



Standing Committee on Public Accounts

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS
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Regina Northeast, Vice-Chair

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Lyle Stewart
Thunder Creek

Milton Wakefield
Lloydminster

The committee met at 10:00.

The Chair: — Good morning, everyone, members. We're going to begin our morning's activities with regards to our planned agenda.

We have two different chapters that we will be dealing with, or two different sections that we'll be dealing with. First we'll be dealing with the Saskatchewan Property Management Corporation, and secondly we'll be dealing with Liquor and Gaming Authority and the Saskatchewan Indian Gaming Authority.

This morning there are a couple of new faces around the table other than the members. And I think all members have the knowledge of course that Ms. Junor, now being a member of cabinet, is not attending Public Accounts but has the ability to sign in. And, Mr. Yates, you are here this morning as a voting member in place of Ms. Junor.

And on the opposition side, the member who was on the committee was Mr. Kwiatkowski and no replacement has been made formally in the Legislative Assembly. So Ms. Bakken is here today as the member of Weyburn-Big Muddy as a non-voting delegate that will be just here to ask questions on that basis.

With that we have of course our regular crew along from the auditor's office and the treasury. So I'd ask Mr. Wendel first to introduce the people that you have from your office.

Mr. Wendel: — I have Rodd Jersak with me, Mr. Chair. He'll be doing the presentation on the Property Management Corporation and he attends all our meetings, keeps track of what goes on in the committee. And Brian Atkinson, the assistant provincial auditor, who attends all the meetings.

The Chair: — Good. Thank you very much, Fred, and welcome to both Rodd and Brian. And Terry?

Mr. Paton: — Good morning, Mr. Chair. I've brought Chris Bayda with me this morning and he'll be attending all the meetings of the committee.

The Chair: — Good. Thank you very much. As I indicated, our first order of business will be to deal with chapter 16 of the 2002 Fall Report Volume 2, which is the Saskatchewan Property Management Corporation. I'd ask Mr. Clayton, as president, to introduce the people you have with you this morning.

Mr. Clayton: — Good morning, Mr. Chair. I have with me Debbie Koshman, vice-president of corporate support services; Phil Lambert, vice-president and our chief information officer. And sitting behind me, Dave Bryanton, director of accommodation services, and Norm Drummond, our controller.

The Chair: — Thank you very much, Mr. Clayton, and welcome to each and every one of you this morning. As is normal we'll have our presentations first from the auditor's office and as indicated by Mr. Wendel, Mr. Jersak will be making that presentation and then ... (inaudible) ... from

SPMC (Saskatchewan Property Management Corporation).
Rod.

Public Hearing: Saskatchewan Property Management Corporation

Mr. Jersak: — Thank you, Mr. Chair, members. Chapter 16 of our report includes our audit conclusions and findings for the Saskatchewan Property Management Corporation for the year ended March 31, 2002. We worked with Deloitte & Touche, the appointed auditor for SPMC (Saskatchewan Property Management Corporation), on the audit.

We found that SPMC's financial statements were reliable. We make a recommendation for improvement of SPMC's rules and procedures to safeguard and control its assets. We found that SPMC complied with authorities governing its activities and we make a recommendation for improvement of SPMC's public accountability.

I will now briefly explain our two recommendations. The first recommendation has to do with SPMC's need for a disaster recovery plan. SPMC depends on a number of IT (information technology) systems to deliver its services to customers and to manage its financial affairs. Therefore it is important that SPMC ensure that its IT systems and data are available to ensure the continuity of SPMC's operations. SPMC safeguards its data in a number of ways but does not have a written and tested disaster recovery plan. Such a plan should minimize the impact of a disaster on SPMC and on its customers.

On page 380, we recommend that SPMC approve a written and tested disaster recovery plan. Since last spring when we made this recommendation, SPMC has made progress in developing a disaster recovery plan. You may wish to ask management about the progress they have made.

The second recommendation we make has to do with SPMC's need for an annual report, or improvements to it. We reviewed SPMC's annual report for the year ended March 31, 2002. We found that the report does not adequately describe whether SPMC has achieved its plans. The annual report provided much of the information that annual reports should include, such as SPMC's vision, mission, goals, and objectives, but some information was not included in the report.

Good performance reports clearly describe the organization's key performance targets for each of its objectives and describe how well the organization has performed in meeting these targets. SPMC's annual report does not do that. We understand that SPMC is working toward making these improvements to its future annual reports.

That concludes my comments. We'd be happy to answer any questions that you have.

The Chair: — Okay. Thank you very much, Mr. Jersak. Mr. Clayton, your opening remarks?

Mr. Clayton: — Mr. Chairman, the essential response we would make is that of agreement with the observations that the Provincial Auditor has made. With regard to our annual report,

we regard the starting point in that connection as the development of a strategic plan with specific actions and performance targets. We have pretty well completed that plan. That plan will be reflected in our . . . the annual report for the year just concluded. And in the following annual report we expect then to be reporting on our success in achieving some of the performance measures. We do recognize that there certainly is room for improvement in that annual report and we expect to be making considerable improvement in that respect.

With regard to the disaster recovery plan, our executive has reviewed a draft of that plan. It's quite well along the road of being developed and we expect sometime in the next month to have completed it, to have officially ratified it as an executive, and to proceed from there.

The Chair: — With comments from both Mr. Jersak and Mr. Clayton, questions.

Mr. Gantefoer: — Thank you, Mr. Chair, and welcome, Mr. Clayton and your officials. I'm wondering if you could describe, at least in general terms, what your . . . particularly I think it applies mostly in IT data recovery and safeguarding your IT data. Could you describe in general what processes you have in place and what processes you are planning to improve?

Mr. Clayton: — Okay. I wonder, Mr. Chair, if I could ask Phil Lambert to address that point?

Mr. Lambert: — Mr. Chair, the process that we have undertaken is that we have written a documented disaster recovery plan and we do have a number of safeguard procedures in place to address the IT areas within SPMC. You know, we do have a secure computer room and a computer room environment with you know UPS, uninterrupted power supply. We have the air conditioning in place there, we have fire suppression, and we have secure access into the computer room. So we have taken a lot of those safety precautions in place.

What we are doing currently is that we are . . . we have a written plan and we are meeting with the business areas to ensure that the items that we have addressed in our plan meets the business areas of the corporation. And we will be bringing that to the executive for approval next month and then the appropriate testing plans will be implemented subsequent to that.

Mr. Gantefoer: — Is all of the data that the corporation uses stored in this secure computer room?

Mr. Lambert: — We do have daily backups that are stored in the computer room as well as we have off-site storage. So in the event that there is a disaster or there are things that we need to recover that data from, we do have it stored off-site.

Mr. Wakefield: — Thank you, Mr. Chair. Just following that a little bit, the off-site storage is often considered critical in terms of disaster and recovery from those situations. Is that being utilized by just SPMC or is it in conjunction with other government off-site storage for disaster management?

Mr. Lambert: — Currently SPMC is responsible for SPMC

internal and so we are using that for our own purposes. But I am aware that there are other departments that are using that same off-site storage for their facilities, but we are not directly involved in that responsibility.

Mr. Wakefield: — Mr. Chair, I have another question to Mr. Clayton, maybe. You were referring to really the second recommendation and that's performance measurements and so on and I'm pleased to hear that you're moving in that direction.

It's like developing a business plan annually, I think is what you're getting at. And I'm wondering if the business plan or these performance measures are made public before the year that you're planning to enter and so that they would be more relevant as we look at your annual report to see how it's coming.

Mr. Clayton: — There SPMC has not been moving to date in phase with other entities of government. Most of the departments of executive government are at least a year or two ahead in terms of developing their strategic plans, developing their performance measures, and therefore being in a position to publicize those performance measures in advance so that the objective that you spoke to could be achieved.

We, over this past year, have developed a new strategic plan. And in accordance with that general schedule that has applied to executive government, we will be rolling that out, making it public in accordance with the same kind of time plan that applied to executive government. Certainly that's our direction.

Mr. Wakefield: — That's good.

The Chair: — Seeing no further questions, but I do want to indicate my apology to Mr. Prebble. I didn't introduce you as a non-member to begin with, replacing Mr. Goulet this morning, I understand. And at the moment, not a non-voter . . . a non-voting member until I have that form signed and in my hands.

Mr. Prebble: — You'll have it in a moment.

The Chair: — Okay. Seeing no further questions. On page 380 of the chapter you have two recommendations before you. Recommendation no. 1 — are there any further discussions or questions or comments from either Mr. Jersak or Mr. Clayton regarding recommendation no. 1?

Motion by Mr. Gantefoer that the committee concurs with the recommendation and notes progress. Any discussion? All those in favour? Opposed? Carried.

Recommendation no. 2. Any further comments from . . . or questions? Is anyone prepared to move resolution?

Mr. Harper: — I move the committee notes concurrence with the resolution.

The Chair: — Okay. Concurrence with recommendation no. 2. Any further discussion? All those in favour? Carried.

Thank you to you, Mr. Clayton and your officials for being with us this morning, and to you, Mr. Jersak for your presentation.

And we'll be moving to the next section in a few minutes.

