British Columbia Gaming Policy Enforcement Branch

AML Report

Private & Confidential

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1.0 TERMS OF REFERENCE

1.1 MNP was engaged by British Columbia's ("BC") Gaming Policy and Enforcement Branch ("GPEB") on September 8, 2015. MNP was directed to work directly with senior GPEB managers to:

a. Analyze current practices in respect of source of funds, source of wealth, handling of cash, use of cash alternatives and overall Customer Due Diligence ("CDD") in gaming facilities compared to financial institutions;

b. Analyze best practices in the gaming sector in relation to 'know your customer' frameworks, particularly in respect of the regulatory framework in British Columbia, as set out in the Gaming Control Act [S.BC 2002, c. 14];

c. Assess British Columbia Lottery Corporation ("BCLC's") Customer Due Diligence ("CDD") regime and overall compliance with the above-noted practices;

d. Receive information from the General Manager (as defined in the *Gaming Control Act*) or delegate regarding certain transactions, and assess this information in the context of compliance with a, and b above;

e. Identify immediate near term actions to be taken in order to address any gaps and provide recommendations on longer term new solutions or enhancements to current practices; and

f. Provide any other recommendations to address any gaps identified in the above-described analysis.

1.2 This engagement is not an audit and did not include any control testing. The findings and recommendations are based on information obtained through interviews as well as observations made at the River Rock Casino Resort ("RRCR" or "River Rock") and at BCLC.

1.3 We have not independently verified the information provided to us from any source. We reserve the right to review all information included or referred to in our report and, if we consider it necessary, to revise our report in light of any new information which becomes known to us after the date of the report.

1.4 Our findings and recommendations are based upon our observations and understanding as at the completion of our field work on January 22, 2016. Actions taken by GPEB, BCLC, or any other party to respond to matters described in our report have not been assessed by MNP.

1.5 Our Report is intended to be read in its entirety. We caution against drawing conclusions from any part of our Report in isolation. Our findings are based on procedures performed and information available to us as of the completion of our field work. Instruction to proceed with further analysis and information received subsequent to this date may significantly alter our findings.

1.6 The field work, interviews and the corresponding report was prepared independently and objectively by the authors.

2.0 BACKGROUND

2.1 The Gaming Policy and Enforcement Branch ("GPEB") Compliance Division compiled a document which identified approximately $13.5 million in $20 bills being accepted at RRCR in Richmond during July 2015. Information provided to MNP, containing synopsis details indicated as being sourced from the iTrak system by GPEB, indicated unsourced cash from unknown persons or persons believed to be connected to or participating in illicit activity, was dropped off at the casino or "just-off" casino property for patrons at unusual times, generally late at night. This information caused increased concern and prompted action to be taken by GPEB to review the current practices regarding large volumes of unsourced cash being accepted at RRCR.

2.2 Law enforcement intelligence has indicated that this currency may be the direct proceeds of crime. The majority of this cash is being presented by persons commonly referred to as high roller Asian VIP clients. Single cash buy-ins in excess of $500,000 with no known source of funds have been accepted at RRCR.

2.3 GPEB considers the regulatory requirements imposed by the *Gaming Control Act* and the Federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* ("PCMLTFA") and its associated regulations to be a minimum standard of conduct. GPEB is mindful of its responsibility for the integrity of gaming including mitigating the risks of money laundering in gaming facilities.

2.4 In addition to the regulatory reporting obligations imposed on BCLC by the PCMLTFA in its operation of the casinos in British Columbia ("BC"), GPEB has an interest in reducing the influx of unsourced cash into gaming facilities in BC to protect the integrity of gaming in BC. In our view, this can only be accomplished through the acknowledgement, from all parties, that the proceeds of crime may be being injected into the gaming system despite the controls in place. The reduction of unsourced cash and the expulsion of high risk patrons will contribute to the goal of maintaining the integrity of the gaming system.

2.5 In conducting our review we identified that there are three distinct entities in the casino gaming model in BC:

- The Gaming Policy and Enforcement Branch;
- The British Columbia Lottery Corporation; and
- The Facility Operator/Service Provider.

2.6 GPEB[1] regulates all legal gaming in BC. It ensures the integrity of gaming industry companies, people and equipment, and investigates allegations of wrongdoing. This mandate includes regulatory oversight of BCLC (which conducts and manages lotteries, casinos, community gaming centres and commercial bingo halls), all gaming services providers and gaming workers, BC's horse racing industry and licensed gaming events.

[1] https://www.gaming.gov.bc.ca/legislation-policies/

2.7 In addition, GPEB is responsible for the following:

- Conducting audits of charitable and commercial gaming activities to ensure compliance;
- Investigating regulatory offences and providing support to police of local jurisdiction for the investigation of criminal offences connected to gaming facilities[2];
- Managing the Province's Responsible Gambling Strategy including the Problem Gambling Program, in order to minimize harm and promote responsible gambling practices; and
- Distributing gaming funds to community organizations.

2.8 According to the BCLC website[3], BCLC is a Crown Corporation, owned by the Province of BC it was established to meet the requirements of the Criminal Code of Canada, and balance the need for revenue generation with a commitment to social responsibility and integrity. In 1998, the Province added casino gambling to this mandate and made BCLC responsible for the operation of the casino industry in BC.

2.9 BCLC is responsible for managing the following:

- Setting and overseeing operating standards;
- Creating policies and procedures for all gambling facilities, including security and surveillance;
- Monitoring private sector Service Providers to ensure they conform to policies and procedures, to legislation, regulations and federal anti-money laundering laws; and
- Improving security systems, procedures and employee training programs.

