



# Report on the Independent Review and Assessment of the Retail Lottery System in British Columbia

Prepared for the Minister of Public Safety and Solicitor General

October 31, 2007

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October 31, 2007

The Honourable John Les  
Ministry of Public Safety and Solicitor General  
Room 236  
Parliament Buildings  
Victoria BC V8V 1X4  
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Dear Minister Les:

**Subject: Independent Review and Assessment of the Retail Lottery System in British Columbia**

Further to the terms of reference provided to Deloitte & Touche LLP, attached is our completed report containing our review and assessment of the Retail Lottery System in British Columbia.

We thank you and your Ministry for providing Deloitte & Touche LLP with the opportunity to conduct this very interesting and challenging assignment. I look forward to meeting with you to discuss our findings once you have had a chance to review the report.

Yours very truly,

Jervis C. Rodrigues, CA, CFE, CIRP  
Partner  
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# Table of contents

Glossary of Terms .....	1
Restrictions on Use and Distribution .....	3
1. Executive Summary.....	4
Why an Independent Review and Assessment? .....	16
BCLC and GPEB Background Information .....	18
BC Lottery Corporation .....	18
Gaming Policy and Enforcement Branch.....	21
Current Regulation .....	23
Other Jurisdictions.....	23
3. Objectives and Scope of Review .....	25
Objectives .....	25
Scope of Our Review.....	26
Overall Scope Inclusions and Exclusions.....	26
BCLC Scope Inclusions.....	26
BCLC Scope Exclusions .....	28
GPEB Scope Inclusions .....	29
4. Our Approach .....	30
5. Key Observations .....	32
Ombudsman's Report and Recommendations.....	32
Status of Recommendations .....	32
Practicality of Recommendations .....	33
Forensic Testing and Observations .....	35
Transaction Masterfile Testing.....	35
Retailer Win Testing .....	35
Employee Win Testing .....	36
Other Forensic Testing.....	36
Other Findings.....	37
Operation and Regulation of Lottery Gaming In BC.....	39
Overview .....	39
BCLC .....	42
Governance, Structure and Management .....	42
Prize Claims.....	45
Overview .....	45
Current and Planned Initiatives .....	45
Other Findings.....	45
Complaints and Investigations.....	49
Overview .....	49
Current and Planned Initiatives .....	49
Complaints Management Process.....	49
Customer Support Centre – Call Monitoring .....	50
Security Investigation System .....	50
Retailer Progressive Discipline.....	51
Section 86 Reporting .....	51
Operations and Information Technology.....	53
Overview .....	53
Current and Planned Initiatives .....	53
Other Findings.....	53
Procurement, Printing, and Distribution .....	55
Overview .....	55
Current and Planned Initiatives .....	55
Other Findings.....	55

Product Development and Management .....	58
Overview .....	58
Current and Planned Initiatives .....	58
Other Findings.....	58
GPEB .....	60
Governance, Structure and Management .....	60
Current and Planned Initiatives .....	60
Other Findings.....	60
Registration .....	61
Other Findings.....	62
Investigation .....	63
Other Findings.....	63
Audit and Compliance.....	64
Other Findings.....	64
6. Summary of Recommendations .....	65
Recommendations Related to BCLC and GPEB.....	65
Operation and Regulation of Lottery Gaming In BC .....	65
Recommendations Related to BCLC .....	65
Governance, Structure and Management .....	65
Prize Claims .....	66
Complaints and Investigations .....	67
Operations and Information Technology .....	68
Procurement, Printing, and Distribution .....	68
Product Development .....	68
Recommendations Related to GPEB.....	68
Governance, Structure and Management .....	68
Investigation, Audit and Compliance .....	69
GPEB Equipment and Ticket Certification .....	69

Appendix A – Update on Plans and Actions Taken by BCLC and GPEB to Address the Recommendations in the Ombudsman’s Report

Appendix B – BCLC Public Report Dated September 12, 2007 on Plans and Actions Taken to Address the Recommendations in the Ombudsman’s Report

Appendix C – GPEB Public Report Dated September 12, 2007 on Plans and Actions Taken to Address the Recommendations in the Ombudsman’s Report

Appendix D – Gaming Legislation

Appendix E – Summary of Computer Forensic Tests on BCLC Transaction Masterfile Data

Appendix F – Summary of Exceptions for Retailer Win Testing

# Glossary of Terms

TERM	DESCRIPTION
ADM	Assistant Deputy Minister and General Manager at GPEB
BC	British Columbia
BCLC	British Columbia Lottery Corporation
BCLC Offices	BCLC head office in Kamloops, BC and BCLC sales office in Richmond, BC
Blair Mackay	Blair Mackay Mynett Valuations Inc.
Blair Mackay Report	Blair Mackay Mynett Valuations audit report dated August 23, 2007
Board	British Columbia Lottery Corporation Board of Directors
CAT	Check-A-Ticket
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organizations
Criminal Code	Criminal Code of Canada
CSC	Customer Support Centre
Deloitte	Deloitte & Touche LLP
ERM	Enterprise Risk Management
Fiscal	Financial year, ending March 31 <sup>st</sup>
FOI	Freedom of Information
FOI Request	Freedom of Information Request from <i>The Vancouver Sun</i> on October 26, 2006
FTE	Full time equivalent
GCA	Gaming Control Act (2002) of British Columbia
Government	Government of British Columbia
GPEB	Gaming Policy and Enforcement Branch
GPEB Report	Gaming Policy and Enforcement Branch report dated December 14, 2006
ILC	Interprovincial Lottery Corporation
IRIMS	Incident Reporting and Investigation Management Software
KRI	Key Risk Indicator
LOA	Lottery Operations Agreement
Minister	The Minister of Public Safety and Solicitor General
Ministry	The Ministry of Public Safety and Solicitor General
OLGC	Ontario Lottery and Gaming Corporation
Ombudsman	British Columbia Ombudsman's Office
Ombudsman's Report	British Columbia Ombudsman's Report dated May 29, 2007 titled <i>Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process</i>
PDU	Player Display Unit
Player First Program	Player First Program announced by BCLC on May 29, 2007
Province	Province of British Columbia
Retail Lottery System	Network of Retailer outlets in BC through which BCLC distributes its lottery products to the public
Retailer	BCLC retailer, retailer employee or anyone using a BCLC lottery terminal
RPPC	Regional Prize Payout Centre

TERM	DESCRIPTION
SDE	Service Desk Express
Section 86	Section 86 of the GCA
TM	Transaction Masterfile
WLA	World Lottery Association

# Restrictions on Use and Distribution

This report has been prepared to provide the Minister of Public Safety and Solicitor General with our observations and recommendations with respect to BCLC and GPEB and their operation and regulation of the Retail Lottery System. The information contained herein is based on review, discussions and analysis of information provided by various parties. The procedures performed by Deloitte do not constitute an audit and should not be taken to supplant the additional inquiries and procedures that the Minister should undertake in his consideration of BCLC and GPEB. Deloitte makes no representations regarding the sufficiency of the procedures performed and no representations regarding questions of legal interpretation.

Our work was not designed to identify all circumstances of fraud or other irregularity. For the purposes of this report, save where we have been able to corroborate information, we have had to assume that the documents or other information disclosed to us are reliable and complete. Our review was heavily dependant on the completeness and integrity of the documentation that we reviewed.

This report is a public document, however, it is not to be reproduced or used for any purpose other than that outlined above without our written permission in each specific instance. We do not assume any responsibility or liability for losses incurred by the Ministry, GPEB, BCLC or their directors, officers, employees or customers or by any other parties including client service providers, as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

This report is based on information in our possession as at the date of this report. We reserve the right to review all findings, calculations and conclusions included or referred to in our report and, if we consider it necessary, to revise our report if any information is provided subsequent to the date of our report.

# 1. Executive Summary

Please refer to the Glossary of Terms for a list of commonly used short forms, terms and definitions.

## Background

The Government operates gaming through BCLC, not only to meet the requirements of the Criminal Code, but to ensure that the objective of revenue generation is carefully balanced with the objectives of gaming integrity and social responsibility.<sup>1</sup> As an agent of the Crown, the Government has designated BCLC as the authority to conduct, manage and operate commercial gaming in the Province in accordance with the Criminal Code and the GCA. BCLC's mission is to provide high-quality gaming entertainment in a socially responsible manner for the benefit of all British Columbians. BCLC is structured with three primary operational divisions (lottery, casino and bingo gaming) as well as administration functions.

BCLC has experienced significant growth in its business over the past several years, generating substantial revenue for the benefit of the Province, charities, taxpayers and other benefactors. Revenues have increased from approximately \$1.5 billion in Fiscal 2001 to approximately \$2.4 billion in Fiscal 2007, an increase of over 60% during this seven-year period. Most of this growth has been attributed to the casino business as lottery growth has remained relatively unchanged. The BCLC FTE employees over this same time frame have remained relatively constant and have actually decreased from a high of 620 FTE employees in Fiscal 2001 to 600 FTE employees in Fiscal 2007. The organization has been under significant pressure as a result of its strong growth and is now hiring additional staff in order to implement new initiatives around its lottery operations.

GPEB was formed as a result of a change in the structure of gaming regulation in the Province in 2001. From 2001 until spring of 2002, GPEB was in a transition phase and was fully implemented in its current structure at the start of Fiscal 2002. GPEB regulates all gaming in BC, including the activities of BCLC, ensures the integrity of gaming industry companies, people and equipment, and investigates allegations of wrongdoing. GPEB is an office of the Government under the direction of the ADM. The duties and responsibilities of GPEB are divided among seven divisions, with a director responsible for each division. The GCA was introduced in 2002 to support the new consolidated structure, which established a comprehensive framework for regulating and managing gaming in BC by two agencies, GPEB and BCLC. The Minister is responsible for both agencies and ultimately the entire gaming industry in BC.

On May 29, 2007, the Ombudsman released its report titled "Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process." The Ombudsman's Report highlighted several deficiencies in BCLC's prize payout processes for lotteries and GPEB's monitoring and investigation thereof. Although the Ombudsman's Report included a recommendation to BCLC that it should promptly implement the 10 recommendations included in the GPEB Report, the Ombudsman highlighted that the GPEB Report issued in December 2006 was inadequate and that GPEB did not, prior to October 27, 2006, adequately monitor, investigate or otherwise regulate BCLC's lottery business. When the Ombudsman's Report was released, Government accepted all 27 of the Ombudsman's recommendations and BCLC and GPEB immediately began implementing them. On September 12, 2007, BCLC and GPEB issued their first public reports on the status of the action plans to address the Ombudsman's recommendations.

On May 29, 2007, BCLC announced the Player First Program, which was created to help address the deficiencies raised by the Ombudsman's Report around the Retail Lottery System.

On June 8, 2007, the Minister announced that Deloitte had been chosen to review the Retail Lottery System in BC and make recommendations to enhance the overall integrity and transparency of gaming activities in BC. This mandate refers to "gaming activities in BC" which include lotteries, casinos, bingo and horse races. However, we have not reviewed, audited or otherwise conducted any assessment of gaming activities beyond retail lotteries. Our review is an independent assessment of BCLC and GPEB's handling of the Retail Lottery System in BC. It will be up to the Minister, BCLC and

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<sup>1</sup> British Columbia Lottery Corporation Annual Report 2006-07, page 6



GPEB to consider the merits and cost benefit of a further independent review of the other gaming business activities undertaken by BCLC and the related policy and enforcement procedures undertaken by GPEB.

In August 2007, BCLC released the Blair Mackay Report. Blair Mackay was engaged by BCLC to review certain Retailer prize claim files, interview a sample of these Retailer winners and review specific policies and procedures around Retailer winners and prize payout validation procedures. The findings of the Blair Mackay Report included, among others, that there was no evidence found to indicate that anyone other than the rightful owner of the ticket was paid the 190 Retailer prizes and that “the frequency of winnings by retailers was connected to the retailers’ ability to play frequently and bet large amounts at their retail outlets.”<sup>2</sup> The Blair Mackay Report also indicated that there were shortcomings with BCLC’s prize payout and investigation procedures, particularly around Retailer winners, and the enforcement of Retailer play policies. A total of 20 recommendations were included in the Blair Mackay Report, some of which overlapped with those of the Ombudsman.

The entire lottery industry across Canada is undergoing a fundamental shift to balance priorities between revenue growth, player satisfaction and player protection. We found that GPEB and BCLC are actively involved in cross-jurisdictional discussions and sharing of leading practices across Canada. Some of the differences we identified between Canadian, US and other global jurisdictions are certainly fundamental to the relationship between the operators and the players. Examples include whether or not the regulator also acts as operator; whether the regulator has a clearly defined mandate supported by legislation; or whether fraud prevention and detection is an active responsibility of the operators. Regardless of these differences, we found many instances of internal control processes designed to mitigate the risks that have been identified in the various media, audit and Ombudsman reports across Canada, but it was apparent that a balanced approach to risk management is the primary objective. All regulators and operators are continuously attempting to eliminate fraud and error, however, eliminating fraud is impossible as perpetrators will design schemes to try and defeat any systems in place. Clearly, minimizing the opportunity for fraud to occur must be the focus of lottery corporations and regulators. It is noted that other jurisdictions do attempt to balance the goal of fraud minimization against the financial costs of achieving a near-zero tolerance level.

## Objectives and Scope of Review

The Minister specifically engaged Deloitte to conduct a comprehensive review of BCLC’s retail lottery system and GPEB to accomplish the following objectives:

- Determine how and why the Province’s retail lottery system was left vulnerable to potential fraud even after new legislation was introduced in 2002 to strengthen and streamline the management of gaming in BC and to ensure greater accountability for decision-making;
- Provide a report with recommendations to the Province on how to enhance the integrity and oversight of the Province’s lottery system;
- Report on the implementation of the recommendations made in the Ombudsman’s Report; and
- Examine the management and corporate executive culture at BCLC and GPEB.

The Minister provided the following terms of reference to Deloitte for each of BCLC and GPEB:

### BCLC Terms of Reference

- To review in detail the lottery prize validation and payout procedures of BCLC, including, but not limited to:
  - Retailer validation procedures;
  - Monitoring of Retailer play and win rates; and

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<sup>2</sup> British Columbia Lottery Corporation Retailer Prize Payout Review dated August 17, 2007 prepared by Blair Mackay Mynett Valuations Inc., page 5

- Customer complaint tracking and investigation and resolution procedures.
- To review BCLC's action plan in response to the Ombudsman's Report and provide an assessment of it;
- To provide recommendations on further actions that could be taken, including a recommended timeframe and expected outcomes;
- To review and make recommendations on the reporting of activities, including prize validation and security investigations, to GPEB;
- To provide recommendations that will serve to enhance the fairness, integrity, transparency, security and customer service of the lottery systems and prize validation procedures; and
- To review other business and program functions with respect to BCLC and make recommendations to enhance the integrity and transparency of all gaming activities conducted by BCLC and overseen by GPEB. This scope was subsequently revised to only include the Retail Lottery System (please refer to Section Three of this report, "Objectives and Scope of Review," for further details).

#### **GPEB Terms of Reference**

- To review GPEB's regulation of BCLC's lottery prize validation and payout procedures, including detailed investigations, and make recommendations for areas of improvement;
- To review GPEB's action plan in response to the Ombudsman's Report and provide an assessment of it;
- To provide recommendations on further actions that could be taken, including a recommended timeframe and expected outcomes;
- To provide recommendations that will serve to enhance the integrity and oversight of the lottery system in BC; and
- To review other business and program functions with respect to GPEB and make recommendations to enhance the integrity, accountability, transparency, and oversight of all gaming activities in BC. This scope was subsequently revised to only include the Retail Lottery System (please refer to Section Three of this report, "Objectives and Scope of Review," for further details).

#### **Our Approach**

The approach taken for the assessment included seven key steps across BCLC and GPEB in relation to the Retail Lottery System:

- Performed a risk assessment of BCLC and GPEB;
- Performed a review of the operations, processes and internal control systems in place at BCLC and GPEB, as they related only to the lottery aspects of the organizations;
- Performed forensic reviews and investigations designed to determine the nature and scope of the alleged Retailer fraud;
- Reviewed and assessed the plans and actions taken to address the recommendations in the Ombudsman's Report and the practicality of the recommendations and plans;
- Interviewed key stakeholders and management to determine the overall management and corporate executive culture at BCLC and GPEB and how and why the observations raised in the Ombudsman's Report occurred;
- Interviewed lottery corporations and regulators in other jurisdictions to gain knowledge of best practices and assess if the practices are relevant or applicable to BCLC and GPEB; and

- Reviewed and assessed the relationship between BCLC and GPEB to determine if the two organizations could work more effectively and efficiently together while at the same time maintaining GPEB's independence and regulatory role.

The observations and analysis described in this report are based on inquiries, discussions and analysis performed up to October 15, 2007. Extension of the observations and analysis to periods beyond this date is not appropriate.

## Our Findings and Recommendations

During our assessment, a number of observations were noted, which are summarized below and further detailed in the sections that follow.

There has been a significant volume of media and marketing attention directed towards player protection and large investments have been made by BCLC to implement new policies, procedures, equipment and technology. While investment in player education and player protection is of course a valuable initiative, a variable that is not directly within the control of BCLC is whether the player decides to heed the warnings and education activity underway and there remains a risk that the player will not take the appropriate steps to protect themselves.

While the nature of fraud is such that it may involve sophisticated and carefully organized schemes or collusion, it can become cost prohibitive for BCLC to attempt to completely eliminate the risk of fraud. Fraud can never be eliminated, but the occurrence of fraud should be effectively managed within the context of a risk framework. Also, we believe it is important that the player has an important role to play to ensure they are not open to fraudulent activity.

All of the following recommendations have been cross-referenced to Section Six of this report, "Summary of Recommendations," although they may not necessarily appear in the same order.

### How and Why was the Province's Retail Lottery System Left Vulnerable to Potential Fraud after the New Legislation was Introduced in 2002?

The evolution of the control environment over the inherent risks in the Retail Lottery System was not mature after the changes made to the structure of gaming regulation in 2002 and the introduction of the GCA; this was only another step in the evolution of this control environment. A number of changes have been made since 2002, including changes at BCLC in the areas of complaint handling, investigations, and monitoring; at GPEB in the areas of monitoring; and at the retail outlets in the area of player awareness such as PDUs and CAT terminals. However, the control environment is still not fully mature.

The observations and recommendations that follow in this report are intended to assist with the continued evolution of this control environment. It is important to understand that risks are inherent in any commercial undertaking and risks related to elements of BCLC's business that are not fully under its control (such as human behaviour or regulation and competition) are very difficult, and in some cases impossible, to reduce to zero. Successful organizations have the ability to identify, measure, mitigate and monitor risks to an acceptable level of tolerance. One of the most important aspects of this activity is the ability to define and communicate the organization's tolerance for risk. An explicit definition of tolerance for risk provides a framework for decisions about the costs and benefits of measures to put in place to manage the risks. GPEB does not currently have an ongoing risk identification process and BCLC has only recently operationalized such a process. Neither of these organizations has explicitly defined its tolerance for risk.

- *We recommend that formal, sustainable risk management processes be implemented at GPEB and that both BCLC and GPEB define their tolerance for risk accordingly. As the regulator, GPEB has a broad outlook and is in a position to assess the overall risks attached to gaming regulation in the Province, including the Retail Lottery System. BCLC in turn will consider the risks of fulfilling its mandate as the operator. We recommend that BCLC and GPEB align their risk management programs and discuss the collective risks facing the gaming industry, and their collective tolerance for each risk. Each organization can make recommendations to Government, through the Minister, regarding strategies to manage and mitigate risks that exceed acceptable tolerances. (Recommendation #4, 7a and 31)*
- *We recommend that BCLC formally define and implement organizational KRIs for its lottery operations which can help to predict changes in the risk profile of its operations or those of the*

*Retail Lottery System. These KRIs can be used to monitor operations and to provide early warning signals by highlighting changes in the control environment, and potential exposures, before they crystallize and result in actual loss. (Recommendation #7b)*

Based on our review, BCLC's current computer systems and related programs and processes to monitor and detect suspicious transactions and activities are limited and the follow up of existing alerts in the system, and the escalation of these matters to security, are not always performed on a consistent basis. Our forensic and analytical tests identified several deficiencies and resulted in the identification of 21 additional Retailer wins of \$10,000 and greater that were not identified manually by BCLC through the FOI Request and not reported by the Ombudsman. During our review of the prize payout files for these additional Retailer winners, nothing came to our attention to indicate that the rightful owner of the ticket was not paid their prize. However, our forensic analysis for this specific testing was limited to a small proportion of the total prizes that were processed through the BCLC Offices due to the vast number of prizes that were within the thresholds that Retailers can process and payout directly (according to BCLC, the BCLC Offices processed less than 23% of total prize money in Fiscal 2006).

BCLC is aware of the current deficiencies in its systems around the monitoring and detecting of Retailer wins and other suspicious activities and transactions and has engaged an outside consultant to assist in the design and implementation of an enterprise-wide fraud detection system, among other initiatives.

- *We recommend that BCLC continue with its plans to implement an enterprise-wide fraud detection system that is designed to address current limitations in its systems' ability to detect and monitor suspicious activity. Specifically:*
  - *In advance of the selection or implementation of such a system, define requirements and scripts that will support a methodical approach to producing reports across multiple information sources to highlight anomalous activities;*
  - *Ensure that the BCLC security group is tasked with performing and documenting consistent and regular follow up procedures in response to anomalous activity. BCLC would benefit from creating and maintaining a repository of common and known transaction profiles to aid in their fraud detection process; and*
  - *Consider the establishment of a loss prevention function similar to that found in other retail industries. The loss prevention function could be responsible for proactively identifying potential fraudulent schemes, identifying ways to detect and respond to fraudulent schemes, correlating information across BCLC's various data sources, conducting and preparing trend analysis and reviewing practices from other jurisdictions and industries. (Recommendation #11a, b, c)*

The other specific recommendations resulting from the forensic review are outlined later in this executive summary.

## **Recommendations to Enhance the Integrity and Oversight of the Province's Lottery System**

The section that follows outlines the key observations and findings with respect to enhancing the integrity and oversight of the Retail Lottery System.

### **Overall Governance and Structure**

As gaming is a controversial area, Government should ensure that its activities do not result in any perceived or actual conflict of interest. With the existing structure wherein GPEB and BCLC report to the same Minister, there is a potential for an actual or perceived conflict of interest as the accountabilities and responsibilities for policy and the distribution of the proceeds of gaming rest with the same organizational units as those responsible for enforcement and audit. There also may be situations where the Minister has to make decisions that do not align with or are not favourable to both the operator and regulator and, in some cases, both organizations may not get an equal say on issues. The current reporting structure for BCLC and GPEB is also not consistent with other crown corporations like BC Hydro or the Insurance Corporation of British Columbia who each report to a minister that is different from the minister responsible for their respective regulators. However, the existing common and streamlined reporting structure for GPEB and BCLC can create benefits such as

more efficient and effective communications dealing with gaming related issues and the overall oversight of the gaming industry.

- *We recommend that the Government review the current structure, accountabilities and responsibilities for gaming in the Province to ensure that the potential for an actual or perceived conflict of interest is minimized. (Recommendation #1)*

The roles, responsibilities and accountabilities of each of the operators (BCLC, Retailers and suppliers), the regulator (GPEB) and the player within BC have not been clearly defined or communicated. The GCA provides guidance to GPEB and BCLC, but does not provide GPEB with the ability to adequately enforce the regulatory framework which it defines. The lack of clear and consistent communication of the responsibilities and accountabilities of each of these organizations has created confusion and a lack of clear accountability.

- *We recommend that the roles and responsibilities of each of the operators (BCLC, Retailers and suppliers), the regulator (GPEB) and the player be clearly defined and communicated to all relevant stakeholders. We believe that clarification may need to be made to both the governing legislation and supporting regulatory directives and standards. (Recommendation #2)*

We understand that the relationship between BCLC, GPEB and the Government has been strained from time to time, primarily due to the lack of clarity as to the responsibilities and accountabilities of each organization. This lack of clarity has led to communication gaps between the parties; the lack of effective inclusion of the Government or GPEB early in operational decisions; the perceived intrusion of one party into another's authority or operations; or simply a natural tension between legislator, regulator and operators. BCLC's recent creation of a government relations function and GPEB's implementation of a strategic initiatives function should both help to improve these relationships, along with the following recommendations:

- *We recommend that consideration be given to establishing a regular schedule of executive meetings between GPEB and BCLC to enhance the level of co-operation and co-ordination between the organizations, while at the same time maintaining GPEB's independence; and*
- *We recommend that GPEB share the high level detail of its future lottery audit plans with BCLC as this should enhance the level of co-operation and assistance GPEB would receive from BCLC when they conduct their independent reviews and assessments. (Recommendation #3a, b)*

While the above recommendations are intended to enhance the flow of communications between BCLC and GPEB, we recognize the need for the regulator to maintain its independence from the operator.

### **BCLC Governance and Structure**

BCLC has an independent Board which is engaged in the business of BCLC. The Board has demonstrated its commitment to making the necessary changes in the organization through its positive response to the Ombudsman's Report and its approval of BCLC's significant investment in the Player First Program. The composition of the BCLC Board will change as some of the appointment terms come to an end.

- *We recommend that BCLC update the skills matrix in place for its Board to include a skill of "social responsibility" which would cover the social issues related to gaming as well as overall player protection. As an alternative, a separate committee of the Board could be formed to deal specifically with social responsibility issues. (Recommendation #5)*

BCLC has recently undergone significant change and is continuing to be subject to more regulatory, privacy and security related matters. BCLC currently has an interim CEO in place.

- *We recommend that BCLC consider the benefits of augmenting its existing management team as follows:*
  - *Continue with efforts to appoint a permanent CEO as soon as is practical to reduce uncertainty as to the future direction and leadership of the organization and to focus attention on improving employee morale and engagement through, amongst other aspects, effective communication of the strategic direction of the organization;*

- *Consider establishing a Chief Compliance Officer position or similar position. This role should have overall responsibility for management of regulatory compliance at BCLC. Other business units should be accountable to the CCO in relation to compliance matters including integrity; ethics; whistleblower program; FOI compliance; privacy; etc.; and*
- *Consider adding resources to the BCLC internal audit function, based on comparisons with internal audit functions of other lottery and gaming jurisdictions in Canada, and other organizations of comparable size beyond the gaming industry. (Recommendation #6a, b, c)*

Other recommendations around BCLC governance and structure include the following:

- *We recommend the incentive program for the BCLC executives be re-evaluated to create a set of performance measures that include greater weighting on player protection. Currently the performance measures for player protection constitute a small fraction of the total set of measures used. (Recommendation #9)*
- *We recommend that BCLC management continue with its initiative to create an overall framework around policies and procedures and a policy manual for the lottery business and implement a defined process to manage policies and procedures. The process should cover the creation, approval, and release of policies and procedures and be consistently applied. BCLC should also review what the other Canadian jurisdictions are doing in relation to policy and procedure management as our cross-jurisdictional review found other jurisdictions have mature processes to manage policies and procedures, which BCLC may be able to borrow from or adopt. (Recommendation #10)*

### **GPEB Governance and Structure**

Prior to the reorganization of the gaming industry in BC in 2002, the registration, investigation and audit activities were separated from the policy making function. The subsequent creation of GPEB combined these functions and activities under one organization. Accordingly, GPEB has responsibility for both establishing and enforcing policy. These are two distinct roles and responsibilities requiring equal status and recognition within GPEB's mandate. Based on our review and discussions with GPEB, we believe enforcement currently does not have sufficient prominence within GPEB. This is demonstrated by the fact that the Deputy General Manager is also the Director of Policy and the ADM has a policy background.

- *We recommend that GPEB's policy and enforcement groups be given equal status within the organization in order to adequately discharge GPEB's various mandates. (Recommendation #29)*

On September 7, 2007 GPEB submitted a briefing note to the Minister proposing amendments to the GCA and Gaming Control Regulations. The suggested amendments are considered a requirement to implement recommendations flowing from the Ombudsman's Report.

- *We recommend that the amendments to the GCA be considered to support changes necessary to meet the recommendations in the Ombudsman's Report and this report. (Recommendation #30)*

We also noted the following areas where GPEB's overall governance and processes could be improved:

- *We recommend GPEB consider implementing a whistleblower program to foster a culture of integrity, honesty and openness within GPEB. (Recommendation #32)*
- *We recommend that all GPEB employees formally acknowledge the standards of conduct and conflict of interest guidelines; and (Recommendation #33)*
- *We recommend GPEB undergo regular independent audits of its activities based on a comprehensive risk-oriented audit approach. (Recommendation #34)*

### **Status of the Implementation of the Recommendations Made in the Ombudsman's Report**



When the Ombudsman's Report was released on May 29, 2007, the Minister announced that Government was accepting and implementing all 27 recommendations. Both BCLC and GPEB have dedicated significant time and resources to formulating action plans and have made changes to meet the recommendations. We reviewed the initial status of these action plans and changes for both BCLC and GPEB as at June 26, 2007 and June 29, 2007, respectively. We noted that both organizations made this a top priority and demonstrated a strong commitment to make the necessary changes to address the recommendations. BCLC and GPEB also provided their first public updates on the status of their action plans and changes made to address the recommendations in the Ombudsman's Report on September 12, 2007. We believe, based on update meetings with both BCLC and GPEB after the release of their public reports, that addressing the recommendations in the Ombudsman's Report remains a priority and good progress has been made towards the implementation of the recommendations.

In reviewing the status of the recommendations since the Ombudsman's Report, we have noted that there has been a shift in the level of responsibility BCLC has towards the player. BCLC now takes greater responsibility for the safety and well-being of players, which in turn has introduced additional costs for the new changes and initiatives in the lottery operations and regulation of those operations by GPEB. In some cases, BCLC has introduced initiatives and action plans that exceed the recommendations of the Ombudsman and provide additional player protection, but at an additional cost to the organization. Examples of this include the introduction of duplicate Retailer validation slips, introduction of more user friendly player validation slips, and the modification of online tickets to remove certain information to enhance security investigations. We caution that with the increased sensitivities and various reviews and publicity around retailer fraud in recent months, the threshold for acceptable risk within the industry has been lowered significantly. There is a risk that the cost of implementing fraud controls may exceed the level of fraud in the system, penalizing the players (as a result of more lengthy and onerous prize claim procedures) and the taxpayers and charitable beneficiaries of lottery revenues (as a result of reduced funds available for distribution).

- *We recommend BCLC continue to assess the cost/benefit of its programs and processes to ensure player protection is appropriately addressed, balancing this protection of the public interest with the generation of net income distributed to the Government for charitable, health care, education and other social programs. (Recommendation #8)*

### **Comments on the Management and Executive Culture at BCLC and GPEB**

During our work we conducted many interviews with the executive group from BCLC and GPEB in order to gain an understanding of the culture within the senior leadership groups at each of these organizations. As well, we met with the BCLC Board members and other BCLC and GPEB management and personnel to obtain their perspective on the culture at BCLC. These meetings supplemented the significant hours we spent with members of these groups during the course of our work.

#### **BCLC**

We believe that the BCLC executive and management culture as well as the culture of the Board is one of honesty, integrity, and openness. The direction of the organization and the perceived boundaries of player protection and social responsibility have shifted. We believe this group is committed to addressing the enhanced requirement for player protection and social responsibility and to the overall integrity of gaming in the Province. We believe that they are in touch with their business both inside and outside of the Province ensuring they are in tune with current business trends and issues. There also exists a deep understanding of the need to change certain aspects of BCLC's structure and management processes to address the recommendations in the Ombudsman's Report, the Blair Mackay Report and this report.

#### **GPEB**

We believe that the executive and management culture at GPEB is focused on ensuring integrity in the gaming industry in BC. All GPEB individuals we interacted with during our review demonstrated a very positive and collaborative attitude. Each individual was willing to share thoughts and to provide information in a timely manner. Overall, we feel that GPEB personnel are open towards making changes in the organization to improve its operations. It was clear to us that GPEB is fully committed to supporting the integrity of gaming in the Province. GPEB has been proactive in addressing the Ombudsman's recommendations.

It was apparent to us, however, that there is a division between the enforcement aspects of GPEB and the policy and related functions. This could be in part due to the inherent conflict between policy

setting and the enforcement of that policy. As recommended above, we believe that equal leadership status should be given to each of the policy and enforcement components of GPEB. This should help to resolve conflicts at GPEB, while enhancing the alignment and execution of GPEB's mandate.

