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Main points

In this chapter, we report the results of our audit of the Saskatchewan Indian Gaming Authority Inc. (SIGA) for the year ended March 31, 2007. SIGA has made significant progress in addressing our outstanding recommendations. By the year-end, SIGA had fully implemented 79% and partially implemented 21% of our past recommendations.

We also report the results of our audit of SIGA's project management processes for the Dakota Dunes Casino from January to August 2007. We report that SIGA had adequate project management processes except that SIGA needs to:

- ◆ have adequate dispute resolution processes with its key partners
- ◆ improve the construction progress reports it provides to the Board

Introduction

The Saskatchewan Indian Gaming Authority Inc. (SIGA) is a non-profit corporation established under *The Non-Profit Corporations Act, 1995*. The members of SIGA are the Federation of Saskatchewan Indian Nations (FSIN), the Tribal Councils of Saskatchewan, and other First Nations. Saskatchewan Liquor and Gaming Authority (Liquor & Gaming) has licensed SIGA to operate four casinos. These casinos are known as Northern Lights, Gold Eagle, Painted Hand, and Bear Claw.

All casinos are located on First Nation reserves. Northern Lights Casino is located in Prince Albert, Gold Eagle Casino is located in North Battleford, Painted Hand Casino is located in Yorkton, and Bear Claw Casino is located on the White Bear First Nation. The Dakota Dunes Casino located on the Whitecap First Nation near Saskatoon began operations on August 10, 2007. These casinos provide table games, slot machines, and other hospitality services (ancillary operations) to the public.

Liquor & Gaming has licensed SIGA to conduct and manage table games. Under the licenses, SIGA is required to use the net profits from the operations of licensed table games for First Nations' charitable or religious purposes.

As required by section 207 of *The Criminal Code of Canada*, Liquor & Gaming owns the slot machines located in SIGA's casinos. Under *The Criminal Code of Canada*, Liquor & Gaming is responsible for the overall conduct and management of the slot machines in those casinos. The revenue from the slot machines belongs to Liquor & Gaming and is, therefore, public money.

Under the 2002 Casino Operating Agreement¹, Liquor & Gaming has allowed SIGA to deduct from the slot machine revenues reasonable costs, as determined by Liquor & Gaming, for operating casinos. SIGA must remit the remainder to Liquor & Gaming. Also, the 2002 Casino Operating Agreement allows SIGA to recover, in any year, any net loss from the operation of licensed table games and ancillary operations from the net income earned from the operation of slot machines.

¹ The 2002 Casino Operating Agreement is an agreement between Liquor & Gaming and SIGA setting out terms and conditions for operating SIGA casinos. The Agreement expires on June 11, 2027.

Table 1 summarizes results of SIGA’s casino operations. The casino operations include slot machines, table games, and ancillary (i.e., gift shops, restaurants, and lounges). The Table shows the net casino profits that SIGA made for Liquor & Gaming during the last five years.

Table 1 – Net profits (in \$000) from SIGA operated casinos

Segment	2007	2006	2005	2004	2003
Slot operations	\$ 52,695	\$ 43,653	\$ 36,641	\$ 35,843	\$ 32,146
Ancillary operations	(3,091)	(2,593)	(2,354)	(1,976)	(1,742)
Table operations	(767)	(902)	(332)	(687)	(1,036)
Net profit	<u>\$ 48,837</u>	<u>\$ 40,158</u>	<u>\$ 33,955</u>	<u>\$ 33,180</u>	<u>\$ 29,368</u>

Background

In February 1995, the Government of Saskatchewan and the FSIN signed the 1995 Framework Agreement (Agreement). The Agreement permitted the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. The Agreement expired, and on June 11, 2002, the Government of Saskatchewan and the FSIN signed a new Framework Agreement (2002 Framework Agreement) effective from June 11, 2002 to June 11, 2027.

Liquor & Gaming and SIGA also signed the 1995 Casino Operating Agreement to implement the 1995 Framework Agreement. The 1995 Casino Operating Agreement expired with the 1995 Framework Agreement. On June 11, 2002, Liquor & Gaming and SIGA signed a new Casino Operating Agreement (2002 Casino Operating Agreement) effective from June 11, 2002 to June 11, 2027.