2.10 According the BCLC website, Service Providers[4] are the companies who own and operate BC gambling facilities. They own or lease gambling facilities like casinos and community gaming centers and maintain the facility operations on a day-to-day basis. With respect to gaming, Service Providers enter into operational service agreements with BCLC and earn commissions based on gambling revenues. They must operate in strict adherence to the rules and regulations set out by both BCLC and GPEB.

2.11 Service Providers are responsible for:

- Complying with terms of registration and reporting matters as required under the *Gaming Control Act* and *Gaming Control Regulations*;
- Providing and maintaining facilities;
- Hiring qualified staff;

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[2] https://www.gaming.gov.bc.ca/legislation-policies/docs/regulatory-responsibility-gpeb-bclc.pdf
[3] http://corporate.bclc.com/what-we-do/casinos/our-role.html
[4] http://corporate.bclc.com/what-we-do/casinos/service-providers.html

- Following BCLC gambling standards, policies and procedures;
- Implementing the anti-money laundering program as prescribed by BCLC;
- Providing and operating surveillance equipment;
- Managing slot machines, table games and bingo games;
- Providing accounting and financial management; and
- Participating in compliance reviews and audits.

2.12 Service Providers are paid a commission based on the net gambling revenue for providing day-to-day services in casinos, community gaming centres and bingo halls. There are two different kinds of commissions:

- An operating commission for operating the facility; and
- A facility development commission which provides incentive for Service Providers to develop high quality facilities.

2.13 The Service Provider implements procedures in response to BCLC's policies, however, as the profit of the operator would be adversely impacted by implementing any control procedures that may reduce revenue, there is an inherent risk that the implemented procedures are designed to meet minimum regulatory requirements. Any guidance from the Province on the reduction of bulk cash will need to be implemented through additional policy from BCLC.

3.0 SCOPE OF REVIEW, APPROACH AND LIMITATIONS

3.1 MNP relied on the following documents and information sources for reference throughout the engagement:

- Background documents provided by GPEB related to the subject matter;
- BCLC organizational charts (November 2015);
- RRCR organizational charts (November 26, 2015);
- BCLC Policies and Procedures (2015);
- BCLC internal procedure documents (2015);
- Data extracts regarding regulatory reports filed between September 1, 2013 and August 31, 2015;
- Website information from BCLC;
- *Gaming Control Act* BC; and
- *PCMLTFA and Regulations.*

3.2 To obtain independent information on the current regime and the prevalence of bulk cash, MNP conducted a total of 23 interviews with employees and management of both RRCR and BCLC. These interviews, with the exception of one conducted with senior management of BCLC, were all done in conjunction with a GPEB Compliance Division auditor assigned by GPEB. Some interviews and operational walkthroughs at RRCR were also observed by a second member of the GPEB Compliance Division. MNP also conducted onsite observations at RRCR which included process walkthroughs for activities relating to acceptance of bulk cash, record keeping and regulatory reporting. MNP also conducted limited statistical analysis of cash transactions related to VIP patron activity at the RRCR.

3.3 Information was gathered through 11 interviews with management level staff from a number of relevant areas of the operations at RRCR including table games, slots, cash cage, VIP Hosts, surveillance and security. Senior Management was interviewed to obtain insight into the operations and policies of accepting large amounts of unsourced cash from patrons. In addition to the interviews, we observed operations on the gaming floor and in the cash cages on both the main gaming floor and VIP gaming areas (Salon Privé and Salon Phoenix) asking questions of staff to confirm documented policies and confirm information provided through the interview process.

3.4 12 interviews were conducted at BCLC to provide staff and management an opportunity to provide feedback, clarify policies and procedures and gain insight into the issues at hand.

3.5 Data regarding reportable cash transactions or play records was provided by BCLC for trending analysis. The period of data used for trending was September 1, 2013 to August 31, 2015. The data was used to identify trends and correlations between the frequencies of Large Cash Transaction Reports ("LCTRs"), the filing of Suspicious Transaction Reports ("STRs") and the ultimate banning of some players due in part to large and frequent play with unsourced cash.

3.6 During our analysis an error in the statistical reporting was identified and communicated to BCLC. This error related to the over reporting of non-cash transactions deposited to Patron Gaming Fund Accounts ("PGF") and the redeposit of funds from cashed out chips back into the PGF. BCLC advised they were aware of the issue and was in the process of obtaining a Policy Interpretation from the Financial Transactions and Analysis Centre of Canada ("FINTRAC"). This error resulted in significant over reporting of non-cash transactions to FINTRAC. As a result of the over reporting being included in the produced statistical play records, MNP was unable to determine the actual number and amounts of large cash transactions and as such this limited our ability to obtain reliable results from our data analytics. Due to the complexity of the reporting issue, it is not possible to segregate and remove duplicate transactions. There is no identifier to confirm new cash to the facility versus funds previously played and retained in the PGF for future game-play.

3.7 This report does not represent a comprehensive review of all aspects of the existing AML compliance processes. As such, we are not expressing an opinion regarding the adequacy, completeness or effectiveness of existing compliance activities as they relate to anti-money laundering or anti-terrorist financing activities. This engagement was not designed to nor does this report provide any analysis about whether money laundering or terrorist financing is actually occurring, nor does it provide any analysis about the potential that money laundering or terrorist financing will occur through the organization in the future.

