

STANDING COMMITTEE ON PUBLIC ACCOUNTS

April 11, 1995

Public Hearing: Saskatchewan Gaming Commission

The Chairperson: — I'll call the meeting to order this morning. And I would, I guess, say a couple things. One is that I neglected at the beginning of last meeting to allow you some general observations, Mr. Nystuen, and I apologize for that. It was an oversight, and I was reminded of that by members of the committee. And I'm not sure you want to take that opportunity today to say a few things, but if you want to, you may.

And then I have as of last meeting, I have Mr. Cline, Mr. Koenker, and Mr. Serby, and Ms. Stanger on the speaking order. And if you would like to proceed, Mr. Nystuen, I'm prepared to proceed with the meeting.

Mr. Nystuen: — Okay. I will keep my comments brief about . . . sort of in the opening context. If I understand it, those comments would be tailored towards the audit report and issues that we may or may not have done.

The Chairperson: — Right.

Mr. Nystuen: — Okay. What I would say is that the Gaming Commission, as it was constructed in 1992-93, had in government's department's terms a rather narrow mandate. The mandate that it had was to license gaming activities and have those activities comply with the code.

I didn't arrive on the scene at the Gaming Commission until the '92-93 fiscal year was at a close. So the period that I can speak from begins the day after this report was finished.

But one of the observations that I would have drawn is that the structure of the organization and how the industry had developed prior to that time largely was looking at an industry that was relatively small but growing, that had organizations sort of finding their way; and as well for the Gaming Commission, sort of plotting its strategy in dealing with the licensing parameters and so on in a more reactive fashion. Indeed the courts were taking a number of decisions and sort of plotting out new territory under how licences should be granted and sort of who should or should not

qualify.

Having that said all of that, that largely structured an organization that had a modest but growing amount of work. And there were . . . the checks and balances that were in the system at that time are certainly not as sophisticated as exist today. And I guess from the auditor's point of view, given the amount of dollars involved, not as stringent as what they should be to grant reliability to the finances of the commission.

Since that period, we have had a number of ongoing projects detailing how licences should be granted, the circumstances, in more than one capacity — one certainly being what is the legality of an organization and whether or not they do qualify in terms of the code; but secondarily and tertiarily, looking at the entire industry from questions of access and equitability, trying to create policies that allow many or most organizations to participate and enjoy some of the benefits of charitable gaming, rather than having sort of those who were there first capture the majority of the benefits.

Certainly any of those evolutionary steps create challenges, but I think from what we see today, both the industry and the licensing systems are an awful lot . . . are significantly improved. And then past that, I think there is a higher level of understanding of the rules under which everyone is playing and that they're being adapted or applied systematically to everyone. And I think that that would probably be the extent of the comments that I would have on that.

The Chairperson: — Okay, thank you.

Mr. Cline: — I just have a few questions, Mr. Chairman. Firstly, I think you've already said that the Saskatchewan Gaming Commission has been rolled into the Saskatchewan Liquor and Gaming Authority. Is that correct?

Mr. Nystuen: — That is correct.

Mr. Cline: — And secondly, you may have touched on this, but with respect to this concern that the Provincial Auditor raised about having an audit plan, I take it that the licence fees that sparked that concern are now

different in terms of annual amount than they were before. Is that correct?

Mr. Nystuen: — That is correct.

Mr. Cline: — Can you tell us what the difference would be generally from I think several millions of dollars to a fraction of that amount today?

Mr. Nystuen: — Prior to the changes in licence fees, the entire collection from licensing was something in the magnitude of 8 to \$9 million on an annual basis. With the change in licence fees, I think the annual collection is something in the magnitude of 2 to 300,000 now.

Mr. Cline: — And with respect to that 2 to \$300,000, I take it from what you've said last week and what the Provincial Auditor's office said, that the concern about no audit plan has been rectified. Is that correct?

Mr. Nystuen: — Yes, that is correct.

Mr. Cline: — Thanks. Those are my questions, Mr. Chairman.

The Chairperson: — I have a number of questions relating to this. You hired a . . . in January of 1993 you hired a chartered accountant to deal with I think the Authority. What was her responsibilities and what did she have to do to make the audit activities complete in your mind?

Mr. Nystuen: — Okay. What I should explain is the system that was carried on prior to the hiring of the auditor. The system that the Gaming Commission was employing at that time was that they would grant a licence to a charity for let's say a raffle.

The raffle would be carried out. Inspectors would potentially visit the raffle, have a look at their bank accounts, were they selling the tickets, maybe show up at the draw, to make sure that the terms and conditions that apply to how to carry on that raffle were complied with.

That was the check and balance in the system. A licence would be granted and an inspector would make a visit, and certainly not in every circumstance, but they would try to sample the market to see if people were playing by the rules.

The auditor noted that what is a more appropriate system is, where a licence would be granted, you would have an inspection and compliance staff supervising the activities that are happening as they're happening.

But then further to that, have an audit department that is separate and apart from compliance, that would then follow up and check on largely three groups: the charity to see if it was carrying out its covenant; to check on the licensing officials of the commission at that time to ensure that they were granting those licences within the stated policies and parameters for granting licences; and then thirdly, that the inspectors were carrying out their tasks with regards to monitoring in the process when the raffle was taking place.

So this is a higher level of, I guess security for the system, to make sure that indeed licences are granted in an appropriate fashion, that they're used appropriately, and that those officials who are monitoring them are also carrying out their duties.

The addition of the chartered accountant at that point in time just provided a facility to have an independent check on all of those other individuals in the organization and for the charities.

The Chairperson: — Was this an in-house acquiring of a . . .

Mr. Nystuen: — Yes, it was.

The Chairperson: — You raised the point of raffles. Was this only for raffles?

Mr. Nystuen: — I was merely using that as an example.

The Chairperson: — Oh, okay. In Swift Current and in the south-west they had an agency begun. Now the name slips my mind, but the agency that would hold a blanket coverage for various charitable organizations to come, to say would you manage this raffle or the sale of these tickets for and on our behalf. Where is that today, and is that in your mind a good thing, or a thing that needs to be adjusted or dealt with in a different fashion to allow these agencies to have a broader distribution of their tickets. And basically it's a marketing strategy. Could you describe that for us.

