

Chapter 26

Saskatchewan Liquor and Gaming Authority

1.0 MAIN POINTS

Saskatchewan Liquor and Gaming Authority's (Liquor & Gaming) financial statements for the year ended March 31, 2015 are reliable. It complied with authorities governing its activities related to financial reporting, safeguarding resources, revenue raising, spending, borrowing, and investing. During the year, Liquor and Gaming updated its slot machine records and implemented its enterprise risk management framework.

Liquor & Gaming had, other than for the following two matters, effective rules and procedures to safeguard public resources. It needs to improve its information technology (IT) security policies and consistently comply with its user access policies.

2.0 INTRODUCTION

Liquor and Gaming operates under *The Alcohol and Gaming Regulation Act, 1997*. It is responsible for the distribution, management, operation and regulation of liquor and gaming across the province.¹

Liquor & Gaming owns and operates all video lottery terminals (VLTs) located in the province, owns and manages all slot machines located at Saskatchewan Indian Gaming Authority Inc. (SIGA) casinos, and operates retail liquor stores. It distributes liquor to other businesses who sell liquor to the public (e.g., private liquor stores, franchises, commercial permittees).

2.1 Financial Overview

In 2014-15, Liquor & Gaming had revenues of \$1,092 million,² expenses of \$604 million, and comprehensive income of \$488 million. **Figure 1** shows Liquor & Gaming's key financial results by segment. At March 31, 2015, Liquor & Gaming held total assets of \$287 million, had total liabilities of \$290 million, and had a retained deficit of \$3 million. Liquor & Gaming's 2014-15 annual report includes its financial statements.

Figure 1 – Key Financial Results for 2014-15 by Segment

	Liquor	VLT	Slot Machines in SIGA Casinos	Other Gaming	Total
	(in millions)				
Total Revenues*	\$ 619.4	\$ 246.1	\$ 225.8	\$ 0.5	\$ 1,091.8
Total Expenses	375.2	66.5	143.0	19.1	603.8
Total Comprehensive Income (Loss)	<u>\$ 244.2</u>	<u>\$ 179.6</u>	<u>\$ 82.8</u>	<u>\$ (18.6)</u>	<u>\$ 488.0</u>

Source: Saskatchewan Liquor & Gaming Authority's 2014-15 audited financial statements.

*Including other comprehensive income/loss.

¹ Saskatchewan Liquor and Gaming Authority. (2015). *Saskatchewan Liquor and Gaming Authority – Plan for 2015-16*. www.sлга.gov.sk.ca/Prebuilt/Public/Strategic%20Plan%202015-16.pdf (28 May 2015).

² \$1,092 million is comprised of gross revenues of \$1,099 million less other comprehensive loss of \$7 million.



3.0 AUDIT CONCLUSIONS AND SCOPE

In our opinion, for the year ended March 31, 2015:

- › **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 related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

<i>The Alcohol and Gaming Regulation Act, 1997</i>	<i>Excise Tax Act (Canada) (section 188)</i>
<i>The Alcohol Control Regulations, 2013</i>	<i>Excise Act, 2001 (Canada) (schedule 4-6)</i>
<i>The Financial Administration Act, 1993</i>	<i>Criminal Code of Canada (section 207)</i>
<i>The Gaming Regulations, 2007</i>	Orders in Council issued pursuant to the above
<i>The Liquor and Gaming Authority Employee Code of Conduct Regulations</i>	legislation
<i>The Liquor Consumption Tax Act</i>	2002 Framework Agreement, as amended
<i>The Litter Control Act</i>	2002 Casino Operating Agreement, as amended
<i>The Litter Control Designation Regulations</i>	Western Canada Lottery Corporation Operating Agreement
<i>The Customs Tariff Act (Canada)</i>	Indigenous Gaming Regulators Licensing Agreement
<i>Excise Act (Canada) (schedule I, II and II.1)</i>	

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

We used the control framework published by CPA Canada to make our judgments about the effectiveness of Liquor & Gaming's controls. The control framework defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

We examined the effectiveness of Liquor & Gaming's financial-related controls used to administer revenues and expenses, safeguard assets, keep reliable financial records consistent with related authorities, and prepare reliable financial reports. This included evaluating its significant information technology systems and processes and examining how it monitored SIGA's operations. Also, we assessed the work of its Gaming Integrity Branch and Audit Services Branch with respect to compliance with legislation over liquor and gaming activities in the province.

