

CROWN AGENCIES AND CORPORATIONS

14.

NOVA SCOTIA ALCOHOL AND GAMING AUTHORITY - REVIEW OF OPERATIONS RELATING TO PART II OF THE GAMING CONTROL ACT

BACKGROUND

14.1 *The Gaming Industry* - Gaming in Nova Scotia is comprised of games of chance in two licensed casinos, interprovincial lotteries, video lottery terminals (VLTs), charitable and commercial bingos, charitable lotteries and raffles, and parimutuel betting on harness racing.

14.2 Wagers reported for the year ended March 31, 1997 were \$844 million. This represents the total amount of cash deposited in VLTs and slot machines, and the total amount paid for lottery tickets, bingo cards and casino chips. It does not include betting on harness racing or gaming on native reserve lands. (Complete information on these categories of gaming revenues was not available.) In terms of the amount of money wagered, gaming is a significant part of the economy of Nova Scotia. As a comparison, for the calendar year 1997 gross revenues in the Nova Scotia fishery were \$479 million, total farm receipts were \$374 million, and tourism revenues were \$1 billion.

14.3 The largest component of wagers in 1997-98 related to VLTs, which amounted to \$404 million, or 43% of total wagers. Casinos were the second highest source of wagers, totalling \$254 million (27%) in 1997-98. Interprovincial lotteries grossed \$179 million (19%), bingos \$94 million (10%), and charitable lotteries and raffles \$9 million (1%).

14.4 For VLTs and slot machines, wagers can be measured in two ways. In the above figures, VLT and slot machine wagers only include actual cash put into the machines. It does not include non-cash winnings (i.e., credits) subsequently replayed without being first redeemed for cash. Alternatively, wagers could include the replaying of credits. It could be argued that this measurement is more representative of the total amount of money put at risk by the player. However, due to the difficulty of accurately determining total money put at risk, wagers are reported on a cash basis.

14.5 The government of Nova Scotia controls casino operations through a Crown agency called the Nova Scotia Gaming Corporation. The Corporation also owns the Province's one-quarter share of Atlantic Lottery Corporation. As such, the Atlantic Lottery Corporation acts as the Gaming Corporation's agent in operating VLTs and interprovincial lotteries within the Province. At March 31, 1998 there were 3,130 VLTs in Nova Scotia. On June 29, 1998 the Video Lottery Terminals Moratorium Act was passed, which froze the number of VLTs in the province at 3,224. (The Act does not apply to VLTs on native reserve lands. The maximum number of these machines is determined by agreements between native bands and the Province.)

14.6 For the year ended March 31, 1998, the Province earned gaming revenue of \$142 million, representing the Province's net receipts from the casinos and Atlantic Lottery Corporation minus the operating expenses of the Nova Scotia Gaming Corporation. This figure amounts to 5.4% of the Province's 1997-98 revenue from Provincial sources.

14.7 Nova Scotia is one of the few provinces which has established an entity independent of its gaming operations to license and regulate gaming. It is the only province which has legislation requiring continuous study of the impacts of gaming on the Province and its people and businesses. These functions were assumed by the Nova Scotia Gaming Control Commission on April 4, 1995. A reorganization in 1997 placed the responsibility with a new entity called the Nova Scotia Alcohol and Gaming Authority.

14.8 *The Authority* - The Nova Scotia Gaming Control Commission was established in 1995 upon the merger of the Nova Scotia Liquor License Board, Nova Scotia Lottery Commission and Nova Scotia Amusements Regulation Board. Its current name was assumed on July 15, 1997, along with a few additional changes to its mandate. The Authority derives its mandate from Part II of the Gaming Control Act, from the Liquor Control Act and from the Theatres and Amusement Act. Accordingly, the Authority is mandated to regulate most forms of gaming, all establishments and events which serve alcohol, and places of amusement such as theatres, fairs and video rental outlets. It is also required to study and report on certain aspects of gaming in Nova Scotia.

14.9 The Alcohol and Gaming Authority has no authority to study, monitor or regulate gaming on native reserve lands. This is now the responsibility of the Provincial government's Office of Aboriginal Affairs. The Authority also has no jurisdiction with respect to betting on horse racing.

14.10 The Authority is governed by a Board of Commissioners who are appointed by the Executive Council and accountable to the Minister responsible for Part II of the Gaming Control Act. The Act requires that this Minister not be the same as the one responsible for Part I of the Act and the operation of the Nova Scotia Gaming Corporation. At the time of the writing of this report, the Minister of Natural Resources was responsible for the Alcohol and Gaming Authority, whereas the Minister of Finance was responsible for Part I of the Act.