### **Other Recommendations**

Summarized below are some of the other recommendations for BCLC and GPEB that are grouped into the following areas:

#### **BCLC Prize Claims**

- *We recommend that BCLC continue to monitor the timeliness of the prize payout process and players' satisfaction. If required, BCLC should review the level of resources and operating capacity allocated to prize payout activities, or if necessary revisit the payout thresholds. (Recommendation #12)*
- *We recommend that, as part of the assessment by BCLC of the feasibility of a universal player card system, consideration be given to reviewing the experiences of other locations (such as Norway) but with the primary goal of addressing retailer fraud. Before implementing any player card system, the risks and benefits of implementing such a system must be considered. (Recommendation #13)*
- *We recommend that BCLC reinforce and monitor the Retailers' requirements to stamp all winning lottery tickets as paid and return them to players. BCLC should continue to research other options, including a self validation system that will eliminate the requirement for Retailers to handle lottery tickets for validation purposes. (Recommendation #14)*
- *We recommend that BCLC clearly define the signatories for Retailer prize payout cheques, their accountabilities and the dollar limit approval requirements. (Recommendation #15a)*
- *We recommend, to be consistent with the treatment of Retailers who are considered "insiders," BCLC consider running winner profiles against the employee database to monitor and track BCLC employee wins. (Recommendation #15b)*
- *We recommend BCLC continue to keep Retailers informed and trained on changes to procedures and more closely monitor Retailer activities (i.e. ensuring players are instructed by Retailers to sign the back of their tickets and that proper validation procedures are followed by Retailers to reduce the number of tickets put on hold). This could be accomplished through a more rigorous tracking and monitoring system as well as through an increased focus during the mystery shopper program. (Recommendation #15c)*
- *We recommend the accuracy and completeness of the new Retailer tracking database should be subject to separate audit by both BCLC and GPEB, in addition to the completeness checks on the Retailer listings being completed by the BCLC sales representatives each time they visit a Retailer location. (Recommendation #15d)*

#### **BCLC Complaints and Investigations**

- *We recommend BCLC consider revising the policies and procedures around its call centre and overall system. In the short term, this could include daily call sample reviews by CSC Team Leaders, regular audits, regular training of CSC staff by security and an overall policy framework with clear governance of what kinds of calls need to be escalated to security. In the longer term, BCLC should consider adopting procedures similar to those in other jurisdictions in Canada whereby callers can elect via the call centre system to designate their call as a complaint. Each complaint is then routed automatically to a security specialist, who can then discuss the case with the caller directly. (Recommendation #16)*
- *We recommend BCLC introduce new processes to track customer complaints or queries that have been referred to other departments outside of the CSC. We would also recommend that GPEB and BCLC audit the complaint database on a routine basis to ensure the proper handling of complaints. (Recommendation #17)*
- *We recommend that the responsibilities of GPEB and BCLC with regards to investigations be explicitly clarified to reflect the organizations' enforcement and operating roles, respectively, under the GCA. We also recommend that Section 86 reporting requirements be clearly*



*articulated to more explicitly identify what form of complaints, occurrences and conditions must be reported by BCLC to GPEB. Furthermore, we recommend that BCLC consider implementing a procedure to require periodic review by senior BCLC security management to help ensure the completeness and accuracy of BCLC's Section 86 reporting to GPEB. (Recommendation #18)*

- We recommend BCLC continue to create more rigorous standards for the documentation of the results of security investigations and train security staff on these new standards. Files should be prepared assuming they are going to be submitted for legal scrutiny. (Recommendation #19)*
- We note that BCLC is considering putting in place a full-time monitoring position in the CSC. We support this proposal and also recommend the monitoring of CSC calls be conducted according to a schedule agreed with the BCLC executive. The results of the monitoring and subsequent actions taken should be documented. (Recommendation #20)*
- We recommend BCLC review the effectiveness of their IRIMS system in relation to security investigations. Should management decide to implement a new system to manage security investigations, the ability of that system to integrate with other related systems should be a priority. (Recommendation #21a)*
- We recommend BCLC consider implementing processes to ensure that data is effectively captured in IRIMS or any new security system. If possible, an automatic population of fields such as Retailer information, business name, address, etc. would reduce the amount of arbitrary manual input for users of the system thereby ensuring compliance in providing the information and the format in which the data should be captured. (Recommendation #21b)*

#### **BCLC Operations and Information Technology**

- We recommend BCLC consider the implementation of a data classification scheme across their lotteries data. In addition, we recommend BCLC complete their records management initiative. Completion of these two initiatives should better enable BCLC to respond to FOI requests within the strict set timelines. (Recommendation #22)*
- We recommend BCLC continue with its plans to expand its current business continuity management capabilities across all business units and systems. Given the heavy reliance on technology to support its operations, BCLC has developed disaster-recovery plans and procedures and conducted recovery testing for its information technology systems. The organization intends to broaden this focus to ensure that specific plans are documented for each business unit and for specific threats such as pandemic disease preparedness as the next phase of its program. (Recommendation #23)*

#### **BCLC Procurement, Printing, and Distribution**

- We recommend BCLC review its portfolio of suppliers and identify those suppliers that are not GPEB registered. BCLC should then obtain written confirmation from GPEB as to whether those suppliers require GPEB registration. For any supplier identified by GPEB as requiring registration, BCLC should cease engaging the supplier until the supplier has obtained GPEB registration and GPEB have provided written confirmation to BCLC. (Recommendation #24)*
- We recommend BCLC, as part of the current tendering of its ticket printing contract, include in the procurement documents about to be released and the final written contract the appropriate terms and conditions around assurance audits and other audit privileges of BCLC due to the importance of the ticket printing process in BCLC's overall control environment. (Recommendation #25)*
- We recommend BCLC implement a new procedure to monitor the set-up and activation of new retailers in the Retailer Masterfile database. Management should conduct a periodic review of new retailers to verify that the LOA has been signed-off, a peer review is completed for all of the retailer data entered into the database and is evidenced on file, and GPEB registration is obtained prior to Retailer set-up and activation. (Recommendation #26)*

- *We recommend BCLC track security clearance confirmations performed on new retailers. As a longer-term measure, we recommend the Retailer Masterfile database be developed so that it captures the security confirmation status of each retailer. (Recommendation #27)*

### **BCLC Product Development**

- *We recommend the product development process be revised to include checkpoints for documented approvals by Responsible Gaming and Player Protection areas on new products. We also support the revision to product development processes to include documentation of key milestones for which Government approval is to be obtained. (Recommendation #28)*

### **GPEB Investigation and Audit and Compliance**

- *We recommend GPEB establish a three to five year comprehensive audit plan that would cover all aspects of BCLC's operations. We encourage GPEB to include audits of BCLC's entire processes and controls around complaints, supplier registrations, and Retailer registrations (as indicated in the high level lottery focus document). The high level details of the plan should be discussed and shared with BCLC to help enhance the level of co-operation and assistance GPEB would receive from BCLC when they conduct their independent reviews and assessments. (Recommendation #35)*
- *We recommend GPEB require BCLC to provide a monthly written report which includes all Section 86 reports submitted to GPEB and that GPEB reconcile the report to ensure completeness of the receipt of these reports from BCLC. (Recommendation #36)*
- *We recommend that GPEB provide periodic feedback to BCLC in regards to any deficiencies noted with respect to the Section 86 reports and related information received from BCLC. (Recommendation #37)*
- *We recommend the GPEB Audit and Compliance division expand its planned reviews of BCLC's compliance with Section 86 reporting policies and procedures to ensure that all reports of conduct, activity or incident (indicating an offence under Criminal Code or the GCA) are delivered to GPEB in a complete and appropriate manner. (Recommendation #38)*
- *We recommend that efforts be made to expedite the granting of access for GPEB investigators to all police databases as soon as possible. (Recommendation #39)*
- *We recommend GPEB establish formal procedures for communicating the results of its BCLC Retailer inspections with BCLC as well as define a plan to ensure issues identified are addressed appropriately by BCLC. (Recommendation #40)*

### **GPEB Equipment and Ticket Certification**

- *We recommend that GPEB finalize and approve the guideline outlining the submission and approval process and the detailed work sheet for technical certifications of games and gaming equipment. The worksheet should be used to document the results of evaluations of each criterion and to communicate the results to BCLC to ensure that the rationale for issuing technical certificates is consistent and transparent. (Recommendation #41)*
- *We recommend that GPEB clarify the link between the detailed technical standards and the criteria documented in the GCA. (Recommendation #42)*
- *To ensure a proper assessment of technical integrity, we recommend GPEB finalize and approve the two outstanding technical standards for scratch-and-win tickets and for pull-tab tickets in a timely manner. Technical integrity of instant games should then be evaluated against these standards. (Recommendation #43)*
- *We recommend GPEB consider periodically reviewing BCLC's quality assurance work to support GPEB's reliance on gaming equipment tests carried out by BCLC. (Recommendation #44)*

### **Concluding Comment**

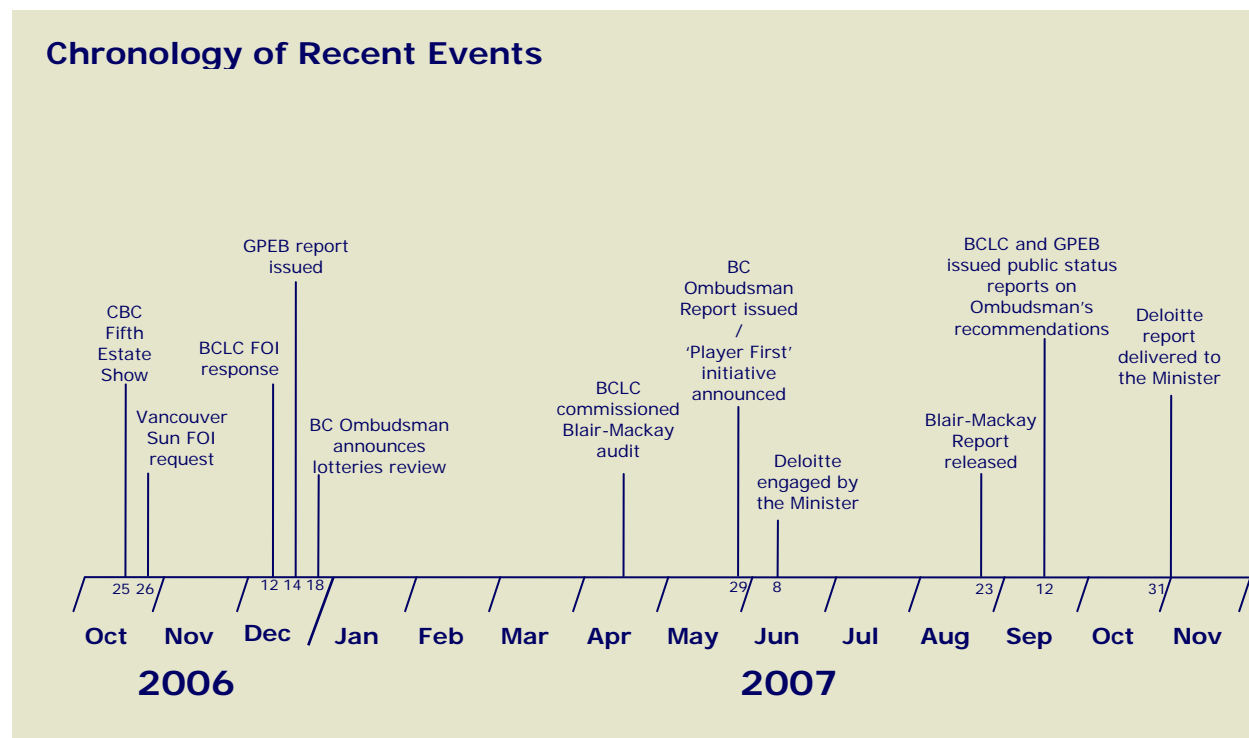
BCLC and GPEB are undergoing a period of media attention and intense scrutiny. Significant changes are being made to the organizational structures, their cultures and strategic directions. The threshold for risk tolerance and fraud is extremely low. Employee stress levels are high while morale has been

impacted within the organizations. Despite this environment, we found the people across these organizations to be open and embracing of change. Senior management at both organizations are committed to implementing the various recommendations and changes required to enhance player protection and the overall integrity of the Retail Lottery System while at the same time trying to maintain the significant benefits enjoyed by the Province, charities and taxpayers of BC from lotteries.

## 2. Background

### Why an Independent Review and Assessment?

The key events surrounding the Minister's decision to commission an independent review of the retail lottery system in BC are highlighted in the following timeline:



On October 25, 2006, the Canadian Broadcasting Corporation aired, on its Fifth Estate program, a documentary titled "Luck of the Draw" which focused on an Ontario gentleman who had his OLGC lottery ticket stolen by an OLGC lottery clerk. The documentary also focused on the high incidence of lottery wins by Retailers in Ontario. Media reports after the documentary raised questions about the integrity of the ticket validation and retailer participation in other jurisdictions across Canada.

In October 2006, the Minister directed GPEB to conduct an investigation and report on the integrity of the BCLC retail lottery network. GPEB completed its report on December 14, 2006 and provided a list of 10 recommendations to BCLC as part of its review.

On December 12, 2006, as a result of The Vancouver Sun making the FOI Request on October 26, 2006, BCLC released the number of lottery Retailers who won lottery prizes of \$10,000 or more during the period from January 1, 2000 to October 26, 2006, along with a copy of all investigations into fraudulent lottery claims since January 1, 2005. The FOI records indicated that lottery Retailers in BC were winning a higher percentage of lottery prizes greater than \$10,000 compared to the general public.

On December 18, 2006, as a result of the lack of an immediate explanation for the high rate of Retailer wins and other questions, the Ombudsman announced she was commencing an investigation. The investigation was conducted over a five month period.

In April 2007, BCLC commissioned Blair Mackay to review certain Retailer prize claim files, interview a sample of these Retailer winners and review specific policies and procedures around Retailer winners and prize payout validation procedures. On August 23, 2007, BCLC released the Blair Mackay Report. The audit included a review of 190 Retailer wins of more than \$10,000 between 2001 and 2007. The findings of the Blair Mackay Report included, among others, that there was no evidence found to indicate that anyone other than the rightful owner of the ticket was paid the 190 Retailer prizes and that "the frequency of winnings by retailers was connected to the retailers' ability to play frequently

and bet large amounts at their retail outlets.”<sup>3</sup> The Blair Mackay Report also indicated that there were shortcomings with BCLC’s prize payout and investigation procedures, particularly around Retailer winners, and the enforcement of Retailer play policies. A total of 20 recommendations were included in the Blair Mackay Report, some of which overlapped with those of the Ombudsman.

On May 29, 2007, prior to the release of the Blair Mackay Report, the Ombudsman released her report. The Ombudsman’s Report highlighted several deficiencies with respect to BCLC prize payout processes for lotteries and GPEB’s monitoring and investigation thereof. Although the Ombudsman’s Report included a recommendation to BCLC that it should promptly implement the 10 recommendations included in the GPEB Report, the Ombudsman highlighted that the review and report completed by GPEB in December 2006 was inadequate and that GPEB did not, prior to October 27, 2006, adequately monitor, investigate or otherwise regulate BCLC’s lottery business. When the Ombudsman’s Report was released, Government accepted the recommendations and BCLC and GPEB began implementing all 27 recommendations included in the Ombudsman’s Report. Additional details of the Ombudsman’s Report, along with a summary of the Ombudsman’s recommendations and BCLC’s and GPEB’s initial responses to those recommendations, are included in Appendix A. On September 12, 2007, BCLC and GPEB also issued their first public reports on the status of their action plans to address the Ombudsman’s recommendations, the details of which are included in Appendices B and C.

On May 29, 2007, BCLC announced the Player First Program which was created to help address the deficiencies raised by the Ombudsman’s Report around the Retail Lottery System.

On June 8, 2007, the Minister announced that Deloitte had been chosen to review the Retail Lottery System in BC and make recommendations to enhance the overall integrity and transparency of gaming activities in BC. This mandate refers to “gaming activities in BC” which include lotteries, casinos, bingo and horse races. However, we have not reviewed, audited or otherwise conducted any assessment of gaming activities beyond retail lotteries. Our review is an independent assessment of BCLC and GPEB’s handling of the Retail Lottery System in BC. It will be up to the Minister, BCLC and GPEB to consider the merits and cost benefit of a further independent review of the other gaming business activities undertaken by BCLC and the related policy and enforcement procedures undertaken by GPEB.

Since June 2007, BCLC has made significant changes to its lottery business operations and reported in September 2007 that it was working on more than 50 separate projects based on the Ombudsman’s recommendations and the Player First Program commitments. BCLC has indicated that some of the Player First Program initiatives are resulting in improvements that exceed those recommended by the Ombudsman. These changes are discussed in more detail in Section 5 of this report.

GPEB has also made significant changes to its regulation of BCLC’s lottery business since June 2007. In September 2007, GPEB reported that an additional 16 staff were hired and that four had been reassigned to assist with the implementation of recommendations contained in the Ombudsman’s Report. GPEB has identified lottery retailers and Retailer staff that require registration and has made a number of regulatory changes. The registration program has now been initiated, which includes the performance of background and criminal record checks, and is expected to result in the registration of a total of approximately 8,000 individual Retailers. GPEB’s investigations of BCLC’s lottery business and its Retailers have also been changed and a comprehensive audit program is in the process of being created. These changes are discussed in more detail in Section 5 of this report.

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<sup>3</sup> British Columbia Lottery Corporation Retailer Prize Payout Review dated August 17, 2007 prepared by Blair Mackay Mynett Valuations Inc., page 5

## BCLC and GPEB Background Information

### BC Lottery Corporation

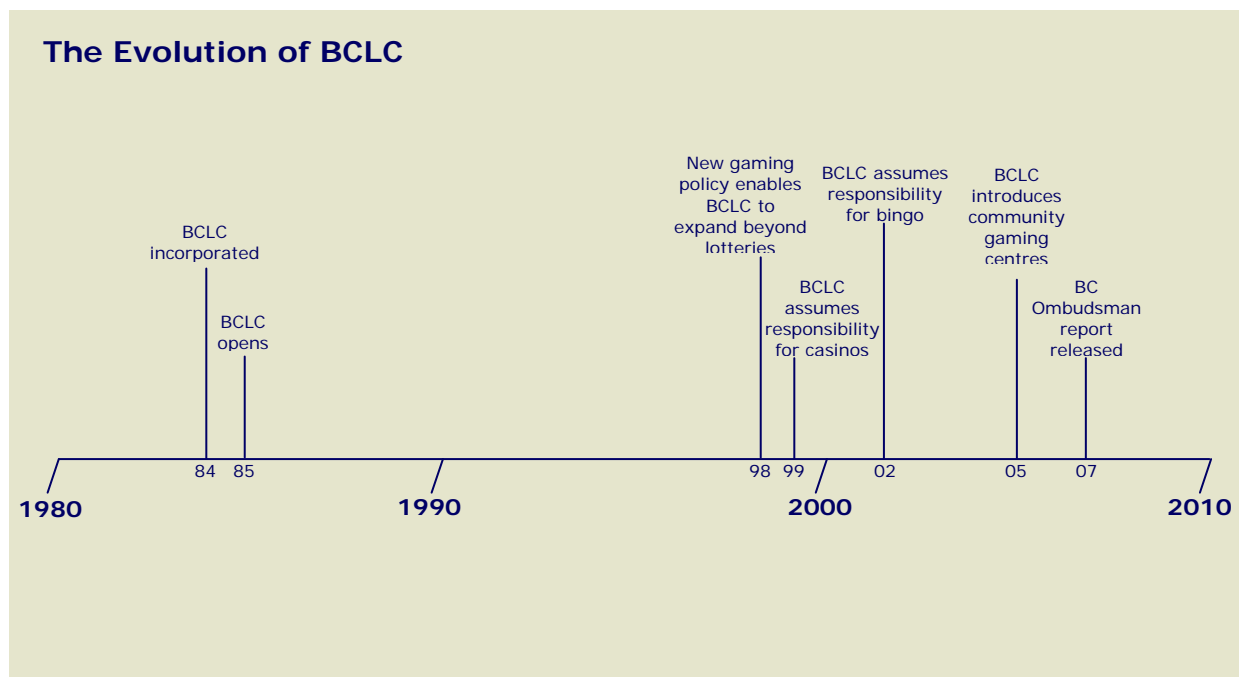
#### Mandate and Structure

The Government operates gaming through BCLC, not only to meet the requirements of the Criminal Code, but to ensure that the objective of revenue generation is carefully balanced with the objectives of gaming integrity and social responsibility.<sup>4</sup> As an agent of the Crown, the Government has designated BCLC as the authority to conduct, manage and operate commercial gaming in the Province in accordance with the Criminal Code and GCA. BCLC's mission is to provide high-quality gaming entertainment in a socially responsible manner for the benefit of all British Columbians.

Under current provincial gaming legislation, BCLC has three main responsibilities:

- Conduct, manage and operate lottery gaming, including marketing of nationwide and regional lottery games in association with other provinces of Canada;
- Conduct, manage and operate casino gaming; and
- Conduct, manage and operate electronic and commercial bingo gaming.

The following timeline illustrates the history and evolution of BCLC:



BCLC is structured with three primary operational divisions (lottery, casino and bingo gaming) as well as administration functions. BCLC has a head office located in Kamloops, BC (the centre for finance, administration, security, customer complaints and information technology) and a sales and marketing office located in Richmond, BC. BCLC has gaming operations and retail locations throughout BC and the vast majority of product sales and operational services are contracted through private sector business service partners. The current network includes approximately 4,300 lottery Retailers, 16 casinos, 20 commercial bingo halls, six community gaming centres and one racetrack gaming centre.<sup>5</sup>

#### Operational and Financial Facts

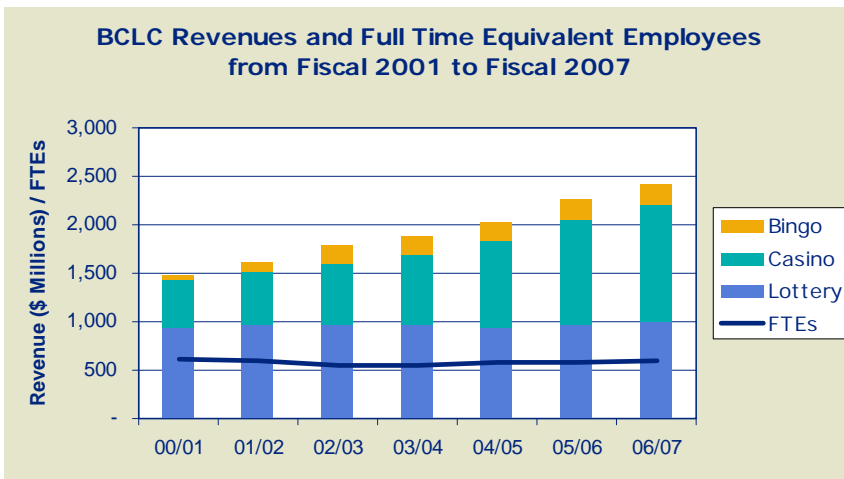
The following is a list of some operational facts related to BCLC's lottery business in Fiscal 2007:

<sup>4</sup> British Columbia Lottery Corporation Annual Report 2006-07, page 6

<sup>5</sup> British Columbia Lottery Corporation Annual Report 2006-07, page 14

- Eight out of ten adult British Columbians played at least one BCLC lottery product<sup>6</sup>;
- Three out of ten adult British Columbians visited a BC casino<sup>7</sup>;
- 340 million lottery tickets were sold<sup>8</sup>;
- 53 million winning lottery tickets were validated<sup>9</sup>; and
- Approximately 4,300 lottery retailer outlets and an estimated 30,000 Retailers sold BCLC products through the outlets<sup>10</sup>.

The following table presents BCLC's total and segmented revenues and FTE employees from Fiscal 2001 to Fiscal 2007:



*BCLC 2006/07 Annual Report*

As detailed in the above table, BCLC has experienced significant growth in its business over the past several years. Revenues have increased from approximately \$1.5 billion in Fiscal 2001 to approximately \$2.4 billion in Fiscal 2007, an increase of over 60% during this seven-year period. Most of this growth has been attributed to the casino business as lottery revenues have remained relatively unchanged over the past seven years. The BCLC FTE employee count over this same time frame has remained relatively constant and has actually decreased from a high of 620 FTE's in Fiscal 2001 to 600 FTE employees in Fiscal 2007. The organization has been under significant pressure as a result of its strong growth and is now hiring additional staff in responding to the Ombudsman's recommendations.

Lottery revenues per capita in BC have declined over the past several years and were just slightly higher than the national average for Fiscal 2006. Alberta, Saskatchewan and Manitoba have experienced recent growth in their per capita lottery revenues and Quebec, Newfoundland and Prince Edward Island have the highest overall per capita lottery revenues across Canada. This is highlighted in the below graph that details the provincial and overall average Canadian lottery revenues per capita from Fiscal 2002 to 2006.

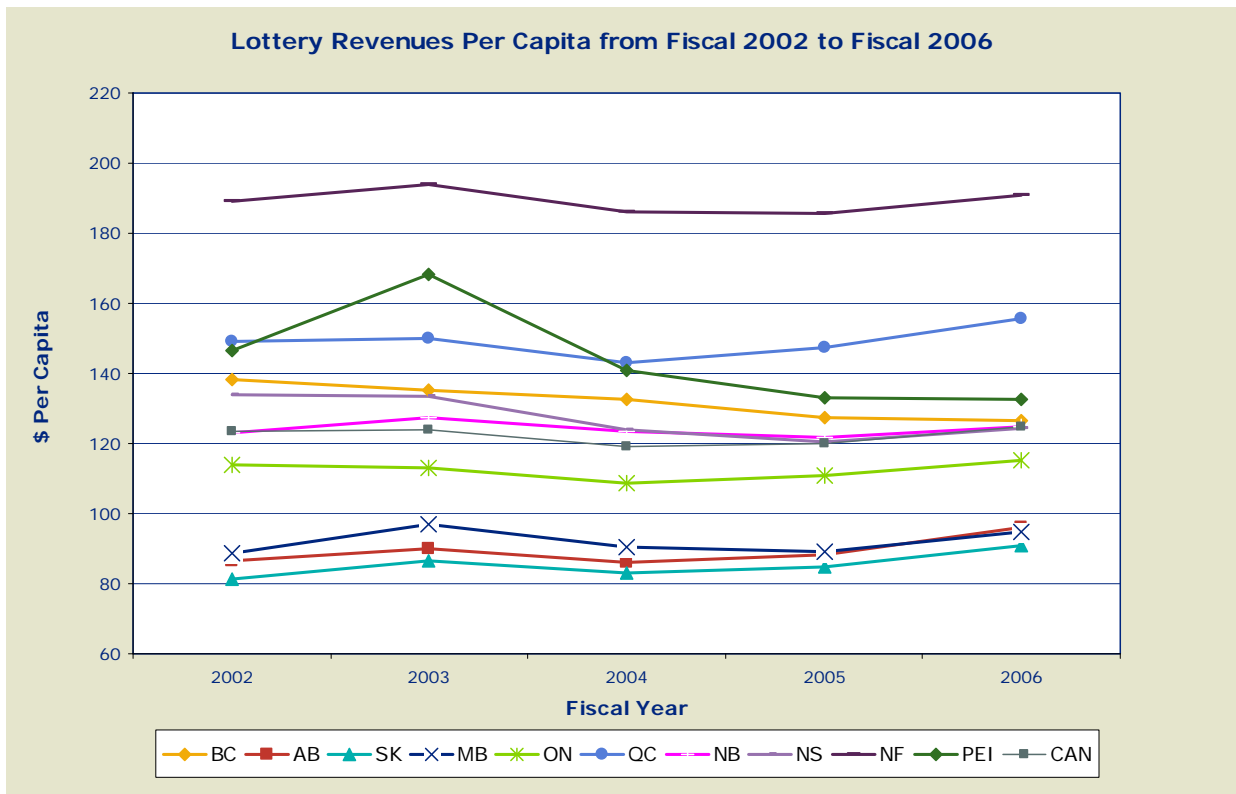
<sup>6</sup> British Columbia Lottery Corporation Annual Report 2006-07, page 14

<sup>7</sup> British Columbia Lottery Corporation Annual Report 2006-07, page 14

<sup>8</sup> Player First Brochure, July to September 2007

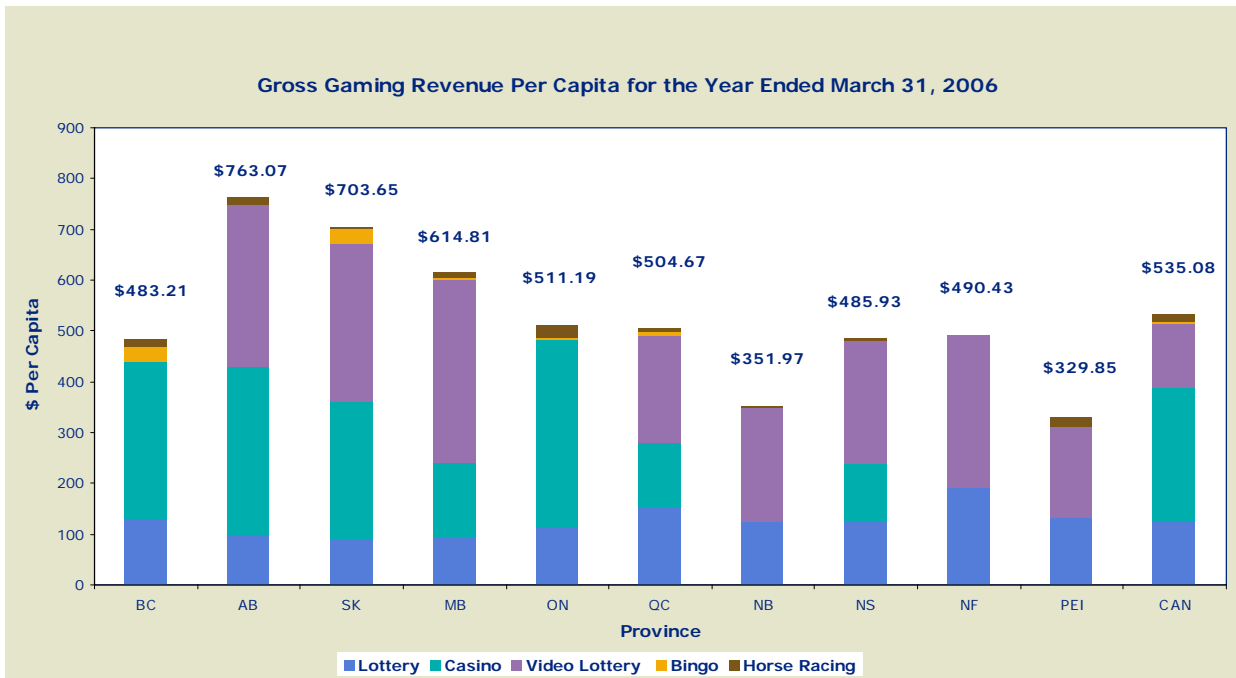
<sup>9</sup> Player First Brochure, July to September 2007

<sup>10</sup> Player First Brochure, July to September 2007



BCLC Corporate Research Department

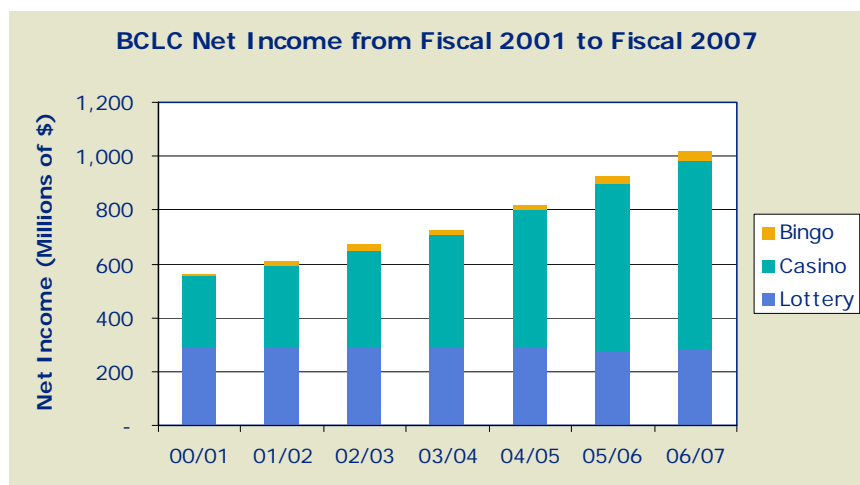
The gross gaming revenue per capita for the provinces and Canada overall for Fiscal 2006 are included in the graph below. BC's gross gaming revenue per capita is slightly below the national average and includes a high proportion of revenue per capita from casinos. BC and Ontario are the only provinces that do not collect gaming revenues from video lottery terminals, which make up a significant amount of the revenues for the other provinces.



