

## Chapter 14

# Saskatchewan Liquor and Gaming Authority

### 1.0 MAIN POINTS

During 2016-17, Saskatchewan Liquor and Gaming Authority (SLGA) had effective rules and procedures to safeguard public resources except it needs to:

- Prepare and approve timely and accurate bank reconciliations
- Complete its procedures for responding to IT security incidents

Both SLGA and SLGA Retail Inc.'s 2016-17 financial statements are reliable. SLGA and SLGA Retail Inc. complied with the authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

### 2.0 INTRODUCTION

SLGA operates under *The Alcohol and Gaming Regulation Act, 1997*. SLGA is responsible for distributing and regulating liquor and gaming across the province.<sup>1</sup>

SLGA owns and operates all video lottery terminals (VLTs) located in the province and owns and manages all slot machines located at Saskatchewan Indian Gaming Authority Inc. (SIGA) casinos. SLGA operates government-owned retail liquor stores through its subsidiary SLGA Retail Inc.<sup>2</sup> SLGA also distributes liquor to retail store permittees who sell liquor to the public.

### 2.1 Financial Overview

In 2016-17, SLGA had consolidated revenues of just over \$1.0 billion,<sup>3</sup> expenses of \$0.6 billion, and comprehensive income of almost \$0.5 billion. At March 31, 2017, SLGA held consolidated assets and liabilities, each of about \$0.3 billion. SLGA's *2016-17 Annual Report* includes its consolidated financial statements. **Figure 1** shows SLGA's key financial results by segment—liquor, VLTs, slot machines, and other gaming (e.g., charitable gaming licences).

<sup>1</sup> Saskatchewan Liquor and Gaming Authority, *Saskatchewan Liquor and Gaming Authority – Plan for 2017-18*, (2017).

<sup>2</sup> SLGA Retail Inc. was established under Order in Council 423/2016. It was incorporated under *The Business Corporations Act* as a wholly-owned subsidiary of SLGA on September 28, 2016, and began operations on October 9, 2016.

<sup>3</sup> \$1,097.8 million is comprised of gross revenues of \$1,096.1 million plus other comprehensive income of \$1.7 million.

**Figure 1 – Key Financial Results for 2016-17 by Segment**

	Liquor	VLTs	Slot Machines in SIGA Casinos	Other Gaming	Total
	(in millions)				
Total Revenues <sup>A</sup>	\$ 640.3	\$ 232.2	\$ 224.2	\$ 1.1	\$ 1,097.8
Total Expenses	394.3	65.4	141.4	17.8	618.9
Total Comprehensive Income (Loss)	\$ 246.0	\$ 166.8	\$ 82.8	\$ (16.7)	\$ 478.9

Source: Saskatchewan Liquor and Gaming Authority's 2016-17 audited consolidated financial statements.

<sup>A</sup> Including other comprehensive income/loss.

### 3.0 AUDIT CONCLUSIONS

In our opinion, for the year<sup>4</sup> ended March 31, 2017:

- **SLGA had effective rules and procedures to safeguard public resources except for the matters described in this chapter**
- **SLGA and SLGA Retail Inc. complied with the following authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

*The Alcohol and Gaming Regulation Act, 1997*  
*The Alcohol Control Regulations, 2013* (until October 8, 2016)  
*The Alcohol Control Regulations, 2016* (effective October 9, 2016)  
*The Business Corporations Act*  
*The Business Corporations Regulations*  
*The Executive Government Administration Act*  
*The Environmental Management and Protection Act, 2010* (section 40)  
*The Environmental Management and Protection (General) Regulations* (section 12)  
*The Financial Administration Act, 1993*  
*The Gaming Regulations, 2007*  
*The Liquor and Gaming Authority Employee Code of Conduct Regulations*

*The Liquor Consumption Tax Act*<sup>5</sup>  
*The Customs Tariff Act* (Canada)  
*Excise Act* (Canada) (schedule I, II and II.1)  
*Excise Tax Act* (Canada) (section 188)  
*Excise Tax Act, 2001* (Canada) (schedule 4-6)  
*Criminal Code of Canada* (section 207)  
 Orders in Council issued pursuant to the above legislation  
 2002 Framework Agreement  
 2002 Casino Operating Agreement  
 Western Canada Lottery Corporation Operating Agreement  
 Indigenous Gaming Regulators Licensing Agreement

- **SLGA and SLGA Retail Inc. each had reliable financial statements**

We used standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (including CSAE 3001) to conduct our audits. We used the control framework published by CPA Canada to make our judgments about the effectiveness of SLGA'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 SLGA's financial-related controls used to administer revenues and expenses, safeguard assets, keep reliable financial records consistent with

<sup>4</sup> SLGA Retail Inc. opinions are for the period September 28, 2016 to March 31, 2017.

