Authority should continue to research and develop performance measures and targets to evaluate its performance in encouraging responsible use of beverage alcohol.	<b>Not implemented</b> (as at December 31, 2005).  Follow-up planned for 2008-09.

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<sup>6</sup> PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.