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## Main points

Liquor & Gaming Authority (Liquor & Gaming) needs to improve its oversight of Saskatchewan Indian Gaming Authority's (SIGA) 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.

As the regulator of gaming activities in the Province, Liquor & Gaming needs to improve its monitoring of video lottery terminals. It also needs to complete the registration of automated teller machine service providers at casinos.

Liquor & Gaming needs to comply with its established policies and procedures. It needs to follow its information technology policies and procedures to protect its computer systems and data, especially its customers' credit card information. It also needs to comply with its performance evaluation policy for managers.

Liquor & Gaming needs to manage its contractual costs of the defined benefit pension plan for the Western Canada Lottery Corporation employees that operate and maintain Liquor & Gaming's video lottery terminals, slot machines, and break-open vending machines.

As of April 30, 2010, Liquor & Gaming's processes to monitor Indigenous Gaming Regulators Inc.'s compliance with charitable gaming regulatory agreements were adequate with three exceptions. The chapter makes three recommendations to help Liquor & Gaming strengthening its processes.

## 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*, 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 2009-10, Liquor & Gaming had revenues of \$1,000 million, expenses of \$567 million, and net income of \$433 million. At March 31, 2010, Liquor & Gaming held total assets of \$176 million and had a deficit of \$10.6 million. Liquor & Gaming's *2009-10 Annual Report* includes its financial statements.

## Audit conclusions and findings

**In our opinion, for the year ended March 31, 2010:**

- ◆ **Liquor & Gaming had adequate rules and procedures to safeguard public resources except for the matters described in this chapter**

- ◆ **Liquor & Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- ◆ **Liquor & Gaming’s financial statements are reliable**

Also, this chapter provides an update on the status of outstanding recommendations made by the Standing Committee on Public Accounts (PAC).

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

### ***Background***

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 determine what expenses SIGA can deduct from slot machine revenues. If SIGA incurs inappropriate 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***

In our 2009 Report – Volume 3, we recommended that Liquor & Gaming establish a risk-based process to assess SIGA’s compliance with approved operating policies. We also recommended that Liquor and Gaming take steps to recover losses of public money from automated teller machines at SIGA’s casinos. In June 2010, PAC agreed with our recommendations. We continue to make these recommendations for the reasons set out below.

Liquor & Gaming plans to implement a risk-based process in 2011-12 to assess SIGA’s compliance with approved operating policies. Of the

\$1.2 million loss that SIGA incurred on automated teller machines in 2009-10, Liquor & Gaming recovered \$0.5 million through insurance proceeds. Liquor & Gaming continues to pursue its options for the recovery of the remaining loss.

## **Regulating and monitoring provincial gaming activities**

### ***Background***

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

### ***Better monitoring of VLTs needed***

In our 2009 Report – Volume 3, we recommended that Liquor & Gaming establish adequate rules and procedures to verify that the video lottery terminals (VLTs) hold percentages are in accordance with gaming integrity standards. In June 2010, PAC agreed with our recommendation. We continue to make this recommendation for the reasons set out below.

Liquor & Gaming has approved VLT gaming integrity standards for the Province. In 2009-10, it developed controls for monitoring hold percentages of VLTs. As of March 31, 2010, it has partially implemented these controls.

In the absence of fully implemented controls, Liquor & Gaming 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.

### ***Registration of ATM suppliers needed***

In our 2009 Report – Volume 3, we recommended that Liquor & Gaming register casino automated teller machine (ATM) suppliers. In June 2010, PAC agreed with our recommendation. We continue to make this recommendation for the reasons set out below.

As a regulator of the Saskatchewan gaming industry and as an operator, Liquor & Gaming needs to ensure that individuals and organizations that work in and provide services to the industry are reputable.

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

Liquor & Gaming is now requiring casino ATM suppliers to be registered. However, it has not yet completed the registration of these suppliers.

## **Compliance with policies and procedures needed**

Liquor and Gaming needs to ensure its management and employees comply with established policies and procedures in the following two areas.

### ***Information technology (IT)***

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. We continue to make this recommendation for the reasons set out below.

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 the sensitive information it collects 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. The lack of security could result in unauthorized access to customers' credit card information. Liquor & Gaming continues to work on a project to strengthen the security of credit card information.

Employees did not always follow the approved policies for removing user access privileges and for monitoring network security. For example, some

former employees' and consultants' access privileges for certain Liquor & Gaming IT applications were not suspended when they left. Liquor & Gaming also needs to monitor network security alerts to detect and react to security threats quickly.