Mr. Nystuen: — Yes, sure. The proposal that the Chair is referring to is an issue called the Southwest Fund Raising Corporation . . . or the Southwest Fund Raising. It was a group of volunteers who all in their individual organizations felt that they lacked coordination and really the marketing expertise to put on let's say more significant fund-raising drives and have them come off.

We had spoken with them a number of times about how would this work and is there a place in this system for them to fit and provide sort of the expertise that they were wanting to acquire and then distribute.

The discussion that we had with them sort of went in this process. They said, well we would like to get a licence as a charity to do this. One of the checks that we have in that system is for us to ask, well what are the purpose of the funds; what are you going to spend your money on? And they said, well what we want to do is then to give those funds to other charities to spend on whatever projects they might have.

What that does in our system is create a couple of problems. One being the breakdown between where the funds are earned and then the accountability through compliance and audit to find out exactly what those funds were at the end of the day used for. Because indeed our responsibility under the licence would have a relationship between the Authority and Southwest Fund Raising. Whereas once they would donate those funds to children's foundation or the Kinsmen or whatever, we don't have a relationship with them, so we lose the ability to audit at that point. But yet the funds haven't been used for their final purpose. So that's one problem.

The second problem that we saw in this situation is the position for them to largely act as a distributor with regards to those funds and for that organization to choose whether or not the Kinsmen project deserved 50,000 or 100,000 and the local food bank deserved 5 or 10. Indeed we cannot create a structure that largely acts as the licensing body as ourselves, at arm's length from ourselves.

The position that we put back to them, and the suggestion that we made, was that certainly their goals about having improved management and coordination for these

projects and the fund-raising, we would work with them to make that a reality.

We have seen other organizations where, hey, they have done similarly, where they formed the management company and that management company would partner with a charity, for example the Kinsmen, and say the Kinsmen have a project, they applied for the licence, we have the relationship with them on the raising of the funds and the use of those funds. And then that management company, on the side, would provide the expertise in marketing and distribution, buying advertising, also strategically planning how that kind of project would fit in in those communities.

We have seen that model work in other circumstances and indeed proposed that. At the end of the day I think their conclusion was that that wasn't how they wanted to do it, and I think today they may not be operating.

The Chairperson: — Is their idea much different than what the charities operate in a bingo today, or a bingo hall? What's the . . .

Mr. Nystuen: — The difference between?

The Chairperson: — Describe for me the difference between.

Mr. Nystuen: — Okay. You see in the bingo hall we still grant the licence to the individual charity, okay? And for the managers . . . try to get the letters right. In a bingo hall we'll grant a B licence to the CNIB (Canadian National Institute for the Blind) or a minor hockey group, or something like that, and that licence gives them the ability to run a bingo event on a specific day. Okay?

The association would have what we would call an A licence, which allows them to be an operator or to manage a facility. Although they're responsible for the entire organization, their profits that they would make would be what would be considered in the expense category, or the management category, from the bingo operation, not from the charitable part. In the former system the role played by the charitable association today was indeed the role played by the private entrepreneur. So that is what has supplanted that in the system.

We would make the same position available to Southwest Fund Raising with regards to raffles

and so on — to say, you can play the role as the management company, providing expertise and marketing, but we won't grant the licence for the specific event to you; we will grant it to the group who will be the beneficiary.

We also made a proposal for them, where if they have a large project, that they may put together an association of charities. For example, the Kinsmen, the Optimists, maybe 10 groups who say, well we want to run a raffle that is maybe a motor home, something that's significant, beyond the scope of any one of the organizations, that they would sign the licence together. They would operate that raffle together. They would pre-agree upon the share of proceeds, or the success, ahead of time. And then the management company would merely, again, run the raffle but allowing those organization to work together to have something larger than what one of them might normally do.

We do have some instances of that in Regina and . . . I forget the name of the one lotto, but I think it's the Family Service Bureau, that if you look at the beneficiary agencies, there might be 20 or 30 that are working together to run that one raffle.

The Chairperson: — Ms. Stanger, have you got questions for the committee?

Ms. Stanger: — No, I think I'll pass. Some of those things I was concerned about, these were passed out to us yesterday in the House, so I've had time to look at it.

The Chairperson: — Okay.

Mr. Serby: — I thought about what I wanted to ask, Mr. Chairman. And I was waiting for a moment because as I was reviewing *Hansard*, I hoped that possibly Mr. Neudorf might arrive — but he hasn't — because my comments, my questions, I think are in respect to the comments that he made at our last meeting.

And as I read the recommendation that the auditor cites in this chapter, I think it says that the commission should establish an audit plan that ensures the accuracy of licensees' returns and appropriate use of gambling proceeds.

Am I to surmise from that recommendation that there wasn't an adequate audit plan in place then in terms of accounting for the revenues

that came in to the commission over that period of time that you're reporting, '92-93? Is that correct?

Mr. Strelloff: — That's correct.

Mr. Serby: — Okay. Now the comment that I think that was made by Mr. Neudorf is that he was concerned that there wasn't proper controls in place. And I expect that the reason why we're developing a new audit plan, and my understanding from the last meeting is that this audit plan now is in place and you've had an opportunity to review the new audit plan, and that it meets with some appreciation on the part of your office.

So am I to assume then that there are today proper — if I might use that term — proper controls in place to review the accounting of the Gaming Commission today?

Mr. Strelloff: — Mr. Chair, members, Mr. Cline, we have looked at the audit plan and think that it is an adequate audit plan. We haven't examined . . . completed an examination of the execution of that plan. And when we have that, we will report our results to you.

Mr. Serby: — Well I appreciate that statement because I, as I examine the *Hansard*, I see a section of question that was asked by . . . or comment that was made by Mr. Neudorf that says that there are a tremendous number of possibilities and concerns of mismanagement that are becoming apparent as the scenario unfolds.

In your review of the 1992-93 audit, or the workings of the Gaming Commission, did you cite anywhere that there was mismanagement of funds or concern about mismanagement of funds?

Mr. Strelloff: — Mr. Chair, members, Mr. Cline, you refer to the year '92-93. Correct?

