Saskatchewan Indian Gaming Authority Inc.

15B

Main points

Saskatchewan Indian Gaming Authority Inc. (SIGA) needs to improve its guidance to employees to protect public money from loss due to error or fraud by:

- completing and implementing its human resources plan to ensure its employees have the appropriate competencies
- preparing an information technology strategic plan
- completing a disaster recovery plan to help ensure that it can continue to provide information technology services in the event of a disaster
- improving its processes to manage changes to systems and data
- periodically reviewing user access for appropriate segregation of duties

SIGA should improve training and supervision of its employees. SIGA must ensure its employees are following its processes for bank reconciliations, controlling capital assets, and computer passwords.

We followed up on the recommendations made as a result of the 2009 loss of $1.2 million of public money. SIGA has implemented most of our recommendations related to the loss except it needs agreements with suppliers and service providers of all automated tellers machines at its casinos outlining the roles and responsibilities of each party.

SIGA must comply with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* by assessing and documenting the risk of money laundering or terrorist financing offences at its casinos. SIGA also needs to develop and maintain a compliance training program to aid its employees in identifying these types of transactions.

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. The 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, except for Living Sky, are located on First Nation reserves.[1] 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*, Liquor & Gaming owns the slot machines located in SIGA's casinos. Accordingly, 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.

Under the 2002 Casino Operating Agreement,[2] Liquor & Gaming allows SIGA to deduct from the slot machine revenues reasonable costs, 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, net losses 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, ancillary, (i.e., gift shops, restaurants, and lounges), and table games operations. The table shows the net

[1] Living Sky Casino has applied to the Federal Government for urban reserve status.
[2] 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.

casino profits that SIGA made for Liquor & Gaming during the last five years.

Table 1 – Net profits (in $000) from SIGA operated casinos

Segment	2010	2009	2008	2007	2006
Slot operations profit	$ 75,468	$ 78,685	$ 68,355	$ 52,695	$ 43,653
Ancillary operations loss	(11,472)	(9,399)	(6,143)	(3,091)	(2,593)
Table operations loss	(3,755)	(2,066)	(1,106)	(767)	(902)
Distributable net profit	60,241	67,220	61,106	48,837	40,158
Unrealized gain (loss) on interest rate swaps	4,867	(7,346)	(3,014)	---	---
Net profit	$ 65,108	$ 59,874	$ 58,092	$ 48,837	$ 40,158

Background

In 2002, the Government of Saskatchewan and the FSIN signed a Framework Agreement (2002 Framework Agreement) effective from June 11, 2002 to June 11, 2027. The Agreement continued to allow the development and operations of casinos in Saskatchewan within the parameters of the *Criminal Code.*

Liquor & Gaming and SIGA also signed a Casino Operating Agreement (2002 Casino Operating Agreement) effective from June 11, 2002 to June 11, 2027.

Under the 2002 Casino Operating Agreement, SIGA can deduct from slot machine revenues the casinos' operating expenses, incurred in accordance with the operating policies and directives approved by Liquor & Gaming. 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 SIGA 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 that receive money

from 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*.[3]

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

- **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 matter described in this chapter**
- **SIGA's financial statements are reliable**

Controls to safeguard public resources

In our past reports to the Legislative Assembly of Saskatchewan, we made several recommendations to strengthen SIGA's processes to safeguard public resources. SIGA accepted our recommendations. In this chapter, we make six new recommendations and repeat five from our past reports.

Well-performing agencies do three things to have effective controls to safeguard public resources. First, their management provides effective guidance to employees. Second, they require management to train employees and supervise employee compliance with the established

[3] To view this report, see our website at www.auditor.sk.ca/rrd.html.

guidance. Third, they monitor progress towards achieving their established goals. We provide our findings below.

Effective guidance to employees

In our 2009 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.

In 2006, the Standing Committee on Public Accounts (PAC) 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 key threats and risks, long-term planning, and estimated resources required to carry out the plan. SIGA has not done any further work on its IT strategic 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 2009 Report – Volume 3 and our past reports, we recommended that SIGA prepare a complete disaster recovery (DRP) plan and assess the need for a business continuity plan (BCP).[4] SIGA needs a written,

[4] **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 one component of a business continuity plan.

tested, and approved disaster DRP to help ensure that it can continue to provide IT services in the event of a disaster. In March 2009, PAC 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 have an adequate DRP. SIGA's reliance on the other IT systems is critical. However, SIGA does not have a complete DRP for all of its other systems. Without an adequate DRP, SIGA may not be able to operate its casinos resulting in a loss of revenue.

SIGA also needs to assess the requirement for a 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.

Complete and implement a human resource plan

In our 2003 Report – Volume 3, we examined SIGA's processes to build human resource capacity and made four recommendations. We recommended that SIGA: complete and implement its human resource plan, ensure its casinos consistently follow established human resource policies, prepare and provide to the Board more information about how SIGA is managing its staff retention risks, and prepare and provide to the Board more information about the effectiveness of SIGA's training activities. In 2004, PAC agreed with our recommendations.

Since 2003, SIGA has taken action on all of these recommendations. It has improved its processes to ensure the casinos follow established human resource policies and has provided the Board with more information on staff retention risks and the effectiveness of training activities. SIGA has also developed a draft 2009-2014 human resource plan. This human resource plan includes most of the key elements of a sound human resource plan. However, the plan 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. A complete human resource plan would help to ensure that SIGA has staff

with appropriate qualifications and experience. SIGA needs this information to carry out its strategic plan.

