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## Main points

Saskatchewan Indian Gaming Authority Inc. (SIGA) needs to improve its training and supervision of its employees to protect public money from loss due to error or fraud. SIGA also needs to complete and implement its human resources plan to ensure its employees have the appropriate competencies.

SIGA needs to prepare an information technology strategic plan. SIGA also needs a complete 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.

In May 2009, we became aware of a possible loss of public money by an ATM supplier. We investigated this matter to determine the amount of the loss and identify the conditions that allowed the loss of public money to occur and remain undetected for three months.

SIGA incurred a loss of public money of about \$1.2 million. SIGA needs to:

- ◆ provide effective direction to its employees
- ◆ use sound employee hiring and retention practices
- ◆ mitigate the risk of loss of public resources

## 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 six casinos. These casinos are known as Northern Lights, Gold Eagle, Painted Hand, Bear Claw, Dakota Dunes, and Living Sky.

All casinos are located on First Nation reserves<sup>1</sup>. 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, Dakota Dunes is located on the Whitecap First Nation, and Living Sky is located in Swift Current. These casinos provide table games, slot machines, and other hospitality services (ancillary operations) to the public.

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,<sup>2</sup> 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.

Table 1 summarizes the results of SIGA's casino operations. The casino operations include slot machines, table games, and ancillary (i.e., gift

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<sup>1</sup> Living Sky Casino has applied to the Federal Government for urban reserve status.

<sup>2</sup> 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.

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**

<b>Segment</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Slot operations profit	\$ 78,685	\$ 68,355	\$ 52,695	\$ 43,653	\$ 36,641
Ancillary operations loss	(9,399)	(6,143)	(3,091)	(2,593)	(2,354)
Table operations loss	<u>(2,066)</u>	<u>(1,106)</u>	<u>(767)</u>	<u>(902)</u>	<u>(332)</u>
Distributable net profit	67,220	61,106	48,837	40,158	33,955
Unrealized loss on interest rate swaps	<u>(7,346)</u>	<u>(3,014)</u>	<u>---</u>	<u>---</u>	<u>---</u>
<b>Net profit</b>	<b><u>\$ 59,874</u></b>	<b><u>\$ 58,092</u></b>	<b><u>\$ 48,837</u></b>	<b><u>\$ 40,158</u></b>	<b><u>\$ 33,955</u></b>

## 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. The Agreement was amended in June 2007.

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. The Agreement was amended in June 2007.

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 agencies funded by the First Nations Trust Fund bear the cost when SIGA incurs expenses that are not in accordance with approved policies and directives.

We audit SIGA for the Legislative Assembly because SIGA handles public money for Liquor & Gaming.

## Audit conclusions and findings

To form our opinions, our Office worked with SIGA's appointed auditor, Deloitte & Touche LLP. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.<sup>3</sup>

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

- ◆ **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 financial statements are reliable**

We also report the results of our investigation into the loss of public money.

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<sup>3</sup> To view this report, see our website at [www.auditor.sk.ca/rrd.html](http://www.auditor.sk.ca/rrd.html).

## 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. Below, we make some new recommendations and repeat some past recommendations to strengthen SIGA's processes.

Well-performing agencies do three things to have effective controls to safeguard public resources. First, their management provides effective guidance to its employees. Second, they require management to train and supervise employees' compliance with 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 2008 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. SIGA has documented and communicated policies for all areas except those noted below.

#### ***Information technology (IT) strategic plan needs improvement***

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

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

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.

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.

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

### ***Disaster recovery plan needed***

In our 2008 Report – Volume 3, we recommended that SIGA prepare a complete disaster recovery plan and assess the need for a business continuity plan. SIGA needs a written, tested, and approved disaster recovery plan (DRP)<sup>4</sup> to help ensure that it can continue to provide IT services in the event of a disaster.

PAC considered this matter in March 2009 and agreed with our recommendation.

SIGA places significant reliance on its IT systems to operate. One of SIGA's main gaming systems is operated by an outside service provider that does not have an adequate DRP. SIGA's reliance on IT systems for other critical functions is increasing. This makes the need for an adequate DRP more critical. 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 would help SIGA recover critical business functions in the event of a disaster.

We continue to recommend that SIGA prepare a complete disaster recovery plan and assess the need for a business continuity plan.

