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Main points

Liquor and Gaming Authority (Liquor & Gaming) is responsible for Saskatchewan Indian Gaming Authority Inc.'s (SIGA) spending. It approved the construction of SIGA casinos at Swift Current and Yorkton.

SIGA had adequate project management processes for the construction of the Living Sky Casino and the Painted Hand Casino except SIGA needs to:

- ◆ approve construction capital management policies for major construction projects
- ◆ develop and approve risk plans before starting major construction projects
- ◆ establish dispute resolution processes with its key partners before starting major construction projects

Liquor & Gaming continues to make progress in implementing our 2006 Report – Volume 1 recommendations to strengthen its processes to encourage responsible use of beverage alcohol but needs to do more. It needs to prepare a complete plan, including performance measures and targets, to evaluate its performance in encouraging the responsible use of beverage alcohol.

Liquor & Gaming has made progress in implementing our 2006 Report – Volume 3 recommendations to improve its succession planning processes. However, it still needs to document and communicate potential competency gaps and document and monitor the progress of its succession strategies.

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 Saskatchewan Indian Gaming Authority Inc. (SIGA) casinos.

We reported the results of our audits of Liquor & Gaming and SIGA for the year ended March 31, 2008 in our 2008 Report – Volume 3. This chapter describes the results of our audit of SIGA’s project management processes for the Living Sky Casino and the Painted Hand Casino projects. It also includes our Liquor & Gaming follow-ups on recommendations to strengthen its processes to encourage responsible use of beverage alcohol and recommendations to improve its succession planning processes that we made in previous reports.

SIGA’s project management processes

SIGA is a non-profit corporation established by the Federation of Saskatchewan Indian Nations (FSIN) to operate casinos. SIGA operates five casinos under the 2002 Framework Agreement between the FSIN and the Government. Under the Agreement, SIGA has the sole right to establish casinos in Swift Current and Yorkton until 2027.

Living Sky Casino (Swift Current)

In October 2004, Liquor & Gaming approved SIGA’s plan to establish a casino on the Nekanee First Nation in Swift Current. In early 2006, SIGA signed an agreement with FHQ Casino Holdings Limited Partnership (FHQ Holdings)¹ for the development and lease of the new casino. The agreement requires FHQ Holdings to construct a building shell (i.e., a base building without any interior finishing) and then lease the land and building to SIGA. SIGA is responsible to complete the interior finishing necessary for a casino operation. Under the agreement, SIGA agreed to pay FHQ Holdings at least \$9 million of the base building construction costs. These costs will be excluded when calculating the lease payments SIGA would pay to FHQ Holdings.

¹ FHQ is owned by the File Hills Qu’Appelle Tribal Council.

Under the agreement, on the second month after the building shell is completed, SIGA will commence lease payments to FHQ Holdings until June 10, 2027. The lease payments give FHQ Holdings a rate of return per year that is equal to the long-term Government of Canada bond rate in effect when the lease payments commence plus 9%.

SIGA's Board of Directors and Liquor & Gaming approved a budget of \$36.25 million for the base building and interior finishing. During construction, the SIGA board and Liquor & Gaming approved a \$1.25 million increase in the total budget due to unanticipated cost increases for stage equipment bringing the total revised budget to \$37.5 million.

Work on the casino began in May 2007. SIGA planned to complete construction by the end of November 2008 and to open the casino on December 29, 2008. The casino opened on time and was completed within the amended budget.

Painted Hand Casino (Yorkton)

In December 2005, Liquor & Gaming approved SIGA's plan to build a new casino to be located on the Kahkewistahaw First Nation in Yorkton. SIGA signed an agreement with PHC Holdings Limited Partnership (PHC Holdings)² for the development and lease of the new casino. The agreement provides for PHC Holdings to construct a building shell (i.e., a base building before any interior finishings) and then lease the land and building to SIGA. SIGA is responsible to complete the interior finishing necessary for a casino operation. Under the agreement, SIGA agreed to pay PHC Holdings an amount by which the direct construction costs on the base building exceed \$12 million. These costs will be excluded when calculating the lease payments to be paid by SIGA to PHC Holdings.

On the second month after the building shell is completed, SIGA will commence lease payments to PHC Holdings until June 10, 2027. The lease payments are set to provide PHC Holdings a rate of return per year that is equal to the long-term Government of Canada bond rate in effect when the lease payments commence plus 9%.

² PHC Holdings is owned by the Yorkton Tribal Council.