**Public Hearing: Saskatchewan Liquor and
Gaming Authority**

The Chair: — Okay. Thank you for that short, little recess and having us . . . giving us the ability to set up for our next section. Our next section is dealing with the Liquor and Gaming Authority and the Saskatchewan Indian Gaming Authority as well.

These chapters are the only chapters from previous reports that the Public Accounts Committee did not deal with due to a situation that involved Justice and the recommendation to our committee that we not deal with these chapters until various things were settled.

They are settled now and so therefore as a result we have reference to four different reports. And the material was circulated to all members, which included chapter no. 7 of the 1999 Spring Report, and you should have that copy with you; chapter 7 of the 2000 Fall Report Volume 2; and the 2001 Fall Report Volume 2; and then of course the most recent Fall Report, the 2002 Fall Report, chapter 6, both parts A and B. That chapter and those two parts contain the recommendations that were not acted upon and were carried forward.

So basically we're only looking at the final report that contains all of the material from the previous reports.

However if members wish to refer to the chapters of the previous reports, you have those chapters with you, and that will be there for your use for clarification purposes or otherwise.

I'd like to begin by first asking Mr. Wendel from the auditor's office to introduce the official from his office who will be handling this section.

Mr. Wendel: — Thank you, Mr. Chair. With me this morning, an additional member, is Bashar Ahmad. He leads all of our work in gaming and insurance for the office. He'll be making the presentation to you on SIGA (Saskatchewan Indian Gaming Authority) and Liquor and Gaming.

The Chair: — Thank you very much, Fred, and welcome this morning, Bashar. And from the Saskatchewan Liquor and Gaming Authority, president and CEO, (chief executive officer) Sandra Morgan. I'd welcome you this morning and ask you to introduce your officials.

Ms. Morgan: — Thank you very much, Mr. Chair. With me this morning on my right is Barry Lacey, who is the vice-president of corporate affairs. On my left is Cheryl Hanson, the vice-president of gaming. Beside her is Dale Markewich, the vice-president of compliance.

Then we have, from our minister's office, Kim Emerson. Beside Kim is Fiona Cribb, the executive director of our policy division. Beside her is Faye Rafter, who is in charge of inspections and compliance. Beside Faye is Lisa Ann Wood who is our VP (vice-president) of human relations, and beside her is Paul Weber, who is the vice-president of operations. And

beside him is Brian Keith, who is my executive assistant. Thank you.

The Chair: — Thank you very much, Sandra, and welcome to all of the officials. Okay. As is our normal procedures, we'll ask for a presentation from the auditor's office and then a presentation from yourself, Ms. Morgan. So, Bashar, if you would.

Mr. Ahmad: — Thank you, Mr. Chair, and good morning. I will talk about our audit conclusion and findings relating to Liquor and Gaming and Saskatchewan Indian Gaming Authority, that is SIGA, as reported in our '99 Spring Report, and 2001 Fall Report Volume 2, and 2002 Fall Report Volume 2.

Before I begin talking about Liquor and Gaming and SIGA's control processes, I want to say that the financial statement for both Liquor and Gaming and SIGA for the years ended March 31, 2000, 2001, and 2002 are reliable.

Since the spring of '99 we have reported the need to improve the processes for managing the public money under SIGA control. Both Liquor and Gaming and SIGA continue to leave public money open to improper use. SIGA is responsible to have good governance practices, and Liquor and Gaming is responsible to properly supervise SIGA.

In 2000 we did more work on the management of public money under SIGA's control for three reasons. First, we became aware of improper use of public money by the then chief executive officer of SIGA and the inappropriate action of the Board of Directors of SIGA regarding this improper use of public money.

Two, Liquor and Gaming did not ensure SIGA had proper policies setting out what expenses SIGA could incur and deduct from slot machine revenues.

And third, Liquor and Gaming did not adequately review and act on the actual expenses that SIGA deducted from the revenues.

In our 2000 Fall Report Volume 2 we describe our findings and conclusion. We found Liquor and Gaming did not have adequate processes to safeguard public money under SIGA control, and made a number of recommendations to improve those processes in addition to a recommendation we made in our '99 Spring Report.

We also found that SIGA did not have adequate processes to safeguard public money under its control and made several recommendations to strengthen its processes. We also provided examples of where public money was improperly used.

In addition, we found SIGA financed the former chief executive officer his lifestyle and estimated that the former chief executive officer owes SIGA at least \$800,000 for his personal expenses paid by SIGA, advances received from SIGA, and possession of assets that belong to SIGA.

We recommended that Liquor and Gaming should determine what SIGA expenses were not reasonable and recover that money. Both Liquor and Gaming and SIGA told us they

accepted our recommendations.

Since our 2000 Fall Report Volume 2, in each of our subsequent reports we provided updates how both of these agencies are progressing toward implementing the recommendation in our 2000 report. Since 2000, we are auditing SIGA directly.

For convenience of your committee's review, I will go to our most recent report — that's 2002 Fall Report Volume 2 — and present the status of our past recommendations and new matters we reported with a recommendation.

In our 2002 Fall Report Volume 2, we saw Liquor and Gaming and SIGA's progress toward implementing those recommendations as slow. We said so because almost two years have now gone by since we made the recommendations, but many of our recommendations have not been implemented. While we recognize that some of those recommendations will take time to implement, we think both Liquor and Gaming and SIGA should have prepared a detailed plan setting out who will do what and by when to implement our recommendations. We found Liquor and Gaming did not have an adequate plan and SIGA had no such plan.

In our 2002 Fall Report Volume 2 we also described the key risks that Liquor and Gaming and SIGA must manage well to be successful. We identified the key risks for Liquor and Gaming in 1998 and reported those in our 1998 Fall Report Volume 2. We concluded that the key risks that Liquor and Gaming faces today are not different from the key risks that we identified in 1998. I will talk about SIGA's key risks a little later.

Now I will go through the matters we reported and the recommendations we made in our 2002 Fall Report Volume 2. First Liquor and Gaming, and our chapter 6 on pages 120 to 138.

Liquor and Gaming has important and diverse responsibilities. It manages VLTs (video lottery terminal) and slot machines, sells liquors, and regulates liquor and gaming establishments. Liquor and Gaming has good processes for its many responsibilities except for supervising SIGA's spending practices.

We continue to recommend that Liquor and Gaming ensure that SIGA's board prepares and communicate its long-term strategic direction to management and that SIGA prepare and submit for approval a complete business and financial plan setting out performance targets.

We made this recommendation in our previous report and we think Liquor and Gaming must ensure SIGA prepares an appropriate business plan. Without a business plan, Liquor and Gaming does not know what SIGA wants to achieve, how it will do that, and what resources SIGA needs to achieve its objective.

To do so, SIGA board needs to prepare and communicate its long-term strategic directions. Liquor and Gaming should then ensure that SIGA's long-term directions are consistent with Liquor and Gaming's own directions.

In our past report we said Liquor and Gaming must ensure that SIGA has adequate policies and procedures for managing public money. Liquor and Gaming has not set policy for SIGA's two of its biggest expenses. SIGA spent about 28 million on employees' pay and benefits and about 8 million for marketing and promotional activities. Liquor and Gaming must establish policies for these expenses.

In addition, Liquor and Gaming has not ensured that SIGA has established proper practices to ensure all transactions are properly supported and recorded, and adequate segregation of duties of each employee. Liquor and Gaming has begun to address these issues.

In our 1999 Spring Report we recommended that Liquor and Gaming prepare a formal training plan for employees, and coordinate work among its branches, and show audit inspections are completed as planned or document the reason for not doing so, document processes for reporting and following up findings with SIGA, and receive and formally approved casino operating policies, and receive and approve SIGA's budget on a timely basis.

Liquor and Gaming has made progress towards these recommendations. Liquor and Gaming has hired more professional staff to do audits, inspection, at SIGA casinos. Also, during the year Liquor and Gaming did more work to audit casinos and prepare written reports to communicate findings to SIGA.

However Liquor and Gaming did not adequately follow up the matters reported, to ensure SIGA change its spending practices. Nor did Liquor and Gaming recover from SIGA any unreasonable expenses. Because they did not do so, SIGA did not change its spending practices. As a result Liquor and Gaming may have paid SIGA for expenses that are not reasonable for operating slot machines at SIGA.

On page 132 of the report we report instances of improper use of public money. During the year Liquor and Gaming authorized SIGA to pay 400,000 to FSIN, that's Federation of Saskatchewan Indian Nations, and 150,000 to Saskatchewan Indian Gaming Licensing, that's SIGL.

The payment to FSIN was to cover the FSIN's negotiation cost for new framework agreement with the Government of Saskatchewan and we do not know the reason for paying SIGL. SIGL does not issue any licence to SIGA.

The casino operating agreement allows SIGA to incur and deduct only costs of operating casinos. Payment to FSIN and SIGL are not necessary costs to operate casinos.

On pages 133 we recommend that Liquor and Gaming establish processes to ensure timely calculation and payment of GST (goods and services tax) on the slot machine operations. We understand Liquor and Gaming has now calculated and paid the outstanding GST relating to slot machine operations.