During 2014-15, Liquor & Gaming replaced the computer system used to manage its warehouse liquor inventory. We assessed Liquor & Gaming's processes to manage the system implementation including the conversion of data from its existing system to its new system. We also assessed the significant changes to Liquor & Gaming's processes to control warehouse inventory as a result of the implementation of this system.

In addition, we examined Liquor & Gaming's processes to manage the ongoing construction of its new distribution centre (warehouse). This included assessing the accounting for construction costs in accordance with International Financial Reporting Standards (IFRS).

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Policies and Procedures for Monitoring IT Security Needed

We recommended that Saskatchewan Liquor and Gaming Authority develop information technology security policies and procedures for monitoring information technology security. (2013 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

Status – Not Implemented

While Liquor & Gaming had processes for identifying security threats and detecting security incidents, by March 2015, it had not developed policies and procedures to monitor IT security and respond to security issues when they occur.

For example, during 2014-15 we identified that Liquor & Gaming did not have a documented process for making critical updates to its systems (i.e., patch management policy). For the three servers we tested, we identified 19 critical updates that were not made on a timely basis. Failure to monitor IT security and respond to security issues increases the risk of unauthorized access to IT systems and data without detection.

During 2014-15, Liquor & Gaming started to implement a new IT security system. In December 2014, it formed a committee focused on reviewing and strengthening IT security processes. It indicated that it expects to continue to develop and implement additional security monitoring procedures in 2015-16.

4.2 Consistent Compliance With User Access IT Policies and Procedures Needed

We recommended that Saskatchewan Liquor and Gaming Authority follow its approved information and technology (IT) policies and procedures. (2007 Report – Volume 3; Public Accounts Committee agreement January 9, 2008)

Status – Not Implemented with respect to user access IT policies and procedures

Liquor & Gaming management did not receive periodic user access reports to assess whether user access to its significant IT systems was appropriate. Also, during 2014-15, Liquor & Gaming staff continued to not consistently follow approved policies for granting and removing user access privileges to key IT systems. For example, we noted that Liquor & Gaming:

- › Gave three individuals access to an IT system that was not needed to carry out assigned responsibilities
- › Gave three individuals conflicting access privileges to certain IT systems that resulted in a lack of segregation of incompatible duties



- Did not remove IT access privileges of 14 individuals no longer in its employ; one of those individuals had administrator access to its store inventory system

Our testing did not find these individuals suspiciously used their inappropriate access.

Giving staff inappropriate user access increases the risk of fraud or inappropriate modification to data. Delays in removing unneeded user access increase the risk of unauthorized disclosure, inappropriate modification, or loss of data.

Management indicated it expects to implement processes for validating user access to its significant systems in 2015-16.

4.3 Slot Machine Records Up to Date

We recommended that Saskatchewan Liquor and Gaming Authority verify, on a timely basis, information from its service provider on purchases and disposals of its slot machines to enable it to keep its financial records up to date. (2014 Report – Volume 2; Public Accounts Committee agreement September 17, 2015)

Status – Implemented

Liquor & Gaming has contracted a service provider, Western Canadian Lottery Corporation – Saskatchewan Division (WCLC), to administer the operating system and provide general physical maintenance of Liquor & Gaming’s slot machines. At March 31, 2015, Liquor & Gaming owned about 2,300 slot machines with a net book value of \$13.7 million.³

During 2014-15, Liquor & Gaming’s financial staff received and verified information from WCLC monthly, and updated its financial and capital assets records for purchases and disposals of slot machines accordingly.

4.4 Corporate-Wide Risk Framework Implemented

We recommended that Saskatchewan Liquor and Gaming Authority develop and implement an enterprise risk management framework and plan. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

Status – Implemented

During 2014-15, Liquor & Gaming finalized and implemented its enterprise risk management framework. The framework sets out the value of a corporate-wide risk assessment, the levels at which Liquor & Gaming intends to assess risk, and how risk will be ranked and addressed.

Liquor & Gaming used its framework to complete a corporate-wide risk assessment that was aligned with the objectives in its strategic plan. Risks were identified, documented, and prioritized. The risk assessment also included strategies to mitigate these risks to an acceptable level.

³ Saskatchewan Liquor & Gaming Authority’s 2014-15 audited financial statements.