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Main points

Saskatchewan Indian Gaming Authority Inc. (SIGA) needs to improve its supervision, training, and monitoring of its employees to ensure public resources are protected from loss due to error or fraud.

During the year, SIGA opened the Dakota Dunes Casino to the public. SIGA did not adequately train and supervise newly hired employees on how to perform established procedures over revenue from slots, table games, and ancillary operations. As a result, for several months employees did not perform established procedures to ensure that all revenue earned was received, recorded, and deposited. Because SIGA did not follow established processes to monitor revenues at the Dakota Dunes Casino, it does not know if it lost public money. Accordingly, we cannot determine if SIGA lost public money at Dakota Dunes.

SIGA needs to establish adequate processes to control its revenue in ancillary operations (i.e., gift shops, restaurants, and lounges).

SIGA also needs an improved written, tested, and approved disaster recovery plan to help ensure that it can continue to provide information technology services in the event of a disaster.

SIGA's management should review and the Board should approve an information technology strategic plan.

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 independent First Nations. Saskatchewan Liquor and Gaming Authority (Liquor & Gaming) has licensed SIGA to operate five casinos. These casinos are known as Northern Lights, Gold Eagle, Painted Hand, Bear Claw, and Dakota Dunes.

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, Bear Claw Casino is located on the White Bear First Nation, and Dakota Dunes is located on the Whitecap First Nation. 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 Agreement,¹ 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 below 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	2008	2007	2006	2005	2004
Slot operations profit	\$ 67,520	\$ 52,695	\$ 43,653	\$ 36,641	\$ 35,843
Ancillary operations loss	(6,143)	(3,091)	(2,593)	(2,354)	(1,976)
Table operations loss	<u>(1,106)</u>	<u>(767)</u>	<u>(902)</u>	<u>(332)</u>	<u>(687)</u>
Net profit	<u>\$ 60,271</u>	<u>\$ 48,837</u>	<u>\$ 40,158</u>	<u>\$ 33,955</u>	<u>\$ 33,180</u>

Background

In February 1995, the Government of Saskatchewan and the FSIN signed the 1995 Framework 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 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.

Audit conclusions and findings

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

- ◆ **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**

Controls to safeguard public resources

In our past reports to the Legislative Assembly of Saskatchewan, we made several recommendations to strengthen SIGA's processes to safeguard public resources. SIGA accepted our recommendations. We also noted that SIGA had made significant progress towards implementing those recommendations. Below, we make some new recommendations and repeat some past recommendations to strengthen SIGA's processes.

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 its employees. Second, they require management to train and supervise employees to ensure they follow the established guidance. Third, they monitor how well they are

progressing towards achieving their established goals. We provide our findings in these three areas below.

Effective guidance to employees

In our 2007 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 understand and follow the policies. SIGA has documented and communicated policies for all areas except those noted below.

Processes need improvement for ancillary operations

SIGA needs to establish adequate processes to control its ancillary operations (i.e., gift shops, restaurants, and lounges).

SIGA's losses from ancillary operations have been steadily increasing. These losses have increased from \$2 million in 2004 (revenues of \$6 million and expenses of \$8 million) to \$6.1 million in 2008 (revenues of \$13.1 million and expenses of \$19.2 million). Therefore, it is critical that SIGA closely monitor these operations to ensure it receives and properly records all revenues and that it adequately safeguards public resources.

SIGA does not have documented processes to set selling prices for ancillary items. Like other casino operators, for marketing purposes, SIGA sometimes sets selling prices for ancillary items that result in a loss. In those cases, SIGA must document the support for setting the sales prices and management's approval. We found SIGA employees set sales prices without supporting documentation or evidence of management approval.

- 1. We recommend that the Saskatchewan Indian Gaming Authority Inc. establish adequate processes to control its ancillary operations.**

Information technology (IT) strategic plan needs improvement

In past reports, we recommended that management review and the Board approve an information technology strategic plan.

In February 2008, SIGA's Board approved an IT strategic plan. However, that plan does not have all of the key elements of a good IT strategic plan.

An adequate IT strategic plan includes:

- ◆ an analysis of the current IT environment including external forces, trends, strengths, weaknesses, etc.
- ◆ an assessment of its key threats and risks
- ◆ goals, objectives, action plans, and targets
- ◆ long-term planning including significant projects and expected use of technology
- ◆ estimated resources required to carry-out the plan including financial resources and human resources.

SIGA's approved IT strategic plan does not contain an analysis of its current environment, an assessment of its key threats and risks, long-term planning, and estimated resources required to carry out the plan.

The Standing Committee on Public Accounts (PAC) considered this matter in 2006 and agreed with our recommendation.

We continue to recommend that SIGA's management review and the Board approve an information technology strategic plan.

Disaster recovery plan needed

SIGA needs a written, tested, and approved disaster recovery plan (DRP)² to help ensure that it can continue to provide IT services in the event of a disaster.

SIGA places significant reliance on its IT systems to operate. Without an adequate DRP, SIGA is at risk of not being able to provide its IT services in a timely manner. Therefore, it may be at risk of being unable to operate its casinos. SIGA also needs to assess the requirement for a business continuity plan (BCP) by completing a threat and risk assessment. A BCP

² **Business Continuity Plan (BCP)** - Plan by an organization to respond to unforeseen incidents, accidents, or disasters that could affect the normal operations of the organization's critical operations or functions.

Disaster Recovery Plan (DRP) - Plan by an organization to respond to unforeseen incidents, accidents or disasters that could affect the normal operation of a computerized system (also known as a **Contingency Plan**). A DRP or contingency plan is only one component of a Business Continuity Plan.

would help SIGA recover critical business functions in the event of a disaster.