On page 134 we recommend that Liquor and Gaming strengthen its processes to ensure gaming operators use only registered gaming suppliers. Liquor and Gaming must ensure all gaming operators comply with the law. The law requires that all

gaming establishments use only registered gaming suppliers. Liquor and Gaming need to strengthen its processes to ensure all gaming operators do so.

On page 135 we recommend that the Liquor and Gaming establish standards for independent testing laboratories to use when testing slot machines and VLTs, and ensure that the laboratories use those standards to test Liquor and Gaming slot machines and VLTs.

Liquor and Gaming has not reached the standards for testing electronic gaming devices; therefore, gaming laboratories use standards established by other jurisdictions. As a result there is a risk that the gaming devices may not comply with gaming rules in Saskatchewan.

Also, Liquor and Gaming does not have a formal agreement with testing laboratories, setting out what they should test and what assurance they need to provide to Liquor and Gaming. When expectations are not clearly communicated, there is a risk of confusion between parties that may result in malfunctioning devices.

On page 136 we recommend that Liquor and Gaming establish rules and procedures to periodically monitor the actual house advantage for table games. Liquor and Gaming approves rules for all table games played in Saskatchewan casinos. Table games rules include a planned house advantage. House advantage is the percentage of player's bet that the casino should retain over time if the game is played according to the approved rules.

If gaming operators play the table games according to the approved rules, they would achieve the approved house advantage over time. Liquor and Gaming has processes to ensure table games are played according to the approved rules through periodic observation of table games at casino. However, because house advantage is the only quantitative measure that Liquor and Gaming approve, it should periodically monitor house advantage for some table games. Such monitoring will provide added assurance that table games are played according to the approved rules.

On pages 136 and 37 we continue to recommend that Liquor and Gaming should complete its contingency plan and test that plan to ensure it works, and that it should document its rules and procedures for its computer system operations.

We reported these matters in our previous reports. Your committee considered these matters and concurred with our recommendation. Liquor and Gaming continues to improve those areas. We think more work is needed to fully implement our recommendations.

On page 138 we recommend that Liquor and Gaming should improve its annual report. Liquor and Gaming has made some improvements. We think it should further improve its annual report by including a summary of its key performance indicators and compare them to actual results. The annual report should also include key risks Liquor and Gaming faces and how it manages those risks.

That concludes my comments on chapter 6A.

Now I will move to chapter 6B that deals with SIGA. Chapter 6B is on pages 140 to 166. For the committee's convenience, from page 165 through 167 we have listed all our past recommendations, with information about the status of those recommendations.

On page 145 we recommend that SIGA incur only costs necessary to operate its casinos under casino operating agreements. As I said earlier, SIGA made two payments totalling 550,000 to FSIN and SIGL. The Casino Operating Agreement allows SIGA to incur and deduct costs for operating casinos. The payments to FSIN and SIGL are not operating costs of the casinos and therefore are not authorized under the operating agreement.

On page 146 we continue to recommend that SIGA's board document and communicate through senior management the goals and objectives of SIGA and that SIGA should prepare a complete business and financial plan for this operation. We first made this recommendation in our 2000 Fall Report Volume 2. We understand SIGA's board has now prepared a strategic plan for SIGA. We do not know whether a complete business and financial plan has also been prepared.

On pages 147 to 149 we continue to recommend the SIGA board define its operational and financial needs and communicate those needs to management for regular reporting, and that SIGA establish complete policies for management and staff pay, benefits, development, and performance evaluation.

Management does provide monthly and quarterly, including their annual reports to the board and to the Liquor and Gaming. Those reports are not adequate because they do not show what SIGA owns and what it owes, consolidated operations for all of its casinos, and SIGA's cash flow. None of those reports include performance information showing what the board wanted SIGA to achieve and how SIGA is progressing toward those expectations. SIGA has not established guidelines for employees' pay and performance evaluation, nor has it established policies setting out who should receive what benefit.

On page 152 we recommend that SIGA establish policies and procedures for its marketing and promotional activities. We made this recommendation in our 2000 Fall Report Volume 2. Marketing and promotion is SIGA's second largest expense. We had expected that by now SIGA would have developed policies setting out a clear definition of marketing and promotion activities and a process requiring staff to prepare a business case for all significant marketing proposals. SIGA could then monitor whether its marketing activities contributed to its revenue generating activities and learn a lesson for further marketing projects.

On pages 152 and 153 we recommend that SIGA ensure that staff comply with a sponsorship policy and that SIGA establish rules and procedures to ensure all staff comply with the delegation of authority policy. SIGA has established a sponsorship policy and a delegation of authority policy. However management did not monitor whether the staff complied with those policies. During our work we found examples where staff did not comply with those established policies. We think SIGA should ensure its staff comply with those policies.

On page 154 we continue to recommend that SIGA establish processes to ensure that their books and records reflect its business operation and there is support for all transactions, and that SIGA properly segregates the duties of its employees. We made these recommendation in our previous reports.

SIGA has not yet established practices to ensure that all payments are properly supported. More than half of the transactions we tested had insufficient supporting documents. Also SIGA records all marketing expenses, including cash incentive for patrons, complimentary meals, live entertainment in casinos, and general promotion activities, in one account. SIGA does not budget those amounts separately and does not regularly analyze the amount recorded as marketing.

Also we found that SIGA had not properly segregated the duties of its employees to ensure it only pays for the goods and services it receives. As a result management cannot detect improper transactions. We think SIGA should do so.

On page 156 we recommend that SIGA periodically monitor the actual house advantage for table games to ensure games are played according to approved rules, and that SIGA establish appropriate rules and procedure to monitor expected and actual revenue of table games, and communicate these to casino staff.

Our first recommendation is similar to what we said earlier in the Liquor and Gaming chapter. Our second recommendation deals with ensuring that SIGA has received and recorded all table games revenue.

When gaming operators do not monitor house advantage, they establish and communicate to gaming staff expected hold for their table games. Hold represents the revenue from table games that the operator can expect to achieve. This helps operator monitor whether the table games are generating the revenue as expected. Staff record the revenue, actual holds, and monitor the trends, but they do not know if the gaming revenue are generating . . . or games are generating the revenue as expected.

On pages 157 and 158 we recommend that SIGA comply with the terms and conditions of its gaming licence and that SIGA comply with this annual report policy.

First, SIGA's gaming licence does not allow SIGA to install cash advance terminal that issues credit card advance inside its casinos. We observed that one casino cash advance terminal accepts credit card for cash advances. Management told us that SIGA has since removed that terminal.

Second, SIGA has established policy for preparing and issuing its annual report. For the year ending March 31, 2001, SIGA did not comply with those policies. The annual report was late and did not include all the information the policies required.

We note SIGA's annual report for 2002 has improved and includes more information than the prior year. However, further improvement is needed.

In part 2 of this chapter, on pages 158 and 161, we described the key risks that SIGA faces. We discussed these risks with SIGA management and confirmed that we have identified the right risks. We have not assessed the adequacy of the SIGA's

processes to address its key risks. However we plan to examine SIGA's processes to ensure adequate human resource capacity to manage its operation.

In part 3 on page 163 we describe the agreed upon criteria that we will use to do our work.

On page 165 we provide a summary of our past recommendations, with information when the recommendation was first reported and whether the recommendation has been implemented, partially implemented, or has not yet been implemented.

To work through the four years of report we recommend that your committee deal with the recommendations in 2002 Fall Report Volume 2, including the recommendations on pages 165 to 167.

That concludes my comments and thank you very much for your time.

The Chair: — Great. Thank you very much, Bashar.

Ms. Morgan: — Thank you very much, Mr. Chair. As you are aware, this is the first opportunity that we've had to appear before the committee since the auditor's Fall 2000 Report. And I thought it would be appropriate therefore to bring you up to date with regard to the status of all the issues that the auditor has mentioned and some that he hasn't.

In June 2000 when the Provincial Auditor advised SLGA (Saskatchewan Liquor and Gaming Authority) and the minister responsible of the significant issues that he had identified at the board and in senior level and with senior management levels and with the CEO, we took immediate action.

For example, we wanted to stop, obviously, any unauthorized and inappropriate spending. So immediately things like credit and debit cards were cancelled. The registration of the then Chair and CEO of SIGA was yanked and the board was directed to rescind any resolutions authorizing unbudgeted salary increases.

In addition we advised them at that time that a new board would have to be appointed as well as a new CEO — a new manager and a new CEO — and they could not be the same person, which was the case with Mr. Lerat.

We also authorized a special audit by Ernst & Young to identify all the issues and concerns. And then Ernst & Young, the Provincial Auditor, and SLGA worked together over the course of the next several months on a thorough investigation.

The Provincial Auditor used that special audit as the foundation of his work in relation to the issues at SLGA. And in his November 2000 Report he made a number of recommendations which we adopted in their entirety, including recommendations to strengthen SLGA's own regulatory compliance and gaming oversight functions.

We enhanced our inspection and registration and audit functions. In fact we now have four former employees of the Provincial Auditor on staff, two of whom are in this room and

one of whom is the 2IC (second-in-command) in our new gaming division.

We established, as I just mentioned, a gaming division dedicated to the effective oversight of the electronic gaming industry in Saskatchewan. And this division advises SIGA's board and management in areas of governance, financial management, policies and procedures, and organizational development. And we have also now hired a new gaming . . . manager of gaming integrity.