14.11 The Authority's head office is located in Dartmouth and a branch office is situated in Sydney. The Authority had revenue of \$10.3 million and expenditures of \$6.5 million for the year ended March 31, 1998. Revenue is comprised primarily of fees for licences, the majority of which are fees charged to liquor licensees collected and remitted to the Authority by the Nova Scotia Liquor Commission. Salaries and benefits of \$3.4 million for its full and part-time staff of approximately 100 represented about 52% of the Authority's total expenditures in the 1997-98 fiscal year.

RESULTS IN BRIEF

14.12 The following are the principal observations from this audit.

- The Authority has adequate internal reporting and accountability structures, and fulfils its legislated responsibility for reporting on its studies of gaming in Nova Scotia. However, reporting on the Authority's finances and activities could be more comprehensive.
- The Authority prepares an annual business plan, but it is not the result of a longer-term strategic planning process and does not present measures and targets for future evaluation of performance.
- Although the Authority was established to provide for regulation of gaming which is independent of the government's own involvement in gaming, it has not been given an explicit mandate for the monitoring and regulating of interprovincial lotteries and certain aspects of video lottery terminals.

- We observed that the Authority is generally fulfilling its responsibilities for the registration, licensing, and inspection of casinos and other forms of gaming in Nova Scotia. We made recommendations to improve the policies, guidelines and information systems used by the Authority, and to improve the documentation gathered to support inspections. Also, we made suggestions to make some inspection procedures more comprehensive and regular.
- The Authority has never formally approved the internal control systems at the casinos, as required by the Gaming Control Act and regulations.
- The Authority is fulfilling its mandate to conduct impact studies and public interest polling on gaming in Nova Scotia, to review gaming experiences in other jurisdictions, and to make recommendations for changes in gaming legislation and regulations.
- The Authority complied with the government's 1994 wage restraint legislation. We made recommendations for better control of the procurement of goods and services.

14.13 Gaming on native reserve lands is outside of the responsibility of the Alcohol and Gaming Authority. However, we made some observations with respect to this aspect of gaming in Nova Scotia which we believe should be reported. In summary, we found that most on-reserve gaming is controlled by way of formal agreements between the Province and Native Band Councils. However, the government does not have complete information on the volume of native gaming, has never received the audit reports specified in the agreements, and has not conducted any inspections or other compliance work to ensure there is full compliance with the agreements.

AUDIT SCOPE

14.14 In October 1998 we completed a broad scope audit of the Alcohol and Gaming Authority in accordance with Section 8 of the Auditor General Act. The objectives of this assignment were to review and assess the Authority's:

- accountability framework and planning practices;
- licensing, inspection and enforcement operations related to its responsibility under the Gaming Control Act;
- compliance with key provisions of the Gaming Control Act and its various regulations;
- compliance with government wage restraint and procurement policies; and
- due regard for economy and efficiency in the acquisition of goods and services.

14.15 The audit did not address operations of the Authority unrelated to gaming, such as those pertaining to the regulation of establishments and events which serve alcohol and the regulation of places of amusement. However, the audit briefly addressed some issues relating to gaming on native reserve lands. Such gaming activity is outside of the responsibility of the Authority and was not a part of our original audit objectives. However, since the subject is closely related to the scope of this audit, we report some observations concerning native gaming at the end of this chapter (see paragraphs 14.74 to 14.81).

14.16 Audit criteria were developed to assist in our assessment of the policies and practices of the Authority. They were discussed with Authority management at the beginning of the assignment. The criteria are described in Exhibit 14.1 on page 169. Our audit procedures included extensive interviews with management and staff, detailed testing of the Authority's regulatory practices, as well as examination of significant reports, files and other documents.

PRINCIPAL FINDINGS

Accountability and Planning

14.17 *Board of Commissioners* - The Authority is governed by seven Commissioners, all of whom are appointed by Executive Council. The Commissioners approve all policy pertaining to the Authority, and are extensively involved in the review and approval of key business documents such as the budget, business plan and annual reports. The Commissioners hold senior managers accountable for the activity within their respective divisions. Each month, senior managers present a report to the Board. We found the reports to be comprehensive and thoroughly challenged by the Commissioners.

14.18 *Annual reporting* - Under Section 56 of the Gaming Control Act, the Authority is required to prepare an annual report on gaming in the province. Under Section 66, it is also responsible for an annual report on the finances and activities of the Authority for its fiscal year ending March 31. June 30 was established as the deadline for Section 66 reports, but no deadline exists for Section 56 reports.