BCLC Corporate Research Department



The following table presents BCLC's total and segmented net income from Fiscal 2001 to Fiscal 2007:



BCLC 2006/07 Annual Report

BCLC's net income has increased from approximately \$0.6 billion in Fiscal 2001 to approximately \$1.0 billion in Fiscal 2007. Most of the growth in net income has been attributed to the casino and bingo business lines, as lottery net income has remained relatively flat over the past several years. BCLC is a strong contributor to, and important part of, the Government and the net income of approximately \$1.0 billion in Fiscal 2007 funded the following initiatives:

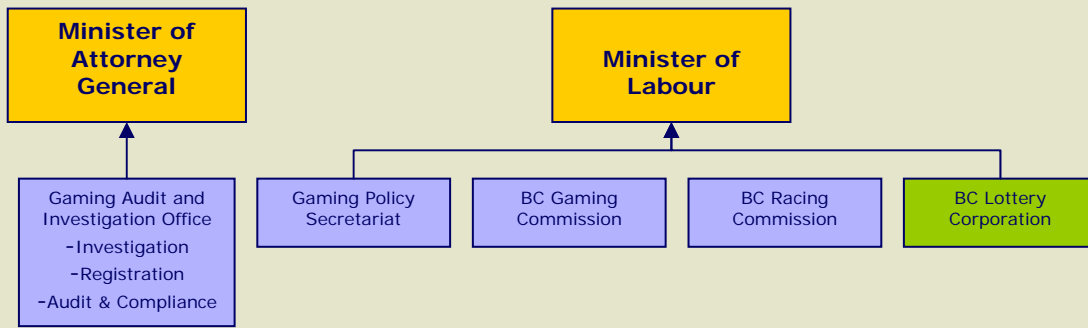
Supporting communities	Amount (\$ Millions)
Charitable and community organizations	\$142.4
Local governments that host casinos and community gaming centres	76.1
Development assistance compensation	16.5
Horse racing purse enhancements	5.2
SportsFunder	2.2
<b>BC Government programs</b>	
Health Special Account, to support health care services and research	147.3
Consolidated revenue fund, to support other government programs, primarily health care and education	620.7
<b>Government of Canada transfer</b>	
Under a federal/provincial lottery agreement	8.4
<b>Total</b>	<b>\$1,018.8</b>

BCLC 2006/07 Annual Report

### Gaming Policy and Enforcement Branch Mandate and Structure

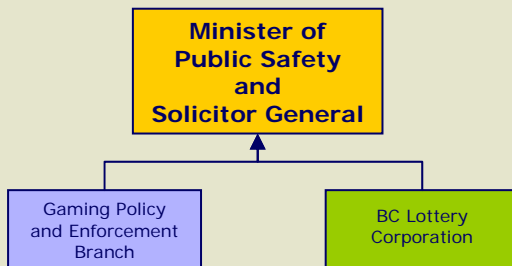
The Minister is responsible for BC's gaming industry. The structure of gaming regulation in the province changed in 2001, as detailed in the following charts:

## Structure of gaming regulation in BC – Before 2001



GPEB

## Structure of gaming regulation in BC – After 2001

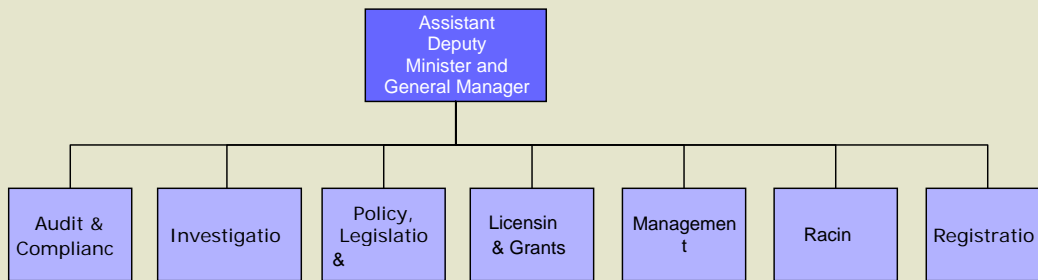


GPEB

From 2001 until spring of 2002, GPEB was in a transition phase and was fully implemented in its current structure at the start of the Fiscal 2002. To support the new consolidated structure, the GCA was introduced in 2002, which established a comprehensive framework for regulating and managing gaming in BC by two agencies, GPEB and BCLC. The Minister is responsible for both agencies and ultimately the entire gaming industry in BC.

GPEB was formed to regulate all gaming in BC, ensure the integrity of gaming industry companies, people and equipment, and investigate allegations of wrongdoing. This mandate includes regulatory oversight of BCLC, all gaming service providers and gaming workers, BC's horse racing industry and licensed gaming events. GPEB also manages responsible gambling programs and manages the distribution of gaming funds received by organizations. GPEB is an office of the Government under the direction of the ADM. The duties and responsibilities of GPEB are divided among seven divisions, with a director responsible for each division. The current GPEB structure is outlined in the following chart:

## Gaming Policy and Enforcement Branch – Current Structure



### GPEB

GPEB currently has an annual operating budget of approximately \$14.6 million and had 116 FTE employees as at March 31, 2007. GPEB's FTE employees have remained relatively stable over the past several years, despite the significant increase in gaming revenues and activities in BC over this time. As a result of the Ombudsman's Report and related recommendations, GPEB has added an additional 29 positions (plus reassigned four positions) since the end of Fiscal 2007 and currently has a total of 145 FTE employees.

While we express no opinion on the exact quantum of staffing increases, as that issue was not within our scope of review, we expect that these additions should enhance the capabilities and resources GPEB requires to provide comprehensive oversight and regulation of gaming in BC.

### Current Regulation

BCLC and GPEB operate within the statutory authority and regulatory guidelines of the Criminal Code, GCA and Gaming Control Regulations. Additional details of the applicable legislation, regulations, directives, public interest standards, and policies are included in Appendix D.

### Other Jurisdictions

In order to effectively construct and validate our recommendations, we interviewed a number of senior representatives of lottery operators and regulators across Canada. We also researched a number of other global lottery jurisdictions to understand leading practices in the industry. It was apparent from our review that many of the practices in place within BCLC are common across the industry and in fact are even emulated by others. Throughout our recommendations in this report we have captured opportunities to leverage leading practices or experiences in other jurisdictions. We have also tried to identify control activities or practices within BCLC which, based on the experiences of other jurisdictions, are considered critical to the management of key risks and therefore should be preserved as changes are considered.

The entire lottery industry across Canada is undergoing a fundamental shift to balance priorities between revenue growth, player satisfaction and player protection. We found that GPEB and BCLC are actively involved in cross-jurisdictional discussions and sharing of leading practices across Canada. Some of the differences we identified between Canadian, US and other global jurisdictions are certainly fundamental to the relationship between the operators and the players. Examples include whether or not the regulator also acts as operator, whether the regulator has a clearly defined mandate supported by legislation, or whether fraud prevention and detection is an active responsibility of the operators. Regardless of these differences, we found many instances of internal control processes designed to mitigate the risks that have been identified in the various media, audit and Ombudsman reports across Canada, but in most cases it was apparent that a balanced approach to risk management and player protection was the primary objective. Regulators and operators are continuously attempting to eliminate fraud and error, however, eliminating fraud is impossible as perpetrators will devise schemes to try and defeat any systems in place. Clearly, minimizing the opportunity for fraud to occur must be the focus of lottery corporations and regulators. It is noted that

other jurisdictions do attempt to balance the goal of fraud minimization against the financial costs of achieving a near-zero tolerance level.

## 3. Objectives and Scope of Review

### Objectives

The Minister engaged Deloitte to conduct a comprehensive review of BCLC's retail lottery system and GPEB to accomplish the following objectives:

- Determine how and why the Province's retail lottery system was left vulnerable to potential fraud even after new legislation was introduced in 2002 to strengthen and streamline the management of gaming in BC and to ensure greater accountability for decision-making;
- Provide a report with recommendations to the Province on how to enhance the integrity and oversight of the Province's lottery system;
- Report on the implementation of the recommendations made in the Ombudsman's Report; and
- Examine the management and corporate executive culture at BCLC and GPEB.

The Minister provided the following Terms of Reference to Deloitte for each of BCLC and GPEB:

#### BCLC

- To review in detail the lottery prize validation and payout procedures of BCLC, including, but not limited to:
  - Retailer validation procedures;
  - Monitoring of Retailer play and win rates; and
  - Customer complaint tracking and investigation and resolution procedures;
- To review BCLC's action plan in response to the Ombudsman's Report and provide an assessment of it;
- To provide recommendations on further actions that could be taken, including a recommended timeframe and expected outcomes;
- To review and make recommendations on the reporting of activities, including prize validation and security investigations, to GPEB;
- To provide recommendations that will serve to enhance the fairness, integrity, transparency, security and customer service of the lottery systems and prize validation procedures; and
- To review other business and program functions with respect to BCLC and make recommendations to enhance the integrity and transparency of all gaming activities conducted by BCLC and overseen by GPEB. This scope was subsequently revised to only include the Retail Lottery System, as described later in this Section.

#### GPEB

- To review GPEB's regulation of BCLC's lottery prize validation and payout procedures, including detailed investigations, and make recommendations for areas of improvement;
- To review GPEB's action plan in response to the Ombudsman's Report and provide an assessment of it;
- To provide recommendations on further actions that could be taken, including a recommended timeframe and expected outcomes;

- To provide recommendations that will serve to enhance the integrity and oversight of the lottery system in BC; and
- To review other business and program functions with respect to GPEB and make recommendations to enhance the integrity, accountability, transparency, and oversight of all gaming activities in BC. This scope was subsequently revised to only include the Retail Lottery System, as described later in this Section.

## Scope of Our Review

### Overall Scope Inclusions and Exclusions

The scope of our work for this engagement was limited to a review of the Retail Lottery System and the related regulatory activities of GPEB. The following areas were specifically excluded from the scope of our engagement:

- Any aspects of the responsibilities of BCLC to conduct, manage and operate casino gaming;
- Any aspects of the responsibilities of BCLC to conduct, manage and operate electronic and commercial bingo gaming; and
- Any aspects of the responsibilities of GPEB to regulate gaming in BC, other than responsibilities and activities of GPEB directly related to the regulation of the Retail Lottery System conducted and managed by BCLC.

As described in more detail in Section Four of this report, “Our Approach,” for the business processes within the scope of our review we adopted a risk-based approach and conducted a risk assessment to determine the nature, timing and extent of further procedures to be performed.

### BCLC Scope Inclusions

We considered the following key operating processes of BCLC in our review of the Retail Lottery System:

- Overall governance of the lottery business;
- Retail lottery product development;
- Retail lottery product distribution;
- Retail lottery operations;
- Prize redemption;
- Gaming communication;
- Information technology management; and
- Procurement, printing and distribution.

For the forensic review, the following key sources of data were included in our analysis:

- Transaction Masterfile;

The TM file is the single largest dataset included in our review. All transaction activity that occurs in the TM file, including wagers, ticket validations and ticket cancellations are included in this data set.

BCLC only had TM data available for the TM files from September 30, 2005 to the time of the data transfer on August 13, 2007. It was BCLC’s policy up until March 12, 2007 to destroy all data more than 18 months old. This is no longer the policy as we understand that BCLC has retained all TM data since the new policy was implemented. Due to the voluminous amount of data included in the TM files, a total of 11 months (or one half) of the daily transactional TM data was restored by

BCLC and provided to Deloitte as part of our review. This 11 month data set sample included over 414 million transactions.

- Incident Reporting and Investigation Management Software Database;

The IRIMS database is a stand-alone software product purchased by BCLC that is used to track all security investigations completed by the BCLC security team. The dates of transactions included in the IRIMS database ranged from October 31, 2000 to August 18, 2007. A total of 17,358 transactions were included in this data set.

- Hotlog Database;

The Hotlog database is a stand-alone Microsoft Access software product developed by BCLC to track calls from their Retailers. This database has since been discontinued and replaced with their SDE call tracking database. The dates of transactions included in the Hotlog database ranged from September 27, 2005 to April 25, 2007. A total of 120,896 transactions were included in this data set.

- Prize Payout Database;

The Prize Payout database contains a listing of cheques associated with winning claims for those customers who either claimed their prizes in person in the BCLC Offices or completed "mail in claims." Data does not include prizes that are paid out by either Retailers or RPPCs. The dates of transactions included in the Prize Payout Database ranged from October 16, 1992 to August 13, 2007. A total of 2,705,109 transactions were included in this data set.

- Retailer Masterfile Database;

The Retailer Masterfile database contains information for Retailers including representatives/employees of Retailers, business entities and a listing of all agreements between the Retailers and BCLC. The database is maintained by BCLC and has been identified as being an outdated and inaccurate depiction of all current Retailers and their employees. There are various numeric counts identified in the database for each of the different tables identified and dates range from April 10, 1984 to August 13, 2007.

- Magic Consumer Service Database;

The Magic Consumer Service Database was originally used to track player calls that were routed to BCLC's call centre. It is no longer in production and has since been replaced by the SDE database. The dates in the database ranged from August 24, 2004 to April 24, 2007. A total of 550,452 transactions were included in this data set.

- Service Desk Express Database;

The SDE database is BCLC's current repository for tracking calls into the call centre. This includes both players/customers and Retailers who call into BCLC's consumer service lines with any identified observations or issues. The SDE database has replaced both the Hotlog database and the Magic Consumer Service database, and is considered the Tier 1 system in which consumer and Retailer interaction is tracked and escalated. There are 199,060 entries in this database which have dates ranging from April 24, 2007 to August 13, 2007.

- Retailer Training Database; and

The Retailer Training database contains tracking information for those Retailers who have been scheduled for and/or attended training sessions. The appropriate representative numbers of the Retailers are listed in this data if the Retailer is also set up in the Retailer Masterfile database. The database includes training history back to July 1983, before BCLC was incorporated. In 2002, as part of a core internal review, the training program that was initiated by BCLC in 1995 was downgraded significantly and resources were redeployed internally. Retailer training was changed to be performed primarily by the BCLC territory managers as well as at the BCLC Offices. Training in the BCLC Kamloops office was subsequently discontinued, however, classroom training has

continued. Retailer employees who were trained in the BCLC offices were still entered into the database, however, those trained in the field were not. As a result, the Retailer Training database is an incomplete and inaccurate listing of Retailers.

- Employee Listing Spreadsheet.

BCLC had provided a spreadsheet containing a list of all individuals who have been employed or are still employed by BCLC from 2002 to September 5, 2007. The data contained in this spreadsheet also included the date ranges that made up the employee's tenure of employment. There are a total of 1,095 entries in this data source.

The above databases received from BCLC were loaded into Deloitte's data analysis environment in order to perform part of our forensic analysis. Additional information was reviewed and analyzed as part of the forensic analysis and this is detailed in Section 5 of this report.

### **BCLC Scope Exclusions**

The other operating processes of BCLC, which provide direct or indirect support to the operation of lottery activities, that were specifically excluded from the scope of our review include:

- Gaming product marketing and promotion;
- Corporate accounting;
- Financial reporting;
- Gaming finance;
- Budget;
- Treasury management;
- Administration;
- Facility management;
- Legal services; and
- Human resources.

The mandate of Deloitte requires a review of the Retail Lottery System in BC in order to make recommendations to enhance the overall integrity and transparency of gaming activities in BC. This mandate refers to "gaming activities in BC" which include lotteries, casinos, bingo and horse races. However, we have not reviewed, audited or otherwise conducted any assessment of gaming activities beyond retail lotteries. Our review is an independent assessment of BCLC and GPEB's handling of the Retail Lottery System in BC. It will be up to the Minister, BCLC and GPEB to consider the merits and cost benefit of a further independent review of the other gaming business activities undertaken by BCLC and the related policy and enforcement procedures undertaken by GPEB.

Our forensic review was limited by the following factors:

- The Prize Payout database only included a small proportion of the total winning tickets that were processed through the BCLC Offices due to the vast number of prizes that were within the thresholds that Retailers can process and payout directly (the BCLC Offices processed less than 1% of total tickets and less than 23% of total prize money in Fiscal 2006 according to BCLC).
- Our work was not designed to identify all circumstances of fraud or other irregularity. For the purposes of this report, save where we have been able to corroborate information, we have had to assume that the documents or other information disclosed to us are reliable and complete.
- Deloitte was only able to review the TM file data back to September 2005, the oldest date that data exists at the transactional detail level. In addition, due to the voluminous amount of data



included in the TM files, a total of 11 months (or one half) of the available daily transactional TM data was restored and provided to Deloitte as part of our review. As a result, 11 months of the available TM data has not been considered or included in our analysis.

- Our manual forensic review procedures relied on BCLC's explanations in relation to the transactions and reports sampled as BCLC was not always able to provide supporting documentation for transactions that may not have been investigated at the time they occurred.
- Our forensic review and attendance at various Retailers' sites for interviews was completed on a sample basis due to the sheer volume of transactions and Retailers identified. As such, our findings related to the forensic review portion of this report are limited to the identification of anomalous transactions where further review is recommended to determine the exact nature of the anomaly. It should be noted that the identification of anomalous transactions is not in itself a determination of fraud.

### **GPEB Scope Inclusions**

We considered the following key processes of GPEB in our review of their regulation of the BCLC retail lottery system:

- Policy, legislation and standards;
- Registration;
- Audit and compliance; and
- Investigations.

## 4. Our Approach

### Perform a risk assessment of BCLC and GPEB

We undertook a risk-based approach and performed a risk assessment for each of the in-scope processes at BCLC and GPEB as the first step of the review. The risk assessment was performed to focus our review procedures on the areas of most anticipated significant risk to the protection of players in the Retail Lottery System.

We performed the following key procedures:

- Interviewed BCLC and GPEB staff, reviewed available documentation and developed a process view of the operations of BCLC and GPEB;
- Distributed questionnaires to process owners to identify perceived risks and related controls;
- Conducted risk workshops with cross-functional representatives;
- Evaluated the likelihood, impact, and management effectiveness of identified risks; and
- Validated key risks identified through experience of the engagement team and independent consultation with Deloitte industry advisors.

### Perform a review of the operations, processes and internal control systems in place at BCLC and GPEB, as they relate to the lottery aspects of the organizations

We performed the following key procedures in connection with the in-scope processes:

- For each area reviewed, we selected relevant standards from existing control standards (specifically the standards included in the COSO internal control framework, ILC minimum control standards and the WLA Security Control Standards<sup>®</sup>, where applicable);
- Conducted interviews, obtained additional documentation and information and performed process walkthroughs for in-scope processes, to identify key control activities designed to mitigate identified risks; and
- Performed limited selective testing of BCLC and GPEB procedures based on results of risk assessment and process walkthroughs.

### Perform forensic reviews and investigations to determine the nature and scope of the alleged Retailer fraud

We performed various forensic tests both electronically and manually in order to try and determine the nature and scope of any Retailer fraud and to highlight anomalous relationships and transactions with Retailers across the various data sources obtained from BCLC. The forensic analysis produced findings requiring further investigation by Deloitte. This investigation was conducted through interviews and review and analysis of both detailed transactions identified in the TM file and other databases, and other manual or "paper" files maintained by BCLC and, in some cases, by GPEB.

### Review and assess the plans and actions taken to address the recommendations in the Ombudsman's Report and the practicality of the recommendations and plans

To complete this work step we performed the following key procedures:

- Held interviews with executive management and selected staff at BCLC and GPEB to discuss the status of the action plans and changes made to address the Ombudsman's recommendations and reviewed the relevant supporting documentation;
- Reviewed the public reports issued by BCLC and GPEB on September 12, 2007 that provided updates on the status of the actions taken by both organizations to address the Ombudsman's recommendations; and

- Discussed the practicality of certain recommendations and the related action plans and changes with executive management at BCLC, GPEB and at other jurisdictions, as well as Retailers, the Ombudsman and recent prize claimants.

### **Interview key stakeholders and management to determine the overall management and corporate executive culture at BCLC and GPEB and how and why the Observations raised in the Ombudsman's Report occurred**

To complete this work step we performed the following key procedures:

- Held interviews with executive management and selected staff at BCLC and reviewed relevant supporting documentation;
- Held interviews with executive management and selected staff at GPEB and reviewed relevant supporting documentation; and
- Compiled and assessed overall themes and observations.

We based our discussions on the COSO internal control integrated framework to establish criteria for reviewing the management and corporate executive culture of the two organizations.

### **Interview lottery corporations in other jurisdictions to gain knowledge of best practices and assess if the practices are relevant or applicable to BCLC and GPEB**

To complete this work step we performed the following key procedures:

- Researched the structure and status of the lottery operations in Alberta, Manitoba, Ontario and the Atlantic provinces along with lottery corporations in Norway, Australia and the United States;
- Interviewed certain executive management for the lottery corporations and/or regulators in Alberta, Manitoba, Ontario and the Atlantic Provinces along with the Western Canada Lottery Corporation; and
- Compiled and assessed overall themes and observations.

### **Review and assess the relationship between BCLC and GPEB to determine if the two organizations can work more effectively and efficiently together while at the same time maintaining GPEB's independence and regulatory role**

To complete this work step we performed the following key procedures:

- Interviewed key executive management and selected staff at BCLC and reviewed relevant supporting documentation;
- Interviewed key executive management and selected staff at GPEB and reviewed relevant supporting documentation; and
- Compiled and assessed overall themes and observations.

The practices of lottery operations and regulations in other jurisdictions provided a source of information for consideration in the other applicable work steps.

The observations and analysis described in this report are based on inquiries, discussions and analysis performed up to October 15, 2007. Deloitte reserves the right to review all of its findings and recommendations included in this report and, if we consider it necessary, to revise the report with any relevant information that becomes known to us after the date of this report.

## 5. Key Observations

### Ombudsman's Report and Recommendations

#### Status of Recommendations

Our work plan with respect to the Ombudsman's Report focused on the status of the action plans by both BCLC and GPEB to address the recommendations included therein. As part of this review, we also assessed the practicality of the recommendations and the related action plans and changes put in place by BCLC and GPEB since the Ombudsman's Report was issued on May 29, 2007. This was accomplished mainly through interviews and discussions with employees and executive management of BCLC, GPEB and other jurisdictions along with discussions with Retailers and recent prize claimants. Our approach with respect to the Ombudsman's Report did not specifically include a review or assessment of the procedures or approach undertaken by the Ombudsman that resulted in the related recommendations.

The Ombudsman's Report included 10 overall findings and a total of 27 total recommendations. The recommendations were grouped for BCLC and GPEB into the following categories:

Entity	Recommendation Category	Number of Recommendations
BCLC	Collection of information and data	3
BCLC	Validation process	7
BCLC	Compliance / enforcement	7
BCLC	Complaints process	1
BCLC	General	2
BCLC	Addressing past deficiencies	3
GPEB	Monitoring BCLC prize payout procedures	2
GPEB	GPEB's December 2006 Investigation of BCLC's prize payout procedures	2
Total		27

*BC Ombudsman's Report, Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process*

When the Ombudsman's Report was released on May 29, 2007, the Minister announced that Government was accepting and implementing all 27 recommendations. Both BCLC and GPEB have dedicated significant time and resources formulating action plans and have made changes to meet the recommendations. We reviewed the initial status of these action plans and changes for both BCLC and GPEB as at June 26, 2007 and June 29, 2007, respectively. We noted that both organizations have made this a top priority and demonstrated a strong commitment to make the necessary changes to address the recommendations. The results of our review in June 2007, along with the specific findings and recommendations of the Ombudsman and the initial responses by both BCLC and GPEB, are included in Appendix A.

BCLC and GPEB also provided their first public updates on the status of their action plans and changes made to address the recommendations in the Ombudsman's Report on September 12, 2007. Copies of these reports are included in Appendices B and C. We believe, based on update meetings with both BCLC and GPEB after the release of their public reports, that addressing the recommendations in the Ombudsman's Report remains a priority and good progress has been made towards the implementation of the recommendations over the next two years.

BCLC is working with a third party to conduct a review of its lottery business processes, in order to identify, develop, and implement process and technology improvement opportunities. BCLC initiated the review prior to the release of the Ombudsman's Report, although many of the process areas in scope are also covered by the Player First Program. As a result, many of the actions from the review relate directly to how BCLC intends to implement the Ombudsman's recommendations.

The review included:

- The mapping of business processes;
- The identification of opportunities to improve process efficiency or to increase the level of control over each process;
- The investigation of technology improvement opportunities;
- The creation of key performance indicators for each business process reviewed; and
- The clarification of accountability and responsibility for each process area.

A report is scheduled to be released on or around October 31, 2007 and is expected to include detailed and specific recommendations on how BCLC can increase operational efficiencies while at the same time mitigating risks. Based on our discussions with this third party, we do not anticipate any conflicts between their recommendations and ours in this report. We expect that this third party report will assist BCLC in addressing the Ombudsman's recommendations.

### **Practicality of Recommendations**

In reviewing the status of the recommendations since the Ombudsman's Report, we have noted that there has been a shift in the level of responsibility BCLC has towards the player. BCLC now takes greater responsibility for the safety and well-being of players, which in turn has introduced additional costs for the new changes and initiatives in its lottery operations and regulation of those operations by GPEB. In some cases, BCLC has introduced initiatives and action plans that exceed the recommendations of the Ombudsman and provide additional player protection, at an additional cost to the organization. Examples of this include the introduction of duplicate retailer validation slips, introduction of more user friendly player validation slips, and the modification of tickets to remove certain information to enhance security investigations. We note that with the increased sensitivities and various reviews and publicity around retailer fraud in recent months, the threshold for acceptable risk within the industry has been lowered significantly. There needs to be a balance between the cost of implementing fraud controls and the level of fraud in the system. The overall risk tolerance policy for BCLC is discussed in more detail later in this report.

We are aware that BCLC is reviewing the cost/benefit of some of the initiatives and action plans being formulated to address the outstanding Ombudsman's recommendations, including the following areas:

- The requirement for all Retailers to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize (Ombudsman recommendation number 2);
- The requirement for BCLC to pursue the development of technological security enhancements that will suspend sales at a retailer location if CAT terminals, PDUs, speakers or any other devices designed to alert players of wins are disabled (Ombudsman recommendation number 4); and
- The requirement for BCLC to develop a system where individual scratch-and-win tickets are recorded in the system when sold to players (Ombudsman recommendation number 10).

We understand that the swipe card system is the most challenging of the initiatives for BCLC and it is discussed in more detail below. As for the other initiatives outlined above, and in general, we recommend that BCLC continue to assess the cost/benefit of its programs and processes to ensure player protection is appropriately addressed, balancing this protection of the public interest with the generation of net income distributed to the Government for charitable, health care, education and other social programs. We suggest that consideration be given to reviewing and clearly defining and communicating the overall risk tolerance for fraud in the Retail Lottery System. This risk tolerance can be used as a basis for decision-making on the costs and benefits of future investments in fraud protection and detection measures. The communication of this risk tolerance, along with details of BCLC's decisions and related evaluation criteria for fraud measures, should help to ensure the transparency of the overall process.

### **Universal Player Card System**

In response to the Ombudsman's Report, BCLC is assessing the feasibility of a universal player card (swipe card) system for Retailers and potentially other players. The swipe card system would be designed to track Retailer rates of play and win and would require the Retailer to use a swipe card before all purchases of lottery tickets in order to collect prizes. BCLC currently intends this to be mandatory for Retailers and optional for other players. While the swipe card system can provide better tracking of lottery sales and payout pattern, it also has its drawbacks. It is difficult to enforce, expensive to implement and there are also concerns about player privacy. Other jurisdictions interviewed noted a number of potential risk and challenges from their experiences and investigations, including adoption issues, cost-benefit challenges, and the legal risk relating to incenting players to gamble through card marketing techniques. Such a system may enhance the ability of BCLC to track Retailer play and wins; however, it would be very easy for Retailers who wished to avoid detection to devise a scheme around the card. For example, simply not using the card and having friends or family members collect on the winning tickets. The costs and benefits of a swipe card for Retailers is not known by BCLC at this time.

Norway is an early adopter of the integration of technology and lotteries. The Norwegian National Lottery was the world's first lottery organization to implement a player card smartcard system allowing players to buy online lottery tickets, place bets and receive winnings beginning in 2001. The drivers to move to this technology (the BuyPass system) were more related to the desire to create a national e-commerce platform, rather than to address potential retailer fraud, however there appears to be some validity from this perspective as well. Although it is recognized that the socio-political and legal environment in Canada is not directly comparable, BCLC should consider reviewing the Norway experience as part of the feasibility study to ensure all potential risks and benefits of implementing such a system are considered.

## Forensic Testing and Observations

We performed various forensic tests both electronically and manually in order to assess and determine the nature and scope of any Retailer fraud and to highlight anomalous relationships and transactions with Retailers across the various data sources obtained from BCLC. Our testing did not necessarily indicate the existence of fraud, as the existence of fraud is a matter of determination by the courts; however, our testing did result in several observations and recommendations.

### Transaction Masterfile Testing

Deloitte completed several specific electronic analytical tests on the information included in the TM data from BCLC. The results of these tests not only directed a portion of the manual forensic review, but were also used to select the Retailers that were interviewed. The nature and purpose of the tests completed on the TM data are included in Appendix E.

We selected a total sample of 80 transactions that were identified through the various TM data tests and had BCLC conduct the relevant research into these transactions and provide us with any available and relevant supporting documentation. As a result of these tests and the sample reviewed, we noted the following observations:

- BCLC does not typically run similar analytical tests on the TM data and across all of the games. The only exception is the Watchdog System, which alerts BCLC staff to multiple validation attempts on scratch-and-win tickets (this is discussed in more detail in a later section);
- BCLC could not provide explanations for some of the unusual transactions or patterns included in some of the samples provided as the ticket transactions did not always follow regular or known patterns or behaviours by players around ticket validations. It is also more difficult to analyze and review some of these transactions that may be several months old;
- BCLC provided explanations for certain ticket transactions and patterns that appeared reasonable based on the activities noted, but this could not always be substantiated or corroborated with supporting documentation;
- BCLC explained that since multiple validations on CAT terminals do not directly involve the Retailer and are common among players, they do not consider this to be unusual behaviour and did not provide any further review or explanation. We agree that CAT transactions pose less risk than the validations on retailer terminals, but recommend that these be monitored and tracked as part of the new proposed system; and
- Four of the samples selected for the same Retailer during a finite period of time are being investigated further by BCLC security in order to determine if there are any Retailer improprieties associated with these transactions. This demonstrates the importance of this analysis for ongoing monitoring of unusual transactions or patterns.

We have provided the results of all of the TM tests to BCLC, in addition to the 80 samples selected, so BCLC could perform further review and analysis of the transactions identified.

### Retailer Win Testing

Deloitte completed additional data analytics that compared the Prize Payout Database to the Retailer Masterfile database and the Retailer Training database in order to determine if there were any Retailer winners that were either not previously identified by BCLC as part of the FOI Request or not included in the Ombudsman's Report. Four separate tests compared various aspects and combinations of Retailers' names and addresses to the names and addresses included on prize payout cheques processed through the BCLC Offices. These tests also checked to see if persons residing at the same address as a Retailer were claiming prizes. In addition, the tests only identified exceptions during the period that the individual was an actual Retailer based on the information included in the Retailer Masterfile database.

The inherent limitation of these tests was that only a small proportion of the total winning tickets were processed through the BCLC Offices due to the vast number of prizes that were within the thresholds that Retailers can process and payout directly (the BCLC Offices processed less than 1% of total tickets and less than 23% of total prize money in Fiscal 2006 according to BCLC) and the Retailer Masterfile database is incomplete. However, 21 exceptions were noted during the period from January 1, 2000 to October 26, 2006 that can be grouped into the following three categories:



- Seven Retailer wins (including one Retailer who won three times) of \$10,000 and greater where the Retailer did not self-disclose they were a Retailer during their prize claim interviews so it was marked “No” on the interview form;
- One retail win of \$10,000 in which the Retailer self-disclosed that he was a Retailer during the prize claim interview after answering no to the question “are you in any way connected to BCLC?” on the interview form; and
- 13 retail wins of \$10,000 and greater in which the Retailer self-disclosed that they were Retailers by answering “Yes” on the interview form to the question on whether or not they were a Retailer, but BCLC did not properly identify and include the prize payout information in the FOI Request or to the Ombudsman. We understand that this was due to human error where, as part of the FOI request and the Ombudsman’s review, BCLC manually searched through all of the prize payout files during the periods identified and pulled the files where the claimants answered “Yes” on the interview form to the question on whether or not they were a Retailer. One of these exceptions was a single win by a retailer employee for \$675,000.

These exceptions would have resulted in the identification of four additional multiple Retailer winners by the Ombudsman. The Ombudsman’s Report included a listing of 21 lottery Retailers who won lottery prizes of \$10,000 or greater on more than one occasion during the period from January 1, 2000 to October 26, 2006. We reviewed the prize payout files for the above noted exceptions and nothing came to our attention to make us believe that the rightful owner of the ticket was not paid the prize. We did not interview any of these Retailers. A detailed listing of the exceptions is included in Appendix F.

During our review of the information assembled by BCLC for the FOI Request, we noted one instance where a Retailer who had won lottery prizes of \$10,000 or greater on more than one occasion (i.e. a multiple winner) was not included in the 21 multiple retailer winners included in the Ombudsman’s Report. This exception, combined with the four above, would have resulted in a total of five additional multiple Retailer winners, as defined and reported by the Ombudsman.

BCLC now has a database in place that is used to record and track all Retailer wins over \$1,000 as Retailers now have to redeem any prizes greater than \$999.99 at one of the BCLC Offices. This database, in addition to surveys commissioned with third parties on Retailer play, will form part of BCLC’s reporting on the rate of insider play and wins as recommended by the Ombudsman.

### **Employee Win Testing**

Deloitte also completed tests that compared the Prize Payout Database to the BCLC employee listing as at September 5, 2007 in order to determine if there were any wins greater than \$10,000 by any BCLC employees. Two separate tests compared various aspects and combinations of employee’s names and addresses to the names and addresses included on prize payout cheques processed through the BCLC Offices. These tests only identified exceptions during the period that the individual was an employee of BCLC. The inherent limitation of these tests was that only a small proportion of the total winning tickets were processed through the BCLC Offices due to the vast number of prizes that were within the thresholds that Retailers can process and payout directly (the BCLC Offices processed less than 1% of total tickets and less than 23% of total prize money in Fiscal 2006 according to BCLC). The tests only resulted in two valid instances where BCLC employees won more than \$10,000. In each case the amount was less than \$20,000 and both individuals self disclosed that they were BCLC employees. We reviewed the prize payout files for these two employees and nothing came to our attention to make us believe that the rightful owners of the tickets were not paid their prize.

### **Other Forensic Testing**

The other forensic review procedures completed as part of this report included the following:

- Reviewed specific policies and procedures for prize validation, Section 86 reporting, and Retailer discipline, along with recent changes;
- Reviewed a sample of 64 prize payout files identified during our Retailer and employee win testing;



- Reviewed a sample of 50 consumer service phone logs based on key word and call category searches;
- Reviewed a sample of 25 security investigation files based on key word searches;
- Reviewed a sample of 30 Section 86 reports from BCLC to GPEB based on key word searches;
- Reviewed a sample of 20 "On Hold" files;
- Reviewed a sample of 25 alerts from the RoboCentral system and the related customer call logs;
- Reviewed and tested five incidents included in the 2007 Retailer discipline report updated to September 8, 2007;
- Attended ten Retailer interviews in part based on the TM data test results;
- Conducted ten Retailer site visits/"spot checks;"
- Attended five prize payout interviews and reviewed related documentation; and
- Reviewed 20 prize payout files identified during our testing of the revised prize payout procedures.

Through the above testing, certain observations and recommendations have been identified that are detailed below and later in this report.

