

**Main points ..... 268**

**Introduction ..... 269**

**Audit conclusions and findings ..... 269**

    Continual monitoring of SIGA operations needed ..... 270

    Employees need better training and guidance ..... 271

    Compliance with approved information technology (IT) policies needed ..... 272

    Business continuity plan needed..... 273

**Status of other outstanding recommendations of the Standing Committee on  
Public Accounts..... 274**

## Main points

The Liquor and Gaming Authority (Liquor & Gaming) owns and manages the slot machines at Saskatchewan Indian Gaming Authority Inc. (SIGA) casinos. The revenues from these slot machines belong to Liquor & Gaming. SIGA opened the Dakota Dunes' Casino in August 2007. During the first few months of Dakota Dunes' operations, SIGA employees did not do certain revenue and cash handling procedures established by Liquor & Gaming to help ensure that no public money is lost. Because Liquor & Gaming did not have adequate monitoring processes to ensure SIGA followed the required procedures at the Dakota Dunes, Liquor & Gaming does not know if there was a loss of public money.

SIGA is opening a new casino in Swift Current in 2009. It is vital that Liquor & Gaming improve its monitoring processes over new casino operations to know that SIGA complies with established procedures to safeguard public money from loss due to errors or fraud.

Liquor & Gaming needs to improve its training and guidance to liquor store employees so they understand and follow established policies and procedures. Liquor & Gaming needs to follow its information technology policies and procedures to protect its computer systems and data, especially its customers' credit card information. Liquor & Gaming also needs a complete and tested business continuity plan.

## Introduction

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

Liquor & 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. The Government uses SIGA to operate the slot machines at five 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 properly supported expenses that comply with the approved policies from the slot machine revenues. Accordingly, Liquor & Gaming is accountable for SIGA's expenses that it considers as appropriate. Liquor & Gaming includes the slot machine revenues and expenses in its financial statements.

In 2007-08, Liquor & Gaming had revenues of \$899 million, expenses of \$499 million, and net income of \$400 million. At year-end, Liquor & Gaming held total assets of \$179 million and a surplus of \$61,000. Liquor & Gaming's *Annual Report 2007-08* includes its financial statements.

## Audit conclusions and findings

**In our opinion, for the year ended March 31, 2008:**

- ◆ **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**

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

Under the Casino Operating Agreement (Agreement), the revenues from the slot machines in SIGA casinos belong to Liquor & Gaming. The Agreement allows Liquor & Gaming to set SIGA’s operating policies and determine what expenses SIGA can deduct from slot machine revenues. Liquor & Gaming is accountable for SIGA’s expenses that it accepts as appropriate.

Liquor & Gaming audits SIGA’s compliance with the approved operating policies and directives on an ongoing basis. Liquor & 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 Nations Trust Fund.

In August 2007, SIGA opened the Dakota Dunes Casino to the public. With new casino operations, there is always a risk of employees not following established processes to safeguard public money because employees are new to the agency and may not understand the importance of these policies. The risk of loss of public money is higher in the gaming industry because the majority of transactions are in cash. Failure to follow proper processes puts public money at risk.

To reduce the risk of loss of public money, Liquor & Gaming has established processes for SIGA’s staff to independently verify daily that all money is received, recorded, and deposited. During the first few months of Dakota Dunes operations, SIGA employees responsible for performing this function did not carry out these required procedures. Staff did not complete certain daily revenue and cash verification procedures for several months and once the reconciliations were done, they did not adequately follow-up on the discrepancies found. For example, SIGA staff did not always reconcile the Dakota Dune casino’s cash transactions from

slot machines, table games, automated teller machines, ticket redemption terminals, and employee float machines to SIGA's records. These reconciliations help detect system malfunctions, tampering, or theft on a timely basis.

We expected Liquor & Gaming to have monitoring processes to ensure that Dakota Dunes staff followed the required revenue and cash reconciliation procedures to ensure all cash made it to the bank account. However, Liquor & Gaming did not have adequate monitoring processes. Because SIGA staff did not follow the required procedures, Liquor & Gaming does not know if public money went missing. As a result, we cannot determine if there was a loss of public money at Dakota Dunes Casino.