We took action with respect to SIGA and imposed a series of directives for SIGA to meet in order to comply with the recommendations made by the Provincial Auditor. The directives included a new board composition and structure, such that the board now includes appointees of the FSIN and of the government.

We required SIGA to have the Provincial Auditor as their auditor, external auditor. We imposed specific expenditure and governance policies on SIGA and imposed the requirements for it to develop policies in other key areas.

We are making progress in working with SIGA as it continues to fully implement the recommendations of the auditor. In considering the progress achieved by SIGA, it is important to recognize that the commercial casinos are still a relatively young industry. And as a young organization in a new industry that has experienced extremely rapid growth, SIGA has had a tremendous challenge in just building capacity.

As I've noted, both SLGA and SIGA have made progress since the fall of 2000. We are building the appropriate capacity to effectively and accountably carry out the required mandates of our respective organizations. SLGA and SIGA are building a solid working relationship, we believe. We continue to work co-operatively with the Provincial Auditor to ensure the appropriate level of accountability and openness.

And of course we recognize that more work needs to be done. Quite frankly it's going to be an ongoing process and I know that the auditor gets frustrated about the pace. But at various levels of our organization, SLGA and SIGA are in contact on an almost daily basis. SLGA officials regularly discuss with SIGA officials the status of the progress with respect to the Provincial Auditor's recommendations and our directives.

We also participate in monthly board meetings and we discuss issues and the progress that's being made. And we know that we're on the right track. I mean, SIGA's profits have increased significantly from 13 million in 1999-2000 to 24 million, almost \$25 million last year. So progress is being made.

And for the information of the committee members, we didn't have an overhead presentation like the Provincial Auditor but I do have a summary document of all of his recommendations and the status with respect to what has been happening during the last two years specifically.

And with that, Mr. Chair, that's all I have to say.

The Chair: — Thank you very much, Ms. Morgan. For the benefit of members, we'll have that document circulated so that

you can see the results.

Before we get into the recommendations, of course as indicated in chapter 6A and 6B, we have 28 recommendations in total. So that is a significant amount of recommendations and material that has been presented over the last four years.

But before we get into specific recommendations and the summary that has been presented by Ms. Morgan, I'd ask for general comments or questions or a discussion of either the report from the Provincial Auditor or the comments from Saskatchewan Liquor and Gaming Authority officials.

No indirect . . . Ms. Bakken?

Ms. Bakken: — Would it be appropriate, Mr. Chair, to ask for some general questions about Liquor and Gaming and some of the more recent incidents before we go into the issue around SIGA?

The Chair: — Yes. I know that you're new to the committee and that is sort of the procedure we follow, is sort of general comments or questions, clarifications of any of the points brought up, before we get into the specific recommendations. And that's what I'm opening the floor to right now, for general questions or general comments, if you would.

Ms. Bakken: — I refer to page 126 of chapter 6A of Liquor and Gaming where it indicates that Liquor and Gaming, one of their responsibilities is balancing equitable licensing and revenue opportunities for charities and business. And it is no secret or surprise to officials that we have been exploring the whole issue around linked bingo in Saskatchewan. And I have a few questions around that whole issue, if I might.

First of all I would like to ask officials, when the decision was made to go forward with mega bingo . . . The minister has indicated on several occasions that there was a larger gaming plan which it was part of. Do you have a copy of that larger gaming plan and would it be available for committee members?

Ms. Morgan: — The minister was referring to a document that went to cabinet that was the overall strategy for gaming in the province of Saskatchewan and the linked bingo game was referenced in that. And cabinet documents are not public documents. We're not in a position to be able to release that.

Ms. Bakken: — Would you be able to tell us what other plans were in that document in general?

Ms. Morgan: — Well in essence it was an overall plan for electronic gaming in the province of Saskatchewan — slot machines, VLTs, bingos, the charity gaming, the social responsibility aspects of being in the gaming business. That was basically in the broad . . . It's pretty difficult to get into specifics that are contained in a cabinet item. But in essence it gave an overview of the gaming industry in the province of Saskatchewan at that time, as I understand it.

Ms. Bakken: — I guess, Ms. Morgan, I'm surprised that it's not a public document if it's merely speaking to the issue of how we go forward with gaming and how it can benefit charities and the general public at large. Why is it a confidential

document?

Ms. Morgan: — Well to the best of my knowledge it was only ever a cabinet document, it was not anything ever made public. So I'm not in a position to make a cabinet document public. I'm sorry.

Ms. Bakken: — Further to that, it's my information that a company from Alberta that operates a satellite system could have and did approach and actually had meetings with Liquor and Gaming about the system that is used in Alberta. And I would like an explanation of why this was not considered in light of the fact that it would have been implemented at absolutely zero cost to the government.

Ms. Morgan: — I'm not aware that Alberta approached us on an individual basis. And that may well be the case, but the decision was made to tender this, through the Western Canada Lotteries Corporation, the whole process. So we can get that information for you and provide it to you, the specific details. But I don't know details of a meeting between Alberta and SLGA.

Ms. Bakken: — Well it's not the Government of Alberta. It is a company out of Alberta that provides a service and actually provides link bingo in Alberta, has since 1996, I believe, and continues to this day. They did meet with Saskatchewan Liquor and Gaming. They do provide a service that would have zero cost to the government, privately run, and they did bid on the contract.

I would like an explanation why Saskatchewan Liquor and Gaming would make a decision to spend some \$8 million of taxpayers' money to put in a bingo system when they could have acquired the system for zero cost.

Ms. Morgan: — Well we'll provide that information to you, but it's my understanding that the Alberta company could not provide both the software and the hardware for a linked bingo game as well as a cash and paper system that we were looking at here in Saskatchewan. And it would have to be in two parts. They could provide the linked bingo game but we also wanted the cash and paper system.

The other thing is in Alberta the industry itself absorbed all of the costs and in Saskatchewan, again, the industry wasn't wanting something whereby they bore the brunt of the cost.

Now I say that by way of background to the Alberta company but we can certainly provide you with specific details that we're able to find with respect to this particular company. But I know that when the WCLC (Western Canada Lottery Corporation) assessed the bidders for the contract based on what we were looking for, the Alberta company came up short. It wasn't able to provide the cash and paper part of the tender.

Ms. Bakken: — Well first of all a clarification is . . . the fact is that the charities do not put any money into this system. It is strictly run by shareholders. It's open to, if a charity wants to be one of the shareholders, they can; if not, they're not required to be a shareholder in order to be . . . to operate the link bingo out of their bingo halls.

And I have had this question from the beginning: why was the cash paper management linked to providing the hardware and software? Why was it necessary to have both . . . one person or one company provide both of those services?

Mr. Lacey: — Perhaps I could make two points on this piece. With respect to the satellite bingo system that the Alberta company you're referring to offered, I understand that there were general informational discussions amongst SLGA staff prior to the RFP (request for proposal) issued by WCLC, but they were informational discussions only and SLGA chose to do an open competition tender process by way of an RFP to seek both a linked bingo game and a cash and paper management system. WCLC managed that RFP process. The Alberta satellite company did submit a proposal under that process, was evaluated under the criteria of that process, and was not the preferred supplier at the end of the day.

The second point in answer to the question raised relating to — I've lost my train of thought here — cash and paper. At the time SLGA went forward with an RFP process through WCLC, the plan was to have both a linked bingo system and a cash and paper management system. And the intention was that the linked bingo system would generate sufficient revenues to pay not only for the linked bingo game but also the cash and paper, automated cash and paper management system.

And as a result, because we had these two separate, we had these two separate packages going forward, from a software perspective we wished that they could run on the same hardware. So the two were combined to the extent that the intention was to have both a linked game and an automated cash and paper game. And to have both of those going forward at the same time, we needed to have those two systems also be compatible with respect to the hardware and the technology they needed to be run upon.

I'll leave it at that and further questions can follow up.

Ms. Bakken: — What was the purpose for putting in the link bingo game?

Ms. Morgan: — Well again the industry . . . As I said at a Crown Corporations Committee in March, since the advent of casinos in the province of Saskatchewan, the bingo halls have had fewer and fewer people playing. And as a consequence the pool of money that's been available to charities has been . . . it's been constant simply because we removed the licence fee that they were having to pay previously, but in reality the amount of money in the bingo halls was going down.

The bingo industry came to SLGA and said they wanted to implement a linked bingo game province-wide because they felt this would help attract more people to the halls. So that's the genesis of a linked game.

The industry came to SLGA saying look we need some help because we're suffering as a consequence of the advent of casinos. I think that's a very simple, but accurate, history.

Ms. Bakken: — Ms. Morgan, I would appreciate then some minutes or papers showing where the charities initiated this because that certainly is not the information that I've been

provided. The information I've been provided that it was initiated by Saskatchewan Liquor and Gaming.

And if the purpose was to somehow offset the loss of revenue that charities were receiving, why would Liquor and Gaming make the determination that they would spend up to \$8 million to put in this system when that money had to somehow be recovered before there was going to be any profit shown? Because there were going to be fees and there were fees that were charged back to the bingo halls in order to offset the cost of this and hopefully pay for it in the long run.

