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Main points

Liquor and Gaming Authority (Liquor & Gaming) needs to improve its oversight of SIGA's operations. Without effective oversight, Liquor & Gaming does not know if SIGA is complying with agreed upon policies and procedures to safeguard public money from loss due to errors or fraud.

At two casino's, SIGA lost \$1.2 million in public money due to an alleged fraud by one of its service providers for automated teller machines (ATMs). SIGA did not detect this loss quickly because it did not follow agreed upon banking procedures. When SIGA does not follow agreed upon policies and procedures, Liquor & Gaming needs to recover losses from the First Nations Trust Fund.

Liquor & Gaming is responsible for regulating gaming activities in the Province. It must have adequate policies and procedures to help ensure the integrity (fairness and legality) of gaming activities. Liquor & Gaming needs to improve its monitoring of video lottery terminals and table games. It also needs to register the service providers of ATMs at casinos. Registration would help ensure services are provided by reputable suppliers and thereby reduce the risk of loss of public money.

Liquor & Gaming has made good progress but more is needed on improving 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) is a Crown agency that 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's) 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 six 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 the policies and procedures that Liquor & Gaming approves for casino operations. 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 accepts as appropriate. Liquor & Gaming includes slot machine revenues and expenses in its financial statements.

In 2008-09, Liquor & Gaming had revenues of \$968 million, expenses of \$533 million, and net income of \$435 million. At March 31, 2009, Liquor & Gaming held total assets of \$161 million and had a deficit of \$13.8 million. Liquor & Gaming's Annual Report 2008-09 includes its financial statements.

Audit conclusions and findings

In our opinion, for the year ended March 31, 2009:

- ◆ **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 except for the matters described in this chapter**
- ◆ **Liquor & Gaming’s financial statements are reliable**

We have not completed our assessment of Liquor & Gaming’s liability, if any, for the Western Canada Lottery Corporation—Saskatchewan Division’s defined benefit pension plan.

Continual monitoring of SIGA operations needed

Under the Casino Operating Agreement (Agreement), the revenues from the slot machines in SIGA’s casinos belong to Liquor & Gaming. SIGA’s expenses reduce Liquor & Gaming’s income from slot machine revenues. Accordingly, Liquor & Gaming is exposed to SIGA’s operating risks. The Agreement allows Liquor & Gaming to set SIGA’s operating policies to safeguard public money and to determine what expenses SIGA can deduct from slot machine revenues. If SIGA incurs improper expenses, Liquor & Gaming recovers the amount of the expenses from the First Nations Trust Fund. Inappropriate expenses are those that do not have adequate support, do not comply with approved policies, or are losses that result from SIGA not complying with approved policies.

Monitoring compliance with operating policies needed

Liquor & Gaming needs to better monitor SIGA’s compliance with approved operating policies.

Liquor & Gaming assessed SIGA’s compliance with its key operating policies such as payroll, marketing, and Board expenses from April 1, 2008 to September 30, 2008. However, at the time of our audit, Liquor & Gaming had not assessed SIGA’s compliance with these policies for the period from October 1, 2008 to March 31, 2009. As a result, Liquor & Gaming does not know if any of SIGA’s expenses were inappropriate for this period and if it needs to recover money from the First Nations Trust Fund.

In addition, Liquor & Gaming did not assess SIGA's compliance with approved operating policies on bank deposits and bank reconciliations. During the year, SIGA did not follow these policies. It did not reconcile bank accounts to bank deposits daily and it did not do its monthly bank reconciliations promptly. SIGA reconciled its bank accounts to deposits during its monthly bank reconciliations. SIGA reconciled the October bank records in late March and the February bank records in late April.

If SIGA had followed its policies on bank deposits and bank reconciliations, SIGA would have detected earlier the \$1.2 million loss of public money from automated teller machines (ATMs) and thereby reduced the loss. Chapter 14B describes the result of our investigation of SIGA's loss of public money from ATMs.

- 1. We recommend the Liquor and Gaming Authority establish a risk based process to assess Saskatchewan Indian Gaming Authority Inc.'s compliance with approved operating policies.**
- 2. We recommend the Liquor and Gaming Authority take steps to recover losses of public money from automated teller machines at Saskatchewan Indian Gaming Authority Inc.'s casinos.**

Liquor & Gaming told us that it had planned to rely on the work of SIGA's internal auditor in assessing compliance with payroll, marketing, and Board expense policies for the October 1, 2008 to March 31, 2009 period. However, SIGA's internal auditor did not do this work. Liquor & Gaming now plans to directly audit SIGA's compliance with these operating policies to determine if SIGA's expenses are appropriate and properly supported. This audit will cover the period October 1, 2008 to September 30, 2009.

Controls over slot revenues needed

Liquor & Gaming needs to promptly verify the completeness and accuracy of slot machine revenues remitted by SIGA.