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

### ***Employee performance evaluations***

Liquor & Gaming needs to comply with its performance evaluation policy and procedures for out-of-scope employees.

Liquor and Gaming's performance evaluation policy requires its management to evaluate employees' performance annually. Performance evaluations help ensure employees perform their duties as expected. Management also needs this information to develop adequate training plans to help employees obtain the necessary competencies to do their assigned work.

Liquor & Gaming did not consistently follow its performance evaluation policy and procedures. Formal performance evaluations as required by Liquor & Gaming's policies and procedures were not documented for 60% of the out-of-scope employees.

- 1. We recommend that the Liquor and Gaming Authority comply with its approved policy and procedures for evaluating employee performance.**

### **Management of contractual costs needed**

Liquor & Gaming needs to manage its contractual costs related to a pension plan for certain employees of the Western Canada Lottery Corporation (WCLC).

Under its agreement with WCLC, Liquor & Gaming is responsible for the defined benefit pension plan costs for the WCLC employees that operate and maintain Liquor & Gaming's video lottery terminals, slot machines, and break-open vending machines. Liquor & Gaming acknowledges that it is contractually responsible for these costs.

For the 2009-10 fiscal year, Liquor & Gaming paid WCLC \$12.6 million to operate the VLT, slot machine, and the break-open vending machine programs. Of the \$12.6 million, \$727,000 related to its contractual costs for WCLC's defined benefit pension plan.

Defined benefit plan pensions can be extremely volatile due to changes in plan benefits, plan assumptions (e.g. inflation rates, mortality, etc.), and investment earnings. Liquor & Gaming does not obtain the information that it needs to manage its costs related for this plan. For example, it does not receive information on changes in plan benefits, assumptions, or investment strategies.

Without this kind of information, Liquor & Gaming cannot effectively manage its contractual costs arising from this defined benefit pension plan.

- 2. We recommend that the Liquor and Gaming Authority manage its contractual costs related to the pension plan for certain employees of the Western Canada Lottery Corporation.**

## **Regulating charitable gaming on reserves**

### **Background**

Charitable gaming on reserves includes table games in casinos,<sup>1</sup> bingos, break-open ticket sales, poker tournaments, and raffles.

The *Criminal Code* (section 207) defines legal gaming activity in Canada. It requires charitable gaming to be conducted under a licence issued by a province or any authority designated by the Lieutenant Governor in Council of the province. In Saskatchewan, the primary authority for licensing charitable gaming is Liquor & Gaming.

In March 2007, the Government designated Indigenous Gaming Regulators Inc. (IGR) as an authority to regulate charitable gaming on reserves in Saskatchewan.<sup>2</sup> Through a detailed Licensing Agreement signed by Liquor & Gaming and IGR, the Government gave IGR authority

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<sup>1</sup> Saskatchewan Indian Gaming Authority operates casinos on First Nations reserves.

<sup>2</sup> The Government took this action through Order in Council 217/2007.



to perform certain regulatory activities related to charitable gaming on specified reserves.<sup>3</sup> This Licensing Agreement is the primary regulatory agreement for charitable gaming on reserves.

IGR's regulatory activities include:

- ◆ licensing charities to conduct gaming on reserves
- ◆ monitoring compliance with the terms and conditions of the gaming licences issued (e.g., with on-site inspections)
- ◆ verifying the accuracy and completeness of reported revenues and expenditures of the charities (e.g., through audits)

Liquor & Gaming is responsible to monitor IGR's performance of these regulatory activities so that gaming regulations are applied consistently throughout the Province.

After starting in 2007, IGR provided 91 licenses for charitable gaming in 2008 and 106 licenses in 2009.

## **Audit objective and conclusion**

The objective of this audit was to assess the adequacy of Liquor & Gaming's processes as at April 30, 2010 to monitor Indigenous Gaming Regulators Inc.'s compliance with charitable gaming regulatory agreements. Exhibit 1 provides an overview of the objective, criteria, and findings.

To evaluate Liquor & Gaming's processes, we used the criteria set out in italics in the section "Criteria, key findings, and recommendations." The literature in "Selected references" guided our selection of criteria. Liquor & Gaming's management agreed with the criteria.

To conduct this audit, we followed the *Standards for Assurance Engagements* published by the Canadian Institute of Chartered Accountants in the *CICA Handbook – Assurance*.

