



Chapter 21

Saskatchewan Liquor and Gaming Authority

1.0 MAIN POINTS

This chapter reports the results of the annual audit of the Saskatchewan Liquor and Gaming Authority (Liquor & Gaming) for the year ended March 31, 2012.

Liquor & Gaming's 2012 financial statements are reliable. Liquor & Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

This chapter includes two new recommendations for Liquor & Gaming to strengthen its rules and processes to safeguard public resources. First, Liquor & Gaming needs to implement an enterprise risk framework to help mitigate risks within the organization. Second, Liquor & Gaming needs to monitor the expenses of the Saskatchewan Indian Gaming Authority on a timely basis to ensure expenses were incurred for appropriate business purposes.

This chapter also provides an update on the status of previous recommendations agreed to by the Standing Committee on Public Accounts (PAC).

2.0 INTRODUCTION

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 Inc.'s (SIGA's) casinos. Liquor & Gaming includes slot machine revenues and expenses in its financial statements.

2.1 Financial Overview

In 2011-12, Liquor & Gaming had revenues of \$1,040 million, expenses of \$576 million, and comprehensive income¹ of \$464 million. At March 31, 2012, Liquor & Gaming held total assets of \$168 million and had a retained deficit of \$7.6 million. Liquor & Gaming's 2011-12 annual report includes its financial statements.

¹ Comprehensive income is the term for net income when agencies use International Financial Reporting Standards for their accounting.

3.0 AUDIT CONCLUSIONS, SCOPE AND FINDINGS

In our opinion, for the year ended March 31, 2012:

- › **Liquor & Gaming had effective 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 & Gaming Regulation Act, 1997
The Liquor Consumption Tax Act
The Litter Control Act
The Litter Control Designation Regulations
Customs Tariff Act (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
 Orders in Council issued pursuant to the above legislation

- › **Liquor & Gaming's financial statements are reliable**

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of Liquor and Gaming's controls. The CICA defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

In our 2011-12 audit, we examined the effectiveness of Liquor & Gaming's financial related controls to administer revenues and expenses, safeguard assets, keep reliable financial records consistent with related authorities and prepare reliable financial reports.

Liquor & Gaming is responsible for the distribution, control and regulation of liquor and gaming in Saskatchewan. We focused on the how Liquor & Gaming operates retail liquor stores, video lottery terminals (VLTs), and break-open vending machine program. In addition, Liquor & Gaming owns and manages slot machines located at SIGA's casinos and the related revenues and expenses are included in Liquor & Gaming's financial statements. Our audit also includes an evaluation of significant Information Technology systems and processes. We also review the work done by Liquor & Gaming's Compliance Branch and Internal Audit Branch to ensure liquor and gaming in the Province complies with legislation.

3.1 Risk Assessment Needed

All agencies face risks in achieving their objectives. Risks are missed opportunities or adverse events that could influence an agency's ability to meet its strategic objectives. Risk management is the culture, processes, and structures that are directed towards realizing potential opportunities while managing adverse events. Liquor & Gaming needs good risk management processes to help it adapt to changing circumstances and take full advantage of opportunities while reducing threats to reasonable levels.

Liquor & Gaming's strategic plan (also called its performance plan) does not include a formal risk assessment. Liquor & Gaming may not meet its organizational goals and



objectives if risks are not identified, documented and mitigated to an acceptable level. Management initiated an enterprise risk management framework project in 2010-11. However, after initial research being completed, SLGA has not developed a complete framework and plan for the organization.

- 1. We recommend that Saskatchewan Liquor and Gaming Authority develop and implement an enterprise risk management framework and plan.**

3.2 Need to Monitor SIGA's Expenses on a Timely Basis

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 to assess reasonableness of SIGA's costs, Liquor & Gaming's Internal Audit Branch annually review SIGA's expenditures to determine whether they are reasonable, comply with approved policies, and have an adequate business purpose. If SIGA incurs inappropriate expenses greater than \$10,000 annually, Liquor & Gaming will recover 25% of the amount of such expenses from future payments to the First Nations Trust.²

The latest review was completed for the period from October 1, 2010 to September 30, 2011 a year later, in September 2012. The review highlights areas of concern where some of SIGA's policies could be improved. However, Liquor & Gaming determined that no inappropriate expenses greater than \$10,000 occurred during the period reviewed. More timely reviews of the expenses would highlight concerns to SIGA sooner.

Because the reviews are not timely, SIGA does not know if Liquor & Gaming has determined if it has incurred inappropriate business expenses for any period after September 30, 2011.