SIGA's Board of Directors and Liquor & Gaming approved a budget of \$29.9 million for the base building and interior finishing. Work on the casino project site began in November 2007. SIGA expected to complete construction by the end of December 2008 and to open the casino on February 18, 2009. SIGA completed the project within budget. The new casino opened on March 12, 2009, three weeks behind schedule.

We assessed whether SIGA had adequate project management processes for these significant projects. We wanted to know if SIGA had adequate processes to complete these projects 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.

Audit objective and criteria

The objective of this audit was to assess whether SIGA had adequate project management processes for the construction of the Living Sky Casino and the Painted Hand Casino for the period from May 1, 2007 to September 30, 2008.

We followed *The 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.

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. In 2007, we used these criteria for the audit of the construction processes SIGA used for the construction of its Dakota Dunes Casino.

To have adequate project management processes for the Living Sky Casino and Painted Hand Casino projects, 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.

Audit conclusions and findings

SIGA had adequate project management processes for the Living Sky Casino and Painted Hand Casino projects for the period from May 1, 2007 to September 30, 2008 except for the matters covered by our recommendations below.

- 1. We recommend the Board of Directors of the Saskatchewan Indian Gaming Authority Inc. approve policies for managing major construction projects.**
- 2. We recommend the Saskatchewan Indian Gaming Authority Inc. develop and approve risk plans before starting major construction projects.**

We also continue to recommend the Saskatchewan Indian Gaming Authority Inc. establish dispute resolution processes with its key partners before starting major construction projects. In June 2007, the Standing Committee on Public Accounts agreed with this recommendation.

Key findings by criterion

In this section, we describe what we expected (*in italics*) and our key findings.

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 projects except that the Board had not approved SIGA's draft capital project management policies. Nor had the Board established formal dispute resolution processes with its project partners, FHQ Holdings and PHC Holdings.

SIGA's management drafted capital project management policies, but the Board had not yet approved them. SIGA followed the draft policies to build the two casinos.

SIGA's agreements with FHQ Holdings and PHC Holdings (project partners) set out the overall responsibilities and financial obligations of each party for the projects. SIGA used regular communications and project team meetings with the project partners to ensure that both parties understood and accepted these responsibilities. However, the agreements with the partners do not include a process for resolving disputes. The agreements cover both the construction and long-term lease of the facilities. Absence of a formal dispute resolution process

increases the risk of delays in completion of the projects 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 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 projects except the Board did not approve risk plans for the projects before they began.

SIGA held regular meetings with the construction manager and representatives from the project partners to monitor the projects. These meetings provided a status update as to various aspects of the projects including the timelines, budgets, and project specifications.

SIGA's management established a risk plan for the Living Sky Casino project that set out the project's risks, who was responsible for managing each risk, and the planned actions to mitigate the risks. Management monitored the project's risks and reported regularly to the Board any changes in risks and how it managed the changes. However, the Board did not formally approve the risk plan.

SIGA's management informally identified the risks associated with the Painted Hand Casino project but did not develop a written plan to mitigate those risks. Management monitored the project's risks and reported regularly to the Board any changes in risks and how it managed the changes.

Address concerns

To ensure that potential problems on the project were 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 manage potential problems on the projects except as described earlier, the Board did not approve risk plans for the projects.

To ensure the project continued as planned, SIGA's management identified key risks and action plans to address them. When management determined that identified risks were above an acceptable level, it prepared a plan setting out actions needed to address the risks including any project change requests.

For example, SIGA determined that meeting the construction project schedule was a key risk. SIGA's strategies to reduce this risk included regular progress meetings with the construction manager, the architects, contractors, and the project partners. When the projects incurred any significant delays, SIGA and the construction manager developed revised construction project schedules. SIGA also regularly reported to the Board on construction progress by including revised construction project schedules and reasons for differences between planned and actual results.

Selected references

Duncan, W.R. (1996). *A guide to project management body of knowledge*. Charlotte, N.C.: Project Management Institute.

Provincial Auditor Saskatchewan. (1999). "Chapter 1C - Toward 2000" in *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan: 1999 Fall Report – Volume 2*. Regina: Author.

Provincial Auditor Saskatchewan. (2007). "Chapter 17 Part B - Saskatchewan Indian Gaming Authority Inc. – Project management processes – Dakota Dunes" in *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan: 2007 Report – Volume 3*. Regina: Author.