**We concluded that the Liquor and Gaming Authority had adequate processes as at April 30, 2010 to monitor Indigenous Gaming Regulators Inc.'s compliance with charitable gaming regulatory**

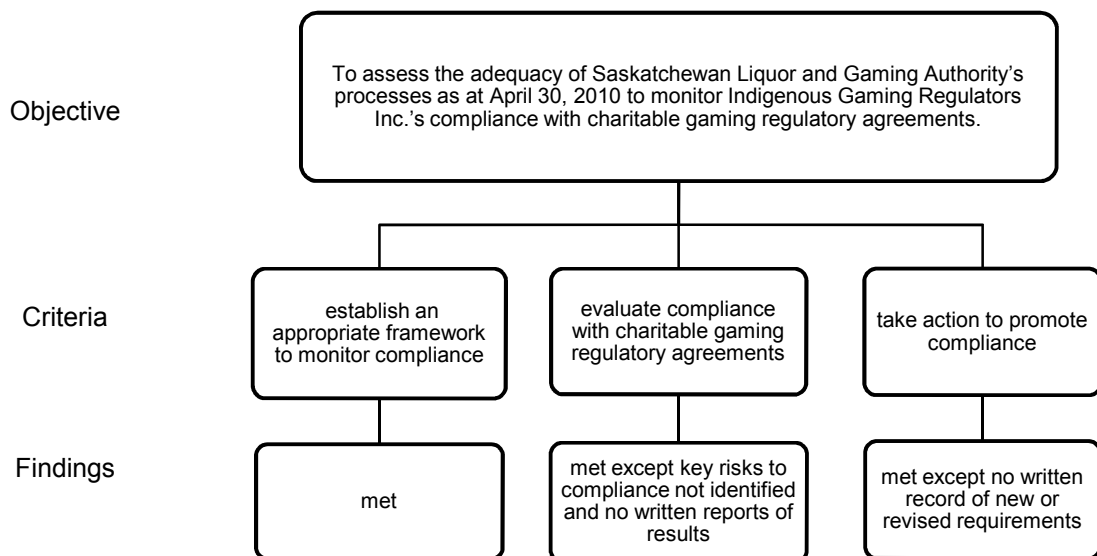
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<sup>3</sup> First Nation bands must vote to name IGR as their gaming regulator.

**agreements except for the items set out below. Liquor & Gaming needs processes for:**

- ◆ **identifying key risks to charitable gaming**
- ◆ **timely, written reports to senior management about compliance**
- ◆ **documenting new or revised actions required for consistent application of the regulations**

**Exhibit 1—Overview of objective, criteria, and findings**



**Criteria, key findings, and recommendations**

***Establishing a regulatory framework***

*We expected Liquor & Gaming to establish an appropriate regulatory framework by:*

- ◆ *clearly defining roles and responsibilities*
- ◆ *providing guidance on expected regulatory processes*
- ◆ *requiring reports*

Liquor & Gaming established an appropriate framework to monitor compliance with regulatory agreements. Liquor & Gaming describes its

framework in a formal agreement designed to achieve consistent application of gaming regulations both on and off First Nations reserves.

The 2007 Licensing Agreement signed by Liquor & Gaming and IGR establishes a regulatory framework for monitoring compliance. The Licensing Agreement sets out roles and responsibilities including monitoring and reporting.

The Licensing Agreement is extensive. It provides formal guidance by setting out detailed terms and conditions for all types of charitable gaming. Liquor & Gaming also offers informal guidance through its staff who work with IGR staff to resolve challenging situations.

Liquor & Gaming uses a joint committee to clarify responsibilities and exchange information with IGR. The joint committee has two members from Liquor & Gaming and two members from IGR. In addition, the Presidents of Liquor & Gaming and IGR meet bi-monthly to share information.

The Licensing Agreement identifies the information that Liquor & Gaming is to receive routinely about charitable gaming on reserves. For example, it requires IGR to provide annual licensing reports. These reports show whether IGR licenses eligible groups and whether the licensed groups use the net proceeds of charitable gaming (e.g., bingos, raffles, break-open tickets) for charitable purposes. The Licensing Agreement also requires that Liquor & Gaming receive reports documenting periodic reviews of IGR's operations by an independent external expert. These reports help Liquor & Gaming to monitor IGR's regulatory compliance.