It appears to me that the paper and cash management system was the focus of Liquor and Gaming and were using the linked bingo with charities as a front for that. Because otherwise why would Liquor and Gaming not have gone ahead with the Alberta system which was zero cost — absolutely zero cost to the Government of Saskatchewan and zero cost to the charities that were going to use this system? All it could do was benefit.

In Alberta, to date they have raised over \$1.2 million for charities through their linked bingo. And in Saskatchewan what happened was that the taxpayers lost \$8 million, and charities lost because they had to put up . . . capital costs up front, and then there was a siphoning off of people not playing other games within their establishment so they lost both ways. Charities paid big time for this.

So I would like an explanation of why you felt compelled to keep these together, and was the cash and paper management system actually the driving force behind this decision?

Ms. Morgan: — As far as I know it's my understanding that the cash and paper was not the driving issue. And it wasn't so much the charities that approached the government as it was that the bingo industry, the hall operators, the people who run the bingo halls — and it's not necessarily the charities; these are two separate organizations, the charities and then there's the bingo hall operators — and they were wanting and interested in putting people in chairs.

It was felt that this would be based on the success in Alberta. And I want to make it clear that in Alberta it is the bingo industry — I'm not now talking about the charities but the people who own the bingo halls — that absorb the cost of operating the linked bingo game.

In Saskatchewan the hall operators didn't want to incur the cost themselves. And so in an effort to try and address the issues that the bingo operators were telling us about, as well as the charities with respect to the lowering revenues, truly it was the linked bingo game as I understand it that was the attractive piece in this. And it was felt that the cash and paper system would help keep track of the game and would also pay for the cost of the game eventually. But that, of course as you know, did not happen.

Ms. Bakken: — Well if I hear you correct then, Ms. Morgan, you indicated that it was the bingo hall owners and operators that came to you and wanted this. And so . . .

Ms. Morgan: — And some charities.

Ms. Bakken: — . . . the push to go ahead with this was coming from the bingo hall operators and owners, not from the charities. So the charities and the dollars that they were going to receive from the mega bingo scheme was not the priority.

Ms. Morgan: — Oh definitely, because it was felt that the linked game would obviously . . . I mean the plan was to get more people in the halls, halls making more money, thus more money available to the charities because at the end of the day the money that is made in the bingo halls goes to the charities, and they were the ones who were suffering as a consequence of casinos. Their revenues were what was being impacted.

Ms. Bakken: — And they were also paying in order to have this system in their facilities and have access to it.

I'd like to move on a little bit further on this. Wascana Gaming who was awarded the software through the RFP, did Wascana Gaming have any prior knowledge in this field? Had they ever developed a system for gaming prior to them being awarded this?

Mr. Lacey: — It's my understanding that Wascana Gaming had a cash and paper system that could be put into an individual hall. I'm not aware, although I would have to confirm that for a certainty, I'm not aware that they would have had a linked bingo game product at the time, at that point in time.

Ms. Bakken: — So I guess you know the question in most people's minds is why would Liquor and Gaming make the decision to go with a company that had no background at a cost of, you know, the cost varies — originally it was \$1.2 million; we've now learned that it's gone up — when it could have been initiated at zero cost and then charities certainly would have benefited largely because any revenue generated would have gone to them?

Ms. Morgan: — Well as the minister has indicated in the House, it was the Western Canada Lotteries Corporation that evaluated each of the tenders submitted. And they are the ones who had the technical expertise in-house to know the technology, the technical aspects of the bids. And it is my understanding that at the end of the day there were two names recommended, two companies recommended, to SLGA. One was Wascana, the Saskatchewan firm, and the other was an Ontario firm. And it was the Saskatchewan firm that was the low bid and it was a local firm.

That is my understanding why Wascana Gaming was picked over the Ontario company, which were the two short-listed companies by the WCLC.

Ms. Bakken: — And, Ms. Morgan, was the final decision between those two companies made by the Saskatchewan Liquor and Gaming?

Ms. Morgan: — I understand, yes.

Ms. Bakken: — Was Saskatchewan Liquor and Gaming aware at the time that they awarded the software package to Wascana Gaming that the software would be developed mainly out of country, in fact in India?

Ms. Morgan: — I can't honestly answer that question. I don't know. I think that question would have to be addressed to the management team at Liquor and Gaming at that time.

Ms. Bakken: — On a written question, Ms. Morgan, that I submitted to the minister, the answer did come back that Saskatchewan Liquor and Gaming understands that Wascana Gaming used or contacted . . . contracted resources from India to help develop the linked bingo game.

I'm wondering, this information came from, I believe, your department?

Ms. Morgan: — Yes. I just can't tell you when we knew that it . . . they were using an offshore company. I don't know if we knew that before it was awarded or not. I honestly don't know. We can attempt to find out for you.

Ms. Bakken: — Thank you.

The Chair: — General questions from anyone else before we get into specifics?

I'm going to suggest that we start the recommendations and we'll proceed until about 10:45, and then we'll have a quick five-minute recess to stretch your legs and then . . . but as I said, it'll be a short recess only as our plan for today is, due to commitments, we're adjourning at 11:30.

So let's begin, if we could. And I know, I thank you for the package, Ms. Morgan, but your numbering of the system goes back in '99 and all of the recommendations. So as we get into each recommendation that we're going to deal with out of chapter 6A and 6B, would you point us in the direction of your numbering system as to where we can find it? I'd appreciate that, if you could help our members with that.

Ms. Morgan: — Okay.

The Chair: — Okay, members, we have chapter 6A, found on pages 121 to 138. And in chapter 6A we are dealing with 15 recommendations in total from previous years, as well as the recommendations, new recommendations put forward in 2002. And I turn your attention to page no. 130, recommendation no. 1, at the top of that page.

Are there any further comments or questions on that recommendation that you see there?

Recommendation no. 1 on page 130. If I could ask SLGA staff or through Ms. Morgan, do we know where that one is?

Ms. Morgan: — Yes. It's no. 16 on page 7.

The Chair: — Thank you. On page no. 7, you will find recommendation no. 16 listed as no. 16, which corresponds to this recommendation. You see the comments in the second column regarding SLGA's actions and the completion date, follow-up required.

Are there any questions or comments on those two columns or any things that you need for clarification purposes?

Mr. Gantefer: — Thank you, Mr. Chair. Mr. Ahmad, in your comments, I don't know if it was specific to this recommendation but there seemed to be a little frustration with the pace at which SLGA was implementing the recommendations. And outlined here there's a timeline for implementation, as I understand it, by January 2004. Is that part of your frustration or is that a reasonable goal that's now set out?

Mr. Ahmad: — Mr. Chairman, I think it is reasonable now. This recommendation was made back in 2000.

Mr. Wendel: — If I could just speak a little bit to the frustration, if you like. One of the things we were very concerned with is to make sure SIGA got control of its bank account. And those things should happen quickly. That shouldn't take years to fix. You should be able to get segregation of duties, make sure that you've got bills for . . . to match up with your cheques, and those kind of things. That's what we're looking for. And have books and records that balance, and you can prepare reports. So those are the things we think need to be done quickly.

Strategic plans, I think they're progressing. That takes time. As we had SPMC this morning, they said they're a little behind. They're working on that. We're pushing people all the time on that, okay. And we realize that takes time, to come up with performance measures and targets, and we're prepared to work with organizations to do that. But some of the basics we expect to be done quickly. So when you get to some of the recommendations in here, you'll find those items like the cheque signing, the segregation of duties, and support for documents.

Ms. Atkinson: — So in terms of this particular recommendation, this isn't a basic that needs to be done quickly.

Mr. Wendel: — As I said, it will take time, okay, but we do want a business and financial plan.

Ms. Atkinson: — Okay. So then the answer to Mr. Gantefer's question is, January 2004, can we live with that? Can the auditor live with that? And you said, yes.

Mr. Wendel: — Yes.

Ms. Atkinson: — So then what the committee probably should do is concur with the recommendation, note progress with the expectation that this shall be done by January 2004. Does that work for the auditor?

Mr. Wendel: — That's acceptable. I just want to put it into general comments on progress, like why we push so hard for some of it and some of it we're prepared to go along with and take some time and work with organizations.

Mr. Gantefer: — Thank you, Mr. Wendel. That helps completely. I'm trying to sort out from all of these recommendations what are the things that require some consideration of time and reasonableness and some things that we need to understand are critically important that happened yesterday, in effect. And I would appreciate, if we get to those

recommendations, you'll flag them for us so that we clearly understand what are those critical elements.

The Chair: — And, Ms. Morgan, the explanation from your office there regarding January 2004, where I take it you're still on track . . .

Ms. Morgan: — Yes.

The Chair: — . . . to meet those expectations.

Ms. Morgan: — Absolutely. And the point made by Ms. Atkinson with respect to strategic planning, government departments have been spending the last four and five years on strategic planning processes. And as the Provincial Auditor said, it does take time. But we're absolutely on schedule.

We have their strategic plan. We're in the middle of reviewing it and we will be working with the Provincial Auditor's office too now that we have the plan.

Ms. Atkinson: — I would move concurrence and note progress with the expectation that there shall be a strategic plan and budget by January 2004.