4.0 SUMMARY OF FINDINGS/RECOMMENDATIONS

GPEB:

4.1 Regulatory regimes for gaming typically seek to balance revenue generation with risk mitigation. Contemplated changes to the gaming regulatory regime must recognize the unique role of each of the main participants, as these roles may create conflicting mandates. Specifically:

- GPEB is the regulator, primarily responsible for ensuring that gaming is conducted with integrity;
- BCLC is the manager of gaming, primarily responsible to the Province for revenue generation and risk management and responsible to FINTRAC for regulatory compliance; and
- The Service Providers are the gaming operators, and, via contract with BCLC, are primarily responsible for revenue generation for both the Province and the companies that own the casinos.

4.2 Currently, casinos are only required to report LCTRs after they have accepted the cash transaction. GPEB should consider implementing a policy requirement that Service Providers refuse unsourced cash deposits exceeding an established dollar threshold or to refuse frequent unsourced cash deposits exceeding an established threshold and time period until the source of the cash can be determined and validated.

4.3 GPEB should continue to work with BCLC to support cash-alternatives for Service Providers to receive funds, strengthening the overall compliance regime with minimal impact on revenue generation.

4.4 GPEB, BCLC, and to some extent the Service Providers should jointly evaluate the resourcing and functioning of existing investigative units. Effective multi-agency units would promote the sharing of information and resources.

BCLC:

4.5 If GPEB implements a policy regarding the refusal of large or frequent unsourced cash deposits, BCLC's procedures to address the policy should include refresher training to Service Providers pertaining to BCLC's reporting requirements of attempted transactions to ensure reports are appropriately identified.

4.6 Although a specific compliance effectiveness review of gaming operations was not within the scope of this review, MNP did review a number of processes and did not observe anything material to suggest that the compliance program in effect at BCLC and RRCR is not functionally suitable to meet obligations under the PCMLTFA and implementing regulations.

4.7 BCLC's CDD process meets Federal regulatory requirements for standard risk patrons. However, the process could be enhanced from both a risk management and revenue generation perspective with modifications and additional resources to meet Enhanced Due Diligence ("EDD") expectations for high risk patrons. This may include confirmation or verification of key customer data including: source of wealth; source of cash; and occupation by the Service Provider or BCLC for higher risk patrons. The gathering of this additional information may assist the Service Provider in providing enhanced service to high valued patrons.

4.8 BCLC should consider whether its risk assessment process adequately reflects current thinking around money laundering and terrorist financing risk. The risks associated to specific facilities should be evaluated, rather than simply drawing geographic boundaries for risk.

4.9 BCLC should review its EDD process to ensure it appropriately mitigates identified risks. Additional resources may be required to clear the current backlog and support timely completion of the EDD process as required. BCLC should also identify reliable sources of information for persons and businesses based outside of Canada.

4.10 BCLC should prioritize and appropriately resource the ongoing SAS implementation project to improve the quality of the data used for ongoing risk assessment and compliance monitoring and reporting. Data from other sources, particularly slot machine play, should be incorporated into the process. Improved data will support province-wide monitoring of activities posing compliance risks.

4.11 BCLC should ensure that reporting forms used by the facilities are up to date and include valuable information fields for mandatory completion for unsourced or high volume cash transactions such as source of funds, source of wealth and purpose and intended nature of relationship information. Facility staff should be regularly trained on the completion of the forms. This will encourage consistent and appropriate reporting across the Province.

4.12 BCLC's anti-money laundering training programs should be evaluated for up-to-date content and effectiveness. Emphasis should be placed on behavioural red flags, as facility staff have the direct customer interaction. Training should be provided in the primary language of the candidate.

4.13 MNP identified instances where non-cash transactions processed to RRCR's PGFs were over-reported to FINTRAC, and instances where mandatory fields in LCTRs were left blank. Both issues are contrary to the PCMLTFA and require remediation and disclosure to FINTRAC. BCLC advised they were aware of the over-reporting issue and were working with FINTRAC to obtain a Policy Interpretation and determine action to be taken regarding the issue.

4.14 While generally consistent with the regulatory requirements, the Know Your Patron ("KYP") framework at River Rock is a task-driven compliance activity rather than a risk management activity. Given the Service Provider's inherent motivation to maximize revenue, it should not be expected to lead compliance and risk management efforts within the gaming industry. BCLC should provide further guidance as the manager and responsible entity for AML regulatory obligations to enhance and enforce appropriate KYP measures.

5.0 DETAILED FINDINGS/RECOMMENDATIONS

Staffing Observations

BCLC:

5.1 Operating levels for BCLC Investigators may need to be reviewed as the current staffing levels assigned to River Rock do not appear to be sufficient to address the volume of reports and incidents on a timely basis. In interviews with BCLC, investigators have self-assessed that approximately 95% of their time is focused on AML reporting activities. Non-compliance tasks which used to be completed by investigators located at RRCR are now being assigned to other investigators with the Lower Mainland region. Additional duties included in the mandates of the investigators at RRCR may not be being completed or may not be adequately completed to manage the risk associated with the activity at River Rock.

Service Provider:

5.2 Experienced managers and supervisory staff who are fully engaged and fully executing on their entire position mandate are able to identify risks within their areas of supervision and apply reasonable assessments and measures to address activity which may be considered unusual. This becomes a first line of defense when identifying potential compliance issues. However, due to high turnover at the Service Provider, management level positions are held by incumbents who have been in the positions less than one year. When asked about issues and risks related to large volumes of unsourced cash being accepted, they advise they are still learning the positions, and feel they are meeting all requirements associated with AML compliance.