Mr. Serby: — Yes.

Mr. Strelloff: — And you have our chapter 25 in front of you, which indicates that our only concern that we are bringing to your attention relates to a proper audit plan. We're not bringing to your attention any concerns about other issues that we . . . other issues, period.

Mr. Serby: — So would it be fair to assume then that because I don't read anywhere in that chapter anything other than the recommendation that you make, that there isn't concern about mismanagement or misappropriation of funds on behalf on the commission who is overseeing the revenues that they were receiving?

Mr. Streliaff: — Mr. Chair, members, Mr. Cline, the paragraph .03 in chapter 25 is a very important paragraph. And we put that paragraph in in all the different audits that we have reported here, and that provides our assurances on the three kinds of examinations that we perform.

The first sentence says that the commission's financial statements are reliable. The second sentence says that they've had adequate rules and procedures to safeguard and control its assets, except for the proper audit plan that we bring to your attention, and that our examination also concluded that they have complied with legislative authorities governing its main financial activities. So we're not bringing to your attention any instances or issues related to management of those areas.

Oh, sorry, did I call you Mr. Cline?

Mr. Serby: — It's all right. It's because we both look the same.

Mr. Streliaff: — Mr. Serby, I certainly don't think of you as Mr. Cline.

Mr. Serby: — I appreciate that. Few people . . .

Mr. Streliaff: — And, Mr. Cline, I certainly don't think of you as Mr. Serby.

Mr. Cline: — He's quite a bit older than I am.

Mr. Serby: — Well soon we'll have the same wisdom then, I expect.

Thank you very much for those comments. I appreciate that. That satisfies my inquiries.

The Chairperson: — Then I'd like to go on to . . . you said in your no. 2 point in the information you provided to us that the commission conducted, or had under way by the end of '92-'93, eight gaming licence audits. And I was wondering whether in your mind . . .

or what kind of audits were you providing or looking for? Were you looking for audit within the framework of the charity? Or would you explain to me what you were looking for — not the object of the audit, but the group of people you were auditing.

Mr. Nystuen: — Is your question, how were these eight selected?

The Chairperson: — Well you can answer that one too, but that wasn't precisely what I meant. I wanted to know, were these raffles that you were doing an audit of? Were they groups of raffles or bingo halls? Or just what was the involvement that you had with these auditors?

Mr. Nystuen: — I can't specifically comment on whether these were charitable raffle or a charitable bingo or Nevada or break-opens, because I don't have that degree of specificity here.

What we would be looking for in each of these cases are a number of issues. One would be, was the money that was sold in the event — whether it be bingo or raffle or break-open tickets — properly dealt with. And that would correspond from the sale of the tickets to the depositing of those funds within a bank account. Ensuring that indeed they do have a bank account; that it is appropriately set up; that it has proper signing authorities for that organization.

Then after that — so we've taken from the event; the capturing of those funds — there would be issues around the determination of the winner from the event, ensuring that if it was a raffle, for example, that it was a random draw. And there are checks that we would do to ensure that.

Once those funds have been sort of accounted for in the context of, this is the tickets that were sold; these are the expenses that were incurred in running that raffle, the expenditure then turns to the net proceeds of the raffle: is it appropriately accounted for with regards to receipts? So when the funds are expended is it appropriately receipted and all balances back to the bank account?

There also is an examination with regards to the prior approval of the purposes of the funds. In the licensing application process, one of the

covenants made by the charity is saying, you know, we're raising money to carry on this certain project and the funds that we raise we intend to spend it on these five outcomes. There will be an accounting to see if the monies raised are then spent on those specific projects or if they are expended on other projects that either were not pre-approved or indeed that would fall outside of the terms and conditions.

So that is the process that we would look at in the audit of those charitable licences.

The Chairperson: — How do you deal with the irregularities that you find? And maybe you could be specific about the kinds of irregularities that commonly occur, or how do you inform them of the check and how to correct it?

Mr. Nystuen: — Okay. As a result of an audit . . . and let's jump to an example that says, okay, we've completed an audit on a charitable organization and we have some audit findings. The first result coming out of the audit . . . and let's make some rather simple assumptions. Let's say that the charitable organization were appropriately using the funds but inaccurately receipting, so we don't have any criminal issues that we're dealing with.

Largely what the auditor's report would do is outline the deficiencies that were noted, I mean, similar in a process that we have here. The auditor says: we've looked at everything, it seems fine, but we'd like them to do these things. So the auditor would detail the corrective action.

This would then go back to our licensing individuals if required action is by them, or our compliance coordinators if the action is required by them. They would then take upon themselves the task of meeting with the charitable organization, explaining the results of the audit — this is what we found; this is how we'd like you to change your procedures to account for the money in a more appropriate fashion.

The result of that usually — and when I say usually, I mean 99 per cent of the time — is an agreement between the charitable organization and ourselves that says: we understand what you're asking for; we understand why you think we didn't do it quite right. We don't have any

ulterior motive in not doing it the way that you've requested; we thought we were doing it the way we were supposed to; but if that's what you want, we will now do it in the fashion that you have outlined. Okay?

What may occur in the second year is merely a follow-up audit to ensure that the message was understood and that they put in place those new receipting mechanisms. That is, by and large, the most commonly found result from an audit is it's merely the proper paper and accounting for the transaction.

A second example: let's describe someone who has all of the proper paper transactions but has a mechanism where they are inappropriately using the funds. An example, they were told that they could purchase ice time for their hockey team but indeed they decided to buy leather sports jackets for all of the players. We would find it inappropriate for them to buy personal assets that is indeed a benefit to an individual as a result — and that would have been described up front.

So they've done it that way. Go through the same process and make sure that the proper receipting . . . The organization not hiding anything, receipted it, bought 22 jackets, gave them to the players and the coach and the trainer. And the audit says well, you know, you've receipted it properly but this isn't within the scope of what you can use the funds for. The explanation would be why you can't use it — personal use, that it's outside of those terms and conditions.