### Other Findings

#### Detection and Investigation of Irregular Transactions and Activities

As a result of our forensic testing, we noted that the current computer systems in place at BCLC to monitor and detect suspicious transactions and activities are limited.

BCLC currently has a system called Watchdog, which is an automated gaming system software used by BCLC to detect irregular patterns at Retailers such as high sales volumes by game and system/terminal change attempts. Watchdog also has preventive system controls such as automatic retailer terminal shutdown, which occurs automatically when sales go over a certain dollar limit (e.g. Sports Action). In addition, a separate RoboCentral system, which is often referred to as part of the Watchdog system, is in place to detect multiple validation attempts by Retailers on scratch-and-win tickets (no other games are included). As the Ombudsman reported, BCLC has historically used the Watchdog/RoboCentral systems to monitor lottery sales and not to necessarily detect, monitor and follow up unusual Retailer transactions or anomalies. BCLC has indicated that Watchdog was not designed with the intent of uncovering Retailer fraud, and as such, any success in identifying this type of incident is more of a by-product rather than an intentional attempt by BCLC. However, since the Ombudsman's Report, BCLC has made the following changes to how it uses Watchdog to monitor Retailer transactions, and more specifically multiple validation attempts on the same scratch-and-win tickets:

- Alerts continue to go to the CSC when any validation attempt on the same scratch-and-win ticket on the same terminal occurs three or more times, but more diligence is in place to follow up the alerts; and
- Any alerts that are received by the CSC after regular business hours are now summarized in a report provided to security the following morning that includes the number of invalid validations, total validations and the percentage of invalid validations by terminal number and Retailer name. To be included in the report, we understand that the terminal must have at least five invalid validations for that day.

During our Retailer visits, we heard consistent comments from Retailers that they had seen a noticeable change in the response time of BCLC contacting the retail location upon multiple unsuccessful validation attempts of scratch-and-win tickets. Almost all Retailers who commented about scratch-and-win ticket validation errors noted that they received phone calls from BCLC querying about the validation activity within minutes of the attempt on the lottery terminal and often

while the player was still present at the retail location. However, our testing identified the following limitations with the RoboCentral alerts and how they are handled and followed up by BCLC:

- RoboCentral only tracks multiple validation attempts on scratch-and-win tickets. Our testing on the sample TM data set across all of the games, indicated that there are multiple validation attempts on other tickets for other games that are not being identified by the system;
- RoboCentral only tracks multiple scratch-and-win ticket validations by Retailer and not by ticket number. Our testing on the sample of TM data indicated that some tickets are validated, but not paid out, multiple times across several different Retailers;
- Our testing indicated that investigation, follow-up and tracking of the RoboCentral alerts is at the discretion of the CSC and is inconsistent in that some alerts do not result in incidents being appropriately escalated to security. In two alerts tested, there is no documentation available to indicate that these alerts were followed up at all; and
- The daily multiple validation report provided to security does not include the time of day, product codes or the win amount which would be useful information to include in the report. There is no confirmation within the report to indicate that all alerts have been reviewed or followed up by security. We understand that the Lottery Security Manager reviews all items in the report and verifies whether the transactions were valid or not or seem suspicious. If the incident appears to be valid then nothing is done, otherwise a security investigation is opened and an IRIMS report is created.

Although TM data is tracked and backed up on a daily basis, there is no other monitoring or trending/profiling for Retailer activity or patterns. The performance of our data analytics procedures has indicated that there would be significant value for BCLC in having an overall fraud detection and monitoring system that could assist in the following:

- Development of queries to run across the entire population of transactions allowing for the highlighting of previously unidentified or unknown anomalous relationships between Retailers and winners; and
- Development of a methodical approach across the multiple data bases and electronic information sources that would help to identify trends or profiles of Retailers and transactions that would necessitate further follow up and transactional review.

BCLC is aware of the current deficiencies in its systems around the monitoring and detecting of suspicious activities and transactions and has engaged an outside consultant to assist in the design and implementation of an enterprise-wide fraud detection system. We recommend that the following items be considered as part of this new system:

- In advance of the selection or implementation of such a system, define requirements and scripts that will support a methodical approach to producing reports across multiple information sources to highlight anomalous activities;
- Ensure that the BCLC security group is tasked with performing and documenting consistent and regular follow up procedures in response to anomalous activity. BCLC would benefit from creating and maintaining a repository of common and known transaction profiles to aid in their fraud detection process; and
- Consider the establishment of a loss prevention function similar to that found in other retail industries. The loss prevention function could be responsible for proactively identifying potential fraudulent schemes, identifying ways to detect and respond to fraudulent schemes, correlating information across BCLC's various data sources, conducting and preparing trend analysis and reviewing practices from other jurisdictions and industries.

## Operation and Regulation of Lottery Gaming In BC

### Overview

Lottery gaming in BC is statutorily organized by the Criminal Code and the GCA. Under the direction of the Minister, GPEB regulates lottery gaming and BCLC is the agent of the Government mandated to conduct and manage lottery schemes.

It is notable that BC has enhanced the independence of gaming oversight by choosing separate entities for regulation and operation of lottery gaming. This is in contrast to certain other lottery jurisdictions, where historically gaming operation and regulation was conducted in a single entity.

### Reporting Responsibilities

As gaming is a controversial area, Government should ensure that its activities do not result in any perceived or actual conflict of interest. With the existing structure wherein GPEB and BCLC report to the same Minister, there is a potential for an actual or perceived conflict of interest as the accountabilities and responsibilities for policy and the distribution of the proceeds of gaming rest with the same organizational units as those responsible for enforcement and audit. There also may be situations where the Minister has to make decisions that do not align with or are not favourable to both the operator and regulator and, in some cases, both organizations may not get an equal say on issues. The current reporting structure for BCLC and GPEB is also not consistent with other crown corporations like BC Hydro or the Insurance Corporation of British Columbia who each report to a minister that is different from the minister responsible for their respective regulators. However, the existing common and streamlined reporting structure for GPEB and BCLC can create benefits such as more efficient and effective communications dealing with gaming related issues and the overall oversight of the gaming industry.

We recommend that the Government review the current structure, accountabilities and responsibilities for gaming in the Province to ensure that the potential for an actual or perceived conflict of interest is minimized.

### Understanding of Responsibilities

During our review we noted that there does not appear to be a cohesive understanding regarding the roles, responsibilities and accountabilities of the operators and regulator within BC.

The GCA and supporting regulations, directives and standards provide some guidance to GPEB and BCLC. The current legislative authority for gaming in BC is relatively new (approximately five years old), with the GCA having been passed into legislation in 2002. Specific regulations, directives and standards have since been introduced to further clarify aspects of gaming regulation and the related responsibilities of BCLC and GPEB as specific issues have arisen. However, it appears that room for interpretation remains in certain areas. For example, the GCA defines the authority and responsibility of GPEB to conduct investigations for enforcement purposes. However, there seems to be a difference of interpretation regarding the authority and responsibility of BCLC corporate investigators in relation to the GPEB investigators. Also, the extent of GPEB's authority to access BCLC information for investigation purposes does not seem to be commonly agreed upon between the organizations.

During our testing, we reviewed a sample of 30 Section 86 reports and noted that both GPEB and BCLC had completed full investigations on 12 of these reports. BCLC has indicated that they often need to perform some investigative procedures in order to understand and assess the nature of a claim to determine if it is a Section 86 item. We also noted that the division of the responsibilities and accountabilities of Retailers, BCLC, and GPEB, and the legislative authority for recent procedural changes are not clearly documented in the current legal and regulatory framework.

We recommend that the roles and responsibilities of each of the operators (BCLC, Retailers and suppliers), regulator (GPEB) and the player be clearly defined and communicated to all relevant stakeholders. We believe that clarification may need to be made to both the governing legislation and supporting regulatory directives and standards.

### Relationship and Communication Between BCLC, GPEB and the Ministry

We understand that the relationship between BCLC, GPEB and the Ministry has been strained from time to time, primarily due to the lack of clarity as to the responsibilities and accountabilities of each organization. This lack of clarity has led to communication gaps between the parties; the lack of effective inclusion of the government or regulator early in operational decisions; the perceived

intrusion of one party into another's authority or operations; or simply a natural tension between legislator, regulator and operators.

To address some of these issues, BCLC has recently established a new executive management position within the organization responsible for government relations. A key responsibility of the role is to facilitate communication between BCLC and the Government. GPEB has also recently created a new position of Senior Coordinator Strategic Initiatives. As part of this role, the appointed individual acts as the liaison between GPEB, BCLC and other external organizations. These changes should help to improve the relationships between the organizations. In addition, the following recommendations should also help to foster stronger relationships:

- We recommend that consideration be given to establishing a regular schedule of executive meetings between GPEB and BCLC to enhance the level of co-operation and co-ordination between the organizations, while at the same time maintaining GPEB's independence; and
- We recommend that GPEB establish a three to five year comprehensive audit plan that would cover all aspects of BCLC's operations. We recommend that the high level details of the plan be discussed and shared with BCLC as this should enhance the level of co-operation and assistance GPEB would receive from BCLC when they conduct their independent reviews and assessments.

While the above recommendations are intended to enhance the flow of communications between BCLC and GPEB, we recognize the need for the regulator to maintain its independence from the operator.

### **Risk Management**

Successful organizations have the ability to identify, measure, mitigate and monitor risks to an acceptable level of tolerance. One of the most important aspects of this is the ability to define and communicate the organization's tolerance for risk. An explicit definition of tolerance for risk provides a framework for decisions about the costs and benefits of measures to put in place to manage the risks.

During our review we noted that GPEB does not currently have an ongoing risk identification process and BCLC has only recently operationalized such a process. Neither of these organizations has explicitly defined their tolerance for risk.

We recommend that formal, sustainable risk management processes be implemented at GPEB and that both BCLC and GPEB define their tolerance for risk accordingly. As the regulator, GPEB has a broad outlook and is in a position to assess the overall risks attached to gaming regulation in the Province, including the Retail Lottery System. BCLC in turn will consider the risks of fulfilling its mandate as the operator. We recommend that BCLC and GPEB align their risk management programs and discuss the collective risks facing the gaming industry, and their collective tolerance for each risk. Each organization can make recommendations to Government, through the Minister, regarding strategies to manage and mitigate risks that exceed acceptable tolerances.

Specific comments on the risk management programs of each organization are included elsewhere in this report.

### **Player Protection and Shared Responsibility**

The Ombudsman stated in her report that "while we agree that it is important for players to understand the actions that they can take to protect themselves, the onus is on BCLC, not on the player to ensure that the processes put in place by BCLC are fair and work for everyone."<sup>11</sup> We believe that, since the Ombudsman's Report, BCLC has taken on the onus to put processes in place to help protect players as demonstrated through their immediate response to the Ombudsman's recommendations and their actions and initiatives undertaken through the Player First Program, Play with Confidence campaign and other initiatives. BCLC has also just created a new position in the organization titled Executive Director, Player Relations. The individual hired for this position will have overall responsibility for the coordination of all player protection/advocacy initiatives and issues across the organization and will report directly to the CEO. BCLC has begun the recruiting process for this

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<sup>11</sup> BC Ombudsman's Report, Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process, page 29.

position and expects to have an individual in place by the end of November 2007. We support the creation of this new position as it should allow BCLC to better coordinate its efforts around player protection and ensure that players' interests are represented directly at the executive level within BCLC.

There has been a significant volume of media and marketing attention directed towards player protection and investments have been made by BCLC to implement new policies, procedures, equipment and technology. While investment in player education and player protection is of course a valuable initiative, a variable that is not directly within the control of BCLC is whether the player decides to heed the warnings and education activity underway and there remains a risk that the player will not take the appropriate steps to protect themselves. This could be because they believe the responsibility to protect the player is solely that of BCLC or perhaps they are inadvertently treating the risk of Retailer fraud as just another variable in the gamble they are undertaking. Regardless of the rationale, we believe it is critical that the player take sufficient responsibility for their tickets and become an active participant in the prevention and detection of lottery fraud.

While the nature of fraud is such that it may involve sophisticated and carefully organized schemes or collusion, it can become cost prohibitive for BCLC to attempt to completely eliminate the risk of fraud. Fraud can never be eliminated, but the occurrence of fraud should be effectively managed within the context of the risk framework discussed elsewhere in this report.

### **Post Registration Follow Up**

Since the middle of 2007, Retailer employees with oversight responsibilities are to be registered by GPEB. This includes approximately 4,300 existing retailer locations (approximately 8,000 individuals). If there are grounds for refusal, registration licenses for existing Retailers are revoked. GPEB and BCLC have established a process whereby BCLC will be provided written notification of any lottery retailer whose personnel are found unsuitable for registration, or where registration of an individual has been cancelled. Once BCLC is informed of a Retailer's registration being revoked by GPEB, it is BCLC's responsibility to ensure that the Retailer does not continue to conduct any lottery business. Currently, there is no defined monitoring process to confirm that such Retailers are prevented from conducting lottery business activities after notification has occurred. We understand that as of September 14, 2007, none of the 146 retailer locations applying for registration had been denied. However, a monitoring or audit process by GPEB should be in place in case this situation occurs in the future.

## **BCLC**

### **Governance, Structure and Management**

#### **Board of Directors and Audit Committee**

BCLC has an independent Board and Audit Committee in place. Through our meetings with the Board and Audit Committee, it appears that both groups are engaged in the business of BCLC. The Board has demonstrated its commitment to making the necessary changes in the organization through its positive response to the Ombudsman's Report and its approval of BCLC's significant investment in the Player First Program. The composition of the BCLC Board will change as some of the appointment terms come to an end.

We recommend that BCLC update the skills matrix in place for its Board to include a skill of "social responsibility" which would cover the social issues related to gaming as well as overall player protection. As an alternative, a separate committee of the Board could be formed to deal specifically with social responsibility issues.

#### **Leadership**

Following the Ombudsman's Report, the BCLC CEO was terminated. Ms. Dana Hayden was appointed as the Interim CEO and has been acting in this role since June 8, 2007. The Board of BCLC has embarked on a search for a permanent CEO and has retained an external search firm to assist with this search.

Ms. Hayden, over the past few months, has gained a strong knowledge of the organization and its management team. She has been very involved with the rest of the executive team addressing the recommendations and changes requested by the Ombudsman and has taken a keen interest in understanding and participating in the Deloitte review.

#### **Ability to Sustain Change**

BCLC is undergoing a period of media attention and intense scrutiny. Significant changes are being made to the organizational structure, culture and direction. The threshold for risk tolerance and fraud is extremely low. Employee stress levels are high while morale is low within the organization. Despite this difficult environment BCLC finds itself in, we found the people across the organization were open and embracing of change.

Our concern lies not in their desire to react quickly to address control deficiencies but in the ability to sustain the implementation of the changes over the longer term. Until the position of a permanent CEO is filled, there will continue to be uncertainty as to the longer term identity and direction of the organization.

Consideration should be given to appointing a permanent CEO as soon as is practical to reduce uncertainty as to the future direction and leadership of the organization and focusing attention on improving employee morale and engagement through, amongst other aspects, effective communication of the strategic direction of the organization.

#### **Commitment and Collaboration**

The team at BCLC is a committed, skilled and competent team. They are proud of their achievements to date and do have the public interests front and centre in mind.

We noted a culture of collaboration and knowledge sharing between BCLC and the other lottery jurisdictions, aided by BCLC participation in bodies such as the ILC and the WLA. BCLC has also established relationships with lottery corporations from other countries as a means to gain an international perspective on leading practices.

BCLC and the Government have accepted all of the recommendations from the Ombudsman's Report and have progressed well down the path of implementing them. The BCLC team appears to be fully committed to take steps to enhance player protection and restore public confidence in the Retail Lottery System.

#### **Integrity and Structure**

The BCLC management team is a strong team and integrity is recognized as an operating imperative. BCLC has developed an enhanced standard of ethical business conduct for formal acknowledgement by all employees, independent contractors and consultants. The standard includes standards for ethical conduct, conflict of interest, restrictions of employee participation in gaming activities, and



confidentiality. At the time of our review, the revised standard was pending final review and approval by the Board, before being implemented across the organization.

We note that the current structure of the management team can be augmented with a few additional key roles and these are outlined in our recommendations.

### **Risk Management**

BCLC has an enterprise risk management process in place to identify and consider the implications of relevant risks. Key elements of the ERM process include an executive sponsor, an ERM Manager and an ERM Management Advisory Committee including cross-functional operational representation to oversee the risk management process and provide updates to Executive Management, the Board and Audit Committee. The ERM process is an important component of the overall control framework at BCLC.

We recommend that BCLC continue to evolve their current enterprise risk management efforts into a repeatable, sustainable risk management program. Further, we recommend that consideration be given to the following specific areas:

#### *Risk Tolerance*

Until recently, there has been no clear definition and communication of risk tolerance or threshold to BCLC on the part of the Government, regulator or the player. The mandate provided to BCLC has been one of revenue growth in the past, but limited direction as to the expected level of player satisfaction or fraud tolerance. One of the results of the BC Ombudsman Report has been to shift the level of responsibility BCLC has towards the player. BCLC now takes greater responsibility for the safety and well-being of players, which in turn introduces additional cost. Examples of new costs include the implementation of new technologies at the point of sale; programs to register, train, and educate Retailers; and enhanced monitoring of Retailer win rates.

Due to the various reviews and publicity around retailer fraud in recent months, the implicit threshold for acceptable risk within the industry has been lowered significantly. There is a risk that the cost of implementing fraud controls may exceed the level of fraud in the system, penalizing the players (as a result of a reduced winnings pool and more lengthy and onerous prize claim procedures) and the taxpayers and charitable beneficiaries of lottery revenues (as a result of reduced funds to distribute).

We recommend that BCLC define their tolerance for risk and such risk tolerances provide a framework for decisions about the costs and benefits of measures to put in place to manage the risks.

As described above under the heading "Operation and Regulation of Lottery Gaming in BC," we recommend that BCLC and GPEB align their risk management programs and discuss the collective risks facing the Retail Lottery System, and their collective tolerance for each risk.

#### *Key Risk Indicators*

Performance metrics in relation to lottery revenue and sales are well developed and used extensively in business decision-making. However, historically metrics for other areas of the lotteries business that might be predictive of changes in the risk profile of the organization had not been defined. We note that as part of the Player First Program, BCLC is working on tracking and publicly reporting on a number of new metrics that have relevance to player protection. Examples of new metrics include statistics related to Retailer non-compliance, Retailer progressive discipline and customer complaint tracking.

We recommend that BCLC formally define and implement organizational KRIs for its lottery operations which can help to predict changes in the risk profile of its operations or those of the Retail Lottery System. These KRIs can be used to monitor operations and to provide early warning signals by highlighting changes in the control environment, and potential exposures, before they crystallize and result in actual loss.

### *Monitoring*

BCLC have an internal audit function whose mandate is to bring a structured approach to evaluate and improve the effectiveness of risk management, control, and governance processes in support of corporate objectives.

We recommend that consideration be given to adding resources to the internal audit and risk management function in our recommendations below.

### **Chief Compliance Officer Role**

BCLC is in a regulated industry and one where public confidence is critical to its long term survival and success. It is considered good practice for regulated corporations to have a CCO or a Regulatory Affairs Officer. Within BCLC, current responsibility for regulatory compliance is distributed amongst a number of functions.

We recommend that BCLC consider the benefits of augmenting its existing team with a CCO position or similar position. The CCO should have overall responsibility for management of regulatory compliance at BCLC. Other business units should be accountable to the CCO in relation to compliance matters including integrating ethics, whistleblower program, FOI compliance, privacy, etc.

### **Internal Audit Resources**

The internal audit department at BCLC provides an important monitoring mechanism for the system of internal control. The ability of the internal audit function to provide adequate coverage in its monitoring activities is limited by the available resources.

Consideration should be given to adding resources to the BCLC internal audit function, based on comparisons to internal audit functions of other gaming jurisdictions in Canada, and other organizations of comparable size beyond the gaming industry.

### **Executive Incentive Plan**

The incentive compensation plan for executives has been overly focused on earnings and not on player protection. The current plan includes the following breakdown: 50% personal, 40% financial, 5% player satisfaction, and 5% public perception.

We recommend the incentive program for the BCLC executives be re-evaluated to create a set of performance measures that include greater weighting on player protection. Currently the performance measures for player protection constitute a small fraction of the total set of measures used.

### **Policies and Procedures**

Management has not yet completed a defined process to manage the creation, approval, and release of policies and procedures. We identified instances of policies that are out-of-date or in draft format, including the policies governing prize payout. As part of the response by BCLC to the Ombudsman report, several policies and procedures have been revised or are currently under review. However, the review does not cover the whole portfolio of policies and procedures at BCLC.

We understand that BCLC is in the process of drafting a company-wide policy framework as well as a Lottery Business Unit policy framework which will include a program to update all current policies and procedures and develop a manual. We recommend that BCLC management continue with this initiative and implement a defined process to manage policies and procedures. The process should cover the creation, approval, and release of policies and procedures and be consistently applied. We also recommend management work with lottery corporations from other jurisdictions in relation to policy and procedure management. Our cross-jurisdictional review found other jurisdictions have mature processes to manage policies and procedures, which BCLC may be able to borrow from or adopt.



## Prize Claims

### Overview

Prize Claims refers to the processes and activities operated by BCLC designed to ensure that BCLC has the necessary policies and procedures to enable players to validate tickets and claim prizes in a fair and efficient manner.

Players can check for winning numbers via multiple channels including the BCLC web site, Luck magazines and CAT terminals at retailer locations. Depending on the prize amount, players can claim prizes at Retailers, via mail subscription, at the BCLC Prize Payout office in either Kamloops or Richmond, or at designated RPPCs at selected casinos. BCLC follows specific procedures to validate the legitimacy of each prize claim.

### Current and Planned Initiatives

The prize validation and payout activities of BCLC received significant focus in the Ombudsman's review. In response, BCLC has initiated its Player First Program to enhance player protection. As described in other sections of this report, we noted that good progress has been made in implementing enhancements to the Retail Lottery System and there is strong commitment from BCLC management to implement the recommendations of the Ombudsman. BCLC has also identified and is working on additional planned protection measures over and above the recommendations of the Ombudsman. For example, for validation of prizes greater than \$10,000, the lottery terminal will be frozen until unlocked by BCLC.

Examples of initiatives that have been implemented include:

- A "No Play at Work" policy and directives to all lottery Retailers;
- A new lottery Retailer code of conduct;
- Increased security to all lottery retailer terminals, PDUs and CAT terminals;
- Improved wording and layout of prize validation slips as well as information displayed on PDUs;
- Enhanced Retailer training program to include classroom training at the BCLC Offices, regional training, sales representative on-site instruction, or a training DVD, along with a complete web-based training and certification program; and
- Enhanced Mystery Shopper Program to audit Retailers' compliance with new policies and procedures.

We support the implementation of these new controls, which have considerably enhanced the control practices for the validation and payout of prizes. Below we have included commentary and recommendations for consideration for some aspects of the prize claim processes.

### Other Findings

#### Ticket Validation Policy

In response to one of the Ombudsman's recommendations, BCLC recently implemented a revised validation procedure and winning tickets are now stamped and returned to players. Previously only non-winning tickets were returned and Retailers were required to destroy winning tickets. A factor, in addition to the Ombudsman's recommendation, for BCLC moving away from the "cash and trash" policy was that the validation slip provided to the player did not have the selections for the game being played on the slip. Recent improvements to the validation slip now provide the number of the original ticket. This "cash and trash" practice is widely adopted in many jurisdictions in North America.

While we recognize BCLC's new policy has benefits related to player protection and investigations of complaints, it also introduces new risks. For example, there is a risk of winning tickets that are not stamped as paid as required by the Retailer being validated a second time, leading to confusion and additional follow up and investigation time and resources. The new policy is dependent on education of all Retailers on the use of the stamps. Based on our discussions and observations during our visits of retailer locations it appears that this process is not being consistently followed. In one case, we noted that a prize was paid and the winning ticket was received back without it being stamped as paid.

We understand that this new validation procedure is supposed to be a temporary measure while other solutions are researched and considered by BCLC, including a self validation system that will eliminate the requirement for Retailers to handle tickets for validation purposes. In any event, we recommend that BCLC continue to review the other options and reinforce and monitor the Retailers' current requirements to stamp all winning tickets as paid and return them to players.

We also noted during our Retailer visits that only one out of the ten Retailers visited advised us to sign the back of the tickets. This is obviously a strong safeguard against the theft of a ticket and helps to identify a player as the rightful ticket holder. We know these instructions are included on the BCLC website and are a significant component of the "Play with Confidence" advertising and communication campaign, but recommend that this be part of the focus of the mystery shopper program.

### **Reduction of Prize Payout Limit and Additional Prize Payout Procedures**

In response to the Ombudsman's recommendation to obtain identification from all winners of \$1,000 and greater, which we understand BCLC thought would be onerous to enforce with Retailers, BCLC recently reduced the prize redemption limit for claims made at Retailers from a maximum of \$3,000 to less than \$1,000. As a result, winners must now claim prizes \$1,000 and greater from RPPCs or directly from BCLC. All Retailer winners must claim prizes \$1,000 and greater directly from BCLC. All players must claim prizes \$10,000 and greater from BCLC. All bonus and merchandise prizes must be claimed directly from BCLC.

Reduction of the prize payout limit provides the benefit of centralized control and additional validation rigour for larger prize payouts. On the other hand, it has had an impact on the experience and satisfaction of winning players. As a result of increased volumes and additional procedures undertaken at the central prize offices, this new procedure has caused increases in the time to complete the prize payout process. In addition, this practice may cause inconvenience to players who need to travel a fair distance to collect prizes. Higher volume Retailers noted that they have several winners a week of over \$1,000 prize amounts and commented that the requirement to have these customers attend at the BCLC Offices or RPPCs was being met with frustration by their customers. Several Retailers commented that a common practice with winning customers is to immediately purchase more lottery products with their winnings. According to these Retailers, the reduction of the prize payout limit has negatively impacted sales of lottery products. On the other hand, we also understand that a large number of lower volume Retailers do not often pay out prizes of \$1,000 and are only obligated under the LOAs to pay out prize amounts of up to \$200.

BCLC has increased resources and extended the prize payout hours to accommodate the increase in volumes and additional procedures implemented around prize payouts. However it seems wait times remain significant. Comments made by prize claimants during our attendance at the prize payout interviews along with our review of recent comment cards, suggests some general player dissatisfaction with the time and procedures involved in claiming a prize. The wait time for Retailer winners is generally even longer than for regular players as more strict procedures and guidelines are in place for Retailer winners of \$1,000 and higher.

The selection of an appropriate threshold beyond which Retailers are not permitted to redeem prizes involves balancing the protection of players and their satisfaction and enjoyment in winning a lottery prize. We understand that the \$1,000 threshold that requires claims to be made from the RPPCs or BCLC is a common practice in many jurisdictions and, as such, we are not recommending that BCLC change the threshold yet again. However, given the potential for detraction from the player experience, BCLC should continue to monitor the timeliness of the prize payout process and players' satisfaction. If required, review the level of resources and operating capacity allocated to prize payout activities, or if necessary revisit the payout thresholds.

### **Efficiency and Effectiveness of Prize Payout Process**

There are currently many procedures in place to ensure the integrity of the prize payout process. Like many controls, BCLC should consider the balance between effectiveness and efficiency.

Prize payout cheques, particularly those relating to Retailers, can take anything from a few days to three months to be processed. In addition, currently prize payout cheques for Retailer wins of \$1,000 and over must be reviewed and approved by all three of the following BCLC senior staff: Director of Corporate Security, Vice President of Lottery Gaming and the CEO. This review prolongs the process but does not appear to add much to the detection of Retailer impropriety. We recommend that BCLC

clearly define the signatories for Retailer prize payout cheques, their accountabilities and the dollar limit approval requirements.

Currently if an employee wins, he/she is supposed to volunteer this information during the prize claim process much like the Retailers should. However, prize claim staff does not verify by checking against the employee database. To be consistent with the treatment of other "insiders" such as Retailers, BCLC should consider running winner profiles against the employee database.

### **Separating the Operators from the Player**

Allowing Retailers to play is cited as a key factor in the perceived increase in retail fraud. A significant debate is in progress across the lottery industry as to who should be considered an 'insider', who should play and what rules should be enforced around their activity. OLG is considering restricting Retailers from playing at all. Should BCLC ban Retailers from playing? Should BCLC ban employees from playing as well? Restricting retailer activity will have a negative impact on revenue, particularly as statistics reveal that Retailers comprise a significant portion of lottery revenue. Preventing certain groups from playing may drive their activity "underground," reducing the ability of BCLC to prevent, detect or manage it. Regardless of the outcome of this debate, we believe any decisions taken should consider the trade-offs between reducing the risk of fraud and loss of revenue or player satisfaction.

### **On Hold Files**

BCLC can place tickets on hold for up to one year in the event that a ticket is lost or stolen or improperly validated by a Retailer. In these cases, the ticket is flagged in the system and not paid out until the appropriate amount of time elapses or the appropriate documentation is provided that ensures the holder of the winning ticket receives the correct prize.

During our review of the "On Hold" files, we noted that 16 out of 20 of the On Hold files were due to incorrect validation procedures by Retailers and that 13 of these files were on or after March 26, 2007. We understand from BCLC that a new prize confirmation validation slip was introduced on March 26, 2007 along with new validation procedures for prizes over \$200 that caused confusion for some Retailers who did not follow the process correctly. As a result, BCLC implemented a revised screen on the retailer terminals on August 27, 2007 that we understand has helped to reduce the number of incomplete and incorrect validations and resulting On Hold files. In any event, this demonstrates the need for BCLC to keep Retailers informed and trained on changes to procedures and more closely monitor Retailer activities. This could be accomplished through a more rigorous tracking and monitoring system as discussed earlier in the forensic testing section of this report.

### **Retailer Tracking**

One of the new procedures that BCLC has in place to identify Retailer winners is to compare the names of all prize winners of \$1,000 and greater to the three retailer databases (Retailer Masterfile database, Retailer Training database and prize payout database). We noted during our attendance at three Retailer prize payout interviews that all three individuals had to self identify that they were in fact Retailers as their names did not appear in any of the three retailer databases.

We understand that BCLC has undertaken several initiatives to try and create a more complete and centralized database of Retailers, including the following:

- Requesting information on Retailers and their employees directly from the Retailers to create Retailer listings and ensuring that any changes are properly communicated in the future;
- Having sales representatives check the Retailer listings at all future sales calls to ensure compliance and verify that all names are captured and updated in the Retailer Masterfile database;
- Populating the database with updated information as lottery Retailers are trained and certified; and
- Having security review the Retailer listings during site visits.

The updated information received from the Retailers is currently being tracked in a spreadsheet maintained by the sales department who has a dedicated person responsible for updating the information. We understand that prize payout staff also queries this spreadsheet as part of their review of winners and that software development is underway to build one comprehensive Retailer database that links and includes Retailer information from all available sources and databases.

Although we recognize that it will be challenging to keep the Retailer database accurate and complete due to the high number of Retailers and the frequent turnover of Retailers, this is obviously a key initiative that should have a direct impact on BCLC's ability to accurately track Retailers and their wins and provide the public with reliable quarterly updates. The accuracy and completeness of the database should be subject to separate audit by both BCLC and GPEB, in addition to the checks being completed by the BCLC sales representatives each time they visit a retailer location.

## Complaints and Investigations

### Overview

Complaints and investigations cover two discrete, but inter-linked processes. Complaints refer to the identification of, assessment of, management of, and response to complaints from players.

Investigations refer to the investigations performed by the BCLC security function in relation to claims of suspicious activity in the lotteries business. BCLC security is responsible for reporting to GPEB any alleged violations of the Criminal Code and GCA.

### Current and Planned Initiatives

Over the past six months the ability of BCLC to track and respond to player complaints has improved. BCLC has identified opportunities to enhance the effectiveness of the CSC and the related investigations. Specific improvements to-date include:

- Implementation of a new software solution (SDE) in April 2007 to log calls received by the CSC. The implementation was the culmination of a two year project to identify and implement an enhanced complaints system;
- Creation and release of new procedures for the CSC. The procedures include guidelines for operators relating to types of games, sales locations, BCLC's IT systems, telephone and email escalation procedures, security, advertising, website, and problem gambling;
- Calls are now tracked with more descriptive and relevant categories and the BCLC executive receive regular reporting relating to the CSC, which details the number and type of calls received;
- Appointment of a new Lottery Security Manager in June 2007 responsible for reviewing and approving all lottery investigations;
- Creation of new investigation procedures and related criteria, responsibilities and approvals for complaints investigations in July 2007; and
- Implementation of the new Retailer Progressive Discipline Policy in July 2007.

### Complaints Management Process

The improvement of the complaints management process is on-going and further improvements are still necessary. Currently the CSC operators receive all player calls and must decide whether the call constitutes a complaint or not. The operators have documented procedures on which to base their decisions; however, there is discretion involved which leaves it up to the call centre operators. Complaints relating to issues with game integrity or suspected criminal activity in gaming are to be referred to security. The security team then makes a decision as to whether the complaint meets the criteria for reporting to GPEB under Section 86 of the GCA.

During our review of a sample of 50 call logs based on "key word" searches and call log categories relating to potential Retailer impropriety, we noted that several calls were not appropriately escalated to security for further investigation. It appears that CSC operators are inconsistent in how they deal with incidents of a similar nature and there is discretion around deciding the seriousness or significance of Retailer offences dealing with validation violations and other matters. This discretion and inconsistency on the part of CSC operators dealing with the calls of potential Retailer impropriety or fraudulent activities has a direct impact on BCLC's compliance with the reporting of Section 86 matters to GPEB. In fact, we noted that some of the calls that were not escalated to security should in fact have also been reported to GPEB through a Section 86 report.