14.19 The Authority has published two Section 56 reports; one for 1995-96 when it was the Nova Scotia Gaming Control Commission, and one for 1996-97 under its current organizational form. We found the reports to be detailed in their analysis of gaming. They contain statistical data and analysis of the various forms of gaming, details of gaming activities in other provinces, public opinion surveys on gaming, and studies of the effects of gaming on businesses and the public. Senior management and Commissioners were extensively involved in preparation of the reports. In our opinion, the reports provide an important review of gaming activities and impacts, and meet the requirements of the Act.

14.20 The Gaming Control Act requires the Authority to study and report upon the economic impacts of gaming in Nova Scotia. Management told us that the depth of analysis provided by the economic impact study included in the 1996-97 report was restricted due to time constraints for publishing. They indicated that future studies will be more in depth in order to more fully meet the intent of legislation. In addition, the Authority has contracted for a comprehensive study of the social impacts of gaming within the Province. An interim report on the study will be released upon the tabling of the Authority's 1997-98 Section 56 report.

14.21 Management has also informed us that Nova Scotia is the only province which studies and reports upon the economic and social impacts of gaming. Our review of the annual reports of other provincial regulatory bodies supports this statement.

14.22 As mentioned above, there is no statutory reporting deadline for the Authority with respect to Section 56 reports. However, the Act requires the Minister responsible for the Authority to table the report in the House of Assembly within 60 days of receiving it. The 1996-97 report was sent to the Minister responsible for Part II of the Gaming Control Act, and it was tabled in the House of Assembly within the time limit set out in the Act.

14.23 In our opinion, the Authority has not fully complied with the statutory requirements for Section 66 reports on its finances and activities. At the time of our audit, the only Section 66 report issued since the inception of the Gaming Control Commission was for the year ended March 31, 1996, published in January 1998. The Act requires reporting of the fiscal year's activity by June 30; three months after the end of the fiscal year.

14.24 In addition, we believe the report is incomplete and does not fulfil its potential as an accountability document. While the report includes a description of operations and an accounting of financial performance for the year, it does not include important planning and performance information such as the Authority's strategic plans, annual goals, budget and measurements of performance.

14.25 *Financial statements* - An audit of the Authority's financial statements for the year ended March 31, 1997 was completed in May 1998, and was conducted at the same time as the audit of the March 31, 1998 statements, which was completed in June 1998. Management informed us that the delay in the 1997 audit was due to the heavy workload involved in starting up a new organization, and the time involved in conducting a tender for the audits. At the time of our audit, neither set of audited financial statements had been tabled in the House of Assembly or made available to the public. The 1998 statements will be placed in Volume Two of the *Public Accounts* of the Province, which is scheduled for release in December 1998. We believe financial statements should be audited and released within six months of year end. Anything later detracts from their usefulness.

14.26 *Planning* - In government, a business plan should be prepared annually and describe a department's or Crown agency's goals for the upcoming year and the activities required to achieve them. The plan should indicate how the entity links its goals and activities to the government's priorities and fiscal plan. The plan should be an outcome of a strategic planning process, and as such, should guide the entity towards its long-term strategic goals.

14.27 The Authority has prepared a business plan for the 1998-99 fiscal year. However, it was not based on long-range strategic planning, and thus its focus is on short-term goals. The Authority has undertaken certain elements of strategic planning, such as the development of a mission statement, and we encouraged it to complete its first strategic planning exercise in time for its next annual business plan.

14.28 Our review of the 1998-99 business plan indicated that it conforms to the basic structure set by government for its boards and agencies. However, it does not contain outcome measures and it does not adequately relate the Authority's goals to overall government priorities. Based on our enquiries, the Authority has not yet developed outcome indicators for purposes of measuring and reporting on its performance.

Licensing, Inspection and Enforcement

14.29 *Introduction* - There are seven categories of legalized gaming in Nova Scotia: casinos, VLTs, interprovincial lotteries, charitable lotteries and raffles, bingos, harness racing, and gaming on native reserve lands. The Authority does not have a mandate to regulate the latter two forms of gaming.

14.30 For the year ended March 31, 1998 the Authority's Licensing and Registration Division issued licences for 3,130 VLTs; 6,041 charitable lotteries and raffles; and 625 bingos. In addition, it registered 2 casinos and 634 companies and individuals involved in gaming, including all of the employees and major suppliers of the casinos.

14.31 The Authority's Investigation and Enforcement Division is responsible for inspecting the casinos and all other licensees. Management estimates that the Division conducted over 20,000 individual inspection procedures at the casinos during the year ended March 31, 1998. Statistics also indicate that the Division conducted 656 inspections on bingos and 33 inspections on charitable lotteries during the same year. Inspections were also performed for approximately 100 one-time special events not included in the above noted statistics. In addition, the division received 244 complaints and conducted 52 investigations.