Usually again we'll try to come to an agreement with the organization so that they understand why that's not an appropriate use of funds. Because of the fact that we're dealing now not merely with how the monies were accounted for, but an inappropriate use, we more than likely would write an official letter to the organization, stating the result of the audit. We audited you; in the audit we found that funds were used for a purpose that (a) were not authorized, and secondly, fall outside of the terms and conditions. We'll describe what that was — whether it was the purchase of hockey jackets or whatever — and following the statement to say that this is not allowed and this should not happen again.

If this would be to happen again, it would allude to further action that we might take.

Largely what that constitutes is a letter of reprimand, saying you did something that you weren't authorized to do; don't do it and here's why and don't do it again.

That would stay on their licensing file. There is an opportunity for the organization to appeal. The appeal is to the Liquor and Gaming Licensing Commission which is a commission that is separate and apart from ourselves, constituted of private citizens. At that forum, largely we would present our case, the finding of the audit, what we thought was inappropriate, and what we thought was an appropriate action given the circumstances.

The charitable organization will have the opportunity to state their case. And indeed in this circumstance it may be, you know, we had the licence, we did everything else right, we just didn't know that these weren't appropriate. And we're sorry that we did it, we won't do it again, but really we don't like the idea of having a reprimand on our file. Is there something that the commission might do about it?

In those cases, it's then . . . that decision sits with the commission on whether or not it is appropriate, given the explanation given by the charity, what had transpired, and whether or not that may sit on their file.

Now in some circumstances they have indeed upheld. We believe that they didn't know that it wasn't wrong, so it's been corrected; they know now. So there's not a need for a reprimand letter. Or in some circumstances they may say it is appropriate; leave it on the file and carry on.

So that's the process that we have — checks and balances and opportunities for our decisions to be re-examined by outsiders with regards to the appropriateness of our process in follow-up. And then also with regards to the appropriateness of our decisions, whether or not they are, I guess, just in the context of what action was committed, what the evidence would show, and whether or not it was an appropriate sanction.

There is further appeal to the Court of Queen's Bench beyond that if organizations are unsatisfied with their treatment at the commission as well.

If we get into circumstances where we have criminal activities, and as I described the second one, they knowingly purchased the jackets but there was no intent to hide that circumstance. We have had circumstances where we have had charitable organizations try to purchase significant assets for some of the members of the charity that audits have uncovered.

Indeed we carry on two actions concurrently. One is the action describing the licence, the infraction. But when we find circumstances where there may be infractions of other sections of the criminal law, we involve the appropriate police services and they will, at the same time, carry on their investigation.

We share information completely back and forth and that makes, sometimes, it difficult for us to comment on where we are in the licensing process which we try to keep as open and as descriptive to the charity as possible so that they understand where they're going, what they might have done. But when we do get involved with some investigations that have a criminal element as well, certainly we aren't as in complete control of those issues after that.

The Chairperson: — When you . . . dealing with audit, and let's go one step further in your video lottery terminals and their audit function there. I stay at the 400, and every morning I see staff go in there with buckets full of loonies or whatever it is, I don't know. I've never played one so I don't know what you put into them, but they carry these buckets full of money, I assume. And is there an audit function on that? Now I'm not sure I'm telling tales out of school here, but is that the way that's normally done? And how do you manage that process?

Mr. Nystuen: — I guess what I would describe for the video lottery is I prefer not to get into too many details about how it is audited, merely for the purpose of I guess security of the system. But what I would say is that when the video lottery program was being designed, one of the pieces that was extremely important in that entire process was the structure of the audit. And at that time there was a committee structure that involved the Provincial Comptroller, a private accounting firm, and the Provincial Auditor's office to design an audit that from the beginning of the process, would

meet the needs of all with regards to the accountability of money from the system all the way through, with regards to the security of the system and also with regards to the ability of players to try to defraud the system or not.

Because we designed that process up front, we were then able to tailor a number of the operating procedures and how the system was designed, to meet the standard applied through those various organizations — as I said, the comptroller, the Provincial Auditor, and ourselves.

One of the things that I guess I would probably state, and this is certainly public information, is that the entire system is monitored daily from our control centre in Saskatoon. And we've created the system and it has largely this capacity: it has the capacity to do on line, which is real time monitoring, so that our system in Saskatoon would know on a second-by-second basis virtually what is being played in the system.

It also has a component that is dial-up. So sites that are less busy would be contacted daily in the middle of the night. And all of the information that is held at that site about those terminals will be relayed to the Saskatoon facility. So on a 24-hour basis there is audit information available about what is happening within the system.

Past that, there are security systems and checks that will cause a site system, for example at the Imperial 400, to shut down if there is unauthorized access to circuit boards or other things within that facility. So if someone is trying to tamper with it, it is known from our central system very quickly. And certain types of tampering causes the system to turn itself off.

Those are some of the protections that we have. There are a number of other protections that the system monitors in the site — everything from maybe potentially the number of times the door is opened. So there's an awful lot of security built into all of those functions.

There are control mechanisms with regards to the keying structure, who has access to keys. And all of that is part of the system that was designed between ourselves, Western Canada Lottery Corporation, the comptroller, the

Provincial Auditor's department, to build a system that has the highest level of security with regards to the accountability of the funds that would go into the system and then their flow-through to the province.

The Chairperson: — How does western Canadian lotteries get remunerated for their services they provide.

Mr. Nystuen: — Western Canada Lottery Corporation is a Crown corporation that is owned by the province of Saskatchewan, Alberta, and Manitoba. So indeed we are a shareholder in this organization.

The contract that we have with them is what we would consider a flow-through contract. So there is not a compensation for them corporately for providing this service. Indeed they have staff and expertise that they have provided to us, and the cost for us to do that is to pay the salaries of those individuals and the rent for the facility and the equipment. There isn't a mark-up on it; there isn't a margin.

Indeed, like I said, they have made their staff that understand this electronic gaming industry available to us. And indeed the budget that we have created for them pays them their salary and the expenses of operating that facility.

The Chairperson: — Are all these facilities hooked up by telephone?

Mr. Nystuen: — Yes.

The Chairperson: — Does Western Canadian Lotteries Corporation pay for that? And then do you reimburse them for that? How does that ...