- 2. We recommend that Saskatchewan Liquor and Gaming Authority complete its review of Saskatchewan Indian Gaming Authority's expenses on a timely basis.**

² The purpose of the First Nations Trust is to distribute First Nations' share of gaming proceeds due to them pursuant to the 2002 Framework Agreement.

3.3 Risk-Based Process to Assess SIGA's Compliance with Approved Policies in Place

We recommended that Saskatchewan Liquor and Gaming Authority establish a risk-based process to assess SIGA's compliance with approved operating policies. (2009 Report – Volume 3; Public Accounts Committee agreement June 25, 2010)

Status – Implemented.

During the 2011-12 year, Liquor & Gaming completed its risk assessment to identify and assess the risks associated with SIGA's compliance with SIGA's approved operating policies. Liquor & Gaming developed strategies to perform work on policies that have a moderate risk of loss after considering work completed by SIGA's internal auditor, SIGA's external auditor, Liquor & Gaming's Gaming Operations Division, and Liquor & Gaming's Internal Audit Branch. Liquor & Gaming's risk assessment identified no gaps in its process for monitoring SIGA's operations that posed a high risk of loss.

3.4 Losses from Automated Teller Machine Recovered

We recommended that Saskatchewan Liquor and Gaming Authority take steps to recover losses of public money from automated teller machines at SIGA casinos. (2009 Report – Volume 3; Public Accounts Committee agreement June 25, 2010)

Status – Implemented.

In 2009-10, SIGA incurred a \$1.2 million loss on automated teller machines (ATMs) resulting from SIGA's non-compliance with approved policies. Through insurance and litigation, SIGA has recovered substantially the full amount of the ATM loss.

3.5 Casino Automated Teller Machines Registered

We recommended that Saskatchewan Liquor and Gaming Authority register casino automated teller machine (ATM) suppliers. (2009 Report – Volume 3; Public Accounts Committee agreement June 25, 2010)

Status – Implemented.

As the 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 casino ATM suppliers to be registered and all current suppliers are included in the Registration Branch's "Active Supplier Listing." Liquor & Gaming conducts an annual review to ensure all companies doing business in the gaming sector in Saskatchewan are registered. ATM suppliers are now subject to this process to ensure they hold a certificate of registration from Liquor & Gaming.

3.6 Compliance with Information Technology Policies Needed

We recommended that Saskatchewan Liquor and Gaming Authority follow its approved information technology (IT) policies and procedures. (2007 Report – Volume 3; Public Accounts Committee agreement January 8, 2008)

Status – We continue to make this 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 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.

We noted that employees did not always follow the approved policies for granting and removing user access privileges and for monitoring network security. For example, some former employees had access privileges to Liquor & Gaming's network and certain information technology systems. Also, six employees were given inappropriate access to approve purchase orders in Liquor & Gaming's liquor inventory purchasing system.

Delays in updating user accounts and granting inappropriate access levels increase the risk of unauthorized disclosure of data, inappropriate modification, or loss.

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

Subsequent to year-end, management stated that they have updated employees' network access for those employees whose access was identified as inappropriate.

3.7 Timely Bank Reconciliations Needed

We recommended that the Saskatchewan Liquor and Gaming Authority follow its procedures to control its bank accounts. (2011 Report – Volume 2)

Status – We continue to make this recommendation.

Liquor & Gaming's procedures require employees to agree (reconcile) its recorded bank balances to the bank's records each month. It also requires 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, and review and approval of such reconciliations, provide a check that all charges to bank accounts are proper and all money has been received and deposited in the right accounts. These also check the accuracy and reliability of Liquor & Gaming's accounting records.

During the year, employees regularly prepared and management reviewed and approved all monthly bank reconciliations. However, this was not always done on a timely basis. For the last quarter of the year (January – March 2012), Liquor & Gaming was complying with its procedures to control its bank accounts.

Liquor & Gaming performed daily store and cheque clearing activities. This does not replace the need for timely monthly bank reconciliations.

4.0 EXHIBITS

4.1 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. Our intent is to follow up outstanding recommendations in upcoming reports.

PAC Report Year	Outstanding Recommendation	Status
Liquor and Gaming Authority (Responsible Use of Beverage Alcohol) (2006 Report – Volume 1)		
2007	7-2 that the Liquor and Gaming Authority continue to research and develop performance measures and targets to evaluate its performance in encouraging responsible use of beverage alcohol.	Partially implemented (as of March 31, 2011)