### ***Evaluating compliance but key risks not identified***

*We expected Liquor & Gaming to evaluate IGR's compliance with regulatory agreements by:*

- ◆ *assigning responsibility for monitoring regulatory compliance*
- ◆ *analyzing results of monitoring procedures*
- ◆ *identifying key risks<sup>4</sup>*
- ◆ *identifying required actions to address key risks*
- ◆ *reporting results to senior management*

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<sup>4</sup> Key risks are major financial, operational, or legal concerns related to charitable gaming.

Liquor & Gaming assigns responsibility for monitoring IGR's activities to its Regulatory Compliance Division. The Division is responsible to design, implement, and monitor the Province's regulatory framework for charitable gaming.

Liquor & Gaming obtains sufficient information from IGR to evaluate IGR's regulatory activities. Liquor & Gaming receives detailed quarterly reports about IGR's inspections of casino table games on reserves. Liquor & Gaming also receives detailed annual reports about groups IGR licenses for other charitable gaming on reserves (e.g., for bingos, break-open tickets, raffles). Liquor & Gaming receives updates on IGR's progress toward licensing groups with a history of unlicensed gaming on reserves (e.g., bingos).<sup>5</sup> These updates help Liquor & Gaming to monitor progress toward consistent compliance with gaming regulations across the Province.

Liquor & Gaming uses several methods to evaluate IGR's compliance with the Licensing Agreement. Liquor & Gaming expects IGR to use the same inspection checklists as Liquor & Gaming uses for off-reserve casinos. Liquor & Gaming reviews the reports it receives from IGR. For example, Liquor & Gaming evaluates how IGR monitors table games in on-reserve casinos based on IGR's inspection reports. Liquor & Gaming looks for instances where IGR identified regulatory deficiencies (e.g., card-dealer behaviour) but did not ensure those deficiencies were dealt with promptly. In addition, Liquor & Gaming and IGR annually conduct joint inspections of table games in casinos on reserves.

Liquor & Gaming's evaluation of IGR's licensing and monitoring of other on-reserve charitable gaming activity focuses on compliance with the *Criminal Code*. The *Criminal Code* has two requirements for charitable gaming: only charitable groups may be licensed and the groups must use any money raised for charitable purposes. When reviewing IGR's annual licensing report, Liquor & Gaming told us it assesses if the groups that IGR licenses (e.g., to operate bingos) are charitable and if the intended use of money raised is charitable. The Licensing Agreement provides extensive guidance on eligibility as a charitable group and acceptable charitable uses of the proceeds of charitable gaming.

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<sup>5</sup> In 2007, the Licensing Agreement "grandfathered" specific groups actively involved in unlicensed gaming on reserves.

Liquor & Gaming also evaluates IGR's compliance with the Licensing Agreement through periodic reviews of IGR's operations by an independent external expert. The Licensing Agreement requires these external reviews after IGR has operated for one year, three years, and thereafter every five years. Liquor & Gaming received the first external review of IGR's operations in 2009. In general, the review was positive.

Liquor & Gaming has not identified key risks to charitable gaming. Liquor & Gaming analyzes the results of reports and monitoring inspections without identifying key risks. As a result, its staff might not focus attention on addressing those key risks when working with IGR staff. For lesser risks, Liquor & Gaming staff identify action required and informally communicate the actions to IGR staff (e.g., by phone or in emails). In 2009, Liquor & Gaming began identifying corporate risks but not those related to charitable gaming.

- 3. We recommend that the Liquor and Gaming Authority identify key risks to charitable gaming and use them to focus its evaluation of the Indigenous Gaming Regulators' compliance with the Licensing Agreement.**

Liquor & Gaming's senior management receives primarily verbal reports from its staff about their evaluation of IGR's compliance with the Licensing Agreement. In 2010, Liquor & Gaming began to prepare brief reports showing its analysis of how IGR inspected casino table games on reserves (based on IGR's reports). However, Liquor & Gaming does not record its evaluation of IGR's compliance with the Licensing Agreement for other charitable gaming on reserves (e.g., bingos, break-open tickets, raffles). Over time, lack of compliance with the Licensing Agreement could cause inconsistent application of charitable gaming regulations in the Province. Written reports would help Liquor & Gaming communicate required adjustments to IGR.