5.3 Positions with recent turnover at RRCR include: Interim Chief Compliance Officer, Table Games Manager, Cage Manager, Slot Director, and the Manager of Player Relations. RRCR has undergone significant turn over in staff s. 22

At the time of the onsite interviews eight of ten Relief Gaming Manager positions were staffed.

5.4 RRCR employs VIP hosts who report to the manager of Marketing. VIP Hosts are responsible for managing the client experience, which includes managing the amounts of complementary items and services given to players (commonly referred to as player comps), and providing custom gaming experiences with the intention of maximizing patron play. VIP hosts have the most significant interaction and knowledge of the VIPs and ability to flag instances of receipt and use of unsourced cash for suspicious transaction reporting. Due to the reporting structure, we would expect that the VIP Hosts have a primary responsibility for revenue generation rather than regulatory compliance or a social responsibility to reduce illicit cash flow. Consideration should be given to cross functional reporting lines to the Director, Table Games for a consistent approach to compliance across all table game points of access susceptible to the acceptance of unsourced cash.

5.5 It was noted on the Service Provider Organizational Chart, dated November 26, 2015 that the Manager, Player Relations did not have a direct reporting relationship to Senior Management. The Director, Surveillance does not show a reporting line to Senior Management. A VP Compliance position reporting to the President and CEO also did not exist on the Chart.

Compliance Program observations

GPEB:

5.6 GPEB should define its accepted level of risk for unsourced cash and then develop clear roles and responsibilities for:

- GPEB – Regulator, Enforcement
- BCLC – Manage gaming and reporting entity
- Service Provider – Risk identification

BCLC:

5.7 BCLC is the reporting entity for the purpose of compliance with PCMLTFR obligations to FINTRAC. AML programs were the responsibility of the Casino Investigations Unit up to 2013. The AML unit was created in 2013 and at that time took over responsibility for all aspects of the AML Program.

Enhanced Due Diligence ("EDD")

BCLC:

5.8 Through iTrak, BCLC has access to all Know You Patron/Player ("KYP") due diligence, activity records and incident reports including Unusual Financial Transactions ("UFTs"), Suspicious Transaction Reports ("STRs"), and Section 86 reports submitted to GPEB regardless of the facility of play. This allows BCLC to identify patrons at a provincial level who represent higher risks and then perform EDD, risk assessment and ongoing monitoring of these patrons.

5.9 BCLC has identified two segments of patrons who have been assessed as requiring EDD to manage the risk of the frequency and value of play. The first segment is comprised of the Top 100 players by volume. The second list, known as the Conditions List, relates to known associates of a high risk player who has been identified by law enforcement to be involved in the provision of large volumes of unsourced bulk cash to VIP patrons. In some instances, the lists overlap. For example, at the time of the review, 36 patrons identified on the Conditions List also appear on the Top 100 list.

5.10 All EDD efforts undertaken by BCLC are manual investigations. At the current time, systems do not identify higher risk patterns through an automated alert system. iTrak does not have capabilities for business analytics.

5.11 The EDD or "Deep Dive Dossiers" are created using open source information to identify owned properties and business ownership. The one file reviewed during the interviews with BCLC did not include key information such as a synopsis of overall activity, play value or frequency, determined or verified source of funds or wealth information, or an indication of whether the player was cleared for play or had restrictions in place. The file did not present any negative findings, however, the player was indicated as being "on watch."

5.12 There is limited open source information available for Chinese Nationals, which comprise the majority of the identified high risk demographic at RRCR. As, most of the VIP patrons are Asian and many are recent immigrants to Canada or Chinese Nationals there is limited Canadian open source information on which to base risk assessment determinations.

5.13 Based on staffing levels and time required to complete an EDD file in the current manner there is a considerable backlog of files to be completed which may increase the risk to all stakeholders as appropriate actions may not be taken in a timely manner. It is anticipated that the volume of patrons requiring ongoing EDD will increase over time.

5.14 The Service Provider facilitates gaming through slot machines as well as table games. As at the time of the review, we were not made aware of any EDD on business relationships created due to slot play. In addition there is no review or analytics on slot play including ongoing review of Cash Disbursement Reports ("CDRs") to identify possible anomalies which require further investigation.

5.15 BCLC's EDD program for high risk patrons was reviewed to identify if improvements are warranted. EDD measures could be more qualitative, and a formal response to specified risk ratings, similar to other jurisdictions such as Alberta, could be created.

5.16 Outsourcing the EDD process for higher risk patrons should be considered to clear the current backlog.

Service Provider:

5.17 The Service Provider gathers required information from patrons at particular trigger events during play. This would include when a patron reaches the threshold for the reporting of large cash transactions, which is $10,000. The Service Provider is responsible for requesting that an acceptable identification document be produced and then recording the type, number and place of issuance as well as gathering mandatory information required for BCLC to file regulatory reports with FINTRAC. Information includes name, address, occupation and date of birth. Policy indicates that the ID document is scanned into the iTrak system. Information gathered at the facility, other than the ID document, is not verified by the Service Provider.

5.18 The iTrak system is universal to all facilities under BCLC's supervision. s. 15

Investigative Capabilities

GPEB:

5.19 The establishment of a dedicated, cooperative inter-agency AML investigations unit comprised of GPEB and BCLC investigators would delineate the roles between operational and AML investigations and regulatory compliance investigations. This would allow for improved tracking of activities related to regulatory compliance and ensure that employees tasked with compliance and risk management are suitably resourced.