Our cross-jurisdictional review revealed that a different practice in this area allows callers to elect to designate their call as a complaint via the call centre system. Each complaint is then routed automatically to a security specialist, who can then discuss the case with the caller directly. This reduces the judgment required by CSC in evaluating the nature of a complaint and an additional benefit is that BCLC can use the call logs to track more precisely the number of complaints, and provide this information to GPEB as part of the regulatory reporting requirements. In other jurisdictions, the call centre security specialists have close working relationships with the security function and receive regular training on best practice in referring calls and capturing adequate detail in the call log. The creation of security specialists within BCLC's CSC would require a targeted training program and the establishment of close working relationships between the security specialists and the security department. Alternatively, BCLC could consider a system where more probing and relevant

questions are asked of callers in order to better understand the nature and underlying issues surrounding the complaint or enquiry. An outside consultant hired by BCLC is assisting in this area. We recommend BCLC consider revising the policies and procedures around its call centre and overall system. In the short term, BCLC should implement daily call sample reviews by CSC Team Leaders, regular audits, regular training of CSC staff by security and an overall policy framework with clear governance of what kinds of calls need to be escalated to security.

We noted the CSC is unable to track the status of customer complaints or queries once they have been referred to other departments (for example security, marketing, or sales). Where customers call back to enquire as to the status of their original complaint or query, the CSC Operator is often unable to provide a confirmation of status where the complaint or query has been referred. As a result, customers are not provided with an informed answer.

We recommend BCLC introduce new processes to track customer complaints or queries that have been referred to other departments outside of the CSC. The CSC Operators require timely updates from other departments to provide customers with accurate descriptions of their complaint or query status. The new Player Protection executive will have responsibility to monitor the effectiveness of the complaints management process at BCLC. We would also recommend that GPEB and BCLC audit the complaint database on a routine basis to ensure the proper handling of complaints.

### **Customer Support Centre – Call Monitoring**

CSC Team Leaders perform monitoring of customer calls as a quality assurance exercise. We understand that call monitoring became a formalized documented process beginning in June 2007. However, we noted during our testing of the months of June and July 2007 that the monitoring of calls is performed on an ad hoc basis and the results of the monitoring are not consistently documented.

BCLC is aware of this issue and we note that they are considering putting in place a full-time monitoring position in the CSC. We support this proposal and also recommend the monitoring of CSC calls be conducted according to a schedule agreed with the BCLC executive. The results of the monitoring and subsequent actions taken should be documented.

### **Security Investigation System**

IRIMS is the system used by BCLC to track all investigations. We noted the following during our testing of IRIMS and the related documentation:

- Retailer information is manually copied from the Retailer Masterfile database to IRIMS for every new ticket logged in IRIMS. As a result of the manual data entry, we found instances where data was not entered accurately in IRIMS.
- During our review of a sample of 25 IRIMS files, we noted that the documentation was not always sufficient or consistent among files. In some cases, file information is incomplete, descriptions are lacking and there is no clear and consistent documentation of the actions taken and the ultimate outcome or discipline resulting from the investigations. These matters make the investigations difficult to follow for a third party reviewer.
- Often Retailer identification is embedded in the written description of the call logs and IRIMS and not in the field that is provided for the retailer number. In terms of the format and type of information provided, there are some call logs that have the actual retailer number, while other calls provide the business name or the address of the business that contains the terminal in question.
- Various systems within BCLC (IRIMS, call logs) do not have constraints in place to enforce a strict format for data entry. This can lead to inconsistencies in the data entry process and leaves it up to the discretion of the person inputting the information as to what form the data is entered. The addition of data entry controls must be considered in the context of how diverse is the information entered and the practicality of limiting data entry to specific values only. The direct impact is that the identified inconsistencies in data entry increase the difficulty in cross referencing documents (e.g. from IRIMS to Call Logs) between data repository systems. We were required to undertake manual processes to filter and clean the IRIMS data and, despite our efforts, there continued to be records that could not be matched conclusively.



- We noted that 13 of the 25 security files reviewed did not include any documented review by a security manager. However, as of July 1, 2007, we understand that all completed security files require the approval of the Lottery Security Manager and this was evidenced through our review of the approval in IRIMS for the files included in our sample that concluded after July 1, 2007. We understand that IRIMS has been upgraded to send reminders for file approval every 30 days so that files are reviewed and approved on a more timely basis.
- During our testing, we noted that two of the investigation files included long delays between the complaint date and the start of the investigation. We understand that the amount of investigations has increased significantly as a result of recent media exposure. In addition, these two cases involved player assist and lost ticket files which were given lower priority than potential Retailer impropriety. BCLC indicated that the number of lottery investigation files increased from 72 investigations in June 2006 to 851 investigations in June 2007. We understand that BCLC is working its way through the back log with additional staff and outside contractors.

We recommend that BCLC review the effectiveness of their IRIMS in relation to security investigations. Should management decide to implement a new system to manage security investigations, the ability of that system to integrate with other related systems should be a priority.

Additionally, we recommend BCLC continue to create more rigorous standards for the documentation of the results of security investigations and train security staff on these new standards. Files should be prepared assuming they are going to be submitted for legal scrutiny.

BCLC should consider implementing processes to ensure that data is effectively captured in IRIMS or any new security system. If possible, an automatic population of fields such as Retailer information, business name, address, etc. would reduce the amount of arbitrary manual input for users of the system thereby ensuring compliance in providing the information and the format in which the data should be captured.

### **Retailer Progressive Discipline**

Other jurisdictions interviewed identified BC and Alberta as being leading operators with regard to having a current retailer discipline program. Since the implementation and enforcement of the Retailer progressive discipline policy by BCLC on July 17, 2007, there have been a total of 21 disciplinary actions against Retailers up to and including September 8, 2007. These actions and the supporting details are summarized on a report maintained by security. We reviewed five discipline actions included in the report for 2007 and noted that the disciplinary action decided for one case was based on the new policy, despite the fact that the actual incident occurred before the new policy was effective. In any case, the Retailer in question was disciplined and BCLC should continue to closely monitor Retailer behaviours and ensure that consistent and appropriate actions are taken based on the new discipline policy.

### **Section 86 Reporting**

Section 86 of the GCA requires BCLC to immediately notify GPEB of certain activities or incidents that are contrary to the Criminal Code, GCA, and Gaming Control Regulations or may affect the integrity of gaming. GPEB has sent various correspondence to BCLC with respect to Section 86 reporting requirements, which outlined more specific items relating to lottery tickets and Retailers. During our testing, we noted some examples where there was room for interpretation by BCLC as to whether or not the events were reportable to GPEB under Section 86 and/or pursuant to their other communications.

During our review of the Section 86 reports we noted that BCLC and GPEB are in some cases duplicating efforts in that BCLC will send a Section 86 report to GPEB and then perform an investigation. GPEB investigators will review the Section 86 report and make a determination on whether or not GPEB will perform its own independent investigation. In some cases, witnesses and/or Retailers will be interviewed by investigators from both GPEB and BCLC. This is not efficient and could hamper both investigations. The duplication is in part due to the lack of clarity on whether BCLC has an appropriate mandate to investigate security observations related to Section 86.

In addition, we found the Section 86 definition is not well defined and the interpretation is too wide. Section 86 essentially captures anything that brings the integrity of gaming into jeopardy. During testing we found instances where Section 86 was applicable, however BCLC did not send the required report to GPEB. In one case, we noted that the reason provided for not filing a Section 86 report was

that, although the case involved potential Retailer fraudulent activity, the complainant was not questioning the Retailer. It appears, based on this case, that there is some confusion around if the filing of a Section 86 report is based upon suspected fraudulent activity or upon the intention of the complainant in reporting such an incident.

We recommend that the responsibilities of GPEB and BCLC with regards to investigations be explicitly clarified to reflect the organizations' enforcement and operating roles, respectively, under the GCA. We also recommend that Section 86 reporting requirements be clearly articulated to more explicitly identify what form of complaints, occurrences and conditions must be reported by BCLC to GPEB. Furthermore, we recommend that BCLC consider implementing a procedure to require periodic review by senior BCLC security management to help ensure the completeness and accuracy of BCLC's Section 86 reporting to GPEB.



## Operations and Information Technology

### Overview

The operations of BCLC include management of lottery draws, monitoring of lottery draw compliance and management of online gaming. Procedures are set out for the operation of draws in the form of operation checklists which contain step-by-step instructions on draw and draw audits. Lottery draws are performed under the supervision of external auditors. Physical access controls are in place to manage access to the general building areas as well as specific sensitive areas such as the draw room and the data centre.

Information Technology of BCLC includes design and management of overall IT infrastructure, administration of access controls and monitoring of internal and external network security. Access controls include firewall protection of the Internet connections and internal network traffic. Connections to Retailers are via private encrypted network. A third party is hired to monitor the network for active attacks. Computer security reviews access at least every 6 months to ensure only authorized personnel have access to the network.

BCLC has active procedures (TMIR, CSV conversion program) to strip out unnecessary information when providing details of the TM transactions between departments. Security controls are also in place relating to the process to convert an internal control number (as found within the TM file) to an external control number (as found on the printed ticket). This greatly reduces the likelihood of prospective breaches of the TM data.

### Current and Planned Initiatives

The Operations and IT departments at BCLC have contributed to some of the initiatives completed or underway in response to the Ombudsman recommendations. One example includes the improvements in Retailer tracking by synchronizing the Retailer Masterfile database with the SDE database to ensure consistency between the two disparate data sources.

### Other Findings

#### Data classification and records management

The ability of BCLC to respond to FOI requests is hampered by the lack of effective records management and data classification. Collecting data quickly from across multiple sources within the organization is often required to develop timely responses to FOI requests. There is a 30-day limit set by the FOI Act for responses to be released once the initial request has been received; 30 days is often an extremely challenging timeline for BCLC to meet given the complexity and volume of data stored by BCLC in relation to lotteries.

BCLC has a documented data classification scheme; however, this scheme is not applied consistently across all data. In addition, a records management initiative was started but has been postponed in light of other competing priorities. Where effective data classification and records management are not in place, BCLC are not positioned to meet the 30-day limit to respond to FOI requests. Failure to meet the 30-day limit can result in sanctions by the Office of the Information and Privacy Commissioner.

We recommend that BCLC consider the implementation of a data classification scheme across their lotteries data. In addition, we recommend BCLC complete their records management initiative. Completion of these two initiatives should better enable BCLC to respond to FOI requests within the strict set timelines.

#### Business continuity planning

BCLC has documented its recovery priorities and given the reliance of the organization on technology to support its operations has invested significant effort in the development of disaster-recovery plans and procedures for its information technology systems. We found BCLC have not created business continuity plans for critical business functions, including Finance and Distribution. The organization intends to broaden its focus on business continuity to ensure that specific plans are documented for each business unit and for specific threats such as pandemic disease preparedness as the next phase of its program.

Without documented and up-to-date business continuity plans and procedures there is a risk that, in the event of an emergency, business functions would be unable to operate and have difficulty in restoring normal operations in an acceptable timeframe. Additionally, without documented plans and procedures departments may be subject to fraud or theft in an emergency scenario, as key controls performed during normal operations would be ignored or unworkable.

We recommend BCLC continue with its plans to expand its current business continuity management capabilities across all business units and systems.

## Procurement, Printing, and Distribution

### Overview

The procurement, printing, and distribution processes encompass a number of discrete business processes. Paper tickets (including Instant Win tickets) are printed by a third-party and then shipped to the BCLC warehouse. Tickets are stored and dispatched from BCLC and then couriered to Retailers, who store, display, and sell the tickets to players.

Key components of the procurement, printing, and distribution processes include:

- Gaming service providers, including ticket printers, BCLC employees, and Retailers are required by the GCA to be registered with GPEB.
- BCLC has engaged an established organization to print tickets.
- Inventory controls at BCLC to manage ticket storage and dispatch.
- Tickets are held on-site at the BCLC warehouse and once they are dispatched are tracked precisely and can be put "on hold" (i.e. disabled) if there is suspicion of foul-play during ticket distribution.
- Physical access controls are in place to protect paper tickets held at the BCLC warehouse.
- Couriers obtain Retailer signature on the delivery of tickets.
- BCLC has a documented agreement with each Retailer known as the LOA.
- Ownership of tickets is transferred to Retailers upon delivery completion.
- Retailers are responsible for tickets they hold on-site.

### Current and Planned Initiatives

The procurement, printing, and distribution processes are mature and have not been subject to major change in recent years. In addition, BCLC does not have plans to make any major changes to these processes. Some planned initiatives at BCLC that are relevant here include:

- Plans to improve contract management as part of the procurement process. BCLC management have identified the management of suppliers as an opportunity for improvement. The agreement in place with its ticket printer does not currently constitute a formal contract and as a result management are working to agree on a comprehensive written contract.
- The Player First Program is contributing to improvement in Retailers' understanding and awareness of lottery products, through enhanced training and guidance for Retailers. The Player First Program Binder has been sent to Retailers, which captures information and guidance in relation to Retailer responsibilities. Retailers are the ultimate distributors of lottery products hence improving the Retailers' understanding of lottery products should help Retailers to drive good customer service.
- There is an initiative to develop process maps for business processes at BCLC relating to procurement, printing, and distribution processes. The process maps should help the organization to understand contact points between different business functions and with GPEB.

### Other Findings

#### GPEB Registration of Suppliers

BCLC has in excess of 2,000 suppliers. The GCA requires that certain suppliers of specific types of products and services related to gaming are Gaming Service Providers and must be registered with GPEB. GPEB, in accordance with the GCA, determines which suppliers require registration and we understand that this amounts to approximately 15% of the total BCLC suppliers.

We selected a sample of 25 BCLC suppliers and found that 19 were not registered with GPEB. BCLC was unable to provide evidence that these 19 suppliers did not require GPEB registration. BCLC does not have a process when engaging a supplier to obtain written confirmation on whether or not the

supplier requires GPEB registration. There is a risk that BCLC suppliers are providing gaming services but are not GPEB registered.

We recommend BCLC review its portfolio of suppliers and identify those suppliers that are not GPEB registered. BCLC should then obtain written confirmation from GPEB as to whether those suppliers require GPEB registration. For any supplier identified by GPEB as requiring registration, BCLC should cease engaging the supplier until the supplier has obtained GPEB registration and GPEB have provided written confirmation to BCLC. GPEB should conduct regular registration compliance audits of BCLC's suppliers.

### **Ticket Printing Contract**

BCLC lottery tickets are manufactured by an outside and independent company which is responsible for a key component of the lottery ticket printing process and is important in BCLC's overall control environment. Currently, the agreement with this ticket printing company does not constitute a comprehensive written contract. However, we understand that BCLC is in the process of tendering the ticket printing contract.

Given the importance of this ticket printing company as a supplier to BCLC, there is a risk that without a formal written contract, any dispute between BCLC and this supplier could result in disruption to the lotteries business in BC. BCLC may also incur substantial costs in resolving any contractual dispute with this supplier in the absence of a formal written contract. In addition, there is no formal agreement around BCLC's ability to audit or gain access to the supplier's premises to ensure that the control environment is effective. We understand that BCLC has not been denied this right and has recently performed a full assessment and is planning to have security audit the ticket printing premises twice a year.

We recommend BCLC, as part of the current tendering of its ticket printing contract, include in the procurement documents about to be released and the final written contract the appropriate terms and conditions around assurance audits and other audit privileges of BCLC due to the importance of the ticket printing process in BCLC's overall control environment.

### **Lottery Operations Agreements**

The LOA is the main contract between BCLC and each lottery Retailer. According to BCLC's policies, the LOA must be signed by both the Retailer and a designated officer from BCLC. The LOA for each Retailer and the ultimate activation for each Retailer is dependent on the successful completion of a credit check and receipt of accurate banking information. This process is handled by the Masterfile team.

Additionally, BCLC maintain a central database (Connect) where Retailer information is captured. Any addition of Retailers to the database requires an internal peer review.

We selected a sample of 25 new retailers and found:

- The creation of Connect records for 16 retailers in the sample had not been subject to a documented internal departmental peer review designed to check that data is entered accurately into the system. We noted that the only current requirement is for a cross-departmental peer review of the accuracy of the banking data and this was evidenced as being performed for the entire sample.
- Three LOAs had not been signed by an officer of BCLC.

We also noted that the Masterfile team activate new retailers without having received confirmation from GPEB that the Retailer is registered. GPEB have instructed BCLC to activate retailers that have been GPEB registered only. However, BCLC have not implemented a process to obtain evidence of GPEB registration prior to new retailer activation.

We understand that BCLC has been using the current Connect software since the early 1990's. Approximately two years ago BCLC considered replacing Connect with a web-based software that has enhanced functionality. This initiative was not completed. Currently, BCLC are investigating replacing individual modules of Connect with web-based functionality. As the Retailer Masterfile database is such a key control to assist in the monitoring and reporting of Retailers wins going forward, a more robust system is important.

We recommend BCLC implement a new procedure to monitor the set-up and activation of new retailers in the Retailer Masterfile database. Management should conduct a periodic review of new retailers to verify that:

- The LOA has been signed-off;
- The peer review includes a check of the accuracy of all of the LOA data entered into the system, in addition to the Retailer banking information, and is evidenced on file; and
- GPEB registration is obtained prior to Retailer set-up and activation.

### **Tracking of Retailers**

We sampled 25 new Retailers and found that for 23 Retailers included in the sample, BCLC were unable to provide evidence as to whether a successful security clearance confirmation had been received.

Under current arrangements there is a lack of effective data capture and communication in relation to security clearance confirmations of Retailers. Neither the security, sales, nor Masterfile teams seem to effectively track the security confirmations of new Retailers.

We recommend that BCLC track security clearance confirmations of new retailers. As a longer-term measure, we recommend the Retailer Masterfile database be developed so that it captures the security confirmation status of each retailer. The sales function could then receive and review a regular report on retailer security status.

## Product Development and Management

### Overview

Product development and management is the process to create, test, release, and promote new lottery products. GPEB has involvement in the product development process as they are responsible for certifying new technologies and types of games.

Key components of the product development and management process include:

- Several layers of testing and quality assurance;
- Independent external specialists being involved in assessing new products during development;
- The achievement and maintenance of game integrity with each new product, which is considered a key objective by BCLC; and
- The security function being involved in testing of new products.

### Current and Planned Initiatives

BCLC management have decided to halt new product development activity in order to prioritize the implementation of BC Ombudsman's recommendations. Staff from New Business Development have been re-assigned to the Player First Program.

BCLC have developed a number of new lottery products in previous years that have contributed to the increases in gaming revenues in the province. Examples include Internet-based games like Pacific Hold'em and a variety of instant win products. The organization has a commonly understood risk tolerance for product development and accepts that not every game will be a commercial success. This risk tolerance enables an innovative approach to the design of new games.

A new Government relations function has been created at BCLC to better manage relationships with key Government stakeholders. A key objective of the new function is to involve Government in decisions around new products early on in development. By understanding the Government's mandate around new products and articulating this mandate to BCLC, the Government Relations function should help to prevent future instances of new products being cancelled after significant resources have been expended on their development.

We also noted the product development process has been revised to include key checkpoints where Government approval is required, for example, GPEB certification of new or re-printed products.

### Other Findings

#### Responsible Gaming and Player Protection

The involvement of the Responsible Gaming team and sign-off for consideration of player protection concerns in product development is inadequate. There is no point in the product development process at which documented approvals are given as to whether or not that the game meets internal benchmarks for:

- Protecting problem gamblers;
- Protecting children; or
- Protecting the player from fraud.

Where the product development process does not include effective input from experts on responsible gaming and player protection, there is a risk that games are released that, for example, fail to maintain appropriate player protection.

We recommend the product development process be revised to include key checkpoints for documented approvals by Responsible Gaming and Player Protection on new products. We note that BCLC are actively recruiting for a new executive director position responsible for player relations. This new position should assist in coordinating approvals for Responsible Gaming and Player Protection for new games.

### **Product Development Documentation**

According to BCLC policies, key internal approvals and reports must be documented for each new product. We sampled three new products and found that two out of the three products did not have the following key documentation available for review:

- Project charter;
- Preliminary internal approval for testing;
- Product business cases and game specifications that had been signed-off by management; and
- Security testing results.

The retention of key documentation is vital for product development to evidence that proper approvals were sought and testing conducted. Where documentation is not retained, there is a risk that the overall product development process is poorly controlled and that key approvals do not occur. Ultimately, products may then be launched that do not meet internal guidelines and benchmarks for quality, regulatory compliance, or strategic direction.

We noted the new business development team has been in operation for less than one year and in that time has made improvements in new product development processes. Improvements include the documentation of a process map to capture where key checkpoints and documents in the process occur. We recommend the improvements in the product development process continue to include better document retention around new game development. The creation of a records management system should contribute to the successful application of this recommendation.

## **GPEB**

### **Governance, Structure and Management**

#### **Overview**

As opposed to other provinces in Canada, in BC the gaming operator (BCLC) and the gaming regulator (GPEB) are two separate legal entities. Therefore, an important structural prerequisite is in place to allow GPEB to execute its mandate, which includes regulatory oversight of BCLC.

During our review, all involved GPEB personnel demonstrated a very positive and collaborative attitude. Each individual was willing to share thoughts and to provide information in a timely manner. Overall, we feel that GPEB personnel are open towards making changes in the organization to improve the operations.

GPEB is an active member of Canadian and North American Gaming Regulators Associations. The goal of these two organizations is to collect and disseminate regulatory and enforcement information, procedures, and experiences from various jurisdictions and to provide on-going gaming education for all members. Through these memberships and through informal communication with other regulators GPEB personnel appear to be well informed about practices in other jurisdictions.

#### **Current and Planned Initiatives**

Over the last months, GPEB has initiated a number of activities to enhance oversight of lottery activities. Improvements are on the way in the areas of Retailer registration, investigation and lottery related audits. These initiatives will be further commented on in the following sections. After the release of the Ombudsman's Report, GPEB management introduced a weekly meeting to discuss and track progress of the implementation of the Ombudsman's recommendations. Attendees of this meeting are the GPEB ADM, the four Directors of the four impacted divisions and the Senior Coordinator Strategic Initiatives. On a quarterly basis GPEB reports to the Ombudsman on progress made. The first status report was issued on September 12, 2007.

A new Strategic Initiatives function is being created at GPEB. On behalf of the ADM, the Senior Coordinator Strategic Initiatives is responsible for supporting, monitoring and integrating various strategic initiatives being implemented by GPEB to ensure GPEB achieves its objectives. This includes key cross-divisional initiatives, most importantly the implementation of a comprehensive strategy in response to the Ombudsman's recommendations concerning BC's Retail Lottery System. The position is intended to influence corporate direction with regards to those strategies; act as the liaison between the ADM and GPEB directors; liaise between GPEB, BCLC and other external organizations; ensure effective cross-coordination of the initiatives; track and report on progress; identify and monitor the resolution of issues; and oversee evaluation efforts to ensure the implementation and impact of the initiatives are effective.

On September 7, 2007 GPEB submitted a briefing note to the Minister proposing amendments to the GCA and Gaming Control Regulations. Based on our review, we recommend that the amendments to the GCA be considered to support changes necessary to meet the recommendations in the Ombudsman's Report and this report. For example, GPEB, as the regulator of BCLC, does not have the authority to impose punitive measures in case of BCLC's misconduct under the GCA. Sanctioning power and administrative fines are only applicable to registered entities. BCLC is not a registered entity like other gaming service providers. Instances where sanctioning power may have been required are lack of Section 86 reporting, failure to provide information, and entering into contract with unregistered suppliers. Other areas where the GCA is not enforcing current practices include the registration of lottery Retailers, certification of lottery equipment, and audits of lottery Retailers.

#### **Other Findings**

##### **Policy and Enforcement Structure**

Prior to the reorganization of the gaming industry in BC in 2002, the registration, investigation and audit activities were separated from the policy making function. The subsequent creation of GPEB combined these functions and activities under one organization. Accordingly, GPEB has responsibility for both establishing and enforcing policy. These are two distinct roles and responsibilities requiring equal status and recognition within GPEB's mandate. Based on our review and discussions with GPEB, we believe enforcement currently does not have sufficient prominence within GPEB. This is somewhat evidenced by the fact that the Deputy General Manager is also the Director of Policy and the ADM has a policy background. We recommend that GPEB's policy and enforcement groups be given equal status within the organization in order to adequately discharge GPEB's various mandates.



## **Regulatory Approach and Risk Management**

Historically, GPEB has placed highest priority on those sectors of the industry where the integrity of gaming is at the highest risk, specifically, BC's commercial gaming facilities (casinos, community gaming centres, bingo halls, and horse race tracks). GPEB considered that this is where most of the money is managed and where the risks of criminal activity and regulatory infractions were assessed as greatest concern.

GPEB's regulatory approach was based on the assumption that, prior to October 2006, there were very few public allegations of fraudulent lottery Retailer activity. Therefore, it appeared to GPEB that these operations did not represent a significant risk. As a result of these risk considerations and restricted resources, GPEB paid less attention to the audit, investigation or regulation of the lottery business.

We understand that GPEB intended to expand its regulatory authority to include lottery Retailers by 2008. However, the Ombudsman's Report released in May 2007 made it clear that enhanced oversight of the Retail Lottery System should be a priority to be addressed immediately.

GPEB does not currently have an ongoing risk identification process and has not defined risk tolerance. We recommend that formal, sustainable risk management processes be implemented at GPEB and that risk tolerance be defined accordingly. Sustainable risk management processes involve a forward-looking posture and are concerned with looking to anticipate what issues may become important risks, not principally to react to those already apparent. This can provide a basis for the development of risk-based audit plans and can also provide useful information regarding future directives and regulations in the policy area. As described above under the heading "Operation and Regulation of Lottery Gaming in BC," we recommend that GPEB and BCLC align their risk management programs and discuss the collective risks facing the Retail Lottery System, and their collective tolerance for each risk.

## **Independent Audits**

GPEB does not have an internal audit department to ensure that corporate governance as well as processes and controls are operating effectively and efficiently. GPEB's Audit and Compliance division are focused on external regulation and do not have a mandate to conduct internal audits of GPEB's activities. The only formal internal audit procedures are conducted by the Auditor General of BC and the Office of the Ministry of Finance / Comptroller General's Internal Audit and Advisory Services. Both have reviewed gaming issues in recent years. GPEB has also requested several independent reviews of aspects of GPEB's work. In all instances, the reports and GPEB's responses are made public. However, these audits are usually focused on specific areas or questions and do not occur on a regular basis.

We recommend GPEB undergo regular independent audits of its activities based on a comprehensive risk-oriented audit approach.

## **Whistleblower Program and Code of Conduct**

GPEB does not have a whistleblower program in place. The whistleblower concept provides employees with an avenue to report misconduct to people or entities that have independence, the power and presumed willingness to take corrective action. Also, a whistleblower concept provides employees with reassurance that they will be protected from reprisals should they report a violation. The lack of a whistleblower concept may prevent legitimate concerns from being addressed and the integrity of GPEB being compromised.

GPEB has standards of conduct and conflict of interest guidelines in place. No formal process is implemented though to ensure understanding and acknowledgement of these guidelines such as regular signoff. We understand that GPEB is currently in the process of renewing the guidelines and that employees will be required to signoff on reading and understanding the document

We recommend that GPEB consider implementing a whistleblower program to foster a culture of integrity, honesty and openness within GPEB. We also recommend that all GPEB employees formally acknowledge the standards of conduct and conflict of interest guidelines.

## **Registration Overview**

The Registration division conducts due diligence investigations on individuals and corporations that apply to work or conduct business within the gaming industry of BC. Those meeting the criteria established in the GCA and Regulations will be registered for participation in lawful gaming within BC.

In addition, the division is responsible for approving games and issuing certificates of technical integrity for gaming equipment that meet the technical standards set by GPEB.

### **Current and Planned Initiatives**

Originally, lottery Retailer personnel were exempt from the registration requirement. In Feb 2007, the Gaming Control Regulation was changed to include Retailer personnel with on-site managerial responsibility in the definition of a gaming worker and as such, the exception was eliminated.

Per the GCA, electronic gaming equipment in connection with a lottery scheme may only be used by BCLC if GPEB issued a certificate of technical integrity for it. In March, 2007, this requirement has been expanded to also include non-electronic equipment such as scratch-and-win and pull-tab tickets. GPEB was informed by BCLC about all currently marketed non-electronic games and GPEB retroactively certified those.

In 2007, as a result of the Ombudsman's recommendations, GPEB added six FTE employees to the Registration division to handle lottery Retailer registration. In addition, three positions were added to cover financial integrity reviews which form part of corporate registration. Two other positions were also created in the Game Integrity department that is responsible for approving games and issuing technical integrity certificates.

### **Other Findings**

#### **Technical Certification**

The GCA requires that BCLC must not use or permit the use of gaming equipment in connection with a lottery scheme unless GPEB has issued a certificate of technical integrity. Per the GCA, GPEB may issue a certificate of technical integrity only if satisfied that the gaming equipment and lottery scheme will be fair, honest, secure and safe, according to standards approved by GPEB.

GPEB has developed detailed technical standards as required by the GCA, based on industry accepted standards and in consultation with BCLC. The standards define technical requirements for games such as those related to construction and distribution of tickets or construction of slot machines. The standards also include requirements related to fairness such as minimum prize payouts. During our review, however, we could not in every case clearly identify the link between the detailed technical standards and the criteria documented in the GCA (fairness, honesty, security, and safety).

When certifying games, it is GPEB's standard procedure to request a set of documents from BCLC (as outlined in the technical standards) and to review those documents (i.e. reports from accredited testing facilities, manufacturer's lab reports or game descriptions). The assumption is that the game meets the technical standards and merits a certificate if the documentation reviewed does not indicate that fairness, honesty, security and safety are compromised. GPEB issues a certification letter which includes high level information on the work performed. However, we could only identify limited documentary evidence to determine what specific work had been performed to come to the conclusion that a technical certificate could be issued.

As a result of the above observations, certification criteria may not be applied in a consistent manner. Also, it may be difficult for BCLC to understand the requirements for gaming equipment and games to be approved by GPEB.

We understand that GPEB is planning to issue a specific guideline outlining the submission and approval process for use of BCLC and GPEB. In addition, a detailed work sheet will document the actual material reviewed and analysis conducted to arrive at a decision to approve gaming equipment.

We recommend that GPEB finalize and approve the guideline outlining the submission and approval process and the detailed work sheet for technical certifications of games and gaming equipment. The worksheet should be used to document the results of evaluations of each criteria and to communicate the results to BCLC to ensure that the rationale for issuing technical certificates is consistent and transparent.

We also recommend that GPEB clarify the link between the detailed technical standards and the criteria documented in the GCA.

Even though technical standards for scratch-and-win and pull-tab tickets are not finalized yet, the currently marketed products have been certified by GPEB. An independent lab's standard was used in

lieu to benchmark the products. We understand that the standard for pull-tab tickets is available in draft and has been submitted to BCLC for review. The scratch-and-win ticket standard will be prepared after the pull-tab standard is finalized.

To ensure a proper assessment of technical integrity, we recommend GPEB finalize and approve the two outstanding technical standards for scratch-and-win tickets and for pull-tab tickets in a timely manner. Technical integrity of instant games should then be evaluated against these standards.

### **BCLC's Quality Assurance**

GPEB places reliance on BCLC for certain aspects of testing gaming equipment and lottery scheme integrity. GPEB requests BCLC's security testing results and reviews those as part of the technical integrity certification process. However, GPEB does not periodically review BCLC's quality assurance work. We understand that it is GPEB's intention to perform such reviews in the future.

We recommend that GPEB consider periodically reviewing BCLC's quality assurance work to support GPEB's reliance on gaming equipment tests carried out by BCLC.

### **Access to Police Databases**

When performing personal background checks of Retailer personnel, BCLC and GPEB employees and other gaming workers, GPEB investigators have to check various police database systems in order to obtain complete information. However, GPEB Investigators do not have access to all of the available police databases requested. The lack of access to all available police databases creates a risk that GPEB does not consider all relevant police information when assessing suitability of Retailers and gaming workers.

We recommend that efforts be made to expedite the granting of access for GPEB investigators to all police databases as soon as possible to reduce the possibility that GPEB does not consider all up to date and relevant police information when assessing suitability of Retailers and gaming workers.

## **Investigation**

### **Overview**

The Investigation Division is responsible for investigating, or assisting law enforcement agencies in the investigation of, all complaints or allegations of criminal or regulatory wrongdoing in gaming and horse racing in the province. Investigators are appointed by the Ministry as Special Provincial Constables under section 9 of the Police Act. As such, the investigators are empowered to enforce the Criminal Code and the Provincial Statutes of BC, restricted to the performance of duties in respect to the law enforcement mandate of GPEB. This appointment allows investigators to perform gaming related investigations from start to finish. The investigation files that we reviewed were generally well documented, easy to follow and conclusions were reviewed and approved by the Lottery Investigation Manager.

### **Current and Planned Initiatives**

In 2007, as a result of the Ombudsman's recommendations, GPEB added six FTE employees to the Investigations Division in order to increase lottery related investigations. The Investigations Division is now responsible for reviewing all lottery related investigations reported by BCLC, independently investigating a sub-set of those investigations where warranted, and independently investigating complaints from the public. GPEB also added four FTE employees to assist with facilities based investigations.

## **Other Findings**

### **Section 86 Reporting**

We noted that GPEB does not follow a formal process to ensure that all items reported by BCLC under Section 86 of the GCA are received and processed by GPEB. BCLC communicates these items via email. GPEB captures all incoming items on an Excel spreadsheet. However, GPEB does not reconcile items sent by BCLC and items received by GPEB to ensure completeness. During our review of Section 86 reportable items we discovered one instance where BCLC appears to have sent a report, but GPEB could not locate a corresponding investigation file for the item.