14.32 The Authority supplements its own staff with Royal Canadian Mounted Police (RCMP) officers to maintain a surveillance of the two casinos. The Authority has its own surveillance office in each casino. The RCMP also provide security clearances for companies and individuals who must be registered with the Authority, as required by the Gaming Control Act.

14.33 *Mandate of the authority* - One of the House of Assembly's objectives in creating the Alcohol and Gaming Authority was to provide for casino and VLT regulation that is independent of the part of government which receives gaming revenues and deals with the operators of the casinos and VLTs. The Authority reports to a Minister different from the one who oversees the Nova Scotia Gaming Corporation. The purpose of this arrangement was to help government manage its sometimes conflicting goals of increasing gaming revenues while ensuring gaming activities in Nova Scotia are socially responsible.

14.34 We reviewed the sections of the Gaming Control Act and its regulations which pertain to the activities of the Authority. The Act and regulations provide the Authority with sufficient power to perform its regulatory function with respect to the casinos and placement of VLTs, as well as with respect to bingos and charitable lotteries. However, the regulatory powers of the Authority with respect to interprovincial lotteries managed by Atlantic Lottery Corporation, and the Corporation's design and operation of the VLTs, are very general in nature. The Authority is of the view that it requires additional regulatory powers to regulate these aspects of gaming to the same extent as casinos, bingos and charitable lotteries are regulated.

14.35 Interprovincial lotteries and VLTs represent 62% of gaming wagers in the province for 1997-98 and are, in effect, only partially regulated in Nova Scotia. Whereas the Authority monitors some aspects of these games, such as age restrictions and payout percentages, most controls currently in place to ensure the integrity of these forms of gaming are under the direction of the organization that operates the games - Atlantic Lottery Corporation. In our opinion, this is inconsistent with the government's objective of separating gaming regulation from gaming management. If the monitoring and control of gaming in Nova Scotia is to be kept separate from its management, the Authority should have powers with respect to the licensing and inspection of interprovincial lotteries that are similar to those pertaining to charitable lotteries and raffles. Also, the Authority should be able to approve the design and test the operation of VLTs, as it currently does for slot machines operated by the two casinos.

14.36 During inspections of licensed premises, Authority staff ensure that only VLTs installed by Atlantic Lottery Corporation are present, and that all licensing conditions have been met. A person has been hired by the Authority to assume a number of duties relating to VLT gaming, including the inspection and testing of the operation of VLTs. However, testing of VLTs has not yet been done because the Authority does not have the regulatory power to perform the tests. Likewise, due to limitations in its mandate, the Authority has not examined Atlantic Lottery Corporation's computer systems which operate the VLTs. Also, the Authority must rely on the reports issued by Atlantic Lottery Corporation to ensure the payouts of VLTs meet or exceed the standard set for VLTs in Nova Scotia.

14.37 *Licensing and registration* - Under the Gaming Control Act, the Authority is responsible for licensing charitable lotteries and raffles, bingos and VLTs, as well as for registering the Halifax and Sydney casinos, their employees and their suppliers. We reviewed the systems used by the Authority to ensure it receives complete and accurate information for the processing of applications and registrations. Our findings are noted below.

14.38 We believe management control would be improved if formal policies and procedures were developed to provide guidance in critical areas such as eligibility for licences. For example, all organizations receiving a licence must have charitable, religious or community objectives or purposes. There is no formal guidance on how a person or group would qualify for eligibility.

14.39 The Authority has prepared guidelines for charitable, religious and community groups who wish to conduct a lottery or raffle. The guidelines help the groups to understand the conditions for receiving a licence, as well as the procedures to be followed upon receiving one. Though the guidelines are a bit out-of-date, we believe they are very helpful in ensuring gaming laws and regulations are understood and followed. However, there are no similar written guidelines provided to the operators of commercial and charitable bingos. The Authority has observed shortcomings in the operation and reporting of some bingos, and we suggested that written guidelines may be helpful in correcting misunderstandings between bingo operators and the Authority.

14.40 The Bingo Regulations require the net operating receipts (i.e., profit) of a charitable bingo be a minimum of 15% of the gross receipts, and that these receipts be used for charitable, religious or community purposes. We observed that the Authority is permitted, under the Bingo Regulations, to issue a licence to a bingo operator with a rate of return under 15% if it is a smaller operation and is of benefit to the community. Many bingo operators were not meeting the 15% requirement and, rather than deny licences, the Authority chose to work with the operators to help them meet this requirement.

14.41 We reviewed the process used to renew the certificates of registration for the two casinos. The Authority appears to have received the appropriate documents and to have performed sufficient security reviews before renewing the licences.

