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Main points

Saskatchewan Liquor and Gaming Authority's (Liquor & Gaming) financial statements are reliable and it complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

Liquor & Gaming had adequate rules and procedures to safeguard public resources except as follows:

- ◆ It needs to follow its information technology policies, automated teller machine service provider casino registration policy, and its rules and procedures over bank reconciliations.
- ◆ It needs to identify and assess the risks associated with Saskatchewan Indian Gaming Authority's (SIGA's) operations.

During the year, Liquor & Gaming's internal audit performed an annual audit to ensure that SIGA expenditures were reasonable, complied with relevant policies and had an adequate business purpose. Based on the 2009-10 audit results, Liquor & Gaming concluded that in general, expenses for the period audited were appropriate business expenses and that no recovery was required. Liquor & Gaming provided SIGA with recommendations to strengthen their internal controls over expenditures. As of October 31, 2011, Liquor & Gaming's internal audit has not yet completed the 2010-11 audit of SIGA's expenses.

Liquor & Gaming still needs to recover losses of public money from automated teller machines at SIGA casinos.

Succession planning—a follow up

Liquor & Gaming has implemented all of our past recommendations regarding its succession planning processes.

Encouraging responsible use of beverage alcohol—a follow up

Liquor & Gaming has addressed our previous recommendation on preparing a complete plan for encouraging responsible use of beverage alcohol. Liquor & Gaming is in the process of developing a reporting

document that will accompany their social responsibility plan in order to report on the status of its social responsibility initiatives.

This chapter also contains an update on the status of previous recommendations agreed to by the Standing Committee on Public Accounts.

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Introduction

The Saskatchewan 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. Liquor & Gaming includes slot machine revenues and expenses in its financial statements.

In 2010-11, Liquor & Gaming had revenues of \$1,013 million, expenses of \$570 million, and net income of \$443 million. At March 31, 2011, Liquor & Gaming held total assets of \$163 million and had an accumulated deficit of \$5.1 million. Liquor & Gaming's 2010-11 annual report includes its financial statements.

Audit conclusion and findings

In our opinion, for the year ended March 31, 2011:

- ◆ **Liquor & Gaming had adequate rules and procedures to safeguard public resources except for the matters described in this chapter**
- ◆ **Liquor & Gaming complied with the following authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Alcohol and Gaming Regulation Act, 1997

The Liquor Consumption Tax Act

Customs Tariff (Canada)

Excise Act (Canada) (Schedule I and II)

Excise Tax Act (Canada) (section 188)

Excise Act, 2001 (Canada) (Schedule IV-VI)

Criminal Code (Canada) (section 207)

The Alcohol Control Regulations, 2002

The Saskatchewan Gaming Corporation Casino Regulations, 2002
The Gaming Regulations, 2007
The Liquor and Gaming Authority Employee Code of Conduct Regulations
2002 Framework Agreement, as amended
2002 Casino Operating Agreement, as amended
Western Canada Lottery Corporation Operating Agreement
Indigenous Gaming Regulators Licensing Agreement
Orders in Council issued pursuant to the above legislation

◆ **Liquor & Gaming’s financial statements are reliable**

The chapter also provides an update on the past recommendations of the Standing Committee on Public Accounts.

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.

Under the Agreement, Liquor & Gaming allows SIGA to deduct from the slot machine revenues reasonable costs incurred in accordance with operating policies approved by Liquor & Gaming. SIGA remits the remaining revenue to Liquor & Gaming. SIGA, in conjunction with Liquor & Gaming, is responsible for setting these policies regarding what constitutes reasonable costs.

As part of Liquor & Gaming’s monitoring processes over reasonable costs, Liquor & Gaming’s internal audit performs an annual audit to ensure that the SIGA expenditures are reasonable, comply with approved policies, and have an adequate business purpose. This is a good oversight mechanism. The latest audit was conducted for the period from October 1, 2009 to September 30, 2010 and the report was finalized in August 2011.

If SIGA incurs inappropriate expenses¹ above \$10,000 annually, Liquor & Gaming then recovers 25%² of the amount of such expenses from future payments to the First Nations Trust. Based on the results of internal audit, Liquor & Gaming concluded that in general, expenses for the period audited were appropriate business expenses and no recovery was required. Liquor & Gaming provided SIGA with recommendations to strengthen their internal controls over expenditures.

We recommended that Liquor & Gaming establish a risk-based process to assess SIGA's compliance with approved operating policies. (2009 Report – Volume 3)

In June 2010, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

Liquor & Gaming has not yet completed its risk assessment to identify and assess the risks associated with SIGA's compliance with SIGA's approved operating policies. Once this assessment is completed, Liquor & Gaming will need to develop and implement strategies for any gaps in its current processes of monitoring SIGA's operations.

Status – We continue to make this recommendation.