The Chair: — Thank you. Any further questions or comments regarding that resolution? All those in favour? Opposed? Carried.

Recommendation no. 2. Now I suggest, members, recommendation no. 2 is sort of that we look at exhibit no. 1 which contains recommendation nos. 3, 4, 5, 6, 7, 8, 9. And they're different in nature and some may be on different time frames and different levels of acceptance, maybe is the best way of putting it.

So rather than dealing with recommendation no. 2 which says, let's deal with everything in block, I'm suggesting we deal with each individually. So in that respect let's move to recommendation no. 3 and it suggests there that we recommend that Liquor and Gaming ensures SIGA implements the recommendations we make in our 2000 Fall Report. Okay.

Again, broad in nature. Mr. Wendel or Mr. Ahmad, do you want to make any comment regarding those 2000 Fall Report Volume 2 recommendations?

Mr. Ahmad: — I think, Mr. Chairman, if you want to go to page 165 of our report, that's where we talk about the recommendations we made for SIGA, when those recommendation was made and which one is still outstanding.

The Chair: — Now some clarification from Mr. Wendel, members, is that in the SIGA chapter we'll be getting to each one of those individually. So rather than deal with them in a block, with your approval we'll deal with them individually when we get to SIGA. Okay.

Then let's move to recommendation no. 4. And Mr. Harper said it is now 10:45. We are recessing for five minutes. Some people need to check air quality, so five-minute recess, please. No more. I ask you to be back in your chairs by 10:50, please.

The committee recessed for a period of time.

The Chair: — Members, may I reconvene this committee, before we have discussions.

Recommendation no. 4, found on page 131, indicates that the auditor's office recommends that Liquor and Gaming frequently audit SIGA's operations to ensure firstly, SIGA complies with the framework and casino operating agreements; and secondly, SIGA incurs and deducts only reasonable expenses from public money.

If I could ask, Ms. Morgan, your numbering system?

Ms. Morgan: — Yes, it is no. 13 on page 6. Do you want me to explain, Mr. Chair?

The Chair: — Yes, if you would because I note that in your column no. 3 you make reference to no. 3 and no. 12 going back. And I'm looking that it says ongoing; it says processes in place. So could you clarify where that stands?

Ms. Morgan: — Right. We have established audit processes for SIGA because there are very . . . there are different parts of SIGA that have to be audited — their financial statements, the casino operating agreements, the First Nations gaming agreement. We have to do audits with respect to the sustained progress that we're working on.

So we now have an audit process in place. Barry could speak to the details if the committee would like more. But that is auditors from SLGA are on site at SIGA on an ongoing basis to audit these various pieces of what are required to be audited. And that will be ongoing. I mean that will never end. As long as SLGA has a relationship with SIGA, we will be auditing SIGA.

And the only hope we have is that they do achieve sustained progress and thereby have achieved some of the very significant benchmarks that need to be achieved.

The Chair: — Okay. Thank you for that clarification. Ms. Bakken, question?

Ms. Bakken: — Ms. Morgan, in light of what you have just indicated, how is it then that FSIN received \$400,000 and Saskatchewan Indian Gaming Licensing received 150,000?

Ms. Morgan: — Well I guess on this issue, SLGA believes that we had authority to authorize those payments. I know the auditor is of the view that they are inappropriate. Our legal advice was that they were totally appropriate.

We entered the negotiations on the first gaming, First Nations gaming agreement, as partners and we did not feel that it was fair for SLGA, who had access to a government-wide committee and the best legal advice, for our partner not to have the same. And we believe that the First Nations gaming agreement gives us the authority to make that payment, both payments.

Ms. Bakken: — Well, Ms. Morgan, the auditor has made it very clear that this is public money and under the Casino Operating Agreement the only expenses that can be deducted

are the expenses to operate the slot machines. And how does \$400,000 to the FSIN to negotiate a new agreement and 150,000 to Saskatchewan Indian Gaming Licensing to work towards being able to license their own gaming activities, how does that translate into being an operating expense to operate the slot machines in SIGA casinos?

Ms. Morgan: — Well I guess the way I can answer that is just to say that we will continue to talk to the Provincial Auditor's office about this issue, but I would be less than honest if I didn't say there was just a fundamental difference of opinion between the lawyers. And we believe that the First Nations gaming agreement is for all First Nations gaming, whether it's slots or on-reserve charitable gaming. So, I mean, it's as much a legal dispute as anything. But we believe we had the authority to make those payments.

Ms. Bakken: — Well, Ms. Morgan, it's very clear in the operating agreement that the only expenses to be deducted are for the operation of slots. And when we look at SIGA annual report and realize that their table games and their ancillary operations all lose money, and those expenses are deducted against the revenue from the slot machines, so if it wasn't that the provincial government, by leave, allowed SIGA to have slot machines in their casinos, SIGA would not be in operation because they do not make any money from their other operations within the casino.

In fact they lose money and are charging those losses against the profit from the slot machines. And as we know, under the Criminal Code of Canada the only way that the provincial government can have gaming is with leave from them. And the provincial government has to operate electronic gaming devices. They cannot allow anyone else to operate them.

So under the agreement, you are allowing SIGA to operate slots and to deduct expenses. And it is very clear that negotiating a new agreement and working towards having licensing on . . . giving First Nations licensing on reserves is not an expense that is necessary to operate a slot machine.

Ms. Morgan: — Well again as I say, the First Nation gaming agreements, both the existing one and the previous one, we believe has given SLGA all the authority it needs to conduct gaming in Saskatchewan in the manner in which it's being conducted.

SIGA was created for the specific purpose of running Indian casinos. They were delegated by us. They were given authority by the province of Saskatchewan to run, in essence, the machines we own. And the gaming agreement, we believe, is comprehensive enough to certainly take into consideration all these aspects of the gaming industry.

We believe we are on solid legal ground here, both in terms of the Criminal Code as well as Saskatchewan law.

Ms. Bakken: — Ms. Morgan, do you do an ongoing audit at the casino level to ensure that the expenses that are charged back, directly related to table games and to the restaurants and their gift shop, that they are justified? Is that happening?

Ms. Morgan: — Well that's part of the overall audit we do of

the organizations. I mean we are always auditing in order to make sure that the expenses that they're incurring are indeed the expenses that they say they are incurring, that are included in their financial statements, that are included in their reports to us, and are correct expenses. That's absolutely part of the audit.

We need to know that if they say that they've spent this amount of money on food, that indeed they have and that it's not a manufactured number. That's absolutely the function of the audit system.

Ms. Bakken: — Ms. Morgan, have you ever then looked at the annual reports from Casino Regina, which is fully operated by the Government of Saskatchewan, and compared the expenditure . . . the revenue and expenditure and the bottom line as opposed to SIGA?

I think you will find that in Casino Regina there is a profit from the table games. There is a profit from the restaurants. There is a profit from their gift shops. And we're seeing exactly the opposite from SIGA. And so it leads the public to wonder why this is happening. And if Liquor and Gaming is aware of this, which I'm sure you are, why have steps not be taken to address this and make SIGA account for how they can possibly continue to lose money on these three . . .

Ms. Morgan: — I think the answer to that is we are working with them all the time. And in the last two years alone, SIGA's expenses, operating expenses, have been reduced by more than \$9 million. So we believe SIGA's heading in the right direction and that eventually these things like the restaurant or the gift shop will make money. But we are . . . absolutely, we are monitoring that on an ongoing basis, and we are asking questions as to, you know, why are the costs for this so high and why isn't this making more money? That is part of our job and part of our audit.

Ms. Bakken: — And could you explain how often these audits are carried out and by whom, and who they report to directly?

Mr. Lacey: — Part of our audit program, we have a group of internal auditors within SLGA. Part of their role is to conduct regular audits of SIGA's operations. The audit plan requires the audit group to conduct an audit of SIGA's expenditures every six months, so essentially every six months we go and we audit their expenditures. And part of that audit does look at the reasonability of the expenditures that we test.

Ms. Bakken: — And . . . sorry.

Ms. Hanson: — If I can add on the other side, in operations we work with them on an ongoing basis for everything they do in each of the operations. We're asking for business plans, we're asking why they want to go in a certain direction, and we want the documentation to support that before there is funding approved for the area. So we're working on it in two directions, at the front and then at the back, to ensure that it was appropriate.

Ms. Bakken: — So is there any . . . I mean, when do we say enough is enough, I guess, is the question. The money that is being lost at SIGA casinos through these operations is deducted off of the dollars that then go to the Government of

Saskatchewan to be divided back to First Nations, to the community development, and also to general revenue. So for every dollar that is being misspent at the casino level in operations, that's a dollar less that goes back to the people of Saskatchewan and especially to First Nations and to community development corporations.

So, you know, when is Liquor and Gaming say, this is not appropriate, we are not going to allow you to continue to deduct expenditures which, when we compare to Casino Regina, are not appropriate?

Ms. Morgan: — Well firstly we have seen no evidence recently of any misspending by SIGA. They are operating in a manner that's appropriate. We deny SIGA budget approval on an ongoing basis. I mean they are . . . they'll ask us to approve something budget-wise that we deny if it doesn't make any sense and if it's not appropriate.