14.42 VLTs are only permitted in establishments that have a valid liquor licence. At present, applications for VLT licences are required to include information on projected revenues from VLTs, beverage sales and food sales. The information is reviewed for reasonableness, but there is no formal analysis or verification of the information because the Authority cannot restrict licensing of VLTs based on the volume of wagers relative to other revenues.

14.43 Although the Authority cannot be certain that all gaming activities are licensed, it may be made aware of unlicensed establishments or events through observations by compliance staff, complaints from the public or advertising in newspapers or the broadcast media. If the Authority becomes aware of an unlicensed gaming activity, and the game operator is a charitable organization, it will ask the operator to obtain a licence. If the organization refuses, or the operator is not a charitable entity, the Authority will refer the matter to the local law enforcement agency for investigation.

14.44 *Inspection of casinos* - The Gaming Control Act and the Casino Regulations have detailed requirements concerning the management, operation and inspection of the casinos. During our audit we reviewed the following inspection functions performed by the Authority:

- review and approval of the casinos' systems of internal control;

- approval and testing of slot machines and related computer systems;
- surveillance of casinos' gaming floor;
- review of reports by the casinos to the Nova Scotia Gaming Corporation; and
- review of incident reports by the RCMP, the casinos, the Nova Scotia Gaming Corporation and the Atlantic Lottery Corporation.

14.45 Our findings are described in the following paragraphs.

14.46 The Casino Regulations require the casinos to have an independent audit performed on their systems of internal control, at the direction of the Authority. We noted that the casinos have had audits conducted by their external auditor each year, but they were only for the purpose of providing an opinion on the casinos' financial statements. Although the audits resulted in some internal control recommendations, they were not internal control audits. Authority management was not satisfied that the casinos' audits were comprehensive enough for regulatory purposes. Consequently, the Authority placed no reliance on them and hired its own auditor to review the casinos' systems of internal control. However, we also noted that the Authority provided no direction to the casinos with respect to the scope and objectives of their audits. In our view, it is not efficient to have two auditors doing similar work at the casinos, and it does not seem appropriate for the Authority to pay for audits which are the responsibility of the casinos. We recommended that, in place of having two audits, the Authority provide explicit directions for the scope and objectives of the casinos' audits so that they fully meet the Authority's needs.

14.47 The casinos are required to implement internal control systems which comply with the requirements of the Casino Regulations, and the Authority must approve the systems. The internal control audit conducted on behalf of the Authority, described above, was completed in November 1995, and subsequently updated in November 1997. However, at the completion of our audit in October 1998, the audit reports had not yet been formally accepted by the Board of Commissioners. Accordingly, the Authority has never formally approved the internal control systems of the casinos. Nonetheless, the systems and controls developed by the casinos have been fully implemented, recommendations from the audits have been addressed, and the systems are being monitored by the Authority.

14.48 All slot machines used in the casinos must comply with the requirements of the Casino Regulations and must be approved by the Authority. We observed that the Authority has appropriate procedures to ensure new slot machines are adequately tested before they are authorized for use. Once the slot machines are installed, there is adequate monitoring and testing by the Authority of all slot machines and other permitted games of chance.

14.49 RCMP officers work with the Authority's own staff to provide for casino surveillance, including watching for "cheat of play" offenses. The RCMP regularly report activities and observations to the Authority. However, our tests indicated that not all surveillance reports had been submitted to the Authority. Also, we observed that there are times when no staff from either the RCMP or the Authority are on duty at the casinos. We noted that the Authority coordinates the scheduling of its staff with the RCMP, but gaps in the surveillance of the casinos do occur. Authority management indicated that it does not have the resources to conduct around-the-clock surveillance at the casinos.

14.50 As noted above, RCMP officers have been engaged to perform casino surveillance and security clearances. The services are provided in accordance with the Provincial Policing Agreement administered by the Department of Justice. A separate contract was prepared to outline the terms and conditions under which the RCMP would provide services to the Authority, but this contract was never signed. The Authority is charged by the Department of Justice for the services (approximately \$825,000 in 1997-98). In our view, since the Authority's arrangement is with the Department of Justice, there should be a formal agreement between the Authority and the Department.

14.51 Authority staff perform a variety of inspection procedures at the casinos to ensure they are operating in accordance with the established internal control framework and the requirements of the Casino Regulations. We determined there is a need for increased supervision of inspections performed because not all inspection procedures are being done on a regular basis. Management has indicated to us that, based on our reporting of this observation during the audit, the Authority has strengthened its casino inspection routines.