Under the 2002 Casino Operating Agreement, SIGA can deduct the casinos’ operating expenses, incurred in accordance with the operating policies and directives approved by Liquor & Gaming, from slot machine revenues. SIGA must deposit the remainder into a trust account for Liquor & Gaming in accordance with the process specified in the 2002 Casino Operating Agreement.

If Liquor & Gaming determines that any expenses that SIGA has incurred did not follow the approved policies and directives, it may recover such

expenses from future amounts due to the First Nations Trust Fund because SIGA has no money of its own. SIGA has no money of its own because revenues from the slot machines belong to Liquor & Gaming and SIGA must use any net income from the licensed table games for charitable or religious purposes. As a result, First Nations people bear the cost when SIGA incurs expenses that are not in accordance with approved policies and directives because SIGA belongs to them.

We audit SIGA for the Legislative Assembly because SIGA handles public money for Liquor & Gaming. In addition, SIGA's members have appointed the Provincial Auditor as SIGA's auditor.

Our audit conclusions and findings

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

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

In this chapter, we also report the result of our audit of SIGA's project management processes for the Dakota Dunes Casino. The examination covers SIGA's project management from January 1 to August 31, 2007.

Controls to safeguard public resources

In our past reports to the Legislative Assembly of Saskatchewan (Legislative Assembly), we made several recommendations to strengthen SIGA's processes to safeguard public resources. SIGA accepted our recommendations. SIGA has made significant progress towards implementing our recommendations.

By March 31, 2007, SIGA had addressed most of our recommendations. It had fully implemented 79% and partially implemented 21% of our past recommendations.

Well-performing agencies do three things to help ensure they have effective controls to safeguard public resources. First, they ensure management provides adequate guidance to their employees. Second, they require management to establish processes to ensure employees follow the guidance provided in carrying out their tasks. Third, they monitor how well they are progressing towards achieving their established goals.

As we stated earlier, SIGA has made significant improvement to its processes to safeguard public resources. However, it needs further improvements to ensure employees have ready access to effective guidance and they follow that guidance in doing the assigned tasks. We provide our findings in these areas below.

Effective guidance to employees

In our 2006 Report – Volume 3 and our past reports, we said SIGA needed to document and communicate all policies to its employees. Documented policies provide employees ready guidance to help them understand and follow the policies. SIGA has fully documented and communicated policies for all significant areas except for its computer systems and operations (Information Technology).

Information technology (IT)

SIGA's employees prepared and senior management reviewed a draft IT strategic plan. However, the Board has not yet reviewed and approved the draft plan. Accordingly, the Board does not know if the draft IT strategic plan has addressed all the risks and threats.

In our past reports, we recommended that management should review and the Board approve an information technology strategic plan. The Standing Committee on Public Accounts (PAC) has considered this matter and agreed with our recommendation.

We continue to recommend that SIGA's Board approve the IT strategic plan.

Compliance with established policies

In our 2006 Report – Volume 3 and our prior reports, we said SIGA must train its employees so that they follow established policies to do their work. SIGA has made good progress towards ensuring that its employees follow established policies. However, it needs to do more to ensure the integrity of its accounting records.

In the past, we observed that SIGA's accounting records did not reflect its business operations and lacked proper support for all transactions. Accordingly, we recommended that SIGA establish policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions. PAC has considered this matter and agreed with this recommendation.

We describe below the significant areas where SIGA's employees did not comply with approved policies.

Revenues

SIGA has established procedures to ensure the integrity of games and safeguard public resources. Generally, employees responsible for slot machines, table games, surveillance, and accounting perform these procedures.

In 2006, SIGA installed new ticket redemption terminals² and slot machines in its casinos. SIGA established adequate processes to ensure it receives and records all slot machine revenues. However, employees did not always comply with these policies. For example, at one casino, employees did not always agree (reconcile) transactions from the ticket redemption terminals to its records. Such reconciliations help identify system malfunctions or tampering on a timely basis.

Also, SIGA requires slot machine employees to observe and record daily progressive jackpot balances for the slot machines. Employees did not

² Ticket redemption terminals are machines that allow patrons to receive cash for their slot machine winnings.

always do so for the new slot machines. The progressive jackpot balances change as the patrons play the participating slot machines. SIGA records slot machine revenues net of all wins and accumulated jackpots. Because employees did not observe and record the daily jackpot balances, they did not update SIGA's accounting records to reflect the correct jackpot payable resulting in inaccurate interim financial reports. The Board uses interim financial reports for monitoring and decision-making. Inaccurate financial reports could result in inappropriate financial decisions.