## **Training and supervision of employees**

In our 2008 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 not made adequate progress towards ensuring that its employees follow its established

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<sup>4</sup> **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. A DRP is only one component of a business continuity plan.

policies. This contributed to a loss of \$1.2 million of public money during the year. We describe our investigation of this loss later in this chapter.

We describe below areas where SIGA needs to do more.

### ***Compliance with policies needed***

Since 2000, we have reported that SIGA's accounting records do not always reflect its business operations and lacked proper support for some transactions. Accordingly, we recommended that SIGA establish policies and procedures to ensure its books and records reflect its business operations and that 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.

### **Control over bank accounts needed**

SIGA must supervise its employees' compliance with established processes used to control its bank accounts.

SIGA's processes require employees to agree (i.e., reconcile) its recorded bank balances to the bank's records each month so that all transactions are recorded properly and any errors or fraud are detected early on. For this process to work effectively, reconciliations must be timely and independently reviewed and approved.

During the year, employees were several months late in completing monthly bank reconciliations. For example, employees reconciled the October bank records in late March and the February bank records in late April.

To reduce the risk of loss of public money, SIGA has established processes requiring employees to verify daily that all money earned is received and recorded. These processes require employees at each casino to reconcile automated teller machine (ATM) transactions recorded by ATM suppliers to SIGA's bank records daily to ensure all transactions are properly recorded. During the year, employees did not always do timely ATM reconciliations. In some instances, it took



employees several months to explain and correct differences between ATM transactions and SIGA's bank records.

Casino employees provide central office with a report showing the amount ATM suppliers are to deposit into SIGA's bank account the following day. SIGA's processes require central office staff to reconcile daily to see that the ATM deposits are made correctly to SIGA's bank account.

Central office employees did not reconcile the ATM deposits daily. They checked these deposits when they completed the monthly bank reconciliations. As noted above, the monthly bank reconciliations were several months late. When central office employees finally checked the ATM deposits, they found significant shortages in the deposits for Bear Claw Casino and Living Sky Casino, resulting in a loss of \$1.2 million.

### **Marketing and promotion**

In 2009, SIGA spent approximately \$23.2 million (2008 - \$14.2 million) for marketing and promotion. This includes spending on complimentary items.

SIGA requires employees to maintain adequate records of complimentary items they give to patrons (i.e., a record of who received the item and why). SIGA also requires management to periodically review and approve these records. However, 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 employees do not follow established policies to control its assets.

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 that there is support for all transactions.

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

## **Complete and implement a human resource plan**

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.

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

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

Management has begun to document SIGA's future human resource needs. SIGA's draft 2009-2014 human resource plan includes staffing demand projections for the information technology and human resource departments. Management told us that SIGA is working on completing projections for other areas within the organization.

A complete human resource plan would help to ensure that SIGA has staff with appropriate qualifications and experience. During our

investigation of the loss of public money as described below, we found that most senior accountants employed by SIGA did not have the qualifications set out in their job descriptions.

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

## Investigation of loss of public money

In this section, we report the results of our investigation into the loss of public money at SIGA during the year.

### What happened

SIGA has ATMs at each casino. The ATMs are owned by outside ATM service providers. SIGA initially supplies the money for the ATMs and refills them with cash as patrons take money out. Daily, ATM suppliers are to arrange a deposit into SIGA's bank account for the total amount of money dispensed from the ATMs the previous day.

From January 10, 2009 to April 15, 2009, the ATM supplier for two casinos did not fully deposit to SIGA's bank account the amount dispensed from the ATMs. The loss of public money amounted to approximately \$1.2 million.

### Our objectives

We set two objectives for our investigation. First, we wanted to determine the amount of the loss of public money. Second, we wanted to determine the conditions that allowed the loss of public money to occur and remain undetected for three months.

We found that SIGA incurred a loss of public money of approximately \$1.2 million.

SIGA needs to:

- ◆ provide effective direction to its employees
- ◆ use sound employee hiring and retention practices
- ◆ mitigate the risk of loss of public resources

## Loss of public money

### *What we found*

The loss of public money occurred in the Bear Claw Casino and the Living Sky Casino.

