

Chapter 13

Saskatchewan Liquor and Gaming Authority and Saskatchewan Indian Gaming Authority

1.0 MAIN POINTS

During 2018–19, the Saskatchewan Liquor and Gaming Authority had effective rules and procedures to safeguard public resources other than the Authority needing a written agreement with the Saskatchewan Indian Gaming Authority (SIGA) to receive an annual audit report on the effectiveness of controls for the SIGA Casino Management System in a timely manner.

Without an agreement setting out clear deadlines, the Authority cannot effectively monitor the controls for the SIGA Casino Management System and its data, which may make the Authority unaware of control deficiencies that could impact the completeness of SIGA's reported gaming revenues and expenses.

The Authority implemented, in 2018–19, our prior recommendation. Management completed detailed reviews of quarterly financial information, and provided appropriate support for year-end financial information.

During 2018–19, SIGA had effective rules and procedures to safeguard public resources other than it needing to monitor the activities of its service provider that manages its Casino Management System, as well as better protect its IT systems and data by periodically reviewing user access to them. This increases the risk of unauthorized access to and inappropriate modifications to systems and data that could impact the completeness of reported gaming revenues and expenses.

2.0 INTRODUCTION

2.1 Background

The Saskatchewan Liquor and Gaming Authority operates under *The Alcohol and Gaming Regulation Act, 1997*. The Authority is responsible for distributing liquor and gaming products, and the regulation of liquor, gaming, and cannabis.¹

The Authority operates government-owned retail liquor stores through its subsidiary SLGA Retail Inc.² It also distributes liquor to retail store permittees who sell liquor to the public.

The Authority owns and operates all video lottery terminals (VLTs) in Saskatchewan. In addition, the Authority owns and manages all slot machines located in the Saskatchewan

¹ Saskatchewan Liquor and Gaming Authority, *Saskatchewan Liquor and Gaming Authority—Plan for 2018–19*, (2019).

² SLGA Retail Inc. was approved for incorporation 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.



Indian Gaming Authority's (SIGA) casinos. The Authority owns the VLTs and slot machines through its subsidiary, SLGA Holding Inc.³

The Minister responsible for the Authority forms the one-member Board governing the Authority. Members of the Authority's management comprise the Boards of both SLGA Retail Inc. and SLGA Holding Inc.

The Authority contracted the operation of its VLT program to Western Canada Lottery Corporation—Saskatchewan Video Lottery Division, and the operation of slot machines at SIGA casinos (including the operation of related Casino Management System) to SIGA.

SIGA is a non-profit established under *The Non-Profit Corporations Act, 1995*. Its members are the Federation of Sovereign Indigenous Nations (FSIN), the Tribal Councils of Saskatchewan, and independent First Nations.

SIGA, under licences issued by the Authority, operates seven casinos located on First Nations' reserves. They are: Bear Claw Casino, Dakota Dunes Casino, Gold Eagle Casino, Gold Horse Casino, Living Sky Casino, Northern Lights Casino, and Painted Hand Casino.⁴ SIGA's casino operations include slot machines, ancillary operations (i.e., gift shops, restaurants, lounges, and a hotel), and table games operations.

As required by the *Criminal Code* (section 207), the Authority is responsible for the overall conduct and management of slot machines in SIGA's casinos.

Revenue from slot machines belongs to the Authority. SIGA and the Authority signed the Casino Operating Agreement that sets the calculation of slot machine revenue belonging to the Authority.⁵ The Authority allows SIGA to deduct reasonable costs from slot machine revenues; the Authority's financial statements include SIGA's revenues and expenses.

2.2 Financial Overview

In 2018–19, the Authority generated consolidated revenues of just over \$1 billion, expenses of \$0.6 billion, and comprehensive income of almost \$0.5 billion. At March 31, 2019, the Authority held consolidated assets and liabilities each worth \$0.3 billion. The Authority's *2018–19 Annual Report* includes its consolidated financial statements.

Figure 1 shows the Authority's key financial results by segment—liquor, VLTs, slot machines, other gaming, and cannabis.

³ SLGA Holding Inc. was approved for incorporation under Order in Council 312/2018. It was incorporated under *The Alcohol and Gaming Regulation Act, 1997*, as a wholly-owned subsidiary of the Authority on June 26, 2018. Effective September 30, 2018, it operated as a wholly-owned subsidiary under the direction of the Authority.

⁴ In 2002, the Government of Saskatchewan and the FSIN signed the 2002 Framework Agreement. It allows for the development and operation of casinos in Saskatchewan within the parameters of the Criminal Code (Canada). In 2017, the Government of Saskatchewan and the FSIN extended the 2002 Framework Agreement to June 11, 2037.

⁵ SIGA and the Authority signed a Casino Operating Agreement effective from June 11, 2002 to June 11, 2027. Under this Agreement, the Authority allows SIGA to deduct reasonable costs incurred from slot machine revenues in accordance with the operating policies approved by the Authority.