We recommend that GPEB require BCLC to provide a monthly written report which includes all Section 86 reports submitted to GPEB and that GPEB reconcile the report to ensure completeness of the receipt of these reports from BCLC.

We recommend that GPEB provide periodic feedback to BCLC in regards to any deficiencies noted with respect to the Section 86 reports and related information received from BCLC.

We recommend that the GPEB Audit and Compliance division expand its planned reviews of BCLC's compliance with Section 86 reporting policies and procedures to ensure that all reports of conduct, activity or incident (indicating an offence under Criminal Code or the GCA) are delivered to GPEB in a complete and appropriate manner.

## **Audit and Compliance**

### **Overview**

The Audit and Compliance division maintains a comprehensive audit strategy for commercial gaming including casino, bingo, and horse racing, licensed gaming, and community organizations' use of gaming proceeds to ensure compliance with all applicable legislation, regulation, policies and directives. When planning the audit work, the division's policy is to determine the level of reliance that can be placed on internal audit work performed by BCLC. In addition, we understand that the division also completes a risk assessment of the auditee. Until recently, the Audit and Compliance division had not carried out any lottery related audits, except for Retailer inspections. We understand that GPEB is deliberately delaying the implementation of the lottery audit program until after this report is completed.

### **Current and Planned Initiatives**

In 2007, as a result of the Ombudsman's recommendations, GPEB created the new position of Lottery Audit Manager and added five FTE employees to the Audit and Compliance Divisions' new lottery audit group. Hiring for the lottery audit group is currently in process. GPEB also added one FTE employee for charitable audits.

Similar to the existing commercial gaming audit strategy, Audit and Compliance expects to develop and implement a comprehensive audit program for BCLC's lottery business in the near future. The objective and focus of audits of BCLC's lottery business will be to ensure the operations and management of the lottery division, including contracted Retailers, meet the intent and compliance with all applicable legislation, regulation, policies and directives. Once the lottery audit strategy program has been developed, potential reliance on audit work performed by BCLC will be evaluated and communication with BCLC's audit department will be initiated. So far, the division has developed a high level lottery audit focus document that generally sets out the scope of future lottery audits. As mentioned above, GPEB performed the first two quarters of lottery Retailer inspections.

## **Other Findings**

### **Lottery Audit Strategy and Program**

We consider the high level lottery audit focus document as a good start to set out the scope for future audit activities. However, GPEB should expand this document and we recommend that GPEB establish a three to five year comprehensive audit plan that would cover all aspects of BCLC's operations. We believe this action will assist in providing the audit activities necessary to help enhance the integrity of gaming in the Province. We encourage GPEB to include audits of BCLC's entire processes and controls around complaints, supplier registrations, and Retailer registrations (as indicated in the high level lottery focus document).

### **Reporting of Observations**

Since June 2007, the Audit and Compliance division has been carrying out Retailer inspections to evaluate Retailers' compliance with gaming laws and regulations. The results of these inspections are reported within GPEB quarterly and the first time was on June 29, 2007. However, the findings of these inspections have not yet been communicated to BCLC.

We understand that GPEB intends to share the results of its Retailer inspections with BCLC. We recommend that GPEB establish formal procedures for communicating results with BCLC and define a plan to ensure issues identified are addressed appropriately by BCLC.

## 6. Summary of Recommendations

Throughout this report we have identified certain opportunities to enhance the current lottery gaming operational and regulatory model, including a number of recommendations that could be led by, or specifically affect, both BCLC and GPEB. Further detail has been provided in other sections of this report, but the key recommendations can be summarized as follows:

### Recommendations Related to BCLC and GPEB

#### Operation and Regulation of Lottery Gaming In BC

- 1) We recommend that the Government review the current structure, accountabilities and responsibilities for gaming in the Province to ensure that the potential for an actual or perceived conflict of interest is minimized.
- 2) We recommend that the roles and responsibilities of each of the operators (BCLC, Retailers and suppliers), regulator (GPEB) and the player be clearly defined and communicated to all relevant stakeholders. We believe that clarification may need to be made to both the governing legislation and supporting regulatory directives and standards.
- 3) In order to improve relations and communications between BCLC, GPEB and the Government, we recommend the following:
  - a) We recommend that a regular schedule of executive meetings between GPEB and BCLC be scheduled to enhance the level of co-operation and co-ordination between the organizations, while at the same time maintaining GPEB's independence.
  - b) We recommend that GPEB share the high level details of its future lottery audit plans with BCLC as this should enhance the level of co-operation and assistance GPEB would receive from BCLC when they conduct their independent reviews and assessments.
- 4) We recommend that formal, sustainable risk management processes be implemented at GPEB and that both BCLC and GPEB define their tolerance for risk accordingly. As the regulator, GPEB has a broad outlook and is in a position to assess the overall risks attached to gaming regulation in the Province, including the Retail Lottery System. BCLC in turn will consider the risks of fulfilling its mandate as the operator. We recommend that BCLC and GPEB align their risk management programs and discuss the collective risks facing the gaming industry, and their collective tolerance for each risk. Each organization can make recommendations to Government, through the Minister, regarding strategies to manage and mitigate risks that exceed acceptable tolerances.

### Recommendations Related to BCLC

#### Governance, Structure and Management

- 5) We recommend that BCLC update the skills matrix in place for its Board to include a skill of "social responsibility" which would cover the social issues related to gaming as well as overall player protection. As an alternative, a separate committee of the Board could be formed to deal specifically with social responsibility issues.
- 6) We recommend that BCLC consider the benefits of augmenting its existing management team as follows:
  - a) Continue with efforts to appoint a permanent CEO as soon as is practical to reduce uncertainty as to the future direction and leadership of the organization and to focus attention on improving employee morale and engagement through, amongst other aspects, effective communication of the strategic direction of the organization.
  - b) Consider establishing a Chief Compliance Officer position or similar position. The CCO should have overall responsibility for management of regulatory compliance at BCLC. Other business units should be accountable to the CCO in relation to compliance matters including integrity, ethics, whistleblower program, FOI compliance, privacy, etc.

- c) Consider adding resources to the BCLC Internal Audit function, based on comparisons with internal audit functions of other gaming jurisdictions in Canada, and other organizations of comparable size beyond the gaming industry.
- 7) We recommend that BCLC continue to evolve their current enterprise risk management efforts into a repeatable, sustainable risk management program. Further, we recommend that consideration be given to the following specific areas:
- a) We recommend that BCLC formally define their tolerance for risk and that such risk tolerances provide a framework for decisions about the costs and benefits of measures to put in place to manage the risks. As described in recommendation #4 above, we recommend that GPEB and BCLC align their risk management programs and discuss the collective risks facing the Retail Lottery System, and their collective tolerance for each risk.
  - b) We recommend that BCLC formally define and implement organizational KRIs for its lottery operations which can help to predict changes in the risk profile of its operations or those of the Retail Lottery System. These KRIs can be used to monitor operations and to provide early warning signals by highlighting changes in the control environment, and potential exposures, before they crystallize and result in actual loss.
- 8) We recommend BCLC continue to assess the cost/benefit of its programs and processes to ensure player protection is addressed, while balancing this protection of the public interest with the generation of net income distributed to the Government for charitable, health care, education and other social programs.
- 9) We recommend the incentive program for the BCLC executives be re-evaluated to create a set of performance measures that include greater weighting on player protection. Currently the performance measures for player protection constitute a small fraction of the total set of measures used.
- 10) We recommend BCLC management continue with its initiative to create an overall framework around policies and procedures and a policy manual for the lottery business and implement a defined process to manage policies and procedures. The process should cover the creation, approval, and release of policies and procedures and be consistently applied. BCLC should also review what other Canadian jurisdictions in relation to policy and procedure management as our cross-jurisdictional review found other jurisdictions have mature processes to manage policies and procedures, which BCLC may be able to borrow from or adopt.

### Prize Claims

- 11) We recommend BCLC continue to move forward with its plans to implement an enterprise-wide fraud detection system that is designed to address current limitations in its systems' ability to detect and monitor suspicious activity. Specifically:
- a) In advance of the selection or implementation of such a system, define requirements and scripts that will support a methodical approach to producing reports across multiple information sources to highlight anomalous activities.
  - b) Ensure that the BCLC security group is tasked with performing and documenting consistent and regular follow up procedures in response to anomalous activity. BCLC would benefit from creating and maintaining a repository of common and known transaction profiles to aid in their fraud detection process.
  - c) Consider the establishment of a loss prevention function similar to that found in other retail industries. The loss prevention function could be responsible for proactively identifying potential fraudulent schemes, identifying ways to detect and respond to fraudulent schemes, correlating information across BCLC's various data sources, conducting and preparing trend analysis and reviewing practices from other jurisdictions and industries.
- 12) We recommend that BCLC continue to monitor the timeliness of the prize payout process and players' satisfaction. If required, BCLC should review the level of resources and operating capacity allocated to prize payout activities, or if necessary revisit the payout thresholds.



- 13) We recommend that, as part of the assessment by BCLC of the feasibility of a universal player card system, consideration be given to reviewing the experiences of other locations (such as Norway) but with the primary goal of addressing retailer fraud. Before implementing any player card system, the risks and benefits of implementing such a system must be considered.
- 14) We recommend that BCLC reinforce and monitor the Retailers' requirements to stamp all winning lottery tickets as paid and return them to players. BCLC should continue to research other options, including a self validation system that will eliminate the requirement for Retailers to handle lottery tickets for validation purposes.
- 15) Other recommendations in the prize claim process include:
  - a) We recommend that BCLC clearly define the signatories for Retailer prize payout cheques, their accountabilities and the dollar limit approval requirements.
  - b) We recommend, to be consistent with the treatment of Retailers who are considered "insiders," BCLC consider running winner profiles against the employee database to monitor and track BCLC employee wins.
  - c) We recommend BCLC continue to keep Retailers informed and trained on changes to procedures and more closely monitor Retailer activities (i.e. ensuring players are instructed by Retailers to sign the back of their tickets and that proper validation procedures are followed by Retailers to reduce the number of tickets put on hold). This could be accomplished through a more rigorous tracking and monitoring system as well as through an increased focus during the mystery shopper program.
  - d) We recommend that the accuracy and completeness of the new Retailer tracking database should be subject to separate audit by both BCLC and GPEB, in addition to the completeness checks on the Retailer listings being completed by the BCLC sales representatives each time they visit a Retailer location.

### **Complaints and Investigations**

- 16) We recommend BCLC consider revising the policies and procedures around its call centre and overall system. In the short term, this could include daily call sample reviews by CSC Team Leaders, regular audits, regular training of CSC staff by security and an overall policy framework with clear governance of what kinds of calls need to be escalated to security. In the longer term, BCLC should consider adopting similar procedures to other jurisdictions in Canada whereby callers can elect via the call centre system to designate their call as a complaint. Each complaint is then routed automatically to a security specialist, who can then discuss the case with the caller directly.
- 17) We recommend BCLC introduce new processes to track customer complaints or queries that have been referred to other departments outside of the CSC. We would also recommend that GPEB and BCLC audit the complaint database on a routine basis to ensure the proper handling of complaints.
- 18) We recommend that the responsibilities of GPEB and BCLC with regards to investigations be explicitly clarified to reflect the organizations' enforcement and operating roles, respectively, under the GCA. We also recommend that Section 86 reporting requirements be clearly articulated to more explicitly identify what form of complaints, occurrences and conditions must be reported by BCLC to GPEB. Furthermore, we recommend that BCLC consider implementing a procedure to require periodic review by senior BCLC security management to help ensure the completeness and accuracy of BCLC's Section 86 reporting to GPEB.
- 19) We recommend BCLC continue to create more rigorous standards for the documentation of the results of security investigations and train security staff on these new standards. Files should be prepared assuming they are going to be submitted for legal scrutiny.
- 20) We note that BCLC is considering putting in place a full-time monitoring position in the CSC. We support this proposal and also recommend the monitoring of CSC calls be conducted according to a schedule agreed with the BCLC executive. The results of the monitoring and subsequent actions taken should be documented.
- 21) We recommend the following with respect to the IRIMS system:

- a) We recommend BCLC review the effectiveness of their IRIMS in relation to security investigations. Should management decide to implement a new system to manage security investigations, the ability of that system to integrate with other related systems should be a priority.
- b) We recommend BCLC consider implementing processes to ensure that data is effectively captured in IRIMS or any new security system. If possible, an automatic population of fields such as Retailer information, business name, address, etc. would reduce the amount of arbitrary manual input for users of the system thereby ensuring compliance in providing the information and the format in which the data should be captured.

### **Operations and Information Technology**

- 22) We recommend BCLC consider the implementation of a data classification scheme across their lotteries data. In addition, we recommend BCLC complete their records management initiative. Completion of these two initiatives should better enable BCLC to respond to FOI requests within the strict set timelines.
- 23) We recommend BCLC continue with its plans to expand its current business continuity management capabilities across all business units and systems. Given the heavy reliance on technology to support its operations, BCLC has developed disaster-recovery plans and procedures and conducted recovery testing for its information technology systems. The organization intends to broaden this focus to ensure that specific plans are documented for each business unit and for specific threats such as pandemic disease preparedness as the next phase of its program.

### **Procurement, Printing, and Distribution**

- 24) We recommend BCLC review its portfolio of suppliers and identify those suppliers that are not GPEB registered. BCLC should then obtain written confirmation from GPEB as to whether those suppliers require GPEB registration. For any supplier identified by GPEB as requiring registration, BCLC should cease engaging the supplier until the supplier has obtained GPEB registration and GPEB have provided written confirmation to BCLC.
- 25) We recommend BCLC, as part of the current tendering of its ticket printing contract, include in the procurement documents about to be released and the final written contract the appropriate terms and conditions around assurance audits and other audit privileges of BCLC due to the importance of the ticket printing process in BCLC's overall control environment.
- 26) We recommend BCLC implement a new procedure to monitor the set-up and activation of new retailers in the Retailer Masterfile database. Management should conduct a periodic review of new retailers to verify that the LOA has been signed-off, a peer review is completed for all of the retailer data entered into the database and is evidenced on file, and GPEB registration is obtained prior to Retailer set-up and activation.
- 27) We recommend BCLC track security clearance confirmations performed on new retailers. As a longer-term measure, we recommend the Retailer Masterfile database be developed so that it captures the security confirmation status of each retailer.

### **Product Development**

- 28) We recommend the product development process be revised to include documentation of key checkpoints for documented approvals by Responsible Gaming and Player Protection areas on new products. We also support the revision to product development processes to include documentation of key milestones for which Government approval is to be obtained.

### **Recommendations Related to GPEB**

#### **Governance, Structure and Management**

- 29) We recommend that GPEB's policy and enforcement groups be given equal status within the organization in order to adequately discharge GPEB's various mandates.
- 30) We recommend that the amendments to the GCA be considered to support changes necessary to meet the recommendations in the Ombudsman's Report and this report.
- 31) We recommend that formal, sustainable risk management processes be implemented at GPEB and that risk tolerance be defined accordingly. As described in recommendation #4 above, we



recommend that GPEB and BCLC align their risk management programs and discuss the collective risks facing the Retail Lottery System, and their collective tolerance for each risk.

- 32) We recommend GPEB consider implementing a whistleblower program to foster a culture of integrity, honesty and openness within GPEB.
- 33) We recommend that all GPEB employees formally acknowledge the standards of conduct and conflict of interest guidelines.
- 34) We recommend GPEB undergo regular independent audits of its activities based on a comprehensive risk-oriented audit approach.

#### **Investigation, Audit and Compliance**

- 35) We recommend GPEB establish a three to five year comprehensive audit plan that would cover all aspects of BCLC's operations. We encourage GPEB to include audits of BCLC's entire processes and controls around complaints, supplier registrations, and Retailer registrations (as indicated in the high level lottery focus document). The high level details of the plan should be discussed and shared with BCLC to help enhance the level of co-operation and assistance GPEB would receive from BCLC when they conduct their independent reviews and assessments.
- 36) We recommend GPEB require BCLC to provide a monthly written report which includes all Section 86 reports submitted to GPEB and that GPEB reconcile the report to ensure completeness of the receipt of these reports from BCLC.
- 37) We recommend that GPEB provide periodic feedback to BCLC in regards to any deficiencies noted with respect to the Section 86 reports and related information received from BCLC.
- 38) We recommend the GPEB Audit and Compliance division expand its planned reviews of BCLC's compliance with Section 86 reporting policies and procedures to ensure that all reports of conduct, activity or incident (indicating an offence under Criminal Code or the GCA) are delivered to GPEB in a complete and appropriate manner.
- 39) We recommend that efforts be made to expedite the granting of access for GPEB investigators to all police databases as soon as possible.
- 40) We recommend GPEB establish formal procedures for communicating the results of its BCLC Retailer inspections with BCLC as well as define a plan to ensure issues identified are addressed appropriately by BCLC.

#### **GPEB Equipment and Ticket Certification**

- 41) We recommend that GPEB finalize and approve the guideline outlining the submission and approval process and the detailed work sheet for technical certifications of games and gaming equipment. The worksheet should be used to document the results of evaluations of each criteria and to communicate the results to BCLC to ensure that the rationale for issuing technical certificates is consistent and transparent.
- 42) We recommend that GPEB clarify the link between the detailed technical standards and the criteria documented in the GCA.
- 43) To ensure a proper assessment of technical integrity, we recommend GPEB finalize and approve the two outstanding technical standards for scratch-and-win tickets and for pull-tab tickets in a timely manner. Technical integrity of instant games should then be evaluated against these standards.
- 44) We recommend GPEB consider periodically reviewing BCLC's quality assurance work to support GPEB's reliance on gaming equipment tests carried out by BCLC.

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# Appendix A – Update on Plans and Actions Taken by BCLC and GPEB to Address the Recommendations in the Ombudsman’s Report

Ministry of Public Safety and Solicitor General  
 British Columbia Lottery Corporation / Gaming Policy and Enforcement Branch  
 Update on Plans and Actions Taken to Address the Recommendations in the Ombudsman's May 2007 Report<sup>1</sup>

BC Ombudsman Findings <sup>2</sup>	BC Ombudsman Recommendation <sup>3</sup>	BCLC's Response May 7, 2007 <sup>4</sup> / GPEB's Response May 8, 2007 <sup>5</sup>	BCLC Update June 26, 2007 <sup>6</sup> / GPEB Update June 29, 2007 <sup>7</sup>
<p><b>Collection of Information</b></p> <p>1. BCLC did not have processes in place that allowed it to track and analyze BCLC retailer and BCLC retailer employee rates of play and win.</p> <p>2. BCLC require all BCLC retailers and BCLC retailer employees (insiders) to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize.</p>	<p>1. BCLC create and maintain a list of current identifying information on all BCLC retailers and BCLC retailer employees.</p>	<p>BCLC accepts the recommendation of maintaining a list of current identifying information on all lottery retailers and their employees. This information would add an additional security layer to better conduct thorough investigations into prize claims. BCLC currently has a list of all retailer owners who must legally sign BCLC's Lottery Operations Agreement (LOA). BCLC is adding lottery retailer employees to this list through a location-by location process of data capturing.</p>	<p><i>Note: GPEB has regulatory responsibilities concerning each of the BCLC recommendations and has incorporated these in its own action plan.</i></p>
		<p>BCLC will also develop a central database that will be populated through a web based lottery certification program.</p>	<p>The project has been initiated. BCLC is still in the development phase with the database and the schedule of deliverables has not yet been finalized.</p>
		<p>In addition, current identifying information for all lottery retailer location managers will be forwarded to the Gaming Policy and Enforcement Branch (GPEB) for registration. GPEB registration includes criminal background checks.</p>	<p>BCLC has provided GPEB with the preliminary Excel list of retailers and is in the process of setting up an ongoing data transfer. BCLC is considering having the new retailer database online with GPEB which will allow GPEB to be notified of retailer changes as they occur. GPEB will be registering both the individual who signed the LOA and the on site manager and this process is starting during the last week of <b>July 2007</b>.</p>
	<p>2. BCLC require all BCLC retailers and BCLC retailer employees (insiders) to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize.</p>	<p>BCLC accepts the recommendation to better track lottery retailer rates of play and win to ensure that the rightful holder of a winning ticket is paid the correct prize.</p>	<p>This is addressed in the other recommendations.</p>
	<p>BCLC will implement a policy prohibiting lottery retailers and their employees from purchasing and validating their personal lottery tickets in their place of employment. BCLC will implement a formal Code of Conduct requiring lottery retailers and their employees to exercise their responsibilities and obligations to the player. BCLC will conduct regular independent research into lottery retailer play activity.</p>	<p>BCLC announced a "No Play at Work" policy on <b>May 29, 2007</b> which prohibits lottery retailers from purchasing, playing or validating personal lottery tickets at their location of employment. They may purchase lottery tickets at other locations, but the ticket validation or purchase information will be confirmed when identified retailers claim their prize at BCLC's offices in Kamloops or Richmond. If retailers attempt to claim their prize at one of the 5 Regional Prize Payout offices, their ticket will be put on hold so it cannot be cashed and they will be directed to a BCLC office in Richmond or Kamloops to claim their prize. All prize claimant names will be checked against the retailer database as a measure to check against retailer not declaring themselves as such.</p>	
	<p>BCLC is committed to developing a system, such as a universal player card within 24 months, in order to track rates of play and support legitimate prize claims. Once operational, lottery retailers and their employees will be obligated to utilize this system.</p> <p>If a practical and workable system that meets the objective of accurately recording retailer play and win rates cannot be developed, then BCLC will reconsider its policy on retailer play.</p>	<p>The formal Lottery Retailer Code of Conduct is finalized and will be released to retailers on <b>July 17, 2007</b>. BCLC has also drafted 6 directives around the "Player First" program that detail the changes announced to the retailers through the "Player First" Lottery Retailer newsletter distributed on <b>May 30, 2007</b>. These directives will be distributed with the formal Lottery Retailer Code of Conduct on <b>July 17, 2007</b>. These packages have been sent to Canada Post and are being compiled to be delivered via registered mail as outlined in the Lottery Operations Agreement (LOA).</p> <p>BCLC commissioned Ipsos Reid in <b>April 2007</b> to conduct research into the rate of lottery play among retail clerks in comparison to lottery players within the general population and will commission further research in the future.</p>	
<p>BCLC is still researching a swipe card system for players and retailers, however, implementation, legal, privacy, cost and other implications are still being reviewed and considered. The timeline for this system is at least 2 years.</p> <p>If required, BCLC will reconsider its policy on retailer play.</p>	<p>BCLC is still researching a swipe card system for players and retailers, however, implementation, legal, privacy, cost and other implications are still being reviewed and considered. The timeline for this system is at least 2 years.</p> <p>If required, BCLC will reconsider its policy on retailer play.</p>		

Ministry of Public Safety and Solicitor General  
British Columbia Lottery Corporation / Gaming Policy and Enforcement Branch  
Update on Plans and Actions Taken to Address the Recommendations in the Ombudsman's May 2007 Report <sup>1</sup>

BC Ombudsman Findings <sup>2</sup>	BC Ombudsman Recommendation <sup>3</sup>	BCLC's Response May 7, 2007 <sup>4</sup> / GPEB's Response May 8, 2007 <sup>5</sup>	BCLC Update June 26, 2007 <sup>6</sup> / GPEB Update June 29, 2007 <sup>7</sup>
	3. BCLC report publicly and annually on the rate of insider play and wins at all prize levels.	<p>BCLC accepts the recommendation of publicly reporting, on an annual basis, the rate of lottery retailer play and wins. As an interim measure, BCLC will report all lottery retailer play and wins. As an interim measure, BCLC will report all lottery retailer prize wins over \$1,000. BCLC is committed to developing solutions to report lottery retailer wins below \$1,000, including a system to track lottery retailer play and wins at all prize levels (as referenced in our response to recommendation #2).</p> <p>BCLC will conduct regular Independent research into lottery retailer play activity and report results annually, in conjunction with wins over \$1,000.</p>	<p><i>Note: GPEB has regulatory responsibilities concerning each of the BCLC recommendations and has incorporated these in its own action plan.</i></p> <p>BCLC will reduce the prize redemption limit for all retailers from \$3,000.00 to \$999.99 in <b>September 2007</b>. All winning tickets of \$1,000 and greater will require redemption either through the mail, at the BCLC offices in Kamloops or Richmond or at 1 of the 5 Regional Prize Payout locations. However, retailers will be required to claim their prizes at one of BCLC's offices (Kamloops or Richmond). If retailers attempt to claim their prize at 1 of the 5 Regional Prize Payout offices or through the mail, their ticket will be put on hold so it cannot be cashed and they will be directed to a BCLC office to claim their prize. All prize claimant names will be checked against the retailer database as a measure to check against retailers not declaring themselves as such.</p> <p>BCLC will then be able to track all retailer winners of \$1,000 or more through the process described in #2 above. BCLC is still considering how to track and report lottery retailer wins below \$1,000. The annual public reporting venue is still in the process of being determined.</p> <p>This is in process as described above.</p>
<p><b>Validation Process</b>  2. BCLC's validation and prize payout procedures had readily identifiable gaps that permitted BCLC retailer and BCLC retailer employee misconduct.</p>	4. BCLC pursue the development of technological security enhancements to monitor self-checking machines, speakers and any other devices designed to alert purchasers/customers of a win and if these devices are disabled for any reason to suspend sales at that location until they are inspected and repaired.	<p>BCLC accepts the recommendation to develop security enhancements to suspend sales at a lottery location where equipment has been disabled. Currently, BCLC is fixing in place all Player Display Units (PDUs) with secure hardware to ensure these units are player facing and visible at all times.</p> <p>BCLC is pursuing the development of a number of security enhancements, including:</p> <ul style="list-style-type: none"> <li>• A technology solution which will cause the lottery terminal to shut down and suspend sales when peripheral equipment such as Check-A-Ticket (CATTs) and PDUs are disabled.</li> <li>• Securing lottery terminals through a lock-down fastener so that the Inside of the terminal cannot be accessed to disable the speaker.</li> <li>• Not reactivating lottery terminals until they are inspected and repaired.</li> </ul>	<p>BCLC has now ensured that all PDUs are secured in place in the view of the player; this project was completed on <b>June 8, 2007</b>. The other security enhancements are in specification and design phase and are expected to be implemented by <b>January 2008</b>.</p> <p>Expected to be implemented by <b>January 2008</b>.</p> <p>Beginning in <b>August 2007</b>, all lottery terminals will be updated to ensure that they cannot be opened and tampered with.</p> <p>Expected to be implemented by <b>January 2008</b>.</p>
3. BCLC did not have effective procedures for checking the security of prize pay outs for prizes under \$10,000.	5. BCLC require tickets or "non-valid duplicates" to be returned to all ticket holders with appropriate markings to identify whether the ticket is not a winner; has been validated but not paid out; or is a winner and has been paid out.	<p>BCLC accepts the recommendation to return all tickets to ticket holders after validation. On an interim basis, lottery retailers will be required to return all winning tickets to ticket holders with an obvious marking to indicate that the ticket has been paid out.</p> <p>Currently all non-winning tickets are required to be returned with corresponding validation receipts. However, BCLC recognizes that it can be difficult for players to associate their tickets with the corresponding validation receipts. Therefore, BCLC will make efforts to help players more easily associate their tickets with the corresponding validation receipts.</p> <p>BCLC will remove certain identification features printed on tickets to provide additional layers for security investigation procedures. This will allow BCLC to verify additional details as part of investigations into prize claims.</p> <p>In the longer term, BCLC commits to pursuing the development of a self serve ticket validation system that would allow the player to initiate and control the validation of their tickets. This new system would imprint the corresponding validation message on the ticket itself, thereby eliminating the need for validation receipts.</p>	<p>BCLC retailers have been mandated since <b>May 31, 2007</b> to return all winning tickets along with the validation slip to ticket holders after validation and stamp them as "paid" on the back of the ticket. In order to get this program initiated immediately, standard "Paid" stamps were purchased and distributed to all retailers as a temporary measure at the beginning of <b>June 2007</b>, and they were then replaced with an official customized "BCLC Paid by Retailer" stamp at the end of <b>June 2007</b>.</p> <p>BCLC has redesigned the validation slips by increasing the size of the font and the prominence of the prize amount, ticket number and game name. These changes will be uploaded in the game terminals in <b>September 2007</b> along with the ability to print duplicate validation slips so retailers can continue to use them to reconcile their records.</p> <p>BCLC has indicated that the change parameters are under review and that the changes will be implemented in a game load scheduled in or before <b>December 2007</b>.</p> <p>BCLC is reviewing options around "self serve validation processes and equipment," but this technology is expensive and not in use by any other lottery corporations worldwide. This is a longer term project, however, BCLC is awaiting a proposal from G-Tech which is expected in <b>mid July 2007</b>.</p>

Ministry of Public Safety and Solicitor General  
British Columbia Lottery Corporation / Gaming Policy and Enforcement Branch  
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	6. BCLC include on-screen information about winning tickets in more than one language if the demographics of an area indicate this is useful.	BCLC accepts the recommendation to communicate on screen information about winning tickets so that people of different language groups can comprehend the winning message. Therefore, BCLC will develop a universal symbol to communicate winning ticket information on Player Display Units and a corresponding, multi-lingual education program.	<i>Note: GPEB has regulatory responsibilities concerning each of the BCLC recommendations and has incorporated these in its own action plan.</i> BCLC has developed a more vivid animated show which displays flashing dollar signs as the universal winner symbol; additionally, the winning amount and the word "winner" has been increased in size and made clearer with greater contrast with the background which will be displayed on PDUs starting in <b>September 2007</b> . As part of the multi-lingual education program, BCLC is in the process of creating "tear off pads" with information in several different languages and these will be available at the retailer sites starting in <b>September 2007</b> .
4. BCLC's prize payout security procedures for prizes over \$10,000 were unreasonably dependent on self-identification by BCLC employees.	7. BCLC impose an audit process on all wins over \$3,000 that includes the requirement for a winner to make a statutory declaration that they are not a close relative of a BCLC retailer or a BCLC retailer employee.	BCLC accepts the recommendation to ensure that BCLC is identifying winners who are lottery retailers or their employees. BCLC will require all winners over \$3,000 to complete a statutory declaration that they are not a lottery retailer, a lottery retailer employee, a close relative, or residing at the same address. Each BCLC designated regional prize payout centre and BCLC offices will be staffed with personnel certified as Commissioner of Oaths.	BCLC has been requiring all winners who redeem prizes of \$3,000 and higher to sign a statement on the "Request for Prize Payment" that they are not a retailer or employee or contractor of a retailer, or spouse or sibling of a retailer living at the same address. These expanded questions to include retailer identification and relationships were added to the form in <b>February 2007</b> . In addition, all winners who redeem prizes of any amount in person at the BCLC offices in Richmond or Kamloops are required to sign the same statement. BCLC is still reviewing the issues and processes required to have sign a statutory declaration and swear in front of a Commissioner of Oaths. This is scheduled to be implemented by <b>September 2007</b> .
	8. BCLC require BCLC retailers to collect identification from winners for wins of \$1,000 and greater and forward this information to BCLC. BCLC will then input this data into a database and perform random and regular audits to ensure the rightful owner of the winning ticket was paid the correct prize.	BCLC accepts the recommendation to collect identification from winners of \$1,000 and greater in order to ensure the rightful holder of the winning ticket is paid the correct prize. BCLC will reduce prize payout limits at lottery retail locations from \$3,000 to \$1,000. Therefore, all winners of prizes over \$1,000 will claim prizes at BCLC offices or BCLC designated regional prize payout centers. BCLC will ensure this information is entered into the prize winner database. These procedures will be subject to regular and random audits.	BCLC will reduce the prize redemption limit for all retailers from \$3,000.00 to \$999.99 in <b>September 2007</b> . All winning tickets of \$1,000 and greater will require redemption either through the mail, at the BCLC offices in Kamloops or Richmond or at 1 of the 5 Regional Prize Payout locations. This way, BCLC will be collecting winner information and retailers will not be charged with this responsibility. Retailers will be required to claim their prizes at one of BCLC's two offices (Kamloops or Richmond); this way, BCLC will be able to track all retailer winners of \$1,000 or more through the process described in #2 above. The Prize Payout screens were modified in <b>March 2007</b> so that all retailer wins can be tracked by ticking the appropriate box in the system. BCLC is still considering how to track and report lottery retailer wins below \$1,000.
	9. BCLC commit to moving toward implementing 100 per cent coverage of Check-A-Ticket machines and Keno Self-Serve Terminals as soon as possible.	BCLC accepts the recommendation to provide expanded access to self services devices and equipment.  BCLC has committed to 100% coverage of Check-A-Ticket terminals (CATT) in all lottery retail locations.  However, in accordance with out social responsibility obligations, BCLC will only place Keno self service terminals (SSTs) in age controlled lottery retail locations (i.e.: bars and pubs) so that minors cannot access self service lottery terminals. BCLC will develop and install new Self Service terminals in all age controlled lottery retail locations (i.e.: bars and pubs) for Keno sale and validation purposes.	BCLC is committed to increase the access to self service devices and equipment.  BCLC has confirmed that CATT coverage is currently at 75% of the transaction activity in the network and that 100% of the retail locations will have CATTs in place by <b>November 2007</b> . BCLC is reviewing the option of extending CATT coverage to Scratch & Win tickets, but will need to redesign the CATTs, games and tickets for this to be accomplished. BCLC is targeting to have the Scratch & Win bar code under latex with the roll-out starting in <b>March 2008</b> .  BCLC has confirmed that 198 out of a total of 928 age controlled lottery locations currently have SSTs in place and new SSTs are being manufactured to fill the gap by <b>March 2008</b> .
	10. BCLC implement a system where scratch and win tickets are recorded when sold to a player. BCLC use this information as a security check during prize payout process.	BCLC accepts the recommendation to record when Scratch & Win tickets are sold to a player in order to use this information as a security check during the prize payout process. BCLC will implement a system that requires lottery retailers to scan or record the activation code for each book of Scratch & Win tickets prior to offering for sale. This record will be used as a security check during the prize payout process for prizes greater than \$1,000.	BCLC has confirmed that recording the activation code for each book of Scratch & Win tickets will be implemented in <b>April 2008</b> .