14.52 The Authority conducts routine reviews of the Nova Scotia Gaming Corporation to ensure the revenue and expenditures reported by the casinos are complete and accurate. We observed that the reviews are performed at irregular intervals and we recommended that they be more frequent. Also, we advised that documentation prepared to support the reviews be more complete.

14.53 The Nova Scotia Gaming Corporation is required by the Gaming Control Act to report any illegal or criminal activity which occurs at the casinos. We reviewed the reporting of such incidents by the Corporation, as well as incident reports of the casinos and the Atlantic Lottery Corporation. Based upon our review, incidents are being properly reported and the Authority is taking appropriate follow-up measures.

14.54 *Other inspections and enforcement* - In addition to inspections of the Nova Scotia Gaming Corporation and the Halifax and Sydney casinos, the Authority inspects other gaming activities licensed under the Gaming Control Act. For purposes of discharging this responsibility, and responsibilities under the Liquor Control Act and Theatres and Amusements Act, the Province is divided into 23 territories. Inspectors assigned to each territory are responsible for inspecting all regulated activities occurring within their territories.

14.55 We examined the system used by the Authority to manage inspections and investigations. Our findings are reported in the following paragraphs.

14.56 As mentioned above, the Authority has no responsibility for the licensing and inspection of interprovincial lotteries. Currently, the Authority is relying on staff of Atlantic Lottery Corporation to report and resolve any irregularities related to these lotteries. After the Authority receives formal notification of such irregularities, staff will determine what follow-up activity, if any, is required to be taken by the Authority.

14.57 Due to the volume of gaming licenses issued, the Authority cannot inspect all licensees on a regular basis. The Authority has prepared a risk assessment to determine which gaming activities and licensees should receive the most attention and how frequent inspections should be. These policies have been communicated to all compliance staff. The results of the risk assessment appear reasonable to us.

14.58 Compliance staff perform a series of rotating inspections, other non-routine inspections and special investigations assigned by supervisory staff. Time sheets and other documentation are submitted to supervisory staff to support the work conducted by the inspectors. Written reports are

prepared when violations of the regulations or the conditions attached to the licences have been observed. We found that the Authority has appropriate policies and procedures to ensure that violations are documented and appropriate corrective action is taken.

14.59 The only type of gaming which is inspected with the aid of inspection forms is bingo. We believe inspection forms or checklists should be used to document the inspections of VLTs and charitable lotteries as well. We also recommended that the bingo inspection forms be expanded to address all of the requirements of the Bingo Regulations. The use of forms or checklists, if they are comprehensive, should ensure compliance staff consider all regulatory and licensing requirements when they perform an inspection. As well, such forms will provide evidence that an inspection was done.

14.60 Many licensees, such as bingo operators, are required to submit monthly remittances to the Authority, along with a report outlining information required by the Authority to process the monthly return. We found many of the returns submitted were inaccurate, incomplete and/or submitted after the due date. The Authority is working with licensees to correct returns deemed inaccurate or incomplete, and to ensure that licensees are knowledgeable in how to complete the return. We observed a significant improvement in the quality of reporting by licensees during the last year.

14.61 However, we also found that the Authority needs to identify and follow-up on overdue remittances on a more timely basis. We recommended that compliance staff be made aware of overdue remittances so they can enquire about them when inspections are performed. We also recommended that compliance staff perform procedures during their inspections to verify that information provided in monthly returns is correct.

14.62 *Computer systems* - Most transactions related to the Authority's licensing, registration and inspections functions are recorded by one of three computerized systems. We found the systems to be lacking in certain capabilities. There is a lack of integration among the systems, and they are limited in their ability to record and report upon performance-based information. For example, the systems do not have the capacity to generate customized work schedules and record the results of inspections. The systems cannot readily report licences issued and which licensees are overdue for an inspection, and cannot generate statistics on the types and prevalence of violations discovered during inspections.

14.63 The Authority has entered into a contract with a software vendor to determine the information system requirements of the Authority and to develop and implement a system which better meets its needs. As part of this project, the Authority should determine the feasibility of providing for remote computer access so that compliance staff working outside the office can access the information they require and update the systems for the results of their inspections.

14.64 *Staff development* - All staff have formal job descriptions. Staff evaluations are conducted annually. All compliance staff are given extensive training before they are assigned to work in their territories. Additional training is provided to compliance staff assigned to the casinos.

Compliance with Legislation and Regulations

14.65 *Mandate* - the Alcohol and Gaming Authority has a broad mandate under the Gaming Control Act, which includes:

- ensuring casinos and other lottery schemes managed by the Nova Scotia Gaming Corporation are in accordance with the Act and the Criminal Code of Canada;
- carrying on a continuous study of the operations and administration of the casinos and other lottery schemes, including the experiences of other jurisdictions;
- carrying on a continuous study of public interest and reaction to casinos and other lottery schemes and games of chance;
- carrying on a continuous study of the social, health, justice, economic and environmental impacts of casinos and other lottery schemes;
- making recommendations to the Minister for changes to the Act and its regulations; and
- submitting a report dealing with the above to the Minister on an annual basis.