Follow-ups of previous recommendations

Processes to encourage responsible use of beverage alcohol

Under *The Alcohol and Gaming Regulation Act, 1997 (Act)*, Liquor & Gaming is responsible for the regulation and control of beverage alcohol in Saskatchewan. The Act also authorizes Liquor & Gaming to develop, promote, or support activities or programs designed to encourage responsible alcohol consumption. Balancing the responsible use of beverage alcohol with generating revenue for the Government presents a challenge.

In 2007-08, Liquor & Gaming generated net revenue from liquor sales of \$233.3 million. Liquor & Gaming's performance plan for 2008-09 states that Liquor & Gaming's mission is to distribute, manage, operate, and regulate liquor in ways that promote fairness and fiscal and social responsibility. Liquor & Gaming is one of several government and non-government agencies that play a role in reducing alcohol misuse. As the regulator and principal distributor and retailer of alcohol, Liquor & Gaming needs to play a significant role in encouraging the responsible use of alcohol.

Our past work and recommendations

In 2005, we assessed the adequacy of the processes Liquor & Gaming used to encourage responsible alcohol use. We reported the results of our audit in our 2006 Report – Volume 1 and made three recommendations to help improve Liquor & Gaming's processes for encouraging responsible use of beverage alcohol.

We recommended that Liquor & Gaming:

- ◆ Formally assign responsibility for encouraging responsible use of beverage alcohol
- ◆ Prepare a complete plan for encouraging responsible use of beverage alcohol
- ◆ Continue to research and develop performance measures and targets to evaluate its performance in encouraging responsible use of beverage alcohol

In October 2006, the Standing Committee on Public Accounts agreed with these recommendations.

Our follow-up

In February 2009, we assessed how well Liquor & Gaming has addressed our recommendations. We describe below what Liquor & Gaming has done for each of the three recommendations.

Formally assign responsibility

We recommended the Liquor & Gaming Authority formally assign responsibility for encouraging responsible use of beverage alcohol.

We made this recommendation because Liquor & Gaming had not formally assigned the responsibility for managing activities that encourage responsible use. This is a necessary step in the implementation of focused activities aimed at encouraging responsible use of beverage alcohol.

Liquor & Gaming has implemented this recommendation. It has formally assigned responsibility for encouraging responsible use of beverage alcohol to the Policy and Planning division. To help carry out this responsibility, the Vice President of Policy and Planning is the chair of the Social Responsibility Committee (Committee). As set out in the Committee's terms of reference, the Committee's role is to monitor and promote social responsibility initiatives that are consistent with Liquor & Gaming's mission, "to distribute, control, and regulate liquor and gaming

products throughout Saskatchewan in ways that promote fairness and fiscal and social responsibility.” To fulfill this role, the Committee is responsible for developing and submitting social responsibility plans, policies, and annual initiatives to Liquor & Gaming’s Management Committee for approval. Also, the Committee is responsible for overseeing the implementation of Liquor & Gaming’s social responsibility strategies respecting alcohol and gaming products.

Prepare a complete plan

We recommended the Liquor & Gaming Authority prepare a complete plan for encouraging responsible use of beverage alcohol.

We made this recommendation because Liquor & Gaming had gathered information about planned activities for encouraging responsible use but did not consistently identify who was responsible for what activity, set key milestone dates, or develop measures and targets for encouraging responsible use.

Liquor & Gaming has made progress on this recommendation as it has drafted a Social Responsibility Plan. The plan identifies activities and sets key milestone dates for encouraging responsible use. Liquor & Gaming still needs to develop and include in its plan performance measures and targets to help it evaluate its success in encouraging responsible use of beverage alcohol.

We continue to recommend the Liquor & Gaming Authority prepare a complete plan for encouraging responsible use of beverage alcohol.

Research and develop performance measures and targets

We recommended the Liquor & Gaming Authority continue to research and develop performance measures and targets to evaluate its performance in encouraging responsible use of beverage alcohol.

We made this recommendation because Liquor & Gaming reported performance related to social responsibility by describing inputs and activities, rather than reporting results or outcomes.

Liquor & Gaming has been monitoring the availability of suitable social responsibility measures from other sectors and organizations that would help it measure the outcomes of its activities. The Social Responsibility Committee at Liquor & Gaming has an annual discussion about the development of suitable performance measures, but it has yet to identify performance measures that will allow Liquor & Gaming to report results and outcomes in relation to its success in meeting its social responsibility objectives.