Mr. Nystuen: — Depending on where the facility is, I believe in almost every circumstance we have a dedicated line that's put into a facility or a separate telephone line. Those communications charges are part of the cost of operating this program.

The Chairperson: — Well if you had 10 machines in a group, would you have one dedicated line? And do you have relays that hooks them together? The reason I ask is you mentioned something about a constant surveillance opportunity or ... Not surveillance, isn't the right word, or you know what I mean. If you have that, how do you do

that with one line into the . . .

Mr. Nystuen: — Okay. What we have is there is an intermediary between the machine and the central system in Saskatoon. In each site location we have a machine called a site controller which is the communications hardware that communicates with the Saskatoon office on one hand. On the other hand, that site controller communicates directly with those three terminals that exist within a facility.

So the site controller will pull the information that it requires from each of the three terminals. It will tabulate it, chunk it, and then put that information together and relay it to Saskatoon.

I'm trying to think what the capacity of a site controller is. I think it can manage 12 terminals at one time, in strings of three.

The Chairperson: — So if you had 50 or 75, you would have to have more than one dedicated line for that then?

Mr. Nystuen: — We'd have more than one site controller. When we get to a site that has more than 12 machines, we seriously consider having an on-line operating system. An example that we have is Saskatoon and Regina exhibitions. Those two facilities operate on-line, so it's real time data that's being stored in Saskatoon and captured.

The Chairperson: — So they go directly, each terminal?

Mr. Nystuen: — Yes, we would have . . . No, we would still have site controllers, but there would be a constant communication network established there; whereas in a hotel the site controller would receive the information from the equipment as the day progresses.

And then we have it structured so that in the middle of the night the central system will phone up, open communication line to the site controller, receive the data in a matter of seconds that it's accumulated all day, check to make sure that all the systems have been properly shut down and operated during the day, close the line off, and then phone the next location.

The Chairperson: — In the year under review,

how many VLTs did you have?

Mr. Nystuen: — If I recall, it was 231 or something.

The Chairperson: — That was in the south-east here. From the information that you gathered from those 200 or so, what have you learned that you've done different from what you did when you started?

Mr. Nystuen: — When we began, those 230 machines were run on a slightly different system. Because when we began the pilot phase, we were in the procurement process for the current system that we have — our central system in Saskatoon and the equipment that we're using.

Probably the most substantive pieces of information that we learned during that process were which machines worked and which ones were always broken down; what some of the player preferences were.

We were also running our central system at that time out of Winnipeg, out of the Western Canada Lottery central system that runs the 649 for the prairie region. And we learned a little bit about on-line versus the dial-up mode. Most systems are designed one way or the other, where you can either do on line, or dial up.

What we have created is a system that's a hybrid; it can operate dial-up and on line at the same time. And that's a new level of technology for the industry, and we learned how to do that. There's a number of those sorts of things that we learned.

I guess one of the benefits that we accrued when we had Western Canada Lottery managing most of the technical issues for us was that they had just completed managing the same process for the province of Alberta in the installation of their video lottery system there. And so we learned some things in the pilot phase. But one of the issues that comes with all of this is the refinement and the flow-through of knowledge that Western Canada Lottery have had in this industry and the issues that they've learned in Alberta, not having to repeat some of those things in Saskatchewan.

Mr. D'Autremont: — I'd like to go back to the

report you gave us dealing with the audit. And perhaps some of these questions are covered, but I don't believe they have been.

You had hired one auditor in January of '93. Is that the only auditor you had at the time that was dealing with the gaming and the charities?

Mr. Nystuen: — Prior to the hiring of this individual, I don't believe there were any auditors.

Mr. D'Autremont: — And that auditor conducted eight audits from the time they were . . . or initiated any audits from the time they were hired in January until March 31 of '93. Is that right?

Mr. Nystuen: — Yes.

Mr. D'Autremont: — Later on in your report you talk about enabling three auditors to focus on charity gaming. Now when were these auditors hired and under what process?

Mr. Nystuen: — With regards to the auditors, on April 1, 1993 the government announced that they were going to combine Saskatchewan Gaming Commission with the Saskatchewan Liquor Board to form the Saskatchewan Liquor and Gaming Authority. The auditors that we were referring to were former Liquor Board auditors. And it was a redeploying and focusing of resources on issues that we felt required more attention. So those were already current employees of the province of Saskatchewan.

Mr. D'Autremont: — So how many auditors did you have then for both the liquor and the gaming?

Mr. Nystuen: — Today we have nine.

Mr. D'Autremont: — So you had the one that had been hired to do gaming, plus then I have to assume eight from the liquor side. What additional training was necessary for the eight auditors that came from the liquor side?

Mr. Nystuen: — Largely the auditors were all qualified auditors when we received them. It was just a matter of familiarizing them with the terms under which they were conducting these audits. In other words, identifying the issues that they were looking for with regards to the accountability of receipting and appropriate

purposes and so on.

So by and large, the training that occurred for them was all in-house instruction, if that's what you're looking for.

Mr. D'Autremont: — How much training would they have needed? You're going to have different reporting procedures, different mechanical safeguards in place to protect . . . in one case, the commodity you're dealing with is money, as opposed to having money and bottles of liquor some place.

What kind of trainings were needed for that, to understand the mechanics of operating the software and those types of things, making sure that all the proper connections were made to the system.

Mr. Nystuen: — Oh, okay, I understand what you're . . . let me back up. The audit in '92-93 and the audits that followed out of that with regards to the new auditors and the charitable gaming, I guess what I would describe is that the training required for them to carry out charitable gaming audits was not significant. It was largely learning the terms and conditions that they had to apply and then ensuring that the audits that they were carrying out complied with that.

If I understand, your question maybe more directly is dealing with the audit of the video lottery terminal program and the training required in order for that audit to be carried out competently. Indeed what we have done with regards to the VLT (video lottery terminal) component of the audit, we carried out a tender process in the spring of 1993. I believe the three finalists were Ernst & Young, Coopers & Lybrand, and I think it was Touche Ross at that time. Ernst & Young won the tender and indeed they carry out the system audit and trace the funds that go from when it's dropped within the machine back through the logic program and the game programs into our financial statements.