Ministry of Public Safety and Solicitor General  
British Columbia Lottery Corporation / Gaming Policy and Enforcement Branch  
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		<p>BCLC is committed to developing a system to record individual Scratch &amp; Win ticket sales. A number of issues require further analysis, including:</p> <ul style="list-style-type: none"> <li>• Impact of recording individual transactions on player service and satisfaction levels.</li> <li>• Ensuring lottery retailer compliance.</li> <li>• Legal implications of withholding prizes for non-compliance.</li> </ul>	<p><i>Note: GPEB has regulatory responsibilities concerning each of the BCLC recommendations and has incorporated these in its own action plan.</i></p> <p>BCLC is still reviewing options to record individual Scratch &amp; Win ticket sales.</p>
<p><b>Compliance/Enforcement</b>  5. BCLC's internal watchdog procedures were inadequate for the purpose of reliably identifying suspicious BCLC retailer and BCLC retailer employee activity.</p>	<p>11. BCLC modify its internal watchdog system to ensure that multiple checks of the same ticket, multiple attempts to validate a scratch and win or similar product, and any other suspicious activity be identified, investigated, reported upon, acted upon and tracked for trends.</p>	<p>BCLC accepts the recommendation to ensure any suspicious activity is identified, investigated, reported, acted upon and tracked for trends. BCLC will augment its current lottery retailer monitoring process to allow for improved investigation, reporting, and response to alerts generated from the central gaming system. BCLC is also committed to implementing new computer systems to generate automatic security and fraud detection analysis.</p>	<p>BCLC's current Watchdog system will be modified by <b>January 2008</b> and 24 hour supervision will be in place. BCLC is also considering longer term solutions and systems that will provide more enhanced oversight and monitoring.</p>
	<p>12. BCLC develop an incentive program for BCLC retailers and BCLC retailer employees to identify gaps in post-point of sale security procedures and report them to BCLC.</p>	<p>BCLC accepts the recommendation to identify gaps in the post point of sale security procedures. BCLC is committed to developing appropriate programs to encourage participation of all lottery retailers and their employees in this effort.</p>	<p>BCLC is in the process of designing an annual retailer incentive program to meet this recommendation that will be effective <b>January 1, 2008</b>.</p>
	<p>13. Where BCLC reasonably suspects that a BCLC retailer or BCLC retailer employee or any other person has committed a criminal offense, BCLC promptly pass on this information to the appropriate police force.</p>	<p>BCLC accepts the recommendation to promptly pass on all incidents of suspected criminal activity, as determined by BCLC Corporate Security Investigators (all former law enforcement officers), to appropriate police forces.</p>	<p>BCLC is promptly passing on all incidents of suspected criminal activity to the appropriate police forces.</p>
<p><b>Compliance/Enforcement</b>  6. BCLC's security and enforcement procedures relating to retailer impropriety were insufficient and inconsistently applied.</p>	<p>14. BCLC have a clear, consistently enforced, process of progressive discipline for BCLC retailers and BCLC retailer employees for breaches of post-point of sale security including where appropriate termination of the BCLC contract.</p>	<p>BCLC accepts the recommendation of consistently enforcing progressive discipline policies that are clear to lottery retailers and their employees. BCLC will implement a schedule of progressive and escalating disciplinary measures for violations of the Lottery Operations Agreement including breaches of post point of sale security. BCLC will require all lottery retailers and their employees to acknowledge that failure to comply with the Code of Conduct will result in progressive disciplinary actions up to and including termination of the Lottery Operations Agreement.</p>	<p>BCLC has drafted a Corporate Security Progressive Lottery Retailer Discipline Policy that includes guidelines in determining the disciplinary action appropriate to specific security, integrity and LOA breaches (including termination of the LOAs). The policy was approved internally on <b>June 28, 2007</b> and will be distributed to retailers, along with the Retailer Code of Conduct and Directives, on <b>July 17, 2007</b>.</p>
	<p>15. BCLC certify all persons operating its machinery have been properly trained to do so.</p>	<p>BCLC accepts the recommendation to train and certify all persons operating lottery terminals.</p>	<p>BCLC will ensure that all retailers and their employees receive some form of training.</p>
		<p>BCLC is committed to developing a comprehensive, pro-active, well monitored training system.</p>	<p>BCLC will track and monitor all training through a data base that is in the process of being developed.</p>
		<p>BCLC will implement a number of enhancements to our current training program, including:</p> <ul style="list-style-type: none"> <li>• Increased personal training at retailer location by BCLC sales representative.</li> <li>• Instructional DVDs will be provided to all lottery retailers.</li> <li>• Additional classroom training at BCLC offices and in major centers in the province will be undertaken.</li> </ul>	<p>BCLC is creating an instructional DVD, increasing the number of days of formal training offered at BCLC offices, offering "regional training sweeps" and increasing the focus of sales representatives on training and reinforcing this through their goals in their annual performance plans. The DVD is scheduled to be completed before <b>September 2007</b>. BCLC has issued a RFP for its web based training programs and vendor selections will begin shortly</p>

Ministry of Public Safety and Solicitor General  
British Columbia Lottery Corporation / Gaming Policy and Enforcement Branch  
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		<p>In addition, BCLC is developing a web-based lottery retailer training and certification program. Through this program, BCLC will certify all persons operating its equipment. BCLC sales representatives will ensure compliance by checking the lottery retailer's employee list to the list of BCLC certified lottery retailers and their employees.</p>	<p><i>Note: GPEB has regulatory responsibilities concerning each of the BCLC recommendations and has incorporated these in its own action plan.</i></p> <p>BCLC expects to have the web based lottery retailer training and certification program in place before <b>March 2008</b> (the timeline for the project is under development). This will be an ongoing program as new retailers will have to be continually certified.</p>
	<p>16. BCLC conduct regular, random and comprehensive audits of BCLC retail outlets to ensure compliance with its post-point of sale policies and take progressive disciplinary action for any breaches.</p>	<p>BCLC accepts the recommendation to ensure compliance with its post point of sale policies. BCLC has implemented Mystery Shopper audits where lottery retail locations will be visited on a regular and random basis. The program will be a comprehensive audit of compliance to equipment standards and post point of sale procedures, including validation of winning and non-winning tickets. Disciplinary action will take place as a result of any reaches (as per recommendation #14).</p>	<p>BCLC has completed 2 phases of its Mystery Shopper Program and Security has now taken over Phase 3 which is scheduled to start in <b>September 2007</b>. Phase 3 is being expanded to include more of an audit versus compliance focus and will include validations of winning tickets. BCLC has a meeting schedule in <b>July 2007</b> to discuss the procedures and a new "check sheet" for Phase 3.</p>
	<p>17. BCLC develop an incentive program for purchasers/customers to promptly report deficiencies at its retail stores.</p>	<p>BCLC accepts the recommendation to identify deficiencies at lottery retail outlets. BCLC is committed to developing appropriate programs to encourage deficiency reporting by purchasers/customers. All customer reported claims of lottery retailer deficiencies will be investigated and documented by BCLC.</p>	<p>BCLC introduced a "1800" number for customer complaints and an on-line customer complaints form on <b>May 29, 2007</b> and also created an online complaint form. BCLC is developing a customer/player incentive program that would allow customers/players to assist in identifying issues/concerns in post point-of-sale procedures. This program is scheduled to launch in <b>January 2008</b>.</p>
<p><b>Complaints Process</b>  7. BCLC did not have reliable procedures for recording, tracking and responding to purchaser/customer complaints.</p> <p>8. BCLC did not organize its data collection, analysis and retention to facilitate responses to those purchaser/customer complaints.</p> <p>Consequently, I find BCLC's validation and prize payout procedures were unreasonable as set out in section 23(1)(v) of the <i>Ombudsman Act</i>.</p>	<p>18. BCLC create a written policy for dealing with all customer complaints about post-point of sale security issues, including clear categories for identifying and tracking those customer complaints; a requirement that all those customer complaints be referred to and investigated by Security; a process for analyzing those complaints and tracking trends; and a requirement that the results of the process be reported on annually to the Chief Executive Officer, the Board of BCLC and the public.</p>	<p>BCLC accepts the recommendation to improve the handling of customer complaints. BCLC has implemented a new call tracking system that includes the following features:</p> <ul style="list-style-type: none"> <li>• The ability to cross reference with BCLC Security incident management systems, including clearly defined categories.</li> <li>• Linkage to the lottery retailer database.</li> <li>• Integration with BCLC's email system.</li> <li>• Better workflow design to identify backlogs</li> <li>• Better trend reporting.</li> </ul> <p>BCLC will create updated written policy and procedures, including:</p> <ul style="list-style-type: none"> <li>• Clear identification of the type of customer complaints.</li> <li>• Defined processes, timetables, privacy and confidentiality requirements.</li> <li>• All appropriate customer complaints to be referred to and investigated by BCLC Security.</li> </ul> <p>BCLC will analyze and track trends for post point of sale customer complaints and report annually the results of the process to the Chief Executive Officer, the Board of BCLC and the public.</p>	<p>BCLC has continued to enhance the call tracking system implemented in <b>April 2007</b>. The system has increased efficiencies and better captures and reports customer complaints. New reports are in the process of being developed.</p> <p>In <b>January 2007</b>, BCLC created 4 new general categories (with defined subcategories) in which to file and organize complaints. BCLC is continuing to define the requirements of the system.</p> <p>BCLC is now referring all fraud related calls to Security.</p> <p>BCLC is reporting results on a quarterly basis to the Audit Services and will report annually to the CEO, the Board of BCLC and the public.</p>
<p><b>General</b>  No specific Ombudsman findings.</p>	<p>19. BCLC establish a position at the senior management level with responsibility for all aspects of post-point of sale purchaser/customer prize payout security of lottery products.</p> <p>20. BCLC implement all GPEB December 2006 recommendations promptly.</p>	<p>BCLC accepts the recommendation to have senior management responsibility for all aspects of customer security, including post point of sale prize payout of lottery products. BCLC will develop and assign clear responsibility at the senior management level for this function.</p> <p>All GPEB recommendations have been accepted and are being implemented.</p>	<p>BCLC is in the process of assigning this responsibility.</p> <p>BCLC is in the process of implementing all of the recommendations made by GPEB; recommendations 2, 3, 4, 6, 7, 8 and 9 are complete.</p>



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<p><b>Addressing Past Deficiencies</b>  No specific Ombudsman findings.</p>	<p>21. BCLC be open to receiving complaints from players who feel they were the victim of retailer impropriety. BCLC to investigate the complaints fully to determine if substantiated; if so, BCLC should be willing to reimburse the player.</p> <p>22. BCLC review its records including phone logs and security records to determine if there are any complaints where BCLC can improve its response or investigation.</p> <p>23. BCLC Security review of all multiple retailer winners to confirm that the prize pay outs are valid; if suspicious circumstance are found, BCLC to report to the appropriate authorities.</p>	<p>BCLC accepts the recommendation to invite complaints from players who feel that they may have been subject to retailer impropriety. BCLC is committed to investigating each complaint fully and, if substantiated, will ensure the player is properly reimbursed.</p> <p>BCLC accepts the recommendation to ensure customers' complaints have been handled properly. BCLC will hire an independent third party to review all phone logs and security records for the past two years to determine if there are any complaints where BCLC can improve its response or investigation.</p> <p>BCLC accepts the recommendation to ensure that all multiple retailer winners' prize payouts are valid. BCLC Security will review and investigate all multiple lottery retailer winner claims and, if suspicious circumstances are found, will take appropriate action including reporting to appropriate authorities.</p>	<p><i>Note: GPEB has regulatory responsibilities concerning each of the BCLC recommendations and has incorporated these in its own action plan.</i></p> <p>BCLC established the "1800" number on <b>May 29, 2007</b> and placed ads in all of the daily newspapers across the Province to notify the public of the toll free number. BCLC now escalates all retail impropriety claims to Security who investigate all these matters. BCLC has created a new manager position in Security and has hired 10 contractors to assist in the increased volume of complaints and investigations and is also hiring 3 more full time investigators.</p> <p>BCLC is in the process of hiring an independent group of contractors to review the past 2 years of complaints.</p> <p>BCLC engaged an independent forensic accountant to review the multiple retail winners and no significant issues were noted during the review with respect to the multiple retailer winners.</p>
<p><b>GPEB's Monitoring of BCLC Prize Payout Procedures</b>  9. GPEB did not, prior to October 27, 2006, adequately monitor, investigate or otherwise regulate BCLC's lottery prize payout procedures or BCLC's handling of customer complaints about BCLC retailer or BCLC retailer employee fraud.</p>	<p>24. GPEB enhance its regulation of BCLC's lottery prize payout procedures and complaints handling process. This should include but not be limited to GPEB conducting regular audits of BCLC's lottery prize payout procedures and BCLC's investigation of customer complaints, ensuring BCLC's compliance with its section 86 reporting requirement and independently conducting its own investigations into public complaints involving BCLC's prize payout procedures. All of these activities should be reported on publicly in its annual report.</p>	<p>GPEB accepts this recommendation. In response, GPEB will enhance its regulation of BCLC's lottery prize payout procedures and complaints handling processes. Specifically, GPEB will:</p> <ul style="list-style-type: none"> <li>• Conduct regular and independent audits of BCLC's lottery prize payout procedures and BCLC's investigation of customer complaints;</li> <li>• Ensure BCLC complies with its Section 86 reporting agreement;</li> <li>• Confirm BCLC's obligation to provide to GPEB, as soon as possible and with urgency, full and comprehensive files in support of each initial Section 86 notification;</li> <li>• Reconfirm to BCLC that, in response to any Section 86 notifications concerning potential fraud by a lottery retailer or a lottery retailer employee, GPEB will continue to make independent decisions about whether to conduct a full and separate investigation of the circumstances;</li> <li>• Audit and review BCLC's policies and procedures for addressing public complaints involving BCLC's prize payout procedures; and</li> <li>• If and as necessary, conduct an investigation [under Section 27(3) of the Act] of any systematic and recurring problems.</li> </ul> <p>All of these activities will be reported publicly in GPEB's annual report.</p>	<p>GPEB is in the process of establishing a comprehensive audit and compliance strategy for BCLC's lottery business. GPEB plans to add 5 employees to the Audit &amp; Compliance Division for this program.</p> <p>GPEB routinely confirms BCLC's obligation to notify GPEB (under Section 86 of the Gaming Control Act) immediately about any real or suspected conduct, activity or incident occurring in connection with a lottery scheme that may or does involve the Act or its regulations.</p> <p>BCLC is forwarding to GPEB all Section 86 notifications with respect to BCLC, BCLC lottery retailers and lottery retailer employees.</p> <p>GPEB plans to conduct a thorough and independent investigation of any complaint or allegation of retailer or retailer impropriety received from any party other than BCLC, complaint or allegation concerning any employee of BCLC and complaints or allegations received from BCLC that warrant investigation. GPEB is developing a comprehensive approach to ensure ongoing tracking of GPEB and BCLC's implementation of new lottery procedures and the capacity for accurate public reporting.</p>

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	<p>25. GPEB conduct independent systemic investigations into any recurring problems.</p>	<p>GPEB accepts this recommendation. In response to this recommendation, as well as GPEB's findings in response to the previous recommendation, and GPEB's ongoing role in regulating BCLC's lottery policies and procedures, GPEB will:</p> <ul style="list-style-type: none"> <li>• Establish a system to routinely monitor, review and audit BCLC's lottery retailer policies, procedures and systems (including but not limited to: BCLC's contract framework; retailer operating practices; retailer handling of lottery tickets and advising of customers; retailer information systems; ticket validation and prize payout processes; compliance and enforcement policies and procedures; and policies and procedures concerning reporting to GPEB, BCLC's Board of Directors and the public);</li> <li>• Independently audit and review any identified systemic or recurring problems; and</li> <li>• If and as necessary, investigate [under Section 27(3) of the Act] any systemic or recurring problems.</li> </ul>	<p><i>Note: GPEB has regulatory responsibilities concerning each of the BCLC recommendations and has incorporated these in its own action plan.</i></p> <p>In <b>June 2007</b>, GPEB will commence implementation of a lottery retail registration program. At least two persons per retail location will be registered. Registration forms will be sent to retailers in late <b>July 2007</b>. The registration system is expected to be launched and in place at the end of <b>July 2007</b>.</p> <p>GPEB plans to establish and maintain full and immediate access to BCLC's inventory of retailers and retailer employees.</p> <p>GPEB plans to certify all existing lottery products and new lottery products for technical integrity. Certificates of integrity will be issued before the end of <b>July 2007</b>.</p> <p>GPEB plans to certify technological security enhancements and upgrades to the lottery systems designed to monitor self checking machines, speakers and other security devices.</p> <p>GPEB is implementing processes to identify systemic or recurring problems with BCLC's lottery business practices.</p>
<p><b>GPEB's 2006 Investigation of BCLC's Prize Payout Procedures</b></p> <p>10. GPEB's November/December 2006 investigation into and report on the integrity of BCLC's lottery ticket retail network was inadequate.</p> <p>Consequently, I find GPEB's actions relative to regulating BCLC's lottery prize payout procedures were unreasonable as set out in section 23(1)(v) of the <i>Ombudsman Act</i>.</p>	<p>26. GPEB report publicly on BCLC compliance with its recommendations for change every six months until completed and clearly identify whether it is satisfied with the progress.</p> <p>27. GPEB conduct a thorough investigation of BCLC's investigation into all complaints of potential retailer impropriety since January 1, 2005 and report publicly on all findings.</p>	<p>GPEB accepts this recommendation. In response, GPEB will:</p> <ul style="list-style-type: none"> <li>• Continue to monitor and engage BCLC in the implementation of GPEB's recommendations for change;</li> <li>• Report publicly on BCLC's compliance with the recommendations for change at least every six month (but more likely quarterly) until fully</li> <li>• Clearly identify whether GPEB is satisfied with BCLC's progress; and</li> <li>• Monitor BCLC's progress in implementing the Ombudsman's recommendations to BCLC concerning BCLC's lottery prize payout procedures and report publicly on BCLC's progress and GPEB's satisfaction with that progress.</li> </ul> <p>GPEB accepts this recommendation. In response, GPEB will:</p> <ul style="list-style-type: none"> <li>• Conduct a thorough and independent audit and review of BCLC's handling of all complaints of potential retailer impropriety since January 1, 2005 and report publicly on its findings;</li> <li>• Continue to conduct reviews of the full files supporting those complaints and make independent decisions about which, if any, Section 86 notifications concerning potential fraud by a lottery retailer or a lottery retailer employee warrant a full and separate investigation [under Section 27(3) of the Act];</li> <li>• If and as necessary, conduct an independent investigation [under Section 27(3) of the Act] of any systemic or recurring problems; and</li> <li>• In order to satisfy GPEB that BCLC's current and ongoing complaint handling processes are proper and complete, conduct an independent investigation [under Section 27(3) of the Act] of at least 10 percent of all notifications to GPEB. The files to be independently reviewed will include those noted above for which GPEB makes and independent determination that a separate investigation is warranted, as well as a random sample of other notifications.</li> </ul>	<p>GPEB will verify BCLC's compliance with GPEB's recommendations resulting from GPEB's review of BCLC's lottery payout procedures (December 2006) and with the Ombudsman's May 2007 recommendations to BCLC.</p> <p>GPEB's Assistant Deputy Minister is forming a full and comprehensive action plan, including, but not limited to, a schedule (start and completion dates for each item) and monitoring and reporting arrangements.</p> <p>GPEB plans to conduct a thorough investigation of BCLC's investigation into all complaints of potential retailer impropriety since January 1, 2005 and report publicly on all findings. GPEB has indicated they will commence their work once Deloitte &amp; Touche LLP has established their audit plan to ensure there is no duplication of effort.</p> <p>GPEB will cooperate with the independent audit being conducted on BCLC and GPEB's lottery operations.</p>

Notes:

- (1) This summary is not intended for general distribution or circulation, nor is it to be reproduced or used for any other purpose without our express written consent. Deloitte accepts no responsibility or liability for any losses suffered by you or any unauthorized user as a result of the circulation, publication, reproduction, or other uses of this summary contrary to the provisions of this restriction.
- (2) Source: Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process, Office of the Ombudsman pages 77 to 78,
- (3) Source: Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process, Office of the Ombudsman pages 79 to 81,
- (4) Source: Letter dated May 7, 2007 from BCLC to the Office of the Ombudsman.
- (5) Source: Letter dated May 8, 2007 from Ministry of Public Safety and Solicitor General to Ms Kim Carter, Ombudsman.
- (6) Based on discussions held with BCLC representatives on June 26, 2007. This does not include Deloitte's independent opinion or assessment of the recommendations and actions taken or planned to date.
- (7) Based on discussions held with GPEB representatives on June 29, 2007. This does not include Deloitte's independent opinion or assessment of the recommendations and actions taken or planned to date.

Appendix B –  
BCLC Public Report Dated September 12, 2007 on  
its Plans and Actions Taken to Address the  
Recommendations in the Ombudsman’s Report

## Summary: BCLC Response to Recommendations by the BC Ombudsman

Ombudsman Recommendation	Target Completion
1. BCLC create and maintain a list of current identifying information on all BCLC retailers and BCLC retailer employees.	March 2008
2. BCLC require all BCLC retailers and BCLC retailer employees (insiders) to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize.	Summer 2009
3. BCLC report publicly and annually on the rate of insider play and wins at all prize levels.	May 2008
4. BCLC pursue the development of technological security enhancements to monitor self-checking machines, speakers and any other devices designed to alert purchasers / customers of a win and if these devices are disabled for any reason to suspend sales at that location until they are inspected and repaired.	January 2008
5. BCLC require tickets or 'non-valid duplicates' to be returned to all ticket holders with appropriate markings to identify whether the ticket is not a winner; has been validated but not paid out; or is a winner and has been paid out.	Summer 2009
6. BCLC include on-screen information about winning tickets in more than one language if the demographics of an area indicate this is useful.	December 2007
7. BCLC impose an audit process on all wins over \$3,000 that includes the requirement for a winner to make a statutory declaration that they are not a close relative of a BCLC retailer or a BCLC retailer employee.	November 2007
8. BCLC require BCLC retailers to collect identification from winners for wins of \$1,000 and greater and forward this information to BCLC. BCLC will then input this data into a database and perform random and regular audits to ensure the rightful owner of the winning ticket was paid the correct prize.	December 2007
9. BCLC commit to moving toward implementing 100 per cent coverage of Check-A-Ticket terminals (CATs) and Keno Self-Service Terminals (SST) as soon as possible.	CATs: November 2007 Keno SSTs: March 2008
10. BCLC implement a system where scratch and win tickets are recorded when sold to a player. BCLC to use this information as a security check during prize payout process.	Summer 2009
11. BCLC modify its internal watchdog system to ensure that multiple checks of the same ticket, multiple attempts to validate a scratch and win or similar product, and any other suspicious activity be identified, investigated, reported upon, acted upon and tracked for trends.	Summer 2009

Ombudsman Recommendation	Target Completion
12. BCLC develop an incentive program for BCLC retailers and BCLC retailer employees to identify gaps in post-point of sale security procedures and report them to BCLC.	January 2008
13. Where BCLC reasonably suspects that a BCLC retailer or retailer employee or any other person has committed a criminal offence, BCLC promptly pass on this information to the appropriate police force.	Completed November 2006
14. BCLC have a clear, consistently enforced, process of progressive discipline for BCLC retailers and BCLC retailer employees for breaches of post-point of sale security including where appropriate termination of the BCLC contract.	Completed July 2007
15. BCLC certify all persons operating its machinery have been properly trained to do so.	March 2008
16. BCLC conduct regular, random and comprehensive audits of BCLC retail outlets to ensure compliance with its post-point of sale policies and take progressive disciplinary action for any breaches.	December 2007
17. BCLC develop an incentive program for purchasers/customers to promptly report deficiencies at its retail outlet.	January 2008
18. BCLC create a written policy for dealing with all customer complaints about post point of sale security issues, including clear categories for identifying and tracking those customer complaints; a requirement that all those customer complaints be referred to and investigated by security; a process for analysing those complaints and tracking trends; and a requirement that the results of the process be reported on annually to the Chief Executive Officer, the Board of BCLC and the public.	July 2008
19. BCLC establish a position at the senior management level with responsibility for all aspects of post point of sale purchaser/customer prize payout security of lottery products.	November 2007
20. BCLC implement all GPEB December 2006 recommendations promptly.	November 2007
21. BCLC be open to receiving complaints from players who feel that they were the victim of retailer impropriety. BCLC to investigate the complaints fully to determine if substantiated; if so, BCLC should be willing to reimburse the player.	Complete
22. BCLC review its records including phone logs and security records to determine if there are any complaints where BCLC can improve its response or investigation.	April 2008
23. BCLC security review all multiple retailer winners to confirm that the prize payouts are valid; if suspicious circumstances are found, BCLC to report to the appropriate authorities.	October 2007

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<b>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</b>			
<b>1. BCLC create and maintain a list of current identifying information on all BCLC retailers and BCLC retailer employees.</b>	Phase 1: Initial compilation of current identifying information for lottery retailers.  Phase 2: Comprehensive retailer database developed in conjunction with the retailer training and certification program starting October 2007.  BCLC Sales Representatives will check current retailer employee lists against the retailer database to ensure compliance and accuracy.	Request for information issued to retailers May 19, 2007. Initial compilation completed August 2007.  Maintenance of comprehensive retailer database will be ongoing.	March 2008
	BCLC will provide Gaming Policy Enforcement Branch (GPEB) monthly updates for on-site location manager information and Lottery Operation Agreement signatory for registration purposes.	Report parameters are being developed. GPEB registration started July 2007 with BCLC Retail kiosks first.	September 2007
<b>2. BCLC require all BCLC retailers and BCLC retailer employees (insiders) to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize.</b>	BCLC is investigating a universal player card that would be optional for players and mandatory for lottery retailers.  "No Play At Work" policy implemented. Lottery retailers (including employees who operate lottery equipment in the course of their jobs) are no longer allowed to purchase, play or validate their personal lottery tickets at their location of employment.  All retailer prize claims over \$1,000 are subject to interviews by Corporate Security personnel and require sign off	Investigation underway.  "No Play at Work" policy announced publicly May 29, 2007. A Directive was sent to all lottery retailers on July 17, 2007.	Summer 2009  Completed July 2007  Completed July 2007

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.			
	by the President and CEO		
	BCLC has developed a new Lottery Retailer Code of Conduct which provides for consistent standards and expectations across the BCLC lottery network.	Lottery Retailer Code of Conduct sent to lottery retailers on July 17, 2007 and also included in the Player First retailer binder sent August 27, 2007.	Completed July 2007
3. BCLC report publicly and annually on the rate of insider play and wins at all prize levels.	BCLC will conduct regular independent research into retailer activity and report publicly and annually on the rate of insider play and prize wins at all levels.	BCLC is now tracking all retailer wins above \$1,000 for annual reporting.  BCLC has contracted with Ipsos Reid to survey retailer play rates.	May 2008
4. BCLC pursue the development of technological security enhancements to monitor self-checking machines, speakers and any other devices designed to alert purchasers / customers of a win and if these devices are disabled for any reason to suspend sales at that location until they are inspected and repaired.	This recommendation seeks to reduce or eliminate the ability for any customer facing device to be tampered with or taken out of service. It focuses specifically on the Customer Display Monitor and Check-A-Ticket terminals (CATs).	All lottery terminals will be altered to ensure that they cannot be opened and tampered with by end of September 2007.  System to provide BCLC with real-time notification of tampering so that sales can be suspended is in development.	September 2007  January 2008



**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<p>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</p>			
<p>5. BCLC require tickets or 'non-valid duplicates' to be returned to all ticket holders with appropriate markings to identify whether the ticket is not a winner; has been validated but not paid out; or is a winner and has been paid out.</p>	<p>A new device will be developed for use at point of sale to allow the player to validate their own ticket and the result printed on it. The player will have no need to surrender the original ticket to a lottery retailer.</p> <p>BCLC has implemented a new validation procedure that requires lottery retailers to return all tickets to the player; previously only non-winning tickets were returned. The new procedure requires lottery retailers to stamp the back of the winning ticket with "BCLC Paid by Lottery Retailer" stamp.</p> <p>In addition, BCLC created a validation information slip which is given to a player when the ticket is a winner but the lottery retailer can not pay-out the prize. The validation information slip confirms the prize.</p>	<p>BCLC is currently researching multiple options.</p> <p>Lottery retailers were required to return all tickets (including winning tickets with "PAID" marked on the back) and validation slips to players as of May 31, 2007.</p>	<p>Summer 2009</p> <p>Completed June 2007</p> <p>Completed May 2007</p>
	<p>The wording and the layout of validation slips are being modified to ensure they are easy to read and check against tickets.</p> <p>Changes include increasing font size, providing easier to understand wording and removing promotional messages.</p>	<p>Project completed.</p> <p>Additional work will be undertaken to incorporate BCLC's "universal winner symbol" into returned winning validation slips.</p>	<p>Completed September 2007</p> <p>Spring 2008</p>



**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<p>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</p>			
	<p>Currently tickets printed by the lottery terminal show purchase or play information which, if removed, could be used to enhance security investigations.</p>	<p>BCLC is undertaking a review of what information can be removed from the ticket to provide enhanced scrutiny of ticket ownership.</p>	<p>January 2008</p>
<p>6. BCLC include on-screen information about winning tickets in more than one language if the demographics of an area indicate this is useful.</p>	<p>Providing multi-lingual information on the Customer Display Monitor, by location, is not possible as they are not programmed to display different messages for each lottery retailer.</p> <p>BCLC is committed to more clearly communicating winning results to all players. When a player validates a winning ticket, the universal win symbol (dollar signs) will "fly" across the screen along with the word "WINNER" and the winning amount.</p> <p>BCLC will develop a brochure to educate players about winning tickets in multiple languages.</p>	<p>A universal win symbol was implemented August 27, 2007.</p> <p>Additional changes include:</p> <ul style="list-style-type: none"> <li>• "WINNER" font provides more contrast with background and made easier to read</li> <li>• Multi-lingual "Play with Confidence" brochure will be distributed December 2007.</li> </ul>	<p>Completed August 2007</p> <p>December 2007</p>
<p>7. BCLC impose an audit process on all wins over \$3,000 that includes the requirement for a winner to make a statutory declaration that they are not a close relative of a BCLC retailer or a BCLC retailer employee.</p>	<p>A statutory declaration will be required by all prize claimants for amounts of \$3,000 or more to verify they are not a lottery retailer, or a family member of a lottery retailer.</p> <p>In order to process statutory declarations in British Columbia, Prize Payout staff must be appointed as Commissioners for Taking Affidavits.</p> <p>Prize claim forms from other jurisdictions were reviewed to identify</p>	<p>Statutory declarations will be implemented by October 2007, once BCLC prize payout staff have been appointed as Commissioners for Taking Oaths.</p> <p>New prize claim forms in use June 2007 that record whether a winner is a retailer or insider.</p>	<p>October 2007</p> <p>Completed July 2007</p>

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<p>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</p>			
	<p>opportunities for enhancements to the prize claim process.</p> <p>The prize claim process policy for mail-in claims is under review to include a process for the new validation procedures, including statutory declaration requirements, as well as new process for security investigations. Opportunities for statutory declarations in remote locations are being investigated.</p> <p>Lotto Subscription forms were amended to include a claimant declaration indicating if the player is a lottery retailer or a family member of a lottery retailer.</p>	<p>Statutory declaration process for mail-in claims to be implemented October 2007</p> <p>On-The-Spot subscription forms revised August 27, 2007. Renewal/Expiry Notice forms under review.</p>	<p>October 2007</p> <p>November 2007</p>
<p>8. BCLC require BCLC retailers to collect identification from winners for wins of \$1,000 and greater and forward this information to BCLC. BCLC will then input this data into a database and perform random and regular audits to ensure the rightful owner of the winning ticket was paid the correct prize.</p>	<p>BCLC has reduced prize payout validation limits at lottery retail locations throughout the province from \$3,000 to \$999.99. This will allow BCLC to capture information for winners \$1,000 and higher in the prize winner database.</p> <p>A process for conducting regular audits of these claims will be established by December 2007.</p>	<p>Validation limit was reduced to \$999.99 in August 27, 2007.</p> <p>Process in development.</p>	<p>Completed September 2007</p> <p>December 2007</p>
<p>9. BCLC commit to moving toward implementing 100% coverage of Check-A-Ticket Terminals (CATs) and Keno Self-Service Terminals (SST) as soon as possible.</p>	<p>Check-A-Ticket Terminals (CATs) allow the player to check lottery products except Scratch and Win tickets and Pull Tabs. The CAT will display whether your ticket is a winner or not, and if so, how much you've won. BCLC will provide 100% Check-A-Ticket Terminal</p>	<p>Phase 1: CAT programming altered to display actual win amount. Completed April, 2007.</p> <p>Phase 2: 1,200 new CATs ordered. As of June 2007 CATs were available in 75% of lottery locations.</p>	<p>November 2007</p>