Figure 1—Authority's Key Financial Results for 2018–19 by Segment

	Liquor	VLT	Slot Machines in SIGA Casinos	Other Gaming	Cannabis	Total
	(in millions)					
Total Revenues ^A	\$ 641.6	\$ 220.6	\$ 228.8	\$ 0.8	\$ 1.8	\$ 1,093.6
Total Expenses	<u>386.3</u>	<u>61.7</u>	<u>145.8^B</u>	<u>13.5</u>	<u>2.6</u>	<u>609.9</u>
Total Comprehensive Income (Loss)	<u>255.3</u>	<u>158.9</u>	<u>83.0</u>	<u>(12.7)</u>	<u>(0.8)</u>	<u>483.7</u>

Source: Saskatchewan Liquor and Gaming Authority's 2018–19 audited consolidated financial statements.

^A Including other comprehensive income/loss

^B Under the Casino Operating Agreement, the Authority allows SIGA to deduct reasonable costs incurred from slot machine revenues in accordance with the operating policies approved by the Authority.

In 2018–19, SIGA generated revenues of just over \$262 million and expenses of \$180 million. At March 31, 2019, SIGA held assets of \$186 million and liabilities of \$188 million. SIGA's *2018–19 Annual Report* includes its financial statements.

Figure 2 shows SIGA's key financial results by segment—slot operations, table operations, and ancillary operations.

Figure 2—SIGA's Key Financial Results for 2018–19 by Segment

	Slot Operations	Table Operations	Ancillary Operations	Elimination of Intracompany Transactions	Total
	(in millions)				
Total Revenues	\$ 228.2	\$ 14.1	\$ 23.1	\$ (3.1)	\$ 262.3
Total Expenses	<u>133.2</u>	<u>15.8</u>	<u>33.7</u>	<u>(3.1)</u>	<u>179.8</u>
Profit (loss) before the following:	<u>94.9</u>	<u>(1.8)</u>	<u>(10.6)</u>	<u>0</u>	<u>82.5</u>
Unrealized gain on interest rate swaps ^A					<u>0.3</u>
Total net income and comprehensive income for the year before distribution to the Authority					<u>82.8</u>

Source: Saskatchewan Indian Gaming Authority's 2018–19 Annual Report.

^A Unrealized gain (loss) on interest rate swaps is the amount of change in the fair value of the swaps in a fiscal year.

3.0 AUDIT CONCLUSIONS

Our Office worked with Deloitte LLP, the appointed auditor, to carry out the audit of SIGA. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.⁶

In our opinion, for the year ended March 31, 2019, we found, in all material respects:

- **The Saskatchewan Liquor and Gaming Authority and Saskatchewan Indian Gaming Authority had effective rules and procedures to safeguard public resources, except for the matters included in this chapter**

⁶ See our website at www.auditor.sk.ca.



- **The Saskatchewan Liquor and Gaming Authority, SLGA Retail Inc., SLGA Holding Inc., and Saskatchewan Indian Gaming Authority complied with the following authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Authority:

The Alcohol and Gaming Regulation Act, 1997
The Alcohol Control Regulations, 2016
The Cannabis Control (Saskatchewan) Act
The Cannabis Control (Saskatchewan) 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*⁷
The Customs Tariff Act (Canada)
Excise Act (Canada) (Schedule I, II, 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, as amended
2002 Casino Operating Agreement, as amended
Western Canada Lottery Corporation Operating Agreement
Indigenous Gaming Regulators Licensing Agreement

SLGA Retail Inc.:

The Alcohol and Gaming Regulation Act, 1997
The Business Corporations Act
The Business Corporations Regulations
The Environmental Management and Protection Act, 2010 (section 40)
The Environmental Management and Protection (General) Regulations (section 12)
The Executive Government Administration Act
The Financial Administration Act, 1993
The Liquor Consumption Tax Act
Orders in Council issued pursuant to the above legislation

SLGA Holding Inc.:

The Alcohol and Gaming Regulation Act, 1997
The Gaming Regulations, 2007
The Executive Government Administration Act, 1993
The Financial Administration Act, 1993
Orders in Council issued pursuant to the above legislation

SIGA:

The Non-Profit Corporations Act, 1995
The Non-Profit Corporations Regulations, 1997
The Alcohol and Gaming Regulation Act, 1997
The Gaming Regulations, 2007
Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)
Proceeds of Crime (Money Laundering) Suspicious Transaction Reporting Regulations (Canada)
2002 Framework Agreement, as amended
2002 Casino Operating Agreement, as amended
Terms and Conditions for SIGA Table Games (issued by Indigenous Gaming Regulators Inc.)⁸
SIGA Slot Machine Operating Procedures and Directives (issued by the Authority)
SIGA Operating Policies and Directives (issued by the Authority)
SIGA Bylaws

⁷ SLGA Retail Inc. is responsible to impose and collect Liquor Consumption Tax (LCT); the Authority remits LCT on behalf of SLGA Retail Inc.