If I might say, the person who heads the audit for Ernst & Young was recognized I believe last year at an international accounting seminar in London, England, as being the pre-eminent auditor with regards to this function, this computer program accounting system, in the world.

So I guess our purpose in all of this was, we had no intention of training our staff to do that, but was to go to the market-place and find someone who did know how to do it and then contract with them to carry out that service for us.

Mr. D'Autremont: — Okay, thank you. That's a different, separate operation to the charitable gaming section. But even within the charitable gaming section, you're dealing with bingos, you're dealing with break-opens. And I'm not sure what else you might be dealing with in those particular areas, but there are some mechanical things needed.

How do you audit . . . I'm not quite as much in need . . . (inaudible) . . . as Harold is, but how do you audit the . . . like the break-open tickets, that the proper amounts are being collected and paid out to potential winners?

Mr. Nystuen: — The system that we have in this province with regards to break-opens is one that was designed back in I believe '84 or 1985. Largely what currently happens is when a charity . . . they apply to us for a break-open licence, and with that they tell us what they're going to use the funds for. So we've got that check-in system. When they go to purchase the break-opens, they purchase it from an organization called Western Gaming. At that time they purchase the value of the tickets. They also pay the licensing fees and so on.

So with regards to the audit function on the money with regards to the break-open tickets, there's a very close connection from the licence to the issue of payment of fees and the government achieving all of its revenue. It's virtually a point of sale. Western Gaming adds it on almost like sales tax. It's not sales tax but that's how it works. So those funds would flow straight through.

Then after that, the charity is sitting in a position where they have a box of tickets that may have a retail value of \$700, and they have all of the investment in it. And their requirement to achieve their level of fund-raising from it is to sell all of those tickets.

So for example, when they get the licence, they tell us that they're going to buy a box of, let's say, red cherries. We know that a box of red cherries retails to them for \$102 and it has a retail price of 700. So at the conclusion of

that, there'll be \$598 that they have to account for. Okay.

It's up to them then to go into the market-place, whether it be at a bingo or at a hockey game or whatever, and sell those tickets. At the end of the day, they have to deposit \$598 into their bank account, and then from there expend those funds.

The audit process that we have in place would be, well, if we're auditing that charitable association or that charitable group, we would go back to our records and say, well they applied for a licence, they asked for red cherries, that means \$598. We're going to go to their bank account that they have to have set up and look for a deposit of \$598 that they will have to have accounted for from the sale of that box. And they may say, we opened the box on February 2; we sold it over the period of the next two months. They will have deposits maybe from 10 different events that must total \$598.

So that's part of the system on how this carries through. There are similar systems with regards to bingo. It's a close-out sheet. And a report is filed at the end of the event and then we will match the report that's filed to the bank account and the balance. And then from there, we get into the process of expenditure of funds. Was this authorized? Is there a receipt? And that purpose.

Mr. D'Autremont: — Okay, thank you. In January you had one auditor who initiated eight initial licensing audits. In '93-94, you had nine auditors who had under way at the end of '93-94, 78 audits of gaming licences. How many audits did they perform though during that year?

Mr. Nystuen: — We don't have information here with regards to the number of audits that were completed and under way.

Mr. D'Autremont: — Well how many gaming licences would you have authorized or in operation during that year?

Mr. Nystuen: — There's approximately 5,000 licences that I believe are granted during a fiscal year.

Mr. D'Autremont: — So what kind of a percentage would you have normally audited?

If you've got 78 under way, that's approximately 15 per cent. Then add on however many you may have completed within that year . . . one and a half per cent, sorry.

Mr. Nystuen: — There is a . . . with regards to the materiality of whether or not you're having enough audits to cover the reliability of those issues, there is a statistical formula that's used by accountants to determine what is the appropriate number of audits to be carried out in order to render some accuracy with regards to the opinion of the audit.

I have had this formula explained to me a number of times, and I have still a very slim concept of what they're trying to achieve. But it has to do with the relationships between the numbers of events; the size of the dollars that are at issue. And those combinations will give you some reliability and a standard of significance, whether it be 95 times out of a hundred or 89 times out of a hundred, with regards to the reliability.

We are endeavouring to get to a statistical sample size that will give us a rendering of the population with regards to the reliability. My understanding is that we have not achieved that yet and one of the reasons for that is the complexity of these audits. Once we get into them, we find that an audit that should take a week may take a month because of the number of transactions and so on.

So that what we will find is that we have been staffing up and doing more audits in '93-4 than we did in '92-3. We are still staffing up with regards to the number of audits being completed in the field in '94-5 and we'll have completed more audits this year than the previous year. We will still be increasing the number of audits carried out in the field in '95-6 than we did in either of the two previous years.

And the reason for that is we are endeavouring to push towards this formula, that changes all the time, with regards to what is an appropriate size of sample to give you an appropriate statistical reliability rating on your entire audit.

Mr. D'Autremont: — Well this formula and your ultimate goal in achieving it, is it based on the number of gaming licences and units that you would have available within the province at any one time? If you added on another 1,000 VLTs, you're obviously changing

something within the formula.

Mr. Nystuen: — Again let me separate the two issues. We do run for the VLT audit . . . the number of events and transactions that Ernst & Young would carry out would fit that statistical population. What I was referring to is the number of charitable licensees that we would investigate and audit; we haven't achieved that yet.

So again I break the issue down into two sides. We are in staffing up and doing more audits with regards to the individual charities and making sure that we've looked at enough of their operating statements and so on, to give us the appropriate reliability rating with regards to how they're operating their business.

That is already being done with regards to the number of transactions looked at by Ernst & Young with regards to the reliability of the VLT program; just as the Provincial Auditor will do a statistical sample of our entire transactions that we do on a monetary basis to make sure that there is a reliability rating for ourselves as an organization as a whole.

So that's the only piece in the audit, is the charitable number of licence audits, that we still haven't achieved our statistical rating.

Mr. D'Autremont: — Well how significant of a change are there in the number of charities that are using gaming as a fund-raising method?

Mr. Nystuen: — Turnover of licensees — it is relatively stable. And the reason why it's stable is we have instituted some policies with regards to how long your organization must be in existence before you qualify for your first licence.