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

Need to manage changes to systems and data

SIGA's policies do not restrict roles and responsibilities of IT staff.

IT application developers for some of SIGA's main applications have the ability to both develop and make system changes without authorization. Lack of segregation of duties between the development and implementation functions in an IT environment increases the risk of unauthorized and incorrect changes to systems and data resulting in errors in financial information.

1. **We recommend that Saskatchewan Indian Gaming Authority Inc. adequately segregate responsibilities of information technology staff so that one person cannot both develop and make system changes.**

Review of user access needed

SIGA does not review IT user access or segregation of duties for application user accounts to ensure that access granted is required and consistent with each employee's job responsibilities. Lack of such reviews increases the risk of unauthorized access to systems and data resulting in incorrect changes to systems and data.

2. **We recommend that Saskatchewan Indian Gaming Authority Inc. perform regular reviews of its computer application user accounts.**

Training and supervision of employees

In our 2009 Report – Volume 3 report, we said SIGA must train and supervise its employees so that they follow SIGA's established processes to safeguard public resources. SIGA needs to do more to ensure employees follow its established policies.

We describe below areas where SIGA needs to do more.

Controlling bank accounts

In our 2009 Report – Volume 3, we recommended that SIGA supervise its employees' compliance with SIGA's policies and procedures for bank reconciliations. In June 2010, PAC agreed with our recommendation.

SIGA's processes require employees to agree (i.e., reconcile) its recorded bank balances to the bank's records each month. This process helps ensure proper recording of transactions and early detection of any errors or fraud.

During the year, employees did not reconcile all bank accounts monthly.

SIGA's policies also require employees at each casino to reconcile automated teller machine (ATM) transactions recorded by ATM suppliers to SIGA's bank records daily and resolve differences promptly. However, employees did not consistently reconcile ATM transactions at the casinos and did not resolve all differences in a timely manner.

We continue to recommend that SIGA supervise its employees' compliance with SIGA's policies and procedures for bank reconciliations.

Control over assets needed

SIGA employees did not follow established policies to control capital assets.

SIGA requires employees to periodically count its capital assets and compare the counts to the accounting records. However, employees have not done a complete count of capital assets at all casinos. Therefore, SIGA cannot be sure that all capital assets recorded in its accounting records exist.

3. We recommend that Saskatchewan Indian Gaming Authority Inc. follow its policies to control capital assets.

Need to follow password settings and requirements

SIGA employees do not follow established policies for IT password settings.

SIGA has established access password setting requirements for its systems and data. However, it does not require users to follow the password settings for its financial system application. Appropriate password settings would help reduce the risk of unauthorized users accessing financial data.

4. We recommend that Saskatchewan Indian Gaming Authority Inc. follow its computer password setting policy.

Review and approval of journal entries needed

SIGA requires employees to review and approve journal entries (adjustments to accounting records) before making those adjustments. However, employees did not always review and approve payroll and other adjustments for several months after making such adjustments.

Lack of timely review and approval of such adjustments increases the risk of loss of public money due to fraud or errors without timely detection.

5. We recommend that Saskatchewan Indian Gaming Authority Inc. follow its policy of timely review and approval of journal entries.

Follow-up on investigation of loss of public money

In our 2009 Report – Volume 3 report, we reported the results of our investigation of the loss of $1.2 million of public money at SIGA during the year. We made six recommendations. SIGA has taken action on these recommendations. We describe below one area where SIGA needs to do more.

Agreements with ATM suppliers needed

In our 2009 Report – Volume 3, we recommended that SIGA make agreements with suppliers and service providers (switch providers) of all

automated teller machines at its casinos. In June 2010, PAC agreed with our recommendation.

Although SIGA puts public money into the ATMs, it has allowed casino site landlords to make agreements with the ATM suppliers. By doing so, SIGA lost the right of issuing directives to switch providers who collect money from patron's banks and deposit that money into designated bank accounts. Because SIGA did not have direct agreements with the switch providers, SIGA was at risk that ATM suppliers could direct the switch providers to deposit money into a different bank. This scenario occurred at one of the casinos in 2009 and resulted in a loss of public money. During 2010, SIGA has changed its process and is tendering for an ATM supplier with the intention of entering into a contract with the selected supplier for all casino sites.

We continue to recommend that SIGA make agreements with suppliers and service providers (switch providers) of all automated teller machines at its casinos.

Non-compliance with the law

SIGA needs to comply with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the Act).

Under the Act, SIGA is required to assess and document the risk of money laundering or terrorist financing offences at its casinos. The Act also requires SIGA to develop and maintain a compliance training program for its employees so that employees can identify potential money laundering or terrorist financing activities and document them for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).

SIGA has not yet fully complied with the requirements. SIGA employees did not always properly complete and submit to FINTRAC the required forms for any transactions greater than $10,000 at SIGA casinos.

Non-compliance with the Act could result in penalties and loss of public confidence in SIGA.

6. We recommend that Saskatchewan Indian Gaming Authority Inc. comply with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act.*

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.[5]

PAC REPORT YEAR[6]	OUTSTANDING RECOMMENDATION	STATUS
Saskatchewan Indian Gaming Authority Inc. (Project Management Processes–Dakota Dunes Casino)		
2009	PAC concurs: 8-3 that the Saskatchewan Indian Gaming Authority have dispute resolution processes with its key partners before starting major construction projects	**Not implemented** (as at March 31, 2010).

[5] For the definitions of the key terms used in the table, see Chapter 24 – Standing Committee on Public Accounts.
[6] PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.