BCLC:

5.20 BCLC has three onsite investigators at RRCR. This was a result of the recognition of the increased risk at the facility as well as the volume of play that requires ongoing BCLC oversight. These investigators have access to iTrak and the facility's surveillance recordings which allow for prompt investigations. AML compliance investigations are supposed to be a component of the investigators duties as defined by BCLC procedures, however the significant volume of reportable transactions at RRCR and the required reporting due diligence are consuming upwards of 95-100% of investigators' time. Regional investigators not assigned to RRCR are now being regularly assigned all non AML duties at RRCR such as theft or patron complaint investigations as the local investigators do not have time to deal with non-regulatory matters.

5.21 BCLC investigators regularly provide information to law enforcement on ongoing investigations s. 15

5.22 BCLC has entered into an information sharing agreement with the RCMP that allows both parties to share intelligence on ongoing investigations and high risk patron activity.

Service Provider:

5.23 MNP has significant experience working with gaming operators and as such has observed numerous surveillance operations including infrastructure and investigative methodologies and procedures. The RRCR's infrastructure is comparable to other large Canadian casino surveillance operations such as Casino Montreal or Manitoba's combined provincial facility. The operators and supervisors have significant experience in surveillance operations and utilize iTrak to monitor and report all suspicious activity. iTrak is the most common investigative and operations management software utilized by Canadian Casinos.

iTrak

Systems and Data

BCLC:

5.24 BCLC identified a growing need for enhanced capabilities in relation to analytics and the ability to conduct meaningful analysis on the data in its custody. As a result, the AML Operational Analysis Group was formed in 2013 with the mandate to perform statistical analysis of patron transaction data as well as to identify high risk patrons and perform enhanced due diligence on those individuals. With the hire of an AML data analyst in in February 2014 it was determined that the data analytics capabilities of iTrak were limited and that exporting the data and using third party tools such as Excel were the preferred method. These limitations led to the identified need for a formal analytics solution and an RFP was issued. SAS was selected as the vendor. The implementation of this software tool is ongoing and has been subject to numerous delays and a work stoppage to clarify scope and estimate over runs. We understand that SAS is scheduled for roll out in the fall of 2016. This is 18 months later than initially anticipated. The successful implementation of this tool should be a priority for BCLC as the current processes are contributing to delays in effectively conducting transactional analysis.

5.25 Despite the limitations of the current tools s. 15

This information was then shared with law enforcement agencies for the purpose of investigating criminal activity related to the large volumes of unsourced cash. After several attempts by BCLC to refer information, law enforcement undertook an investigation into the activities identified through the BCLC analytics. s. 15 This is a positive effort by BCLC to detect and report suspicious activity with the intent of reducing unsourced cash from entering the gaming facilities.

5.26 BCLC provided data to MNP for the period September 1, 2013 to August 31, 2015 ("the Period") to analyze transactional data regarding the volumes of unsourced cash being accepted at River Rock. The analysis would also address efforts taken by BCLC and the Service Provider to gather Know Your Player ("KYP") or CDD information and perform EDD where appropriate; file STRs; and where appropriate impose bans on high risk patrons for participating in suspicious activity. After conducting significant analytical work it was determined, and confirmed by BCLC, that the data was not accurate and included significant numbers over-reported LCTRs and CDRs making trending analysis unreliable. For further details on the reporting issue, refer to 5.32. We were able to make the following limited observations:

- Play with significant volumes of cash was being conducted by patrons with non-Canadian addresses and identification, primarily Chinese; and
- While significant volumes of LCTRs were filed during the Period the number of STRs filed was relatively small and the number of bans for potential money laundering activity was few.
    - 41,187 LCTRS filed during the period;

- 1,194 STRs filed during the period[5];
- 1,209 BCLC Prohibition Bans[6] .

5.27 The limitations of the current analytics tools and the time required to manually process transactions diminishes the effectiveness of a monitoring program for slot disbursements. The risk of money laundering is significantly lower with slots than with table games, due to the limits on how much money can be fed into a machine in one session as well as the limits on single payouts for Ticket In Ticket out ("TITO") ticket redemption at Ticket Redemption Kiosk ("TRK") machines. Although the risk is lower than table games, due diligence on large volumes of slot CDRs should be monitored for suspicious activity.

5.28 Completion of the SAS implementation should remain a high priority for BCLC. Improved data analytics and systems for transaction monitoring and reporting will allow for the early detection of potential money laundering or high risk transactions.

5.29 The analytic capability of the iTrak system limits BCLC's AML Operational Analysis group in its ability to identify suspicious activity. The reporting is primarily restricted to the identification of thresholds that aid in the identification of mandatory record keeping or reporting. BCLC has made significant investments in advanced analytics in the proposed SAS solution. The continued development and rollout of this product needs to be a priority for BCLC to allow it to conduct meaningful assessment of the data collected in iTrak.

Reporting

BCLC:

5.30 Casinos are required the file the following reports with FINTRAC:

- Large Cash Transaction Reports;
- Casino Disbursement Reports;
- Suspicious Transaction Reports; and
- Terrorist Property Reports.

5.31 MNP did not conduct an audit of the processes surrounding reporting requirements, nor of the accuracy or timeliness of the reports submitted to FINTRAC. Through interviews and observation MNP is able to make summary comments on the reporting requirements at the Service Provider and by BCLC, who is responsible for filing the reports from information provided by the facility operators.