And I don't believe I'm aware of when that was first instituted, but it's been around for quite some time — that you have to be an organization who has at least been formally put together and have your board and your purposes for six months before you can even qualify for your first licence.

And what that does is, it takes an awful lot of the groups that may be on the edge, fly-by-night, saying, boy we could make some money if we got a bingo licence. Well it's a discouragement when they say, well okay,

fine, now we have to wait six months before we even can start.

So what we've seen is an awful lot of maturity in those organizations. And the ones that we license today are the same ones that were licensed last year and probably for the last 10.

Mr. D'Autremont: — Well if you have a fairly stable turnover, what is the movable item in your formula that makes it difficult for you to achieve your goal of a certain percentage of audits every year?

Mr. Nystuen: — The variables that we're dealing with that talk about how many audits you should complete?

Mr. D'Autremont: — Right.

Mr. Nystuen: — Is a function of the dollars raised, the number of fees that the government has to collect, the number of events that are occurring.

For example, I may have . . . let's say I'm the Kinsmen Club. I'll have three licences — I'll have a bingo licence probably, I'll have a raffle licence, I'll have a break-open licence. Well then I'll buy a new box of break-opens. Well now I'll have another break-open licence. Then I'll run another raffle; I'll have another raffle licence. Certain charities, for example, run up to I think one bingo a week so they may have 52 bingo licences, because when you licence it, you don't licence it for the entire year, you licence on an event basis.

So when we say there are 5,000 licences, there are considerably fewer charitable organizations that are involved in that entire population.

Mr. D'Autremont: — How many organizations would be involved in these 5,000 licences in a year?

Mr. Nystuen: — I'm not quite certain of the exact number of organizations involved.

Mr. D'Autremont: — Well when you're looking at the formula . . .

Mr. Nystuen: — Let me clarify that. Indeed there are 5,000 organizations. The number of events that we licence is something like 137,000 events. And that's a combination of

bingo, break-open, and raffles.

So I misled you with regards to that, it's not — 5,611 organizations was the last total.

Mr. D'Autremont: — And you would audit approximately one and a half per cent now of the organizations or of the events?

Mr. Nystuen: — Organizations.

To shed one more piece of information, to really make this confusing, as I said previously, this is a three-step process. We grant the licence, and there are some issues taken by licensing at that point in explaining how things work.

We also have an inspection or compliance division which, during the process that the licence is being used — so during the raffle, during the break-open, during the bingo event — there are some actions being taken there as well. For example, in '93-94, the comment was that we had 78 gaming licences that were being examined by the auditor. During that same period we also had 4,348 gaming inspections that were occurring during that period of time.

So I wouldn't want to leave this in the context where it looks like there's only 1.5 per cent of all the events that are ever being looked at, because indeed we're having just about 43 or 4400 inspections. So while the event is occurring, the audit is then a review of the work of the licensing division, to make sure that they're making appropriate decisions when they grant the licence. It's reviewing the inspector's work to make sure that they're also giving appropriate guidance during the course that the licence is being used, and then that renders an opinion on the reliability of the entire system.

Mr. D'Autremont: — Okay, thank you. Actually you run up with about 3 per cent of the events that are being monitored by an inspector.

When you've done your perhaps one and half per cent odds on the different organizations, what kind of results do you get as far as people . . . or organizations that have done their accounting wrong? What percentage do you find that have perhaps applied the proceeds inappropriately, such as buying the

jackets that you've mentioned? And what kind of percentage have misappropriated the funds?

Mr. Nystuen: — With regards to the issue of what we find in the audits, as auditors go, virtually you will not conduct an audit where the auditor will not have some comment. So in that case I would say virtually 100 per cent of the audits have some comment, okay.

The comments range everything from — and I'll give you a couple of examples for explanation — everything from a bingo volunteer charging a cup of coffee at the canteen to the charity, so 50 cents, through to some places where we have criminal investigations going on where it appears as though there were some elaborate structures to defraud money.

The number of criminal investigations at the end of the year would be very small, indeed maybe in the magnitude of one or two that we would uncover.

Now some of the things that we have done that have made it extremely difficult for groups to defraud significant amounts of money, we would categorize in the prevention mode rather than in the compliance and audit function. We would rather deal with a problem before it results than try to find it after the fact.

And to describe this, I would put it in the context of ensuring that licences are not granted to organizations that are likely to misuse funds. And this comes to part of the process in how we would grant a licence. And I will be deliberately vague on details because I don't want to create circumstances that'll just make it more difficult for us in the future.

But I'll give you one example for your information. An organization comes forward and says, we want a licence and we are doing whatever. Well we want to see that it's been incorporated for a period of at least six months. So that's one check.

Second check that we will go through is that it'll have a list of directors and who is involved in the organization. Routinely we will contact these individuals, say: I see you're a signing authority for this group; are you indeed involved in the group? We'll contact their financial institution to see if they indeed do

have a bank account or whether or not they just say they have a bank account.

Many of those things start to weed out groups that are deliberately intending on defrauding. And a case in point that I'll point out is that often we find that individuals are listed as directors and organizers of groups that have absolutely no idea of the existence of this group. And where their names come from or whatever . . . It may be that they're listed in their community association or that they're on town council. And somebody who's putting this forward is using them to hopefully create a circumstance where they may be granted a licence.

But it's those sorts of background checks that create a framework that it makes it difficult to get the licence in the first place. And by and large the difficulties that we will run into with regards to significant activities that would be of a criminal nature will not be carried on by individuals in the communities who are volunteers and who are knowingly participating in the Knights of Columbus or the Optimist Club or whatever.

They have no intention of doing anything that's even remotely connected with being outside of the terms and conditions, because largely the terms and conditions are an appendage to the Criminal Code. And an infraction of that has the potential of having those individuals sanctioned by law enforcement as an infraction of the Criminal Code which carries with it rather significant penalties.

So that kind of checking before we even grant a licence renders the number of occurrences where we'll find blatant criminal activity as a result of our audits to be very, very minute.

Mr. D'Autremont: — Okay. What kind of dollar figures would you be looking at though for those very minute misappropriations?