- 4. We recommend that the Liquor and Gaming Authority's senior management receive timely, summarized, written reports of its quarterly and annual evaluations of the Indigenous Gaming Regulators' compliance with the Licensing Agreement for charitable gaming.**

### ***Taking action to promote compliance***

*We expected Liquor & Gaming to take action to promote compliance and consistent application of the charitable gaming regulations by:*

- ◆ *communicating the required actions to IGR*
- ◆ *monitoring the timely completion of required actions*

Liquor & Gaming takes action when it has concerns about compliance with the Licensing Agreement and informally monitors IGR's completion of required actions.

Usually, Liquor & Gaming communicates required actions to IGR informally. Liquor & Gaming and IGR staff often exchange emails and phone calls. The emails show Liquor & Gaming helps IGR analyze a variety of regulatory situations and advises on the required action. For example, Liquor & Gaming may help IGR evaluate a group's eligibility for a charitable gaming license or the group's use of money raised through charitable gaming.

Sometimes Liquor & Gaming and IGR agree in their joint committee meetings to adjust their responsibilities or change the terms and conditions for licensing charitable gaming. These decisions are not documented formally although the joint committee verbally approves these decisions as the Licensing Agreement requires.

Liquor & Gaming monitors timely completion by IGR of actions agreed upon during meetings of the joint committee. Liquor & Gaming also monitors these actions informally through emails and phone calls. Sometimes Liquor & Gaming's review of IGR's quarterly casino inspection reports is also helpful in assessing if required actions are completed. This ad hoc approach is working at present but could put at risk the working relationship shared by Liquor & Gaming and IGR.

Informal processes leading to changes in formal regulatory agreements may create the risk of future disagreements about expected responsibilities. Informal discussion of proposed changes is necessary. However, the proposed changes and the reason for the changes should be clearly recorded before regulatory agreements are formally changed.

Lack of a clear record of proposed changes could contribute to misunderstandings. It could also lead to inconsistently regulated gaming through differing interpretations of what was agreed. In addition, a historical record of agreed changes could make future revisions to the regulatory agreement more efficient. Such a record should include the rationale for the required action or change, should be sufficiently detailed to facilitate action, and should be dated to help monitor completion of those actions.

- 5. We recommend that the Liquor and Gaming Authority keep a written record of required actions and proposed changes to its Licensing Agreement for charitable gaming as agreed upon with Indigenous Gaming Regulators Inc.**

## **Selected references**

Australian National Audit Office. (March 2007). *Administering regulation: Better practice guide*. Canberra, Australia: Author.

Manitoba Auditor General. (2003). *Dakota Tipi First Nation Gaming Commission and First Nation gaming accountability in Manitoba*. Winnipeg: Author.

Ontario Auditor General. (2005). Chapter 3.03 – Charitable gaming. In *2005 annual report*. Toronto: Author.

Saskatchewan Provincial Auditor. (2002). Chapter 6A - Saskatchewan Liquor and Gaming Authority: Key risks. In *2002 Fall Report – Volume – 2*. Regina: Author.

## **Status of previous recommendations of the Standing Committee on Public Accounts**

The following exhibit provides an update on the recommendations previously made by PAC that are not yet implemented and are not discussed earlier in this chapter.<sup>6</sup>

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<sup>6</sup> For the definitions of the key terms used in the exhibit, see Chapter 24 – Standing Committee on Public Accounts.

**Chapter 15A – Liquor and Gaming Authority**

PAC REPORT YEAR <sup>7</sup>	OUTSTANDING RECOMMENDATION	STATUS
<b>Liquor and Gaming Authority</b>		
2007	PAC concurs: 7-2 that the Liquor and Gaming Authority should prepare a complete plan for encouraging responsible use of beverage alcohol.	<b>Partially implemented</b> (as at March 31, 2009). Follow-up is planned for 2011.
2007	PAC concurs: 7-3 that the Liquor and Gaming Authority should continue to research and develop performance measures and targets to evaluate its performance in encouraging responsible use of beverage alcohol.	<b>Partially implemented</b> (as at March 31, 2009). Follow-up is planned for 2011.
2009	PAC concurs: 8A-1 that the Liquor and Gaming Authority document and communicate potential competency gaps.	<b>Partially implemented</b> (as at March 31, 2009). Follow-up is planned for 2011.
2009	PAC concurs: 8A-3 that the Liquor and Gaming Authority document and monitor the progress of its succession strategies.	<b>Partially implemented</b> (as at March 31, 2009). Follow-up is planned for 2011.

<sup>7</sup> "PAC Report Year" refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.