[5] STRs identified by incident number which could relate to multiple people.
[6] Bans are also based on incident numbers and could relate to multiple people and include site bans.

5.32 Observed processes appear to be in place to track instances where cash transactions require the completion and filing of reports. This may be done through buy-ins at the table or through transactions at the cash cage. However, it was ascertained that funds credited to a player's PGF, regardless of the source of funds (Cash, drafts or EFTs from a Canadian bank) are being over-reported as cash. This is resulting in a significant number of unnecessary LCTR and CDR reports. In addition, withdrawals from the PGF account for play are being reported as CDRs and appear to be re-reported as cash based on table buy-ins. Review of the transaction and reporting process for all PGF enabled facilities should be done immediately to stop the number of unnecessary and incorrect reports. This over reporting has been disclosed to FINTRAC.

5.33 During our interviews with the Service Provider, BCLC, and GPEB, there was ongoing reference to a historical undocumented threshold of $50,000 which was the trigger value to consider a transaction suspicious at the Service Provider location. The issue of the threshold preceded this report. FINTRAC guidelines confirm there is no minimum dollar value related to the filing of an STR. Suspicious transactions are financial transactions where there is reasonable grounds to suspect they are related to the commission of a money laundering offence. This includes transactions that you have reasonable grounds to suspect are related to the attempted commission of a money laundering offence. As a result, BCLC has undertaken a review of LCTR transactions to determine if STR transactions had been overlooked. BCLC made a self-disclosure to FINTRAC regarding the issue in December 2015.

5.34 BCLC's Internal Audit group conducts a Quality Assurance ("QA") of STR and unfiled UFTs. Audit conducts a review regarding timeliness of filings on LCTRs. The BCLC Investigations group also has a process and procedure in place to verify reports for mandatory information. It was noted through our data analysis of the data provided by BCLC that 385 (0.1%) of LCTRs did not contain one of the mandatory fields such as address, occupation or a unique identifier. Of the 41,187 reports contained in the data file:

- 297 addresses were reported as Null
- 49 occupations were reported as Null
- 39 reports contained no unique identification number, but rather a generic BCDL or similar descriptor.

5.35 A review of the BCLC policy and procedure documents allows for Service Provider staff to accept cash transactions at the cash cage and submit files with certain missing mandatory occupation information if the patron declines to provide full information[7]. Currently casinos are only required to report LCTRs after they have accepted the cash transaction. A directive from GPEB may support BCLC in the creation of a policy which would mandate the Service Provider to decline a transaction or issue a stop play when mandatory occupation data is not provided on the casino floor or at the cash cage. Submitting reports with missing mandatory information is contrary to the PCMLTFA and Regulations.

[7] Reference to BCLC Casino and Community Gaming Centre Standards, Policies and Procedures section 1-2.3.

5.36 BCLC should review all of the FINTRAC reporting (LCTR/CDR) for non-cash for all facilities which offer PGF accounts due to over-reporting of LCTRs and CDRs in relation to churn[8] within the patron gaming accounts.

5.37 Review of Terrorist Property reports was out of scope for the review.

Identification and Reporting of UFTs

BCLC:

5.38 BCLC is the reporting entity for gaming activities in BC and is responsible for filing all required reports with FINTRAC. BCLC operates at an arm's length from the facility and relies heavily on the Service Provider to identify instances where UFTs should be submitted for further review and decision making regarding suspicious activity that would require filing. As the Service Provider only has visibility to the patron's activity at its own facility (or facilities) within the iTrak system it may under- or over-report based on restricted intelligence.

5.39 BCLC Internal Audit provided feedback that UFT/STR reports are inconsistent in the assessment approach and narrative format from the Service Providers which may lead to valid UFTs not being reported by BCLC.

5.40 The BCLC investigators assigned to gaming facilities are currently reviewing 10-15% of LCTRs to determine if STR reports should be filed. This method of review does not appear to be effective as it did not identify the existence of the ongoing practice of only reporting transactions above an undocumented $50,000 threshold.

5.41 BCLC has access to complete patron activity records, however does not conduct facility or province-wide monitoring and analytics due to system capability restrictions and resourcing.

5.42 BCLC's and the Service Provider's monitoring and reporting activities did identify the issue of large volumes of unsourced and unusual cash activity in October 2014, which resulted in an ongoing law enforcement investigation and the 60+ high risk patron registry.

5.43 Other industries, such as Money Service Businesses ("MSBs") have similar reporting models. The reporting entity (BCLC) with access to full data information should be conducting the bulk of the comprehensive monitoring and identifying transactions for review based on analytical indicators. The Service Provider should be responsible for filing UFTs that involve behavioural information or indicators for money laundering activity to BCLC. In many instances, the behavioural red flag information will supplement the data report which will provide valuable and wholesome information to FINTRAC when submitted by BCLC.

5.44 BCLC should create a template for UFT reports to ensure that all required information is included and to create consistency in the quality of submissions between facilities.

[8] Churn is the terminology where a patron buys in with the same cash which they previously played with and cashed out. As a result, an active player can appear to be bringing in and cashing out large amounts of cash, which the iTRAK system records as new and separate funds for each transaction.

Service Provider:

5.45 From observations and interviews conducted with RRCR staff, the majority of UFTs are identified by surveillance rather than floor staff who have direct interaction with the patron. Employees (floor staff) are not required to document UFT interactions or provide narratives. Relying only on Surveillance observations increases the risk of missing behavioral red flags from direct interactions.