⁸ Indigenous Gaming Regulators Inc. is an institution of FSIN; it licenses and regulates on-reserve charitable gaming in Saskatchewan, including table games at SIGA casinos.

- **The Saskatchewan Liquor and Gaming Authority, SLGA Retail Inc., SLGA Holding Inc., and Saskatchewan Indian Gaming Authority each had reliable financial statements**

We used standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (including CSAE 3001 and 3531) to conduct our audits. We used the control framework included in COSO's *Internal Control—Integrated Framework* to make our judgments about the effectiveness of the Authority's and SIGA's controls.

The audit of the Authority included examining its financial-related controls used to administer revenues and expenses, safeguard assets, keep reliable financial records consistent with related authorities, prepare reliable financial reports/statements, and monitor SIGA's operations. This included evaluating its significant IT systems and processes, and assessing 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.

In addition, the audit included assessing the appropriateness of accounting for significant related-party transactions with SLGA Retail Inc. and SLGA Holding Inc., the accuracy of year-end consolidation adjustments and elimination of inter-entity transactions.

Because SIGA operates in the casino industry, it processes a significant number of cash transactions and holds a significant amount of cash in its casinos. As a result, the audit paid particular attention to SIGA's controls for managing cash in its casinos. This included assessing its processes for approving and recording transactions, and monitoring staff compliance with established procedures to safeguard cash. Also, because SIGA relies on IT to manage its operations, the audit included assessing its controls over key IT service providers, IT security, change management processes, and user access.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Written Agreement Needed for Receipt of Service Provider Controls Report

The Authority needs a written agreement to make sure it receives, within a reasonable timeframe, the annual audit report about the effectiveness of controls for the SIGA Casino Management System. The Authority's management uses key information in this report to assess the controls protecting the SIGA Casino Management System and its data (e.g., details of the cash collected, and paid out by the slot machines), and to take steps to mitigate areas of concern, if any.

SIGA informally agreed to provide the Authority with an annual audit report on controls for the SIGA Casino Management System up to March 31.⁹

As of May 29, 2019, the Authority had not received the 2019 audit report from SIGA.

⁹ For 2018–19, this was for the period from October 1, 2018 to March 31, 2019.



Management advised us it is working with SIGA to formalize when SIGA must provide the audit report on the SIGA Casino Management System to the Authority in future years.

Without clear written deadlines, the Authority may not receive required information to enable timely monitoring of controls for the SIGA Casino Management System and its data. Without timely and sufficient monitoring of controls, the Authority may be unaware of control deficiencies (if any) that could impact the completeness of SIGA's reported gaming revenues and expenses.

1. **We recommend the Saskatchewan Liquor and Gaming Authority establish a written agreement with Saskatchewan Indian Gaming Authority indicating when it will receive the audit report on controls for the SIGA Casino Management System.**

4.2 Monitoring of SIGA's Service Provider Needed

SIGA needs to monitor activities of its service provider that manages its Casino Management System.

Currently, SIGA does not have any processes in place to monitor its service provider's activities to ensure access is authorized and appropriate, as well as to identify any changes made and not reported to SIGA.

Without monitoring activities of its service provider, SIGA does not know whether access to its Casino Management System by the service provider is appropriate and whether any unauthorized changes to its system occur. This increases the risk of unauthorized access to and inappropriate modifications of systems and data that could impact the completeness of reported gaming revenues and expenses.

2. **We recommend the Saskatchewan Indian and Gaming Authority monitor activities of its service provider that manages its Casino Management System.**

4.3 SIGA Review of User Access Needed

We recommended the Saskatchewan Indian Gaming Authority perform regular reviews of its computer application user accounts. (2010 Report – Volume 2, p. 260, Recommendation 2; Public Accounts Committee agreement January 20, 2011)

Status—Partially Implemented

SIGA did not follow its established policies to annually review user access to its key IT applications (e.g., financial system, casino management system). During 2018–19, SIGA reviewed user access of its financial system. However, SIGA did not complete IT user access reviews for its Casino Management System.

SIGA plans to complete user access reviews for its Casino Management System in 2019–20.

Timely reviews of IT user access determine whether access granted is consistent with each employee's job responsibilities and is appropriate. Lack of regular and timely reviews of IT user access increases the risk of unauthorized access to and inappropriate modifications to systems and data.

4.4 Management Provided Appropriate Support for Year-End Financial Information

We previously communicated a matter which we identified in our 2017–18 audit of the Authority. The following table lists the status of this recommendation as of May 2019 based on completion of our 2018–19 audit.

PAC ^A Agreement Date	Outstanding Recommendations	Status
PAC has not yet considered our recommendation	We recommended that Saskatchewan Liquor and Gaming Authority management carry out detailed reviews of quarterly and year-end financial information to supporting documents (e.g., reconciliations, journal entries, financial reports).	<p>Implemented</p> <p>During the 2018–19 audit, management provided appropriate support for year-end financial information and we noted evidence it carried out detailed reviews of quarterly financial information.</p>

^A PAC refers to the Standing Committee on Public Accounts