14.66 Various areas of gaming for which the Authority has a regulatory responsibility are governed by regulations (e.g., casinos, bingo, bingo suppliers, VLTs, Atlantic Lottery Corporation). These regulations provide for how, and under which conditions, gaming activity can be conducted.

14.67 Our review indicated regulations are consistent with the Authority's mandate under the Gaming Control Act, and the Authority is addressing each of its regulatory and research responsibilities. Within the limitations of its regulatory authority, described above, the Investigations and Enforcement Division of the Authority is ensuring casinos and VLTs are managed by the Nova Scotia Gaming Corporation and Atlantic Lottery Corporation in accordance with the Act. Authority compliance staff and members of the RCMP assist in ensuring Criminal Code compliance at the casinos. Authority staff inspect licensees to ensure bingos and charitable lotteries comply with the applicable regulations. When the Authority determines that a violation of the regulations has occurred, it often holds a formal hearing which may result in a fine or the revoking or suspending of the vendor's gaming licence.

14.68 We also observed that the Authority is active in studying the various impacts of gaming in Nova Scotia. This includes the polling of Nova Scotians and out-of-Province gamblers with respect to their opinions and gaming habits. An extensive report is published on the results of all research and polling done by the Authority. The reports include recommendations for changes to the Gaming Control Act and its regulations.

Wage Restraint and Procurement

14.69 *Wage restraint* - Based on our examination, the Authority (and its predecessor: the Nova Scotia Gaming Control Commission) have complied with the requirements of the Public Sector Compensation (1994-97) Act, which came into effect on April 29, 1994. As with all other public sector agencies, the Authority maintained a wage freeze until the Act expired in November 1997. The Gaming Control Commission was established after 1994, so the 3% salary roll-backs that went into force upon proclamation of the Act were not relevant.

14.70 *Procurement policies* - The Provincial government's procurement policy applies to all of its departments, agencies, boards and commissions. The government has developed numerous procedures to support its policy objective of "... ensuring that procurement is carried out in an open, fair, consistent, efficient, and competitive market." We performed tests to evaluate the Authority's compliance with the policy.

14.71 We selected 40 purchases since the Gaming Control Commission came into existence. We found three instances where there was no evidence that comparable prices were obtained when selecting companies to provide gaming research and public relations services. We could not determine whether this is indicative of non-compliance with the policy, or merely an inability to locate documents which would demonstrate that such procedures did occur.

14.72 *Contracts* - We observed instances where goods and services were purchased without a formal contract to support the transactions. Authority management indicated that it agrees that procurements of a higher cost should be accompanied by a contract. However, it believes that it is not always cost-effective to have a contract for transactions that are less material.

14.73 We advised the Authority that contracting for such transactions need not be an onerous exercise, and that management control would be improved by executing formal contracts for all but trivial amounts. Such a practice would ensure complete understanding between the Authority and the contractor as to all of the terms and conditions of the agreement, and the quality of the product or service to be provided.

OTHER GAMING ISSUES

Gaming on Native Reserve Lands

14.74 *Background* - As described earlier, the Authority has no responsibility for gaming on native reserve lands. Nonetheless, gaming on native lands is significant and there is a need for monitoring and regulation. As of March 31, 1998, there were about 400 VLTs on native reserve lands. For the year ended March 31, 1998, net wagers on the VLTs totalled \$11.7 million. We were not able to obtain information on the volume of wagers for other types of gaming on native lands.

14.75 The Province has entered into agreements with ten of the thirteen native bands in Nova Scotia to place limits on native gaming. In return, the Band Councils receive a share of the Sydney casino's profits for funding of economic development projects on the Reserves. These agreements prohibit the licensing of casinos on native reserve lands, determine how gaming revenues can be used, and set conditions on the type and operation of gaming, including the maximum number of VLTs permitted on a Reserve. The agreements are formalized by contracts between the Chief of a band and the Minister responsible for Aboriginal Affairs. Contract terms range from two months to five years; with a clause allowing automatic renewal if neither party wishes to renegotiate the agreement.

14.76 Gaming on native reserve lands is not regulated in the same manner as off-reserve gaming because the Parliament of Canada exercises exclusive legislative authority over matters respecting First Nation members and lands. However, Federal law gives the provinces authority to license native gaming. The government of Nova Scotia chose to exercise this delegated authority by way of agreements with individual Band Councils. The agreements negotiated by the government require each Band Council to establish and maintain its own gaming commission for purposes of licensing and regulating on-reserve gaming. The agreements also require an annual audit of the native gaming commissions and give the government the right to conduct inspections.