This condition, however, would not affect the amount paid to jackpot winners because the winners receive the amount showing on the jackpot sign at the time they win the jackpot.

Marketing and promotion

In 2007, SIGA spent approximately \$7.3 million (2006 - \$7.3 million) for marketing and promotion.

SIGA has established various marketing and promotion policies that Liquor & Gaming has approved. However, employees did not always comply with the marketing and promotion policies.

SIGA requires employees to maintain adequate records of complimentary food and beverage items they give to patrons (who received the item and why). SIGA also requires management to periodically review and approve these records. One casino did not maintain adequate records of these items. At another casino, management did not approve the records as policy required.

Accounting

SIGA has established policies to control its bank accounts and capital assets. However, employees did not comply with these policies.

For example, SIGA requires employees to explain cash overages/shortages exceeding \$5. However, employees did not always fully explain the cash overages/shortages.

Hospitality organizations including casinos often encounter differences between the cash recorded in their accounting records and the actual

cash on hand. Such differences (commonly known as cash overages/shortages) are often unintentional human errors and/or machine errors. To ensure employees properly monitor, follow up, and resolve all overages/shortages, such organizations establish processes to ensure overages/shortages are not intentional.

Also, SIGA requires employees to periodically count capital assets and compare the counts to the accounting records. However, employees have not yet done a complete count of the capital assets. Therefore, SIGA cannot be sure that all capital assets recorded in its accounting records exist.

We continue to recommend SIGA establish rules and procedures to ensure that employees comply with established policies.

We continue to recommend SIGA establish policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions.

Building human resource capacity

In our 2003 Report – Volume 3, we reported on SIGA's processes to build human resource capacity. PAC considered these matters and agreed with our recommendations. In our 2006 Report – Volume 3, we followed up on our recommendations in this area and reported that there were two recommendations still outstanding. Below, we describe SIGA's progress at March 31, 2007 in addressing those recommendations.

Complete and implement a human resource plan

In 2006, we reported that SIGA's long-term human resource plan included the key elements of a sound human resource plan except that it did not include a projection of SIGA's future human resource needs (i.e., number, type, level, and location of employees). As a result, SIGA did not know its future human resource needs and how to access those resources. SIGA needs this information to carry out its strategic direction.

SIGA has begun to regularly analyze turnover within each of its departments to project future human resource needs. In 2007, SIGA did an employee survey to identify employees interested in relocating to new

casino sites. SIGA plans to use the results of this survey to help identify future staffing requirements at new and existing casinos. Also, SIGA has developed partnerships with other agencies to help provide training to its current and future employees.

SIGA has also begun to implement personal learning plans for all employees. Management told us SIGA will use these plans to develop organization-wide succession plans.

While SIGA continues to gather information, it has not yet completely documented its future human resource needs. It should do so.

We continue to recommend SIGA complete and implement its human resource plan.

Effectiveness of training activities

In 2006, we reported that SIGA had an adequate learning strategy and training plans. We also reported that the Board regularly received some information on employee training activities. However, reports to the Board did not include information on the actual costs of the training or the effectiveness of these training activities.

SIGA is currently developing a process to evaluate the effectiveness of its training activities.

We continue to recommend management prepare and provide to the Board more information on the effectiveness of SIGA's training activities.

Project management processes

Under the 2002 Framework Agreement between the Federation of Saskatchewan Indian Nations and the Province of Saskatchewan, SIGA established the Dakota Dunes Casino at the Whitecap Dakota First Nation (Whitecap) near Saskatoon. In July 2004, the Government approved SIGA's plan to build this casino.

The Dakota Dunes Casino was a significant project for SIGA. The new casino has a floor space of approximately 80,000 square feet housing 12 table games, 600 slot machines, and dining/entertainment facilities. The

total budgeted cost for the project was approximately \$61 million excluding the cost of slot machines that Liquor & Gaming supplied. SIGA expects the casino to generate annual net income of approximately \$18 million and create about 400 jobs.

In late 2004, SIGA made an agreement with the Saskatoon Tribal Council (Tribal Council) for the construction and lease of a casino building at Whitecap. Under this Agreement, the Tribal Council constructed a building shell (i.e., base building without any interior finishing) and is leasing the building and related land to SIGA. SIGA completed the leasehold improvements necessary for a casino operation.