Liquor & Gaming told us it finds it challenging to identify and develop performance measures and targets for promoting social responsibility because these initiatives focus on modifying human behaviour. However, without performance measures that report on results and outcomes, it is difficult for Liquor & Gaming to assess achievement of its goals related to encouraging responsible use of beverage alcohol.

We continue to recommend the Liquor & Gaming Authority continue to research and develop performance measures and targets to evaluate its performance in encouraging responsible use of beverage alcohol.

Succession planning

Succession planning is part of overall human resource planning. It addresses the risk of changing demographics, the unpredictability of workforce impacts such as short and long-term leaves of absence, and increasing competition for human resources. Effective agencies use succession planning to help them ensure they have the right people, with the right skills, at the right time. It is a process requiring attention from legislators, managers, and employees and should not be left solely to the human resource function.

Succession planning requires an agency to assess its key competency needs based on its long-term strategic direction. Key competencies needed to sustain an agency include management, operational, technical, administrative, and leadership knowledge and skills. Untimely loss of key employees may create weak links in critical systems and significantly affect the ability of an agency to achieve its objectives.

Succession planning at Liquor & Gaming is needed to ensure an effective workforce is ready to assist the agency to achieve its objectives. Without

employees with the required skills, Liquor & Gaming's risk of not achieving its objectives increases. To ensure an effective workforce, Liquor & Gaming needs to recruit and retain people with the required skills and create opportunities for employee career development. Also, Liquor & Gaming is responsible to build a representative workforce and engage youth in the workplace.

Our past work and recommendations

In 2006, we assessed whether Liquor & Gaming had adequate succession planning processes. We reported the results of our audit in our 2006 Report – Volume 3 and made three recommendations to help improve Liquor & Gaming's succession planning processes.

We recommended that Liquor & Gaming:

- ◆ Establish a process to document and communicate potential competency gaps
- ◆ Document employees' career goals and action plans as part of its staff performance and development process
- ◆ Document and monitor the progress of its succession strategies

In June 2007, the Standing Committee on Public Accounts agreed with these recommendations.

Our follow-up

In December 2008, we assessed how well Liquor & Gaming has addressed our recommendations. We describe below the progress Liquor & Gaming has made on each of the three recommendations.

Document and communicate potential competency gaps

We recommended the Liquor & Gaming Authority establish a process to document and communicate potential competency gaps.

We made this recommendation because Liquor & Gaming had informally identified organizational competency gaps but needed to complete its

assessments and documentation of future competency needs, formally document potential gaps, and determine how to address those gaps.

At December 31, 2008, Liquor & Gaming had completed the core competency profiles for 94% of its positions. These core competency profiles are available to all employees through Liquor & Gaming's internal website. Employees use these core competency profiles to identify the competency gaps between their current position and their desired position within Liquor & Gaming. This process helps employees identify the competencies that they need to achieve their career goals at Liquor & Gaming.

Liquor & Gaming, however, needs to do more work to fully implement the recommendation. Liquor & Gaming needs to identify and monitor the competency gaps that exist within the organization and communicate these gaps to its employees. Without this process, Liquor & Gaming may not fully achieve its goals and objectives.

We continue to recommend the Liquor & Gaming Authority establish a process to document and communicate potential competency gaps.

Document employees' career goals and action plans

We recommended the Liquor & Gaming Authority document employees' career goals and action plans as part of its staff performance and development process.

We made this recommendation because Liquor & Gaming did not always document employees' career goals and action plans or discussions with employees about their career interests and goals.

Liquor & Gaming has implemented this recommendation. At the beginning of the year, employees along with their managers identify their career goals, competency gaps, and develop training plans to address the gaps. At the end of the year, the employees and their managers discuss and document the progress made.

Document and monitor progress of succession strategies

We recommended the Liquor & Gaming Authority document and monitor the progress of its succession strategies.

We made this recommendation because Liquor & Gaming needed to fully document and monitor progress of succession strategies.

Liquor & Gaming does not have a documented and approved succession strategy that addresses key organizational positions. It has identified future retirements and a competitive labour market as key risks, developed a general strategy for mitigating these risks, and as described above, developed core competency profiles for employee positions. However, for its succession strategy to be effective, Liquor & Gaming needs to develop succession strategies for its key positions and regularly monitor its progress at having the right employees with the right skills to meet its strategic objectives.

We continue to recommend the Liquor & Gaming Authority document and monitor the progress of its succession strategies.