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

Ombudsman Recommendation	Action Description	Current Status	Target Completion
<p>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</p>			
	(CATs) coverage at all lottery locations.	Phase 3: CATs will be available in 100% of lottery locations by November 2007.	
	Newly developed self-service lottery terminals (SSTs) will be installed in bars and pubs that sell lottery products so players can purchase and validate their own lottery tickets.	SSTs are currently available in 198 locations. New units to be installed starting in December 2007.	March 2008
	Scratch & Win (S&W) tickets are currently not readable by CATs. In order to provide this capability, S&W tickets will be redesigned by placing the validation bar code under latex. The bar code would not be readable until the latex is removed, thereby providing an additional layer of security.	Vendor RFP development in progress.	Summer 2009
<p>10. BCLC implement a system where Scratch &amp; Win tickets (S&amp;W) are recorded when sold to a player. BCLC to use this information as a security check during prize payout process.</p>	BCLC will investigate options for tracking the time of sale for <u>individual</u> Scratch & Win (S&W) tickets. In order to do this, the entire process for the development and distribution of S&W tickets will be reviewed.	Options are being reviewed.	Summer 2009
	BCLC is investigating options for scanning or recording the code on a <u>pack</u> of S&W tickets prior to selling them to a player. This will help identify the timeframe when a ticket is sold to a player. This record will be used as a security check during the prize payout process for prizes greater than \$1,000.	Options are being reviewed.	April 2008

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<p>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</p>			
<p>11. BCLC modify its internal watchdog system to ensure that multiple checks of the same ticket, multiple attempts to validate a scratch and win or similar product, and any other suspicious activity be identified, investigated, reported upon, acted upon and tracked for trends.</p>	<p>Internal systems currently used to monitor retail activities and sales patterns for suspicious activity will be upgraded and integrated into a new incident tracking system. System replacement under consideration.</p>	<p>Manual processes to improve tracking and follow-up of alerts from current systems have been implemented for short term use. BCLC is currently assessing opportunities for implementing a full scale Fraud Detection system.</p>	<p>Summer 2009</p>
<p>12. BCLC develop an incentive program for BCLC retailers and BCLC retailer employees to identify gaps in post-point of sale security procedures and report them to BCLC.</p>	<p>BCLC will provide an incentive to retailers that will encourage them to identify opportunities for post point of sale security improvements.</p>	<p>Options are being reviewed.</p>	<p>January 2008</p>
<p>13. Where BCLC reasonably suspects that a BCLC retailer or retailer employee or any other person has committed a criminal offence, BCLC promptly pass on this information to the appropriate police force.</p>	<p>BCLC reports any incidents of suspected fraud or other criminal activity to police and to Gaming Policy &amp; Enforcement Branch.</p>	<p>Current practice.</p>	<p>Completed November 2006</p>
<p>14. BCLC have a clear, consistently enforced, process of progressive discipline for BCLC retailers and BCLC retailer employees for breaches of post-point of sale security including where appropriate termination of the BCLC contract.</p>	<p>To help make sure players are protected and serviced by retailers willing to support BCLC policies and procedures, an enhanced Lottery Retailer Progressive Discipline Policy has been put in place. The Policy makes certain there is clear and consistent application of discipline that will be followed if BCLC Corporate Security investigators identify conduct by lottery retailers which harm and undermine:</p> <ul style="list-style-type: none"> <li>the integrity or security of lottery</li> </ul>	<p>Lottery Retailer Progressive Discipline Policy approved June 26, 2007.</p> <p>Lottery Retailer Progressive Discipline Policy sent to lottery retailers on July 17, 2007 and also included in the Player First retailer binder sent August 27, 2007.</p>	<p>Completed July 2007</p>



**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<p>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</p>			
	<p>games</p> <ul style="list-style-type: none"> <li>the reputation of BCLC's lottery games</li> <li>BCLC's authority to conduct, manage and operate lottery schemes on behalf of the Government of BC.</li> </ul> <p>Disciplinary measures range from warning letter to immediate termination of the Lottery Operations Agreement depending on the type of contractual violation.</p>		
<p>15. BCLC certify all persons operating its machinery have been properly trained to do so.</p>	<p>BCLC will certify that all persons who operate lottery equipment have been trained. Training sessions will be available at BCLC offices, regional locations and on-site by BCLC Sales Representatives as well as through web-based/online training. Lottery retailers will have to pass a test to receive certification. Once certified, BCLC captures the names and date of birth of all lottery retailers for addition to the lottery retailer database (used to verify lottery retailer prize claims). Lottery retailers are required to maintain correct database information.</p>	<p>Certification program will begin October 2007 with training offered at BCLC offices, regional locations, on-site by Sales Representatives or through a training DVD.</p> <p>Web-based/online training and certification will be launched early 2008. RFP for web-based training issued.</p>	<p>October 2007</p> <p>March 2008</p>
<p>16. BCLC conduct regular, random and comprehensive audits of BCLC retail outlets to ensure compliance with its post-point of sale policies and take progressive disciplinary action for any</p>	<p>BCLC's "mystery shopper" program now involves auditing retailers to ensure compliance with BCLC's validation procedures. Disciplinary action will take</p>	<p>By December 2007, the majority of lottery retailers will have been visited at least once (except outlying points). An enhanced "mystery shopper" program is being</p>	<p>December 2007</p>

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<p>Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.</p>			
breaches.	place as a result of any breaches.	developed for implementation in January 2008. This program will use winning tickets to test validation, payout and retailer integrity	
17. BCLC develop an incentive program for purchasers/customers to promptly report deficiencies at its retail outlet.	<p>BCLC is developing a Customer/Player Incentive Program.</p> <p>Players can contact BCLC (toll-free line, mail or using bclc.com) to report any perceived deficiencies in the lottery retail environment.</p> <p>BCLC's Corporate Security staff will investigate and document all reported lottery retailer deficiencies and take appropriate action when necessary.</p>	<p>In development.</p> <p>Complete.</p> <p>Current practice.</p>	January 2008
18. BCLC create a written policy for dealing with all customer complaints about post point of sale security issues, including clear categories for identifying and tracking those customer complaints; a requirement that all those customer complaints be referred to and investigated by security; a process for analysing those complaints and tracking trends; and a requirement that the results of the process be reported on annually to the Chief Executive Officer, the Board of BCLC and the public.	<p>This program is intended to take a company-wide view to complaint management and resolution. It will involve changes to systems, process, policy and procedures. Trend analysis and integration to the overall risk and fraud framework will be included.</p> <p>An interim report on current complaint activities will be issued in December, and thereafter reporting will occur annually.</p>	<p>Call tracking system implemented April 2007. System provides call centre efficiencies and captures customer complaints received through all channels (email, 1-800 number, or mail).</p> <p>All integrity complaints are now referred to security.</p> <p>Wider case management systems and procedure changes now under consideration.</p>	July 2008
19. BCLC establish a position at the senior management level with	Terms of reference developed.	To be implemented once position	November

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.			
responsibility for all aspects of post point of sale purchaser/customer prize payout security of lottery products.		filled.	2007
20. BCLC implement all GPEB December 2006 recommendations promptly.	BCLC has accepted all of GPEB's December 2006 recommendations.	Of the 10 GPEB recommendations, 7 are complete and 3 are ongoing.	November 2007
21. BCLC be open to receiving complaints from players who feel that they were the victim of retailer impropriety. BCLC to investigate the complaints fully to determine if substantiated; if so, BCLC should be willing to reimburse the player.	All security-related complaints, including complaints of retailer impropriety, made through telephone, written correspondence or submitted through bclc.com are forwarded to lottery security for tracking and full investigation. Results of investigations are communicated to the player involved.	"Play With Confidence" page launched on bclc.com April 2007. This information was also advertised in newspapers throughout the province to advise players where they can complain. Toll free customer complaint line launched May 29, 2007.	Completed
22. BCLC review its records including phone logs and security records to determine if there are any complaints where BCLC can improve its response or investigation.	Call logs/transcripts for August 2004 through December 2006 have been provided to KPMG for third-party review. Records identified by KPMG will be reviewed and investigated by Corporate Security.	Initial review has been completed by KPMG.  Security has begun their investigation of these results.	Completed July 2007  April 2008
23. BCLC security review all multiple retailer winners to confirm that the prize payouts are valid; if suspicious circumstances are found, BCLC to report to the appropriate authorities.	BCLC has contracted a third party Forensic Accountant to review in detail the prize claim files of lottery retailers from 2001 to 2007 who have claimed prizes over \$10,000. Specifically to determine whether the rightful owner of the prize winning ticket has been paid and/or possible reasons for multiple wins.	Forensic Accountant's final report released August 23, 2007.  All retailer wins \$1,000 or greater are now being reviewed by Corporate Security investigators to determine if prize payouts are valid.  The Solicitor-General has also appointed Deloitte & Touche to conduct a formal review of BCLC and GPEB, which includes review of	Completed August 2007  October 2007

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>Ombudsman Recommendation</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
Note: "Retailer(s)" refers to any lottery retail location owner, manager or employee who operates BCLC lottery equipment, handles lottery products, or provides lottery services.			
		winner files.	
<b>Actions related to concerns about Game Design Issues (Ombudsman's Report, Appendix C)</b>			
Review of Pull Tab model and provide recommendations for change.	BCLC will investigate options regarding what prizes have been won and which remain for the prize categories on Pull Tab games.	Under review.	April 2008
Scratch & Win (S&W) Prizes won reported on bclc.com	BCLC will provide information through our website on what prizes have been won and which remain for the prize categories on S&W games.	BCLC has begun work on system changes to allow for the reporting of ongoing prizing breakdowns for S&W games.	April 2008



**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>ADDITIONAL INITIATIVES BEING IMPLEMENTED TO PUT BCLC AT THE FOREFRONT OF PLAYER PROTECTION</b>			
<b>Additional Action</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
<b>"Win" tune change.</b>	The win tune is the musical jingle that plays on the Lottery Terminal every time there is a winning ticket validated. The music now plays at the loudest volume and the tune has been modified to make it more distinct.	New win tune developed and implemented August 27, 2007.	Completed September 2007
<b>Lottery terminal freeze.</b>	Programming is being developed to make the Lottery Terminal freeze when a validation of \$10,000 or greater occurs. The retailer will be instructed to call Hotline and follow specific instructions. The player will also be spoken with by Hotline to ensure they understand what they need to do to redeem their prize.	Programming in progress.	November 2007
<b>Extend validation file retention period.</b>	Currently tickets that are validated or checked multiple times within 30 days following the draw will return the message to the player of "Already Validated." Due to data storage limitations, after 30 days the game validation files are purged and any further attempts to repeat validate displays "Not A Winner", leading to occasions when player believes he/she is being deprived of a win. System changes will be implemented to retain the specific validation message for a longer period of time.	Programming in progress.	November 2007

**BCLC Response to Recommendations by the BC Ombudsman  
Player First Status Update – September 2007**

<b>ADDITIONAL INITIATIVES BEING IMPLEMENTED TO PUT BCLC AT THE FOREFRONT OF PLAYER PROTECTION</b>			
<b>Additional Action</b>	<b>Action Description</b>	<b>Current Status</b>	<b>Target Completion</b>
Implement "Play With Confidence" advertising.	<p>BCLC has implemented and will continue to support the "Play with Confidence" advertising program.</p> <p>BCLC will provide players with educational information about how to protect their ticket and how to determine if their ticket is a winner, and if so, how much.</p>	<p>"Ticket Care Instructions" and "Play With Confidence" advertising campaigns were initiated in November 2006.</p> <p>Educational information will continue to be provided.</p>	December 2007
Validation limit reduction and implementation of extended hours for Prize Payout Offices.	<p>BCLC has reduced prize payout validation limits at lottery locations from \$3,000 to \$999.99. For prizes \$1,000 - \$9,999 players will be directed to claim prizes at BCLC's Richmond or Kamloops Prize Payout Offices, one of five Regional Prize Payout Centres or through the mail.</p>	<p>Validation limit reduction and extended hours for Prize Payout Offices in effect as of August 27, 2007.</p>	Completed September 2007
	<p>Prize claims \$10,000 or greater must be claimed in person at BCLC's Richmond or Kamloops Prize Payout Offices only.</p> <p>BCLC's Richmond and Kamloops Prize Payout Office hours of operation will be extended until 9:00 pm on Thursdays and open Saturdays from 9:00 am to 4:30 pm to accommodate anticipated demand.</p>		
Withhold payment to lottery retailers who have violated the "No Play At Work" policy.	<p>Investigation underway to determine if legal impediments to paying out retailer wins can be overcome.</p>		Unknown

Appendix C –  
GPEB Public Report Dated September 12, on its  
Plans and Actions Taken to Address the  
Recommendations in the Ombudsman’s Report

## BACKGROUND

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September 12, 2007

Ministry of Public Safety and Solicitor General

### **Gaming Policy and Enforcement Branch Responsibilities Regarding Branch and Ombudsman Lottery Retailer Recommendations**

#### **Chronology**

- October 2006 – In response to concerns about Ontario lotteries, the Gaming Policy and Enforcement Branch initiated a review of the B.C.'s lottery retailer network.
- December 2006 – GPEB issues its report and recommendations
- December 2006 – B.C. Ombudsman announces she will investigate B.C.'s lottery systems.
- May 2007 – the B.C. Ombudsman releases her report.
- June 2007 – Deloitte and Touche identified as independent auditors to review BCLC's lottery systems and GPEB's oversight of it.

#### **Ombudsman's Recommendations to GPEB**

Recommendation 1: GPEB enhance its regulation of BCLC's lottery prize payout procedures and complaints handling processes. This should include but not be limited to GPEB conducting regular, audits of BCLC's lottery prize payout procedures and BCLC's investigation of customer complaints, ensuring BCLC's compliance with its section 86 reporting requirement and independently conducting its own independent investigations into public complaints involving BCLC's prize payout procedures. All of these activities should be reported on publicly in its annual report.

Recommendation 2: GPEB conduct independent systemic investigation into any recurring problems.

Recommendation 3: GPEB report publicly on BCLC compliance with its recommendations for change every six months until completed and clearly identify whether it is satisfied with the progress.

Recommendation 4: GPEB conduct a thorough investigation of BCLC's investigation into all complaints of potential retailer impropriety since January 1, 2005 and report publicly on its findings.

#### **Summary of GPEB Actions**

In general, GPEB is:

- Developing a comprehensive and independent registration and equipment/ticket certification program relative to BCLC's lottery business.
- Developing a comprehensive and independent audit and compliance program relative to BCLC's lottery business.
- Enhancing and extending its independent investigation program relative to BCLC's lottery business.
- Developing a comprehensive approach to ensure ongoing tracking of GPEB and BCLC's implementation of new lottery procedures and the capacity for accurate public reporting.

<b>Registration Responsibilities</b>		
<b>Detailed Responsibilities</b>	<b>Due Date</b>	<b>Status</b>
<b>Register lottery retail managers and others</b>		
GPEB will fully implement a comprehensive program to register appropriate persons representing retailers (including a background check, criminal record check, and so forth).	09/30/08	In progress
GPEB will identify all lottery retailer site staff that will require registration (based on information provided by BCLC).	07/05/07	Complete
GPEB will prioritize sites and initiate registration to minimize risk to consumers (priority is being given to larger retail operations where the greatest number of transactions occur).	09/14/07	In progress
GPEB will register all lottery retail managers in the retail stores group (kiosks), the chain stores group (7-Eleven, etc.), and individual retailers.	09/30/08	In progress
GPEB will implement policies and procedures to ensure retailer registrants are aware of their formal responsibilities, as a condition of their registration, for the actions of their employees in regard to lottery operations, sales and systems.	07/05/07	Complete
<b>Establish and maintain full and immediate access to BCLC's inventory of retailers and retailer employees</b>		
GPEB will ensure BCLC creates and maintains a database of all retailers.	08/30/07	Complete
GPEB will ensure BCLC creates and maintains a database of all retailer employees.	11/30/07	In progress
GPEB will work with BCLC to identify and address data and information issues concerning lottery retailers and employees.	11/30/07	In progress
GPEB will ensure BCLC provides immediate, direct and full ongoing access to information to GPEB.	08/30/07	Complete
<b>Certify lottery products (other than nation-wide tickets) for technical integrity</b>		
GPEB will certify existing lottery products (such as Break Open and Scratch & Win Tickets) and issue certificates of integrity for approved products.	08/01/07	Complete
GPEB will approve any and all new lottery products for technical integrity, and issue certificates of integrity for those products which are approved, prior to introduction for sale.	07/01/07	Complete but ongoing
GPEB will ensure all reviews and certifications of any and all lottery products address the printing, construction, randomization and product security of these products, relative to provincial standards.	11/30/07	Complete
GPEB will implement policies and procedures to ensure BCLC complies with its obligation to have all lottery products certified by GPEB prior to their introduction into the marketplace, and coordinate this effort with audit and compliance monitoring responsibilities.	09/30/07	In progress
GPEB will implement policies and procedures to ensure BCLC complies with its responsibility to report malfunctions or defects in lottery products to GPEB, and coordinate this effort with audit and compliance monitoring responsibilities.	09/30/07	In progress
GPEB will initially certify products using established international technical standards.	09/30/07	Complete

	GPEB will develop a British Columbia Technical Standard for Lottery Products to replace current standard.	11/30/07	In progress
	GPEB will implement methods to review changes in technology and in BCLC lottery products in order to pursue the extension of GPEB's lottery product certification efforts to products (if any) not initially certified.	07/15/07	Complete but ongoing
<b>Certify technological security enhancements and upgrades to lottery systems designed to monitor self-checking machines, speakers and other security devices.</b>			
	GPEB will monitor BCLC's implementation of technological (hardware, software, etc.) enhancements and upgrades of all its lottery systems.	09/30/07	In progress
	GPEB will implement policies and procedures to ensure BCLC complies with its obligation to have any and all technological enhancements of its lottery systems certified by GPEB prior to their introduction into the marketplace, and to coordinate this effort with audit and compliance monitoring responsibilities.	09/30/07	In progress
	GPEB will certify the integrity of any and all technological enhancements and upgrades to BCLC's lottery systems before their introduction into the marketplace. For instance, certify any enhancements of the on-line retailer operated lottery systems, BCLC's existing and emerging Check A Ticket (CAT) systems, etc.	09/30/07	In progress
<b>Audit &amp; Compliance Responsibilities</b>			
<b>GPEB has two major responsibilities regarding lottery retailer recommendations:</b>			
<ul style="list-style-type: none"> <li>• Confirming BCLC's compliance with recommendations made by GPEB (December 2006) and the B.C. Ombudsmen (May 2007).</li> <li>• Establishing a comprehensive audit and compliance strategy for BCLC's lottery business. This entails developing a Lottery Compliance Audit Program (LCAP) for auditing and reviewing BCLC lottery policies and procedures, from ticket purchase through payout to complaint processes.</li> </ul>			
<b>NOTE: GPEB is planning for, but not implementing, these responsibilities until the independent audit by Deloitte &amp; Touche is completed (anticipated October 31, 2007).</b>			
<b>Detailed Responsibilities</b>		<b>Due Date</b>	<b>Status</b>
<b>GPEB's comprehensive lottery audit strategy will review:</b>			
	• BCLC's collection, management and use of retailer and retailer employee information;	TBD by 11/30/07	In progress
	• BCLC's reporting of activities to GPEB, BCLC's Board of Directors, CEO, audit committee and the public regarding activities related to lottery retailers;	TBD by 11/30/07	In progress
	• BCLC's public reporting on the rate of "insider win";	TBD by 11/30/07	In progress
	• BCLC's management and processes for public and customer complaints, and BCLC's compliance with those procedures;	TBD by 11/30/07	In progress
	• BCLC's ticket validation and prize payout procedures (such as enhancements of self-checking or retailer managed lottery equipment and systems and their deployment province wide, BCLC distribution, and retailer management of tickets, BCLC's winning ticket authentication and validation processes for wins of all sizes, fixed Personal Display Units and Check A Ticket systems in every location);	TBD by 11/30/07	In progress

<ul style="list-style-type: none"> <li>BCLC's efforts to monitor and ensure compliance with requirements for retailers and retailer employees (monitoring of retailer or retailer employee multiple winners, sharing relevant information with GPEB, BCLC's retailer training programs, BCLC's system of progressive discipline for retailers and retailer employees, BCLC's methods for monitoring compliance with all its requirements, BCLC's incentive programs for retailers, retailer employees and customers);</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>BCLC's policies and procedures concerning prize claims (interviews by corporate security when required, waivers signed for all prizes won in excess of \$10,000);</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>BCLC's compliance regime and BCLC's lottery retailer policies, procedures and systems (including, but not limited to, retailer contract framework, retailer operating practices, retailer handling of lottery tickets and advising of customers, retailer information systems, and compliance and enforcement policies and procedures);</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>BCLC's corporate efforts to enhance the integrity of BCLC's lottery systems (e.g.: new, or changes to, senior management responsibilities, internal management and reporting of lottery systems, retailers, wins, customer complaints, etc.);</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>Processes for ensuring that BCLC is reporting in a timely manner under Section 86 of the Gaming Control Act;</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>Processes for monitoring and tracking changes in BCLC's policies, procedures and systems concerning its lottery business;</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>Processes for reporting, where appropriate or necessary, compliance issues involving the registration of retailers, registered employees, or gaming supplies;</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>Procedures for identifying and, where necessary, conducting extensive and independent audits of recurring or systemic problems relating to the lottery retailer system; and</li> </ul>	TBD by 11/30/07	In progress
<ul style="list-style-type: none"> <li>Processes for sharing, where appropriate or necessary, information for the purpose of a formal investigation.</li> </ul>	TBD by 11/30/07	In progress
<b>Establishing a Comprehensive Audit and Compliance Strategy for BCLC's Conduct, Management and Operation of Gaming</b>		
GPEB will develop an audit program for auditing and reviewing BCLC's conduct, management and operation of any form of gaming, to verify they comply with the Gaming Control Act, Gaming Control Regulation, GPEB public interest standards, and all related policies and procedures and directives from GPEB and/or government.		



<b>Investigation Responsibilities</b>		
<b>Detailed Responsibilities</b>	<b>Due Date</b>	<b>Status</b>
<b><i>BCLC Awareness of Reporting Obligations</i></b>		
GPEB will routinely confirm BCLC's obligation to:		
<ul style="list-style-type: none"> <li>Notify GPEB (under Section 86 of the Gaming Control Act) immediately about any real or suspected conduct, activity or incident occurring in connection with a lottery scheme that may or does involve an offence under the Criminal Code of Canada or a regulatory offence under the Act or its regulations. Those reporting requirements include, but are not limited to, incidents involving allegations of retailer fraud; and</li> </ul>	06/21/07	<b>Complete but ongoing</b>
<ul style="list-style-type: none"> <li>Provide to GPEB, as soon as possible and with urgency, full and comprehensive files in support of each initial Section 86 notification.</li> </ul>	06/21/07	<b>Complete but ongoing</b>
GPEB will develop procedures to ensure BCLC's compliance with its Section 86 reporting obligations.	09/10/07	<b>Complete but ongoing</b>
GPEB has reconfirmed, in writing, BCLC's reporting obligation, amended procedures to require follow-up on reported incidents, and will regularly communicate obligations to BCLC.		
<b><i>BCLC Awareness of the Independence of GPEB Investigations</i></b>		
GPEB will routinely confirm and demonstrate its complete independence in dealing with:		
<ul style="list-style-type: none"> <li>Section 86 notifications concerning any potential impropriety or fraud by a retailer or retailer employee;</li> </ul>	06/21/07	<b>Complete but ongoing</b>
<ul style="list-style-type: none"> <li>Any notifications received from any party other than BCLC; and</li> </ul>	11/28/06	<b>Complete but ongoing</b>
<ul style="list-style-type: none"> <li>Any potential recurring or systemic problems with BCLC's lottery business.</li> </ul>	06/21/07	<b>Complete but ongoing</b>
GPEB will routinely confirm and demonstrate that it will continue to make independent decisions about whether to conduct a full and separate investigation of the circumstances of any alleged impropriety.	06/21/07	<b>Complete but ongoing</b>
GPEB has reconfirmed, in writing, this independence, amended procedures to emphasize GPEB's independent decision-making concerning reported offences, and will regularly communicate obligations to BCLC.		
<b><i>Investigations of Section 86 and Other Complaints</i></b>		
GPEB will conduct a thorough and independent investigation of:		
<ul style="list-style-type: none"> <li>Any complaint or allegation of retailer or retailer employee impropriety (e.g., fraud, theft) received from any party other than BCLC; and</li> </ul>	11/28/06	<b>Complete but ongoing</b>
<ul style="list-style-type: none"> <li>Any complaint or allegation of impropriety (e.g., fraud, theft) concerning any employee of BCLC.</li> </ul>	09/01/06	<b>Complete but ongoing</b>
GPEB will conduct an independent review of BCLC's investigation of each complaint or allegation of potential retailer impropriety (e.g., fraud, theft) since January 1, 2007, and conduct a thorough and independent investigation into any of those complaints or allegations when it is warranted.	01/01/07	<b>Complete but ongoing</b>

	GPEB, where appropriate, will provide post registration to the reports regarding retailer employee impropriety.	06/21/07	Complete but ongoing
	GPEB will review and where necessary conduct investigations into instances of multiple retailer wins.	TBD by 10/31/07	In progress
	GPEB will be prepared, if necessary, to conduct an independent review of BCLC's investigation of each complaint or allegation of potential retailer impropriety (e.g., fraud, theft) from January 1, 2005 to December 31, 2006, and to conduct a thorough and independent investigation into any of those complaints or allegations when it is warranted.	TBD by 10/31/07	In progress
	Specifically, GPEB will conduct an independent investigation of at least 10% of all alleged violations.	06/21/07	Complete but ongoing
<b>Investigations of Recurring or Systemic Problems</b>			
	GPEB will implement processes (e.g.: liaison with BCLC, liaison with GPEB, reviews of files and complaints that are received, etc.) to identify systemic or recurring problems with BCLC's lottery business.	10/01/07	In progress
	GPEB will conduct an independent investigation of any systemic or recurring problems.	06/21/07	Complete but ongoing
<b>Legislative, Regulatory and Reporting Responsibilities</b>			
<b>Detailed Responsibilities</b>		<b>Due Date</b>	<b>Status</b>
<b>Act, Regulations and Directives</b>			
	GPEB will recommend a series of legislative/regulatory amendments and directives to ensure the integrity of B.C.'s lottery retail system.	03/31/08	In progress
<b>Tracking &amp; Monitoring of Progress</b>			
	GPEB will track:		
	• Changes BCLC makes that impact it's conduct and management of lotteries;	08/30/07	In progress
	• BCLC's implementation of GPEB's and the Ombudsman's recommendations relative to BCLC;	07/26/07	Complete but ongoing
	• Implementation of its own and the Ombudsman's recommendations relative to GPEB;	07/10/07	Complete but ongoing
	• Registration, equipment/ticket certification, audit and compliance and investigation activities relative to BCLC's lottery business; and	07/10/07	Complete but ongoing
	• Any recurring or systemic problems and how they are being addressed.	07/10/07	Complete but ongoing
	GPEB will liaise other affected divisions and, as necessary, BCLC to track and monitor elements within this document.	TBD by 11/30/07	In progress
<b>Public Reporting</b>			
	GPEB will ensure it can report publicly on the above, both in its annual report and through any quarterly or occasional reporting which may be required.	09/15/07	In progress
	GPEB will ensure it has adequate data to be able to accurately comment on its satisfaction with BCLC's implementation of the recommendations (beginning with the second such report).	TBD by 11/30/07	In progress

# Appendix D – Gaming Legislation

Element	Examples	Description	Approval
Act	Gaming Control Act (GCA)	In conjunction with the Criminal Code, provides the legal framework for gaming in BC. Sets out the roles, responsibilities and authorities for each of the Minister, GPEB and BCLC.	Any amendments to the GCA must go through government's legislative process including passing three readings by the legislative assembly and given royal assent.
Regulation	Gaming Control Regulation	Regulations are a form of law, often referred to as delegated or subordinate legislation. They have the same binding legal effect as Acts, but unlike an act, Regulations do not need to be passed by the legislative assembly. Instead, the authority to make Regulations is delegated to the Lieutenant Governor in Council (Cabinet). The GCA specifically sets out the types of Regulations Cabinet can make, and usually include requirements where a full government debate is not necessary.	Approved by Cabinet.
Directives	Directive on technical integrity of lottery schemes conducted and managed by BCLC.	Provide direction to government agencies.  The GCA authorizes the Minister to issue directives to BCLC and GPEB about matters of general policy.  The GCA authorizes the GPEB General Manager to issue directives to BCLC and GPEB for lottery schemes and horse racing.	Directives from GPEB General Manager to BCLC have to be approved by the Minister.
Public Interest Standards	Advertising and Marketing Standards  Responsible Gambling Standards	Provide minimum standards for gaming operations to protect public interest.  The GCA authorizes the GPEB General Manager to issue Public Interest Standards.	Approved by the GPEB General Manager.
Policies	Policy on establishing, relocating or substantially changing a	Provide broad gaming policies (if issued by the Minister) or detailed policies and procedures required for gaming operations (if issued by GPEB General Manager). Policies	Approved by Minister or GPEB General Manager.

Element	Examples	Description	Approval
	teletheatre. Guidelines for licensed gaming.	provide guidelines for making decisions, but are not legally binding.	
Conditions	Conditions of registration for gaming workers and gaming service providers. Conditions for gaming grants.	Sets out the requirements for different classes of registration or licenses. The GCA authorizes the GPEB General Manager to issue conditions.	Approved by the GPEB General Manager.

# Appendix E – Summary of Computer Forensic Tests on BCLC Transaction Masterfile Data

- (a) *Search all duplicate ticket serial numbers that were not winners, with an “Invalid” code that were not manually checked by individuals in CAT terminals:*

This test attempts to identify those instances in which a Retailer directly handles the ticket and attempts to identify the status of a “non-winning” ticket more than five times.

- (b) *Search all duplicate serial numbers that were not winners, with an “Invalid” code that were manually checked by individuals at CAT terminals:*

This attempts to identify those instances in which an individual attempts to identify the status of a “non-winning” ticket more than five times on their own.

- (c) *Search all transactions with a “Cancellation” identifier and ten or more ticket cancellations in the same day:*

This test attempts to identify those instances in which specific terminals have been identified as having more than 10 ticket cancellations on the same day.

- (d) *Search all transactions in the TM files marked as “Terminal Disabled”:*

This test attempts to identify those instances in which error logs report that a terminal was either temporarily shut down or disabled. Although “terminal disabled” transactions are not necessarily indicators of unusual activity, they do, however, identify instances in which the Retailer’s terminal has been disabled as a result of safety triggers within BCLC’s system (i.e. Watchdog system).

- (e) *Search all transactions in the TM files with a validation code of “Already Claimed”:*

This test attempts to identify validation transactions with an “Already Claimed” description which highlights those instances where a winning ticket has already been validated by a Retailer and the prompt for payout has been previously displayed. This transaction type had been specifically singled out in the Ombudsman’s Report regarding cases that BCLC security had investigated.

- (f) *Search all transactions in the TM files with a validation code of “Claimed” on more than one occasion:*

This test is attempts to identify instances in which the TM data has multiple validation transactions identified as “Claimed” for the same ticket serial number.

- (g) *Perform keyword tests on Hotlog database and filter out all positive results:*

This test attempts to identify all call entries within the Hotlog database for a listing of keywords that have been agreed with BCLC management.

# Appendix F – Summary of Exceptions for Retailer Win Testing

**Appendix F**  
**Summary of Exceptions for Retailer Win Testing**

No.	Fiscal Year	Game	Number of Wins During FOI Period	Notes	Amount of Individual Prizes ≥\$10K	Total Amount of Wins During FOI Period	Checked "Yes" and disclosed by Retailer	Checked "No," but self identified later	Checked "No" and did not self identify
1	2003	6/49	7		\$ 81,762.60	\$ 107,250.80	Y		
2	2007	Keno & Bonus	2		15,018.00	15,026.00	Y		
3	2005	Keno & Bonus	2		15,000.00	15,400.00			Y
4	2002	Club Keno	3		10,002.00	19,002.00	Y		
5	2002	Scratch n Win - Money Tree	4		10,000.00	10,074.80			Y
6	2004	Keno	12		25,000.00	128,128.60	Y		
7	2002	6/49	1		73,061.80	73,061.80	Y		
8	2004	6/49	1		107,016.90	107,016.90	Y		
9	2006	Keno	4		10,000.00	100,323.00		Y	
10	2003	Keno & Keno Bonus	3	<sup>1</sup>	15,000.00	49,545.00			Y
11	2003	Keno & Keno Bonus	3	<sup>1</sup>	12,000.00	49,545.00			Y
12	2004	Keno & Keno Bonus	3	<sup>1</sup>	22,545.00	49,545.00			Y
13	2004	Keno & Keno Bonus	21	<sup>2</sup>	15,000.00	36,206.28	Y		
14	2004	Keno & Keno Bonus Scratch n Win - Super	21	<sup>2</sup>	20,000.00	36,206.28			Y
15	2005	Crossword	1		50,000.00	50,000.00			Y
16	2002	Sports Action Toto	1		30,749.43	30,749.43	Y		
17	2004	6/49	1		140,622.00	140,622.00	Y		
18	2000	6/49	1		14,707.00	14,707.00	Y		
19	2004	Scratch n Win - BC's set for life	1		675,000.00	675,000.00	Y		
20	2004	Sports Action - Toto	2		22,568.41	22,573.41	Y		
21	2002	Keno	2		15,000.00	19,500.00	Y		
<b>Total</b>							<b>13</b>	<b>1</b>	<b>7</b>

**Notes:**

1. All these 3 wins relate to the same retailer.

2. All these 21 wins relate to the same players living in the same address and not necessarily the retailer who won the two prizes \$10,000 and greater.