A good business continuity plan must:

- ♦ have management support including making the required resources available to create and maintain the business continuity plan
- ♦ be based on a threat and risk assessment including identifying and ranking SIGA's critical functions
- ♦ set out the plan activation and notification procedures, emergency procedures that would be used in the event of a disaster, and steps for the recovery and restoration of key programs and services
- ♦ be documented, approved by management, and easily accessible when the plan needs activation
- ♦ be tested initially and on an ongoing basis
- ♦ set out policies for ongoing maintenance and updating of the plan

SIGA does not have a complete and tested DRP or a BCP. One of SIGA's main gaming systems is operated by an outside service provider that does have an adequate DRP. SIGA's reliance on IT systems for other critical functions is increasing. This makes the need for an adequate DRP and BCP more critical.

2. **We recommend that the Saskatchewan Indian Gaming Authority Inc. prepare a complete disaster recovery plan and assess the need for a business continuity plan.**

Training and supervision of employees

In our 2007 Report – Volume 3 and our prior reports, we said SIGA must train and supervise its employees so that they follow SIGA's established processes to safeguard public resources. SIGA has made progress towards ensuring that its employees follow its established policies. However, it needs to do more in the areas described below.

New casino operations

SIGA needs to provide adequate guidance to employees about performing their duties. When employees do not have adequate training

and clear, documented guidance, there is a risk that they may not do their tasks as expected or may not do them at all. With new casino operations, the risk of employees not following established processes increases because many of the employees are new to the agency. Therefore, SIGA needs to provide adequate training and closely supervises new employees to ensure they follow SIGA's established processes.

In August 2007, the Dakota Dunes Casino opened to the public. SIGA hired employees prior to the opening of the casino. SIGA provided some training to those employees on SIGA's established processes. However, the training and ongoing supervision were not adequate. Employees did not follow the established processes and did not clearly understand the reasons for them. Failure to follow proper processes put SIGA at risk of loss of public money. The risk of loss is higher in the gaming industry because the majority of transactions are in cash.

To reduce the risk of loss of public money, SIGA has established processes requiring certain employees who do not have duties related to the casino operations to verify daily that all money is received, recorded, and deposited. The employees responsible to do this function did not carry out the required procedures. Also, management did not provide adequate supervision to ensure that employees were doing the required procedures.

For example, employees did not complete certain daily revenue verification procedures for several months. Also, after the employees completed the procedures, they either did not or were unable to adequately follow up on discrepancies found. In some cases, they were unable to complete the verification procedures because other employees in the ancillary operations area did not provide complete and accurate documentation of transactions.

As well, employees did not adequately complete other revenue verification procedures. For example, they did not always agree (reconcile) transactions from the automated teller machines, ticket redemption terminals,³ and the employees' cash floats to SIGA's records. These reconciliations help identify system malfunctions, tampering, or potential theft quickly.

³ Ticket redemption terminals are machines that allow patrons to receive cash for their slot machine winnings.

Because SIGA did not follow established processes to monitor revenues at the Dakota Dunes Casino, it does not know if it lost public money. As a result, we cannot determine if SIGA lost public money at Dakota Dunes.

- 3. We recommend that the Saskatchewan Indian Gaming Authority Inc. provide adequate training and supervision to employees at new casinos on established processes to safeguard public money.**

Compliance with policies needed

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. We also recommended that SIGA establish rules and procedures to ensure that employees comply with established policies. PAC considered these matters in 2003 and agreed with the recommendations. SIGA has made progress towards implementing those recommendations.

We describe below the areas where SIGA's accounting records did not reflect its business operations, transactions lacked proper support, and employees did not comply with approved policies.

Marketing and promotion

In 2008, SIGA spent approximately \$14.2 million (2007 - \$7.3 million) for marketing and promotion.

SIGA requires employees to maintain adequate records of complimentary items they give to patrons (who received the item and why). SIGA also requires management to periodically review and approve these records. SIGA casinos did not maintain adequate records of these items. Also, there was no evidence that management approved the records as required by the policies.

Accounting

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

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) often arise from unintentional human errors and/or machine errors. To ensure employees properly monitor, follow up, and resolve all cash overages/shortages, such organizations establish processes to ensure overages/shortages are not intentional.

SIGA requires its department managers to monitor cash overages/shortages. SIGA has improved its monitoring of overages/shortages in certain departments. However, it needs to improve its processes relating to its ancillary operations. For example, SIGA does not have documented thresholds setting out which overages/shortages need explanation. We found that employees did not always fully explain the cash overages/shortages. Also, there was no evidence that department managers were monitoring the overages/shortages on a regular basis and taking appropriate action where required to reduce employee theft.

SIGA requires employees to periodically count its 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 that SIGA establish policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions.

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

Building human resource capacity

In our 2003 Report – Volume 3, we examined SIGA's processes to build human resource capacity. PAC considered these matters in 2004 and agreed with our recommendations. In our 2006 Report – Volume 3, we followed up on our recommendations in this area and reported that two recommendations were not fully addressed.

Below, we describe the progress that SIGA has made in addressing those recommendations.

Complete and implement a human resource plan

In 2006 and 2007, 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 regularly analyzes turnover within each of its departments to project future human resource needs. In 2007, SIGA surveyed its employees 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 and 2007, 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, the Board reports did not include information on the actual costs of the training or the effectiveness of these training activities.

Currently, the Board receives information on planned and actual training activities throughout the year. It also receives information that provides

some indication of the effectiveness of the training activities. This information includes reports on compliance with policies, employee turnover, and employee satisfaction.

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