The question with respect to whether, you know, when do we say enough is enough, just by way of background, I referenced earlier the need for SIGA to build capacity. This is a relatively new organization and the board that's there now has only been there since the spring of 2001. The CEO started in July 2001. Their chief financial officer has only been on board since January 2002. And their corporate affairs VP, who is responsible for board operations, you might say, has been there since March 2002.

So I believe that they need to give us . . . we need to give them time to get their capacity in place and their appropriate knowledge such that they know how to run this operation. They're doing a very good job and the proof is in the pudding. I mean their profits have escalated considerably; their expenses are headed in the right direction. And we want to continue that such that all parts of SIGA start operating on a profit basis as soon as possible. And I mean all I can repeat is, we are working towards that.

And now that all of the people are in place, we are going full bore on that front. And we haven't assigned a deadline in the sense that it's either this day or else, but the reality is that the First Nations gaming agreement outlines the year 2005 for sustained progress to have been reached such that SIGA is responsible, will be in a position to be responsible for its own actions. And if by August 2005 these benchmarks have not been achieved, then the gaming agreement becomes null and void. I mean, and I guess that could be the deadline, you might say.

Ms. Bakken: — Well, Ms. Morgan, I guess that raises the whole other issue around the 25-year agreement. As is evident from the most recent report from the auditor, there are several outstanding issues, some that are very serious — misappropriation of \$550,000 . . .

The Chair: — Ms. Bakken, Ms. Atkinson has a question before you go into a new topic. Because I, just judging by your comments, you're heading into a new area and Ms. Atkinson has a question.

Ms. Atkinson: — . . . auditor. And it has to do with differences of opinion. When the auditor has an opinion and then a department or branch of government has another opinion, does

that happen very often? And I'm talking about the use of certain funds to negotiate the agreement and the use of certain funds to set up an Indian Gaming Authority. So from what I understand from Ms. Morgan, the auditor and SLGA have a difference of opinion whether or not these funds can come from SIGL, SIGA revenues.

Are there other times where the auditor will have a difference of opinion with a department? While you'll make a recommendation, the department continues to hold a particular view based on their legal advice or their view of the world.

Mr. Wendel: — I can think of cases like that, yes.

Ms. Atkinson: — You can. So this is not unusual?

Mr. Wendel: — I can think of many cases like that where . . .

Ms. Atkinson: — Many cases. Okay. Okay.

Mr. Wendel: — Where they might disagree on whether they have authority to do something but my position is to tell you. They can come forward and explain to you their position and you can discuss it . . .

Ms. Atkinson: — I have a follow-up question. Are you always right?

Mr. Wendel: — I like to think so, but it's not true. Sometimes the committee agrees with me and sometimes they don't.

Ms. Atkinson: — Okay, okay. So then you're not always right. Right. Okay. That's my thought.

And just in terms of where the question is going, I do want to put on the record — because these things are read, these *Hansards* are read in terms of our discussion — that on February 28, 2002 the Leader of the Sask Party, Mr. Hermanson, delivered a speech to the FSIN at the Centennial Auditorium in Saskatoon. And I think we need to put this in context in terms of the questions that are being raised. And he says, and I quote:

I may surprise some people by saying that I believe the financial success at the Saskatchewan Indian Gaming Authority (SIGA) is one of the great and largely untold business success stories in Saskatchewan.

Your leaders took an agreement and breathed life into it by arranging your own training, financing, construction and executed operations with a high degree of success.

I have had the opportunity to meet with SIGA CEO Ed Bellegarde and I'm impressed with the direct and business-like approach both SIGA and the FSIN have taken in addressing the governance challenges that arose in 2001.

I am confident we are well on the way to putting these challenges behind us.

These are Mr. Hermanson's remarks. And so I thought we should just put that on the record to have a context for our discussion today.

The Chair: — Thank you, Ms. Atkinson. Mr. Gantefoer?

Mr. Gantefoer: — Just on the same point that was raised in terms of differences of opinion.

Ms. Morgan, you mentioned that SIGA had or has a legal opinion that the expenditures were appropriate, differing from the auditor's opinion that they're not. Is it possible for you to table with the committee that legal opinion?

Ms. Morgan: — I said it was SLGA's opinion.

Mr. Gantefoer: — Oh, SLGA.

Ms. Morgan: — Yes, and I think we can certainly look into that. I don't see why we wouldn't. Absolutely. I mean it was a legal opinion.

Mr. Gantefoer: — Because we've had in the past these different opinions and . . . before the committee, and at the end of the day the committee does have to finally make a recommendation to either agree or disagree with one position or the other. But in order to do that you need, in essence, you know, both sides of the argument articulated. And that's why when it was mentioned that there is this legal opinion, why I requested that it be considered by this committee.

Mr. Yates: — Yes, the question is again on this issue of authority and differences of opinion. The question to the auditor I guess, in a circumstance where there is a difference of opinion between the Provincial Auditor and any government agency — whether it be SLGA or any government department — and the department or agency and its principal, the government, agree that there is appropriate authority and the auditor may believe there isn't the appropriate authority, then does it really boil down to that in either regulation, legislation, or in some policy that there's a difference of opinion as to what the interpretation of that policy is?

And in the final light, the writers of the legislation or regulation interpreted it, and if somebody has questions, they can clarify that wording through an amendment to the regulation or legislation. But if they principally agree it should be done, then we're really talking about what might be interpretation issue in the authority.

Mr. Wendel: — Mr. Chair, as I said earlier, we do have differences of opinion with departments. We discuss that with the departments or the agency. We try to come to some agreement and if we're not able to then we do report it. And sometimes it is . . . this committee recommends that regulations be made more clear. Other times they disagree with our opinion and it's left at that. Other times they agree and ask organizations to change their practices.

So it's a number of things can happen when we bring these forward but like I said before, it's not uncommon that we would disagree, and we do report them. Sometimes they also agree that they've done something without authority because they thought about it again in a different light, and agreed, and agreed not to do that or to report it. But it goes all directions.

The Chair: — Okay, thank you.

Mr. Stewart: — When these disagreements arise between your office and other government departments or agencies, are your opinions always based on generally accepted accounting procedures?

Mr. Wendel: — Well we do follow generally accepted standards to do our work, to make sure we do the work. We don't follow . . . We hold others to the standard of preparing their public reports following generally accepted auditing standards. We expect them to do so and when they don't, then we tell you. We tell you that what they've put out is not reliable.

But we do follow our standards for auditing and we try and convince people to follow those accounting standards that are put out by our profession, and get them to report that way. And when they don't, we let you know.

Ms. Atkinson: — Just to follow up to Mr. Stewart's question, having had some experience with your office. I think, would you not agree that . . .

The Chair: — All positive, of course.

Ms. Atkinson: — Yes, of course. Most of the time I agreed with the office. Would you not agree that sometimes the difference has nothing to do with generally accepted accounting principles, but it may be a difference of an interpretation in policy?

Mr. Wendel: — I don't usually comment on government policy, like policy itself. I would look to see what's . . .

Ms. Atkinson: — No, I'm sorry. What I mean is, there's a policy and then the officials have interpreted it in a particular way that you may differ with.

Mr. Wendel: — An accounting policy? An accounting policy, yes, that could happen too, yes. That does happen.

Ms. Atkinson: — Yes, okay, thank you.

The Chair: — For clarification for myself, Ms. Morgan. On page 132 the auditor has stated that — and it's in the first paragraph under the heading, improper use of public money — and the auditor has stated there that the 1995 Casino Operating Agreement does not allow SIGA to make these payments.

Is that what you're referring to as a legal opinion, in that your lawyers have studied the 1995 agreement and said, we have the ability to make these payments, whereas the auditor has looked at the 1995 agreement and said, no, you don't.

Ms. Morgan: — Yes, that's exactly it, Mr. Chair. The auditor that helped negotiate . . . or the auditor . . . the lawyer that helped negotiate the First Nations gaming agreement on the government side of the table was of the view that there was the authority in the 1995 agreement. But just in case of dispute, in this new agreement that we signed last year we clarified and made it quite clear that under the First Nations gaming agreement there is the authority for this payment.

But Mr. Gibbings was of the view that the authority already

existed in the existing agreement. And that's what I told Mr. Gantfoer that we'll undertake to provide to the committee. Because at the time the auditor's report came out last fall, this was a question that I immediately had, was if he's saying that he thinks this was inappropriate, where do we stand? And the lawyer advised me at that time that the authority was there.

The Chair: — Great. Thank you for clarifying that. Any further comments on this issue? Then, Ms. Bakken, we'll go back to you then for further questions. A new topic?

Ms. Bakken: — Well it's along the same line. There's been indication that you . . . that Saskatchewan Liquor and Gaming believes that these payments were within their jurisdiction. And then Ms. Atkinson read into the record . . . part of the speech that our leader, Elwin Hermanson, made last spring.

And I just want to make it clear for the record as well that when Mr. Hermanson made those comments, it was not referring to a new agreement that would be some 25 years. And it was also believing that before things progressed and in fact a new agreement was signed, that the whole issue around the Dutch Lerat scandal would be settled.