SIGA's ATM agreements are with its casino landlords (First Nation agencies<sup>5</sup>). The landlords of Bear Claw and Living Sky casinos made agreements with an ATM supplier to provide two ATMs for each casino. The agreements provide that the ATM supplier is to arrange for another corporation (a switch provider) to operate a network that obtains authorizations from banks prior to money being dispensed from the ATMs. The switch provider is to deposit the ATM withdrawals to SIGA's bank account the following day.

SIGA told us that a shareholder of the ATM supplier was able to get the switch provider to divert money due to SIGA to other bank accounts. From January 10, 2009 to April 15, 2009, the switch provider did not fully deposit to SIGA's bank account amounts dispensed from the ATMs.

SIGA detected the loss of public money on May 7, 2009. It shut down the ATMs at the two casinos on May 9, 2009 and contacted the Saskatoon Police Service.

## Conditions that allowed the loss of public money

No system to safeguard public resources can prevent or detect all fraudulent acts because such acts are designed to conceal fraud and may involve collusion with others. A sound system to safeguard public resources creates an environment where errors or fraud are less likely to occur and if they occur, are more likely to be detected. Through diligent planning and oversight, an agency's senior management reduces the risk of errors and fraud.

Loss of public money is more likely to occur when the following conditions exist:

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<sup>5</sup> The landlord for the Living Sky Casino is an agency of the File Hills Qu'Appelle Tribal Council and the landlord for the Bear Claw Casino is an agency of the White Bear First Nation.

- ◆ ineffective direction to staff
- ◆ poor supervision of staff
- ◆ hiring of employees or contractors without due consideration for their qualifications and experience
- ◆ failure to mitigate the risk of loss of public resources

We describe below our findings for each of the above conditions.

### ***Effective direction to employees***

To safeguard public resources, agencies need to oversee operations and supervise employees to ensure they follow established processes and achieve the agency's objectives. SIGA did not properly supervise its employees.

SIGA has various operating policies and procedures (processes) that provide direction and guidance to employees. The processes include directions to employees on how to ensure all public money earned by SIGA is received, recorded, and deposited into its bank accounts.

SIGA's processes require its central office employees to reconcile bank accounts for deposits on a daily basis. However, SIGA's employees did not reconcile deposits daily. They reconciled deposits monthly during the monthly bank reconciliation process (described below). Daily checking of ATM deposits to the bank would have enabled employees to immediately detect the loss of public money and inform senior management. Monthly, the ATMs at Bear Claw and Living Sky casinos dispense approximately \$1.8 million.

As well, SIGA's processes require employees to agree (i.e., reconcile) recorded bank balances to the banks' records each month so that all transactions are recorded properly and that any errors or fraud are detected early on. For this process to work effectively, reconciliations must be timely and independently reviewed and approved.

During the year, reconciliations were not completed on a timely basis. For example, the October to December 2008 monthly bank reconciliations were not completed until late March 2009.

Employees must understand the importance of complying with established processes to prevent errors or fraud. They need to know that they are expected to bring any observed non-compliance to management's attention, and can do so safely. Fraud awareness training for employees can assist in this process. Such training would help SIGA establish a culture of fraud awareness. It would help employees in detecting and preventing internal and external frauds.

- 1. We recommend that Saskatchewan Indian Gaming Authority Inc. (SIGA) supervise its employees' compliance with SIGA's policies and procedures for bank reconciliations.**
- 2. We recommend that Saskatchewan Indian Gaming Authority Inc. train its employees to help establish a culture of fraud awareness.**

### ***Hiring and retaining employees***

To safeguard public resources, an agency needs processes to hire staff with appropriate qualifications and experience. It also needs to have processes to retain good employees.

SIGA operates a large complex business consisting of six casinos throughout Saskatchewan with over \$240 million in annual revenues and approximately 2,100 employees. In the past two years, SIGA has opened two new casinos. With new casino operations, the risk of employees not following established processes increases because many of the employees are new to SIGA.

To properly oversee the collection and management of public resources, SIGA needs sufficient numbers of qualified professional accountants with appropriate experience. Accountants without the necessary qualifications and experience may not understand the significance of, and the risks associated with, the activities they perform (e.g., bank reconciliations). SIGA was unable to show us a written assessment, based on a risk analysis, of the numbers, qualifications, and experience of professional accountants and supporting staff SIGA requires.

We have been recommending since 2003 that SIGA complete and implement its human resource plan which would include its needs for senior accounting staff.