We recommended that Liquor & Gaming take steps to recover losses of public money from automated teller machines at SIGA casinos. (2009 Report – Volume 3)

In June 2010, PAC agreed with our recommendation.

In 2009-10, SIGA incurred a \$1.2 million loss on automated teller machines (ATMs) resulting from SIGA's non-compliance with approved policies. Liquor & Gaming recovered, through insurance proceeds, \$0.5 million of this loss. Liquor & Gaming continues to pursue the recovery of the remaining loss by relying on and monitoring SIGA's efforts to recover the missing money from the ATM operator.

¹ 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.

² The 2002 Framework Agreement as amended in June 2007 requires the Province to retain 25% of the net profits from slot machines in the General Revenue Fund and distribute the remaining profits to the First Nations Trust and the Community Development Corporations.

Status – We continue to make this recommendation.

Registration of ATM suppliers needed

We recommended that Liquor & Gaming register casino automated teller machine (ATM) suppliers. (2009 Report – Volume 3)

In June 2010, PAC agreed with our recommendation.

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

Liquor & Gaming now requires registration of casino automated teller machine suppliers/owners. Liquor & Gaming has begun registering these suppliers/owners, but has not completed the registration process.

Status – We continue to make this recommendation.

Compliance with policies and procedures needed

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

Information technology (IT)

We recommended that Liquor & Gaming follow its approved information technology (IT) policies and procedures. (2007 Report – Volume 3)

In 2008, the PAC agreed with our recommendation.

IT security policies and procedures help ensure the confidentiality, integrity, and availability of information systems and data. Employees did not follow the approved IT policies for configuring network devices and monitoring its IT security. Liquor & Gaming needs to properly configure network devices (e.g., firewalls) and monitor network security to detect and react to security threats quickly. Liquor & Gaming must also establish a process for managing incidents when they occur.

In August 2011, management told us that Liquor & Gaming has finalized planning a security infrastructure project to address high-risk IT issues. Liquor & Gaming also told us this project would include configuration and monitoring of network devices to comply with the established IT policies and procedures. Liquor & Gaming now needs to implement actions required by this project.

Failure to properly configure network devices and monitor IT security increases the risk of unauthorized disclosure of data, modification, or loss.

Status – We continue to make this recommendation.

Bank reconciliations

Liquor & Gaming needs to follow its rules and procedures to control its bank accounts.

Liquor & Gaming's procedures require employees to agree (reconcile) its recorded bank balances to the bank's records each month. They also require management to review and approve the reconciliations. In addition to the monthly bank reconciliations, Liquor & Gaming performs daily reconciliations of its stores' deposits and cheque clearing activities. Regular reconciliations, review and approval of such reconciliations, provides a check that all charges to bank accounts are proper and all money has been received and deposited in the right accounts. It also provides a check on the accuracy and reliability of Liquor & Gaming's accounting records.

During the year, employees did not regularly prepare and management did not review and approve all of its monthly bank reconciliations on a timely basis. At April 2011, bank reconciliations for its liquor bank account and electronic funds transfer account were behind by four months.

Management told us that employees performed daily store and cheque clearing activities during the year. However, this control would not detect all errors or employee theft.

Timely bank reconciliations could help detect errors or misuse of money promptly.

1. **We recommend that the Saskatchewan Liquor and Gaming Authority follow its procedures to control its bank accounts.**

As of May 2011, Liquor & Gaming had reconciled all recorded bank balances to the bank's records.

Succession planning—a follow up

Background

Succession planning ensures an effective workforce is ready to assist the agency to achieve its objectives. Without employees with the required skills, Liquor & Gaming increases its risk of not achieving its objectives. 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, as a Treasury Board Crown Corporation, Liquor & Gaming is responsible to build a representative workforce.

In 2006, we assessed whether Liquor & Gaming had adequate succession planning processes. We reported the audit in our 2006 Report – Volume 3. We made three recommendations to help improve Liquor & Gaming's succession planning processes. In June 2007, PAC agreed with our recommendations. Our 2009 Report – Volume 1, Chapter 8 (pp. 118 to 120) reported the results of our follow up. At that time, we continued to make two recommendations to improve Liquor & Gaming's succession planning.

In October 2011, we performed a second follow up. We describe below the two outstanding recommendations (in bold) and Liquor & Gaming's actions up to October 20, 2011. Liquor & Gaming has now implemented our recommendations.

Document and communicate competency gaps

We recommended that Liquor & Gaming establish a process to document and communicate potential competency gaps. (2006 Report – Volume 3)

Liquor & Gaming has established a performance planning form used for tracking employee competency and career goal objectives. This form helps to monitor employee performance and identify any future skill sets needed.

Liquor & Gaming has also developed a succession planning and management framework that identifies critical positions and areas that are necessary to meet its strategic objectives. The succession plan identifies a corporate pool of candidates with the required knowledge and skills required for these critical positions.