SIGA is opening a new Casino in 2009 in Swift Current. It is vital that Liquor & Gaming establish adequate processes to monitor new casino operations.

- 1. We recommend that the Liquor and Gaming Authority establish adequate processes to monitor Saskatchewan Indian Gaming Authority Inc.'s compliance with casino revenue and cash reconciliation procedures to safeguard public money at new casinos.**

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

In our 2007 Report – Volume 3, we reported that Liquor & Gaming needed to improve its employee training so that employees understand and follow approved policies and procedures. In January 2008, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

Liquor & Gaming operates 80 liquor stores in 64 communities throughout the province. In 2007-2008, Liquor & Gaming had liquor store sales of \$434 million.<sup>1</sup>

Liquor & 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 & Gaming audits liquor

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<sup>1</sup> \$434 million excludes liquor sales to franchisees.

stores to determine how well employees follow the established processes.

During the year, Liquor & Gaming’s internal auditor audited 35 liquor stores and found that employees at those stores did not always follow the established processes. There were significant recommendations made in cash handling and inventory procedures.

Employees may not follow established policies and procedures if they do not understand the reasons for them or do not have adequate training to follow the policies. The risk of loss of public money increases when employees do not follow the approved policies and procedures.

Liquor & Gaming has begun developing processes to follow-up on the internal auditor’s recommendations. For example, Liquor & Gaming’s Internal Audit Committee requested that store managers with numerous recommendations attend the Committee meeting and present their action plans to address the audit recommendations related to their stores.

We continue to recommend that the Liquor and Gaming Authority improve employee training so that employees understand and follow approved policies and procedures.

### **Compliance with approved information technology (IT) policies needed**

In our 2007 Report – Volume 3, we reported that Liquor & Gaming needs to follow its approved information technology (IT) policies and procedures. In January 2008, PAC agreed with our recommendation.

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

Liquor & Gaming receives millions of dollars in credit card sales from its liquor stores. Liquor & Gaming collects sensitive information from its customers such as credit card information but it does not adequately secure this information. For example, credit card data is not encrypted as recommended by payment card industry security standards. This lack of

security could result in unauthorized access to credit card information and increase the risk of misuse, including fraud. Liquor & Gaming is working to strengthen the security of credit card information.

We noted that employees did not always follow approved policies for removing user accounts and monitoring network security. For example, we found some former employees had access privileges to certain Liquor & Gaming information systems. When we informed Liquor & Gaming, it immediately removed this access. Delays in updating user accounts and network security increase the risk of unauthorized data disclosure, modification, or loss. Liquor & Gaming told us it has revised its processes to ensure all system access privileges are promptly removed when employees leave the organization.

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

We continue to recommend that the Liquor and Gaming Authority follow its approved information technology policies and procedures.

## **Business continuity plan needed**

Liquor & Gaming needs a written, tested, and approved business continuity plan<sup>2</sup> to help ensure that it can continue to deliver its programs and services in the event of a disaster.

Since our Spring Report 1997, we have recommended that Liquor & Gaming prepare and the Board approve a complete business continuity plan. In January 1999 and again in May 2006, PAC agreed with our recommendation.

Liquor & Gaming delivers a number of programs and services to the residents of Saskatchewan as part of its mission and 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

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<sup>2</sup> **Business Continuity Plan** is a 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.

**Chapter 14A – Liquor and Gaming Authority**

continuity plan, Liquor & Gaming is at risk of not being able to deliver its programs and services in a timely manner.

Liquor & Gaming does not yet have a complete and tested business continuity plan.

We continue to recommend that the 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>3</sup>

<b>PAC REPORT YEAR<sup>4</sup></b>	<b>OUTSTANDING RECOMMENDATION</b>	<b>STATUS</b>
<b>Liquor and Gaming Authority</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).  We plan to follow-up in 2009.
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).  We plan to follow-up in 2009.

<sup>3</sup> For the definitions of the key terms used in the table, see Chapter 21 – Standing Committee on Public Accounts.

<sup>4</sup> PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.



PAC REPORT YEAR <sup>4</sup>	OUTSTANDING RECOMMENDATION	STATUS
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).  We plan to follow-up in 2009.

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