SIGA's job descriptions require its three most senior accountants<sup>6</sup> to have a professional accounting designation<sup>7</sup> and two other senior accountants to have accounting degrees from a recognized institution. Of the five senior accountants, only the Senior Vice President, Finance and Administration had the required qualifications.

- 3. We recommend that Saskatchewan Indian Gaming Authority Inc. prepare a written assessment of the required numbers, qualifications, and experience of professional accountants and supporting staff.**
- 4. We recommend that Saskatchewan Indian Gaming Authority Inc. employ sufficient numbers of accountants with appropriate qualifications and experience.**

### ***Mitigating the risk of loss of public resources***

SIGA puts public money into the ATMs. Therefore, public money is at risk of loss. To safeguard public resources, agencies similar to SIGA assess and mitigate (reduce) the risk of loss of public resources.

Generally, agencies mitigate the risk of loss with the following:

- ◆ strong cash handling processes
- ◆ proper supervision of staff
- ◆ direct contracts with suppliers or service providers
- ◆ obtain insurance to cover any residual risks

SIGA had adequate cash handling processes, but staff did not always follow the established processes. As we described earlier in this chapter, staff did not reconcile bank accounts on a timely basis. SIGA needs to communicate to its staff the reasons for policies and the consequences of not following those policies. Supervisors must be trained to show zero

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<sup>6</sup> Senior VP of Finance & Administration, Controller, and Director of Finance.

<sup>7</sup> Chartered Accountant, Certified Management Accountant, Certified General Accountant.

tolerance for non compliance with policies especially for those relating to cash handling processes.

SIGA did not do a risk analysis of its ATM operations. As a result, it did not identify the risks of not having a direct contract with the switch provider.

SIGA does not have agreements with the suppliers of ATMs at its casinos. Although SIGA put public money into the ATMs, it allowed its landlords to make agreements with the ATM suppliers. By doing so, SIGA lost the right of issuing directives to the switch providers<sup>8</sup> who collect money from patrons' banks and deposit that money into designated bank accounts. Because SIGA did not have a direct agreement with the switch provider, SIGA was at risk that the ATM supplier could direct the switch provider to deposit money into a different bank.

SIGA has an insurance policy that provides coverage of \$1 million (\$25,000 deductible) for each of the following losses: employee dishonesty, loss inside the premises, loss outside the premises, money orders and counterfeit currency, and depositors forgery coverage. SIGA must ensure its insurance coverage fits with its risk management plan to mitigate the risk of loss to an acceptable level.

- 5. We recommend that Saskatchewan Indian Gaming Authority Inc. make agreements with suppliers and service providers (switch providers) of all automated teller machines at its casinos.**
- 6. We recommend that Saskatchewan Indian Gaming Authority Inc. formally assess the risk of loss from automated teller machines and prepare corresponding risk management plan to mitigate the risk to an acceptable level.**

## **Management's response to the loss of public money**

Management told us that immediately following the discovery of the loss of public money, the ATM machines at Living Sky Casino and Bear Claw Casino were shut down. SIGA also contacted the Saskatoon Police

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<sup>8</sup> See page 304 for the function of the switch provider and the relationship between the ATM supplier and the switch provider.



Service. SIGA signed an agreement with a new ATM provider and switch provider for those casinos. SIGA staff now reconcile ATM amounts daily to ensure the proper deposits have been made into SIGA’s bank account. SIGA told us that it has hired five people with professional accounting designations to fill accounting positions in the Finance department.

## Status of other outstanding recommendations of the Standing Committee on Public Accounts

The following table provides an update on recommendations previously made by PAC that are not yet implemented and are not discussed earlier in this chapter.<sup>9</sup>

PAC REPORT YEAR <sup>10</sup>	OUTSTANDING RECOMMENDATION	STATUS
<b>Saskatchewan Indian Gaming Authority Inc (Project Management Processes – Dakota Dunes Casino)</b>		
	PAC concurs: 8-3 that the Saskatchewan Indian Gaming Authority have dispute resolution processes with its key partners before starting major construction projects	<b>Not implemented</b> (as at September 30, 2008).

<sup>9</sup> For the definitions of the key terms used in the table, see Chapter 20 – Standing Committee on Public Accounts.

<sup>10</sup> PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.

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