Liquor & Gaming's senior management uses the succession plan and performance planning forms to establish mentoring, cross training and leadership programs to help ensure that employees have the required competencies for these critical positions and areas.

Status – Liquor & Gaming has implemented our recommendation.

Document and monitor progress of succession strategies

We recommended that Liquor & Gaming document and monitor progress of succession strategies. (2006 Report – Volume 3)

As mentioned above, Liquor & Gaming has developed an approved written succession plan that identifies critical positions that are necessary to meet its strategic objectives. The succession plan identifies a corporate pool of candidates including knowledge and skills required for these critical positions. Liquor & Gaming's succession plan and management framework lists factors used to measure and monitor the effectiveness of succession strategies.

Liquor & Gaming regularly updates a workforce analysis report that documents demographics and staff retention for all of its employees to help monitor human resource risks such as an aging workforce and staff retention. Liquor & Gaming's senior management uses this analysis along with employees' planning performance forms to update and monitor its succession plan and strategies.

Status – Liquor & Gaming has implemented our recommendation.

Encouraging responsible use of beverage alcohol—a follow up

Background

Under *The Alcohol and Gaming Regulation Act, 1997 (Act)*, Liquor & Gaming is responsible for the regulation and control of beverage alcohol. 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 the 2010-11, Liquor & Gaming generated gross revenue of \$550.5 million from liquor sales.³ Liquor & Gaming's performance plan for 2011-12 states that Liquor & Gaming's mission is to promote growth through the socially responsible distribution, management, operation and regulation of liquor in Saskatchewan. 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 2006 Report – Volume 1, Chapter 8A (pp. 233-248) concluded that Liquor & Gaming had adequate processes in place except it needed to assign responsibility, prepare a complete plan, and continue to develop performance measures and targets to evaluate its performance for encouraging responsible use of beverage alcohol.

On October 31, 2006, PAC agreed with our recommendations.

In our 2009 Report – Volume 1, we followed up on Liquor & Gaming's progress in addressing our recommendations. We concluded that Liquor & Gaming had implemented our recommendation to formally assign responsibility for encouraging responsible use of beverage alcohol. The two other recommendations were not adequately implemented.

The following sections set out the recommendations (in bold) and Liquor & Gaming's actions up to September 2011. We found Liquor & Gaming

³ Saskatchewan Liquor and Gaming Authority, *2010-11 Annual Report*, p. 8.

has implemented one recommendation and partially implemented the other one.

Prepare a complete plan

We recommended that Liquor & Gaming Authority prepare a complete plan for encouraging responsible use of beverage alcohol.
(2006 Report – Volume 1)

Liquor & Gaming prepared a social responsibility plan. Outlined in the plan are goals and objectives to encourage responsible use of alcohol. The plan also documents costs and timeframes, potential actions to be completed, outcomes and the divisions responsible for each initiative.

Status – Liquor & Gaming has implemented our recommendation.

Research and develop performance measures and targets

We recommended that Liquor & Gaming Authority continue to research and develop performance measures and targets to evaluate its performance in encouraging responsible use of beverage alcohol. *(2006 Report – Volume 1)*

Liquor & Gaming told us it is challenging to accurately measure the results of the social responsibility initiatives aimed at modifying human behaviour due to the nature of the activities done (e.g., information campaigns). Liquor & Gaming documents results for initiatives where information exists (e.g., the Report Impaired Drivers program). In this program, participating police services track both the number of citizen calls made and the number of charged impaired drivers resulting from those calls. Police services provide this information to SGI. SGI then provides this information to Liquor & Gaming.

Liquor & Gaming also told us that they are in the process of developing a reporting document that will accompany its social responsibility plan. Liquor & Gaming plans to report on the status of its social responsibility initiatives.

Status – We continue to make this recommendation.

Status of previous recommendations of the Standing Committee on Public Accounts

The following exhibit provides an update on recommendations agreed to by PAC that are not yet implemented and are not discussed earlier in this chapter.⁴ Our intent is to follow up outstanding recommendations in upcoming reports.

PAC REPORT YEAR ⁵	OUTSTANDING RECOMMENDATION	STATUS
Saskatchewan Liquor and Gaming Authority – Supervising Delegated Regulatory Functions (2010 Report – Volume 2)		
2011	15A-3 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.	Not implemented (as at April 30, 2010). Follow up planned in 2012.
2011	15A-4 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.	Not implemented (as at April 30, 2010). Follow up planned in 2012.
2011	15A-5 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.	Not implemented (as at April 30, 2010). Follow up planned in 2012.

⁴ For definitions of the key terms used in the exhibit, see Chapter 27 – Standing Committee on Public Accounts.

⁵ "PAC Report Year" refers to the year that PAC first made the recommendations in its report to the Legislative Assembly.