Work on the Dakota Dunes Casino project site began in 2005. SIGA opened the Dakota Dunes Casino to the public on August 10, 2007. At August 31, 2007, the actual capital costs for the casino totalled approximately \$56 million, including \$16 million that the Tribal Council paid for the building shell. SIGA expects the total capital cost for the casino will not exceed the budgeted cost of \$61 million.

We assessed whether SIGA had adequate project management processes for this significant project. We wanted to know if SIGA had adequate processes to undertake this large project because 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., poor 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.

We completed the first phase of our work in 2006. In phase one we developed suitable criteria for assessing SIGA's processes and examined SIGA's processes from April 1, 2005 to December 31, 2006. We reported the results of phase one in our 2007 Report – Volume 1. We recommended that SIGA needs to:

- ◆ have adequate project plans before starting major construction projects

- ◆ finalize financing arrangements before starting major construction projects
- ◆ have dispute resolution processes with its key partners before starting major construction projects
- ◆ provide its Board of Directors with complete and accurate progress reports on major construction projects

In June 2007, PAC considered these matters and agreed with our recommendations.

We have now completed phase two of our work. In phase two we examined SIGA's processes from January 1 to August 31, 2007. We also followed up on SIGA's progress to address the recommendations we made in our 2007 Report – Volume 1.

Audit objective

The objective of phase two of this audit was to assess the adequacy of SIGA's project management processes for the Dakota Dunes Casino project for the period from January 1 to August 31, 2007.

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.

Audit 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 a reasonable standard for assessing its processes. We used the same criteria for phase one of our work.

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 criterion.

Conclusion and findings

SIGA had adequate project management processes for the Dakota Dunes Casino project for the period from January 1 to August 31, 2007 except that it needs to establish dispute resolution processes with its key partners on major construction projects and provide the Board of Directors with complete and accurate progress reports on major construction projects.

Key findings by criterion

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

Establish requirements for the construction 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 except that it needs to establish formal dispute resolution processes with its project partners.

In our 2007 Report – Volume 1, we reported that SIGA did not have an adequate project plan and did not finalize financing arrangements before the Dakota Dunes Casino project started. In 2007, SIGA began another significant casino project in Swift Current (Living Sky Casino). SIGA learned from its experience from its earlier projects and prepared a project plan and made adequate financing arrangements before that construction project began.

SIGA's agreement with the Tribal Council for Dakota Dunes sets out the overall responsibilities and financial obligations for each party for the project. SIGA used regular communications and project team meetings with the Tribal Council to ensure both parties understood and accepted 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. While the construction of the facility has been completed, SIGA is leasing the facility for the long term. Absence of a formal dispute resolution process increases the risk that SIGA's operations may be disrupted resulting in loss of revenue and/or additional costs to SIGA.

We continue to recommend that SIGA have dispute resolution processes with its key partners before starting major construction projects.

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 to 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.

In our 2007 Report – Volume 1, we reported that management had improved its reports to the Board but it needed to continue to make further improvements. We recommended further improvement because the amounts reported to the Board did not agree to SIGA's accounting records.

Management provided the Board monthly written progress reports up to July 1, 2007. However, those reports did not always provide current information about development and operating costs. Also, the Board did not receive progress reports for the months of July and August 2007.

The reports reflected actual cost information that SIGA's cost consultant provided. Starting July 31, 2007, SIGA began comparing the actual costs the consultant reported to the actual costs in SIGA's accounting records. SIGA explained significant differences between the two records. However, as we said earlier, the Board did not receive progress reports for the months of July and August 2007.

Management told us that future progress reports to the Board will include actual project costs from SIGA's accounting records for new casinos.

We continue to recommend that SIGA provide the Board of Directors complete and accurate progress reports on major construction projects.

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. In addition, SIGA regularly monitored and updated the Board on the status of these key risks. When SIGA determined that identified risks were above an acceptable level, management prepared a plan setting out actions to

address the risks including any project change requests. SIGA's project team communicated required actions to the appropriate parties and ensured they took appropriate action.

SIGA followed its delegation of authority policy when approving project change requests. Management informed SIGA's Board about project change requests and the Board approved all significant changes.

Selected references

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