Mr. Nystuen: — Like I said, they can vary anything from 50 cents to maybe \$50. And again the circumstances that we would arrive to when we would have audit observations, seldom is it misappropriation of funds, but the proper accounting of what they have done with those funds, and a misinterpretation where they said, well we thought we could buy equipment for our hockey players and we thought a club jacket was part of the

equipment.

And so like I said, seldom is it an intentional act to conceal and not provide our inspectors or our audit staff with the results of what they've used the fund for. But it's been, oh, I didn't know that I couldn't use it for that; we won't do it again. It's more of that kind of result and observation that we would find in the audits.

Mr. D'Autremont: — Well when you're looking at your formula for doing the audit, how many are simply based on the formula of trying to achieve a certain percentage of audits and how many are because of complaints?

Mr. Nystuen: — We have a significant majority of the audits that we complete today as a result of inquiries. And the reason for that is that we can do the random sampling and it may lead us in areas where we'll find nothing wrong.

However, we make a priority of following up those issues that we have some private citizen who's raised the issue with us, largely because — two reasons. One is wanting to at least deal with the question raised by the individual whether it be for us directly or for that group; where some of them will be saying, well you're misusing all of our gaming funds.

Well the protection that exists for that group is to have us examine how they're carrying on their financial affairs and for us to conclude at the end of the audit that they're doing things by and large the way they're supposed to. So it adds the protection for them.

The other thing is that if there are circumstances where people are trying to deliberately mislead, it is very important to have corroborative information from someone outside of ourselves and the charity being investigated.

Mr. D'Autremont: — Okay. You talked earlier about that the message that you prefer to use for prevention of any inappropriate actions is prevention, a monitoring of the system. Do you believe that this is the most cost-effective and efficient way of doing this, is the prevention before it happens so that it discourages anyone from entering the system with the intentions of defrauding it?

Mr. Nystuen: — I guess my . . . and I can only give a personal view on this, and indeed that is a very efficient way to protect the entire system, is to have a relatively stringent guideline on the entry to the system. It is very costly and very time consuming to do follow-up audits and to try to catch things after the fact. And by having said that, you cannot have a system that's only designed on prevention without the compliance aspect that's sort of ongoing and then the audit function, because they all feed upon each other.

Mr. D'Autremont: — So without the compliance investigations, the prevention by itself may not provide the solution?

Mr. Nystuen: — Yes, in order to provide the reliability to the system, I think you have to have all three components.

Mr. D'Autremont: — Okay, thank you. On the . . . not misappropriation of funds but having them directed to the wrong point for things that are not part of the purchase agreement or things that they can spend their money on, when you do your audits, what kind of a percentage would you get out of them that would be in that category? Like that bought the leather jackets, rather than buying the goalie pads or whatever it might have been?

Mr. Nystuen: — Okay. I cannot comment today on the percentage. I know that it is significantly different from two years ago. When I first came to the Gaming Commission, there were rather unclear rules under which organizations could spend their funds on. They were sort of like, as long as it was for kids, it's okay. And we were running into a number of circumstances where charitable organizations were reporting back to us about what their competitors or other charitable organizations were doing.

And I'll just give you a short scenario. Let's say in a bingo facility, you have 50 different licensees that run there. Three of them are minor team baseball clubs. One of the baseball clubs raises \$20,000 in the year. The other two raise \$3,000 each. The group that raises \$20,000, oh, just happens to be going to a tournament in California and one in Hawaii and one in Las Vegas because they have the money.

Well it doesn't take very long for that

information to be reported back to us and by the volunteers in the other organizations — you know, what kind of a system is this? You've got one baseball team that's flying all over the world and we can't even get new balls. Fix it.

Well so the position that we're put in is trying to sit down with minor league baseball and saying, you know, what are your priorities for the development of players? And sometimes what they do is they form an organization. I think . . . I forget what it's called in Regina, but it's Regina little league. And say well, we know as an organization we need \$50,000 worth of fund-raising in order to rent the diamonds from whomever and make sure that there are bats and balls for the players.

They then get into positions of allocating resources and bingo dates so that there is some equity between the ball clubs, so that all the kids have the opportunity to participate, learn the game, and enjoy the game, but not have a standard where some are going to Hawaii to play and other kids can't play. It's that sort of thing that we have had reported to us time and time again, and we have been trying to work with the different organizations wherever they come to our attention to try to set some standards so that everybody understands what they can use the funds for, that they all have some access to raising some funds.

And we have had significantly fewer audit problems since we've been able to sit down and establish some playing rules because they're all much happier if it isn't seen that one group gets to go to Hawaii and everybody else can't even play the game. And because of that there is less instance in the audits of people living or doing some very extravagant things with regards to gaming funds.

The Chairperson: — If I could interrupt, we're five after ten. I have Mr. Koenker on the speaking list. If I could I'd probably begin the next session with your questions, and if you keep that in mind.

I want to thank you for your information today; it's been really interesting, I think. And we are not going to be in session next Tuesday so we will probably be convening a meeting on April 25; that's two weeks from today. Just one moment, please.

The Clerk will inform the . . . have a letter go out to all the members and to the Gaming Commission to let them know the time and the place, and it'll likely be that Tuesday, here.

Ms. Stanger: — Could I get on the list too, Mr. Chairman?

The Chairperson: — Okay, you're on the list.

Mr. Nystuen: — If we have difficulty with a conflict for the 25th, is there some availability for us to get a different date?

The Chairperson: — There is; you discuss that with Greg, and then we'll deal with that situation when it arrives and go from there. But I will keep that in mind on the speaking list.

Mr. Sonntag: — Well I'm just wondering, if we only have two people questioning yet, do we want to bring them back for that, or are you anticipating more questions from yourselves?

The Chairperson: — I didn't anticipate that Dan was finished.

Mr. Sonntag: — I have some questions as well.

A Member: — I think we're done before we started because they've done everything right.

Ms. Stanger: — That's right.

The Chairperson: — The batting order will be — as we were talking about little league — the batting order will be as just presented. I need a motion to adjourn and then we'll . . . all in favour? Do I have agreement to adjourn? Any opposed?

The committee adjourned at 10:07 a.m.