5.46 UFT witness narratives (form/document) are not completed by floor staff. Floor staff should have more active involvement in the reporting process as surveillance only has limited information based on video surveillance.

5.47 The Service Provider indicated that additional guidance on UFT reporting would be beneficial to meet the needs and expectations of BCLC and would make the process more effective for both entities. Additional on-site training was provided by BCLC in December 2015. Review of the training materials for the on-site training was not in the scope of the current engagement.

Risk Based Approach

BCLC:

5.48 As the FINTRAC reporting entity, BCLC is required to take on the role of conducting facility risk assessments. This is consistent with other Canadian jurisdictions. BCLC has developed its risk assessments by region. RRCR is included in the Lower Mainland risk assessment. This is not consistent with other jurisdictions in Canada who conduct their reviews by facility. As facilities are not operated by a single vendor they have inherent differences in their internal procedures. The patron base varies by facility as well, including a wide variance in the number of VIP patrons and their volume of play. We recommend that these risk assessments include factors specific to the facility. RRCR, for example is unique in its VIP play and warrants specific attention to its risks and the ongoing mitigation measures.

5.49 We also observed that the risk register is not as granular as other jurisdictions we have reviewed. We recommend that BCLC consider if the risk register reflects the current environment.

Know Your Patron (KYP) or standard CDD

5.50 Understanding the patrons using BC's gaming facilities is a line of defense against the use of illicit funds. KYP goes beyond recognizing a frequent player or knowing the time of day that they come into play and details about their family. It is about understanding the potential money laundering risk the patron poses to the facility and managing that risk accordingly.

5.51 PCMLTF Regulations[9] require the identification of business relationships, ongoing monitoring and risk assessment of the business relationships as well as the implementation of appropriate special measures to mitigate high risk relationships. One measure is the gathering and verification of source of funds and source of wealth information.

[9] Reference PCMLTFR 71.1

GPEB:

5.52 GPEB, at the direction of the Minister responsible for gaming, should consider issuing a directive pertaining to the rejection of funds where the source of cash cannot be determined or verified at specific thresholds. This would then provide specific guidance for BCLC to create policies and procedures for compliance by all operators.

BCLC:

5.53 BCLC investigators do not investigate to confirm the source of funds or source of wealth unless specifically requested at the time an EDD file is created.

5.54 BCLC AML manuals and training content appears to be sufficient, however additional training for employees in the VIP area focused specifically on suspicious indicators and required actions to improve independent thinking would be beneficial.

5.55 It was observed that most of the employees in the high limits rooms at RRCR speak Cantonese or Mandarin as a first language. Although the game play must be conducted in English, the language of general communication amongst the employees was not English. The mastery of a technical subject as defined in the BCLC Anti Money Laundering online training may be impacted by the presentation of the materials solely in English. BCLC should consider providing training in the primary language of its high risk exposed employees.

5.56 Based on the results of GPEB and the Minister responsible for gaming's risk assessment and risk threshold for large unsourced cash transactions, BCLC should revise policies regarding tolerance of high risk play and consequences of unacceptable high risk activity.

Service Provider:

5.57 From interviews and observations at the Service Provider, it is determined that source of funds and/or source of wealth information is not gathered for high risk, high volume cash players. Customer profiles do not require this information for continued play except when opening a PGF.

5.58 KYP at the Service Provider is based on repetitive observation of high limit player behaviour (no information is verified), and the expectation that BCLC is responsible for all due diligence activities. Additional information on the player is not shared with the Service Provider and is maintained in the iTrak system, to which only BCLC has full access. This process, and the associated accountability gaps, may have contributed to an organizational de-sensitization to cash through continued exposure to high volume bulk cash, especially in the VIP areas.

Business Relationship Risk

BCLC:

5.59 BCLC is in the process of fully implementing the Business Relationship requirements and has identified a list of 670+ high risk patrons. This list is in addition to the previously referenced Top 100 list and the Conditions list which currently includes 75 patrons. The AML and Operational Analysis team is in the process of doing deep dives, however there is a considerable backlog.

5.60 At the time of the review, the Top 100 list contained 36 names also appearing on the Conditions list of 75 patrons. Of the 36 names, only 13 had received a comprehensive EDD review. Of all the patrons appearing on Top 100 list, a total of 34 files had received Comprehensive EDD review.

5.61 BCLC is working on enhancements to their loyalty program, "Encore" which is intended to increase the amount of carded play which will provide additional KYP for analytics especially for slot play.

5.62 As a result of the BCLC's identification of patrons associated to the criminal investigation of unsourced cash utilization, 60+ individuals associated with the activity have been identified for EDD, restricted play and interviews with the BCLC's staff.

Industry Practice

5.63 The objectives of the *PCMLTFA* include:

> *"to implement specific measures to detect and deter money laundering… ", "to respond to the threat posed by organized crime by providing law enforcement officials with the information they need to investigate and prosecute money laundering or terrorist financing offences" and "to assist in fulfilling Canada's international commitments to participate in the fight against transnational crime, particularly money laundering…".*

The PCMLTFA does not specifically legislate the requirements of an entity in relation to how it handles high risk transactions outside of record keeping and reporting obligations.