And at the time that the 25-year agreement was signed, that was still within the Department of Justice. There were the outstanding issues brought forward by the auditor that had not been addressed, and yet Saskatchewan Liquor and Gaming went ahead and signed a new 25-year agreement with SIGA, who had not met all of the requirements, and when it was unknown whether there would be in fact charges laid against Dutch Lerat or other persons involved with that whole issue.

And I guess, you know, people are very alarmed at that. And I guess it goes back to my question that I asked you before. When is enough, enough? What are the ramifications for not adhering to the policies and procedures that are outlined by the Provincial Auditor, by Saskatchewan Liquor and Gaming, by the Criminal Code of Canada?

When these are not met, SIGA is rewarded by having a new 25-year agreement signed and part of that 25-year agreement refers to full jurisdiction. So could you explain to me how that ties in with somehow that they have . . . Why would they think they have to adhere to what the auditor has indicated, when all this was going on, a new agreement was signed with Liquor and Gaming?

Ms. Morgan: — Well I guess one point I can make is that the people involved in the negotiations is . . . It's an agreement with the Federation of Saskatchewan Indian Nations, not specifically SIGA. We have a casino operating agreement with SIGA but it's with the FSIN.

And the reality is that the SIGA . . . By the time we were negotiating this agreement, the SIGA board had changed, the CEO had changed, the upper management people at SIGA had changed, and SIGA was headed in the right direction. We truly believe that while maybe the pace of change hasn't been as fast as neither the auditor or I would like, they are making progress in the right direction. Their profits are increasing. Their operating expenses are going down. They are making a concerted effort to achieve all of the recommendations of the

Provincial Auditor. So the signs were all very good and we're making good progress.

On the issue of jurisdiction, that part of the agreement, there has to be a committee of Saskatchewan officials of both from the FSIN and the Government of Saskatchewan that go forward jointly to the federal government with some proposal with respect to the Criminal Code. So that's a process that's going to take a while. I mean, the jurisdictional piece is not going to happen overnight. And that was a commitment that was there in the original agreement in 1995 and it's an agreement that the government carried forward into the new agreement.

And I'm not aware that anybody is currently in violation of the Criminal Code of Canada. I mean, SIGA is operating according to the laws of Saskatchewan and Canada. And so I just want to clarify that there's no laws being broken, so much as I'm aware. And if you know to the otherwise, I would love to know.

So they are operating according to our directives, SIGA is. They are working hard to comply with the Provincial Auditor's recommendations. They are operating according to the laws of both Saskatchewan and Canada. And this is a good partnership for SLGA to have, simply because it's employing a heck of a lot of Aboriginal people as well. So I mean, it's not just a gaming agreement.

But they are running a business and an industry, a growing industry in this country and we think that right now all the signs are very, very positive.

And as I said, the gaming agreement itself has a 2005 deadline by which things have to have been achieved or this agreement becomes null and void.

Ms. Bakken: — Thank you, Ms. Morgan. And I certainly have to agree that the employment that is provided through SIGA casinos is certainly important. And with that in mind, it is also important that proper process is put in place so that the maximum dollars are realized.

If we're going to be in the gaming business we need to ensure that the profit is as high as it can with . . . in line with expenditures. And that was what I was questioning about before.

You indicated that there's a process in place to work towards full jurisdiction and it would mean a change in the Criminal Code of Canada, so you have to work with the federal government. Is that process in place? And if it is, who is representing Saskatchewan in this process?

Ms. Morgan — Oh, it's a interdepartmental committee. It includes Justice, the Liquor and Gaming Authority, Aboriginal Affairs, the FSIN have X many number of representatives. We can get the information to you and I can give you the exact . . . in essence the composition, department-wise and people-wise. So we'll provide that to you.

And I believe they have had one meeting, two meetings maybe. At the very most two. But it is a process that would be taken forward to the federal government, and then under the Constitution in Canada there have to be seven provinces agree

to a Criminal Code amendment, something along those lines in this area is my understanding. So it's a . . . It'll be a long process.

Ms. Bakken: — You'll get that information?

Ms. Morgan: — Yes, but we'll get that to you.

Ms. Bakken: — Ms. Morgan, what is the purpose of Saskatchewan Liquor and Gaming moving towards giving Saskatchewan Indian Gaming the authority to license their own gaming activities on-reserve?

Ms. Morgan: — You're referring to SIGL (Saskatchewan Indian Gaming Licensing)?

Ms. Bakken: — Yes I am.

Ms. Morgan: — This was a part of the negotiations both in 1995 and the last year. The Saskatchewan Indian licensing corporation is eventually — once they proved capacity and that they can do it — going to be given jurisdiction over charitable gaming on-reserve, is I believe the language of the agreement.

So we're talking about bingos, break-opens, raffles, such that once they have built a system and have the people in place that they can do the proper inspections and monitoring of this that, under the agreement, authority would eventually be given to the Indian Gaming Licensing Authority to do that on-reserve.

Ms. Bakken: — And Ms. Morgan, what is the rationale behind that? Why, why do we need two licensing bodies in Saskatchewan?

Ms. Morgan: — It ties into the overall jurisdictional piece. The First Nations community believes that it has jurisdiction on-reserve. And this of course is the area that's been in dispute since 1991, or forever, I guess you could argue. And it is on that piece that we are going forward to the federal government, you know, on the whole area of jurisdiction.

But in the meantime until that gets settled, when the government negotiated the new agreement, they agreed to hand over jurisdiction on-reserve for charitable gaming provided SIGA was able to indicate, firstly, support that all the reserves wanted it to be the agency that policed the games on-reserve; and secondly, they could prove capacity to be able to do it.

Ms. Bakken: — And how many dollars is Saskatchewan Liquor and Gaming providing to the FSIN and . . . Or does it go to the FSIN and then to the Saskatchewan Liquor and Gaming?

Ms. Morgan: — No, it goes directly to SIGL.

Ms. Bakken: — Does it?

Ms. Morgan: — And it is paid by SIGA to SIGL and it is . . . What's the current budget? I can't remember.

Mr. Lacey: — For the year?

Ms. Morgan: — 2002.

Mr. Lacey: — For the year ended March 31, 2002, I believe the funding provided was eight hundred and seventy-five hundred thousand.

Ms. Morgan: — Eight hundred and . . .

Mr. Lacey: — And seventy-five.

Ms. Morgan: — And the CEO of the liquor and . . . or the Indian licensing authority is now in the process of visiting all bands in the province of Saskatchewan to determine whether or not they want an Indian gaming authority to be the police force, if you like, for charitable gaming on-reserve.

Ms. Bakken: — So you said that this 875,000 comes from SIGA as opposed to the FSIN. Is that correct?

Ms. Morgan: — That's correct. It's part of SIGA's budget.

Mr. Lacey: — I'll just perhaps clarify that because the Gaming Framework Agreement as well as the related agreements — the SIGA Casino Operating Agreement — speak to an ongoing process whereby SIGL's budget will be determined.

And the agreement itself speaks to the fact that SIGL will have two members on this budget review committee, government will have two members, and they will select an independent third party to chair that committee.

So going on to the future, the 875 was the amount articulated in the Gaming Framework Agreement for last fiscal year. For this year and ongoing years, the budget amount that will be set for SIGL and paid by SIGA will be determined and approved by this committee.

Ms. Bakken: — I think our time is up.

The Chair: — Okay. I need to bring us back to this recommendation because we had a pre-arranged time of adjournment at 11:30 and we're past that already.

Can I turn you to recommendation no. 4. And, as indicated, it's on page 6, where we see ongoing conditions that have been put in place. There seems to be some moving forward with the officials at SIGA on all of those auditing processes.

Is there anyone prepared to move resolution of recommendation no. 4?

Ms. Atkinson: — Note progress.

The Chair: — Thank you. Concurrence and noting progress on recommendation no. 4. Any questions? All those in favour? Carried.

Officials, Ms. Morgan, if I could, we would like to finish these recommendations, and of course we still have about 22 left. And I'm wondering whether your officials and yourself, most importantly, would you be available tomorrow at 10:30?

Ms. Morgan: — Absolutely, yes.

The Chair: — Okay. We have a schedule that maybe you're

aware of and members are aware that tomorrow we would have Environment and Resource Management, and Finance. And my plan to you, Mr. Paton, as well through Finance is that we bump Finance, that we change the Environment and Resource Management structure for tomorrow to one-half hour beginning at 10 o'clock with Environment and Resource Management, and then have officials from SIGA and Liquor and Gaming back here at 10:30, and we'll spend 10:30 to 12 or so or 12:30, if necessary, to get through all the recommendations that are left in both sections 6A and 6B.

Any comments?

Ms. Atkinson: — . . . be here at quarter after 10 just in case we get through the Environment recommendations quickly?

The Chair: — No problem. Mr. Wendel? Okay, Mr. Wendel's officials are also no problem there, being here at 10:15, 10:20 kind of thing.

We only have four recommendations in the Environment section. Sometimes those may be off the table within 15 minutes; other times they may take the full half-hour.

So we will adjourn today with the reconvening at 10 o'clock tomorrow morning with an adjusted agenda for tomorrow.

Thank you very much to the officials from SIGA and Liquor and Gaming, as well as Mr. Ahmad for your participation this morning.

The committee adjourned at 11:35.