14.77 The responsibility for managing the contracts with Band Councils was originally assigned to the Nova Scotia Gaming Corporation. In January 1998, responsibility was assigned to the Provincial government's Office of Aboriginal Affairs. We discussed native gaming contracts with individuals from both organizations and made the following observations.

14.78 *Statistical information* - The only information collected by the government on native gaming pertain to VLTs on native reserve lands. There is no collection and analysis of information pertaining to other types of gaming, such as bingos and lotteries. Such information would be useful for determining if there is a risk that not all conditions of gaming agreements are being met, and whether a closer examination is warranted.

14.79 *Audits of Native Gaming Commissions* - The first native gaming agreements were executed in 1995. Each agreement has a clause which requires the Band Council to have an independent audit conducted on its gaming commission, and to submit the report on the audit to the government. Staff of the Nova Scotia Gaming Corporation and the Office of Aboriginal Affairs were not aware of any such audits having been performed.

14.80 Further, the nature of the required audits is unclear from the wording of the agreements. The agreements state: "*Annual independent audits of gaming activities on the Reserve Lands will be provided by the Gaming Commission to Nova Scotia.*" This wording provides no indication whether the audit should primarily be financial in nature, or should also address the native gaming commissions' compliance with the terms of the native gaming agreements. We recommended that the requirement for gaming commission audits be made more clear, and that the government ensure annual audits are performed for each native gaming commission.

14.81 *Compliance with Native Gaming Agreements* - None of the individuals with whom we discussed the subject of native gaming agreements were aware of any inspections or other compliance work done by the government. Although the agreements give the government certain powers in this regard, it appears that little has been done to ascertain whether there is full compliance with the terms and conditions of the agreements.

CONCLUDING REMARKS

14.82 The Nova Scotia Gaming Control Commission, the predecessor of the Alcohol and Gaming Authority, was created in 1995 and given a broad mandate, including the monitoring and regulation of two new casinos. As part of the development of this new organization, management had to integrate the mandates, systems and staff of three existing government agencies. As described by management, and observed in this audit, this complex challenge resulted in some delays in establishing sophisticated planning, reporting and information systems. However, management appears to be aware of the areas that require improvement and is developing plans for strengthening management systems and controls.

14.83 However, in our view, the most significant weakness in the regulatory regime for gaming in Nova Scotia is that regulations do not provide for the monitoring and control of all types of gaming in the Province. It appears that there is little support in legislation and regulations for full regulation of VLTs and interprovincial lotteries. We believe gaming regulation should cover all significant forms of gaming in the Province, and it would likely be more efficient if the Alcohol and Gaming Authority were the organization to assume responsibility for additions to the regulatory regime.

Exhibit 14.1

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment, and are used to design the detailed audit tests and procedures.

The following criteria were used in our audit of the Nova Scotia Alcohol and Gaming Authority.

- *Accountability and Planning* - The responsibilities and accountability of the Authority should be formally defined and communicated with appropriate input, review and challenge from the Commissioners. The annual reports required under sections 56 and 66 of the Gaming Control Act should be complete, accurate and published on a timely basis. The objectives, goals and priorities of the Authority should be consistent with its mandate and provide clear direction for the activities of the Authority. Goals should be outcome-oriented and designed in a manner to make success in achieving them measurable. There should be adequate systems and controls to ensure completeness and accuracy of the information reported. There should be regular strategic, operational and financial planning performed by the Authority. There should be a business plan which complies with government's planning and budgeting framework.
- *Licensing, Inspection and Enforcement* - Systems and procedures should be present to ensure licences are only issued upon compliance with terms of the Gaming Control Act. Systems and procedures should be present to detect unlicensed facilities and activities. There should be adequate documentation, supervision and control of the investigation and enforcement function. Compliance staff should have adequate training and qualifications, and receive regular evaluation of their performance.
- *Compliance with Legislation and Regulations* - The policies of the Authority should be consistent with its mandate and the Gaming Control Act. The Authority should comply with the applicable provisions of the Gaming Control Act and its regulations. There should be systems and procedures to help management ensure all key provisions are complied with.
- *Procurement and Wage Restraint* - The Authority should adhere to the government of Nova Scotia procurement and wage restraint guidelines. Procurement practices should ensure capital assets, goods and services are acquired at competitive prices. Only goods and services relevant to the mandated operation of the Alcohol and Gaming Authority should be acquired.