<sup>5</sup> Effective October 9, 2016, SLGA Retail Inc. is responsible to impose and collect Liquor Consumption Tax (LCT); SLGA remits LCT on behalf of SLGA Retail Inc.

related authorities, and prepare reliable financial reports. This included evaluating its significant IT systems and processes and examining how it monitored SIGA's operations. We also 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 2016-17, SLGA continued to implement changes to the liquor retailing system. We examined SLGA's processes to evaluate proposals for new retail store permits including its use of established evaluation criteria. In addition, we assessed SLGA's processes to change its liquor mark-up structure effective October 9, 2016.

We also assessed whether SLGA appropriately considered the impact of liquor retailing changes (including establishing SLGA Retail Inc.) on its financial statements and those of SLGA Retail Inc. (e.g., subsequent events disclosure; value of property, plant and equipment; provision for severance; recording of intercompany transactions).

SLGA replaced its computer system used to regulate liquor and gaming in 2016-17. It also implemented a new pricing structure in its warehouse liquor inventory systems and upgraded its financial system. We assessed its processes to implement these changes including converting data from existing to new systems.

## 4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we outline key observations from our assessments and the resulting recommendations.

### 4.1 Accurate and Timely Reconciliation of Bank Accounts Needed

SLGA did not always reconcile its bank accounts accurately or timely as its policies require. At March 31, 2017, SLGA had cash of over \$51 million.

SLGA's policy requires staff to reconcile the bank balance in its financial records to the bank's records within four weeks of month-end.<sup>6</sup> It requires management to review bank reconciliations within two weeks of completion.

We found 24% of the monthly bank reconciliations we tested (8 out of 33) were not prepared within four weeks of month-end.<sup>6</sup> We found management did not review 15% of the reconciliations we tested (5 out of 33) as required by SLGA's policies. With the exception of the error noted in the liquor bank account reconciliation below, SLGA's bank accounts were reconciled without issues.

For one month during 2016-17, SLGA's liquor bank account reconciliation contained significant errors. For example, management reviewed and approved the reconciliation with a \$179 million difference between the actual bank balance and the bank balance used in the reconciliation. The reconciliation also had an offsetting difference between the actual cash balance in SLGA's financial records and the balance used in the reconciliation.

<sup>6</sup>One bank account, the liquor account, is to be reconciled within five weeks of month-end.



We notified management about all differences we found and they corrected the bank reconciliation.

Proper bank account reconciliations check the accuracy and reliability of SLGA's accounting records (e.g., detect unauthorized payments or unrecorded cash receipts) and can identify bank errors, if any. Doing timely reconciliations enables timely follow up of differences and corrections increasing the accuracy of financial and banking records. Without accurate and timely bank reconciliations, SLGA increases the risk of using inaccurate financial information to make decisions.

1. **We recommend that Saskatchewan Liquor and Gaming Authority prepare and approve timely and accurate bank reconciliations, as its policies require.**

## 4.2 Complete Policies and Procedures for Responding to IT Security Incidents Needed

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*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** – Partially Implemented

By March 2017, SLGA had not completed policies and procedures for responding to IT security incidents. SLGA had well established and documented processes for identifying security threats and detecting security incidents, but not for responding to IT security incidents.

During 2016-17, SLGA drafted an IT Security Incident Response Plan. The Plan defines types of incidents, their severity, and outlines a communication plan based on risk. It assigns responsibility for monitoring security incidents to a Security Incident Response Team. At September 2017, SLGA had not developed procedures for the Security Incident Response Plan or determined the team structure. Management noted that it plans to finalize its procedures for responding to security incidents during 2017-18.

During 2016-17, SLGA finalized its IT System Maintenance Policy and related procedures. Its Policy requires staff to assess the criticality of security updates available between quarters to determine whether it can delay applying an update until quarter-end (i.e., its regular schedule) or should apply the update immediately. Starting in April 2017, SLGA completes monthly vulnerability assessments. We reviewed its vulnerability assessment and found that it is applying security updates sooner when determined necessary.

Not having clear IT security procedures for responding to security incidents increases the risk of inappropriate responses and not using staff time and resources efficiently. Failing to respond to IT security issues increases the risk of unauthorized access to IT systems and data without detection.

### 4.3 User Access Policies and Procedures Followed

***We recommended that Saskatchewan Liquor and Gaming Authority follow its approved information and technology policies and procedures.***

(2007 Report – Volume 3; Public Accounts Committee agreement January 9, 2008)

**Status** – Implemented

During 2016-17, SLGA implemented two processes to address untimely user access removal:

- Beginning in October 2016, SLGA's Human Resource Branch sends user access termination requests to the IT service desk on behalf of all branches when it becomes aware of terminated employees and contractors.
- Beginning in December 2016, its IT Branch provides a monthly network user access listing to each business area. SLGA expects each business area to review the report and assess whether user access is appropriate. They are to notify the IT Branch of any inappropriate network access.

During 2017-18, SLGA plans to develop reports and have each business area regularly assess user access for its significant IT applications.

We found the above processes are making a difference. Our tests of individuals (who left the employ of SLGA after October 2016) did not identify any individuals whose access to SLGA's network and IT systems was not removed promptly.