Under the Casino Operating Agreement, SIGA is required to remit half of the weekly slot machine revenues to Liquor & Gaming within seven days and to remit the rest within 180 days.

Liquor & Gaming verifies the completeness and accuracy of these remittances annually, at March 31. This annual verification is not timely to prevent and detect errors in Liquor & Gaming's financial records. For example, our audit of Liquor & Gaming found that SIGA remitted \$1.2 million more in slot machine revenues for first part of the 2009-10 fiscal year. Liquor & Gaming's annual verification would not have detected this error until March 31, 2010.

- 3. We recommend the Liquor and Gaming Authority promptly verify Saskatchewan Indian Gaming Authority Inc.'s remittances of slot machine revenues.**

Regulating and monitoring provincial gaming activities

Liquor & Gaming is responsible for regulating all gaming activities in the Province. It also operates video lottery terminals and it owns and manages the slot machines in SIGA's casinos. Liquor & Gaming must have adequate monitoring controls to help ensure integrity (fairness and legality) of gaming activities throughout the Province.

Better monitoring of VLT's needed

Liquor & Gaming needs to implement processes for monitoring hold percentages¹ from video lottery terminals (VLTs).

Liquor & Gaming has developed and approved gaming integrity standards for the Province for both VLTs and slot machines. It has implemented adequate processes for verifying and monitoring hold percentages from slot machines in accordance with these standards. However, it does not verify and monitor VLT hold percentages. As a result, it does not know if the actual hold percentages for VLTs comply with its gaming integrity standards. The lack of adequate oversight increases the risk of patrons losing confidence in the integrity of gaming activities.

- 4. We recommend the Liquor and Gaming Authority establish adequate rules and procedures to verify that video lottery terminals (VLTs) hold percentages are in accordance with gaming integrity standards.**

¹ Hold percentage – is the portion of the money played that is kept by the gaming operator.

Liquor & Gaming told us that it is implementing controls to verify the hold percentages on VLTs.

Better monitoring of table games needed

Liquor & Gaming needs to improve its processes for monitoring hold percentages² from table games.

Liquor & Gaming approves all table games operating in the Province and the expected hold percentages for table games based on industry standards. It receives regular reports from the casinos on the actual hold percentages compared to the expected hold percentages for each table game. However, Liquor & Gaming does not require casino operators to provide written explanations when the actual hold percentages significantly differ from the expected hold percentages. In addition, Liquor & Gaming does not have policies requiring staff to document why table games do not fall within the expected hold percentages.

As a result, Liquor & Gaming can not demonstrate that actual hold percentages from table games comply with its gaming integrity standards.

- 5. We recommend the Liquor and Gaming Authority establish policies and procedures to document the reasons for differences between table game hold percentages and the expected limits.**

Registration of ATM suppliers needed

Liquor & Gaming needs to register casino ATM suppliers.

Liquor & Gaming regulates all gaming in the province. It also operates the VLTs and the slot machines in SIGA's casinos. As a regulator and as an operator, Liquor & Gaming needs to ensure that individuals and organizations that work and provide services to the industry are reputable.

Liquor & Gaming requires all persons who work in the industry to be registered. It also requires the registration of all suppliers of gaming services.

² Hold percentage – is the portion of the money played that is kept by the gaming operator.

Liquor & Gaming does not require the registration of casino ATM suppliers. Because casino operators put public money into the ATMs located at casinos, Liquor & Gaming should register these suppliers. Registration would help reduce the risk of loss of public money.

6. We recommend the Liquor and Gaming Authority register the casino automated teller machine (ATM) service providers.

Employees need better training and guidance

Since our 2007 Report – Volume 3, we have recommended that Liquor & Gaming needs to improve 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 79 liquor stores in 64 communities throughout the province. In 2008-2009, Liquor & Gaming had liquor store sales of \$477 million.³

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 stores to determine how well employees follow the established processes. It then makes recommendations for improvement.

During the year, Liquor & Gaming audited 25 liquor stores and found that employees at those stores did not always follow the established processes. The number of recommendations Liquor & Gaming made for the stores it audited is lower than previous years. Liquor & Gaming is making progress. Significant recommendations remain regarding cash handling and inventory procedures.

Employees do not follow established policies and procedures when they do not understand the reasons for them and/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.

³ \$477 million excludes liquor sales to franchisees.

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

Since our 2007 Report – Volume 3, we have recommended 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. We found that sensitive information that is collected from customers, such as credit card information, is not adequately secured. 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 for committing fraud. Liquor & Gaming continues to work on a project to strengthen the security of credit card information.

We noted that employees did not always follow the approved policies for removing user access privileges and monitoring network security. For example, some former employees and consultants had access privileges to certain Liquor & Gaming information technology systems. Liquor & Gaming also needs to monitor network security alerts. These alerts help agencies detect and react to security threats quickly.

Delays in updating user accounts and failure to monitor network security increase the risk of unauthorized data disclosure, modification, or loss.

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

Business continuity plan needed

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 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.