5.64 It is difficult to compare best practices for the management of AML/ATF risk to other industries. We do not believe that the banking sector is a good comparison as there is a significant difference in how banks handle account based risk when compared to transient casino play that is often anonymous. Where reportable transactions do occur, the Casino often only has limited information on which to base its risk assessment. Due to the significant volume of cash and the transient nature of its patrons Casinos are most similar to MSBs in their AML/ATF risk management models. In the absence of specific guidance, other industries regulated under the *Act* have developed controls and measures to reduce or eliminate the risk associated to the receipt of unsourced bulk cash.

5.65 The implementation of controls around bulk cash vary by industry:

- MSBs – Money Services Businesses place limits on the amount of bulk cash accepted from clients. This practice forces alternative funding such as bank drafts, certified cheques or wire transfers.
- Financial Institutions – Although most financial institutions will not refuse a cash deposit they will close client accounts that exceed their defined risk thresholds. Account based relationships also offer greater monitoring capabilities which aid in managing risk.
- Security Dealers – The majority of Securities Dealers place outright bans on cash deposits. This is impractical in the gaming industry.

5.66 In gaming models where casinos are provincially operated, the ability to implement revenue impacting, socially guided controls and restrictions is simplified in that the revenue of the private operator is not a consideration. Implementing cash controls on private operated facilities requires a greater assessment of revenue impact and how best to ensure the operators remain reasonably compensated.

Cash Alternatives

GPEB:

5.67 BCLC's mandate of revenue generation, and GPEB's mandate to ensure the overall integrity of gambling in the province requires a balanced approach to support a restriction or significant reduction in the amount of cash accepted at the casino facilities. The review of proposed cash alternative solutions and the impact of these solutions should remain a priority for both entities to promote gaming integrity and reduce the amount of unsourced cash being used in game play.

5.68 We understand that a concept document addressing extension of credit to VIP patrons has been put before GPEB. This concept has not yet been approved or denied as additional information is required by GPEB. Once the information is provided by BCLC, it should be a priority for GPEB to determine feasibility and the implementation criteria.

5.69 GPEB and BCLC should undertake a review of large cash transactions to determine if a bulk cash limit can be reasonably set for transactions where no source of funds can be determined. Currently patrons who have not been placed on a watch list can buy in with unlimited cash until flagged for an interview by BCLC.

BCLC:

5.70 BCLC has staffed a position to investigate the viability of a number of cash alternative options which need GPEB's approval to move forward. Considerations in developing cash alternative programs and products should include:

- The ability for non-Canadian players to fund PGF accounts if they are subject to cash restrictions in their home country (i.e. China)
- The ability for non-Canadian player to repay credit extended at facilities if they are subject to cash restriction in their home country (i.e. China)
- Allocating how defaults on repayments will be determined.(i.e. between BCLC and Service Provider and potentially the tax payer)

5.71 It is understood that any controls placed on the acceptance of bulk cash may reduce the volume of play and subsequently the revenue generated for both the operator and the province. BCLC reports that high limit play is a small part of BCLC revenue. As such, it will marginally impact BCLC revenues overall. However these controls may have a significant impact on revenue for the RRCR operator, Great Canadian Gaming Corporation. The level of acceptable risk, impact on revenue generation and reducing the facilitation of layering of bulk cash must all be considered when determining adequate controls.

5.72 The implementation of cash alternatives is likely to bring the greatest reduction in unsolicited cash while having the least impact on overall level of play for VIP patrons. Although we cannot recommend specific options without additional analysis we do acknowledge that the most common options are:

- Domestic and international wires to fund PGFs;
- The ability to transfer funds between PGFs;
- Specified limits on chip passing amounts;
- Front Money accounts and the extension of credit;
- Removing the current limits for Convenience Cheques for non-verified wins and return of funds.

5.73 The Cheque Hold program has been approved, developed and implemented as a cash alternative. However, there has been no utilization to date by Service Providers due to the risk of non-payments.

5.74 A verifiable source of funds determination for cash amounts above a defined threshold to be obtained prior to game play should be mandated by GPEB and implemented by BCLC. In our opinion, the only way to verify funds is to obtain documentation for the withdrawal of cash from a financial institution (bank) or entity covered under the PCMLTFA such as a MSB.

Environmental Factors

5.75 The issue of casinos, RRCR in particular, accepting large volumes of cash has been a growing issue in the province for a number of years. The source of the cash is now in question, and social and moral responsibility around the unsourced cash has resulted in negative media around gaming operations in BC. A number of factors within the regulatory and guidance documents can be identified as the root cause of the issue.

- There are inherent conflicts between the mandates of GPEB and BCLC and the Service Provider. GPEB is responsible for regulation and the integrity of the gaming industry in BC. BCLC has statutory obligations under the *Gaming Control Act* to GPEB, is accountable to the Province for revenue generation, manages the Service Providers, and responsible to FINTRAC for regulatory compliance. Service Providers, are not covered entities under the PCMLTFA and therefore have limited regulatory obligations and exposure, instead focusing on revenue generation.

- From discussion with staff and management, examples provided by both GPEB and BCLC identify a cultural difference regarding unsourced cash and the potential AML activity occurring within BC casinos which undermines collaboration and the sharing of ideas and information. This has contributed to an increased risk of compliance short-falls, misaligned priorities for implementing cash alternatives, and gaps in the oversight of day-to-day processes.

5.76 The PCMLTFA and implementing regulations require that reporting entities report prescribed transactions and identify suspicious transactions. There is no provision within the regulation that requires that funds which may be associated with a predicate offense to be rejected by a reporting entity.

5.77 The ongoing investigation by law enforcement into the potential use of proceeds of crime to fund VIP gaming activities prompted BCLC to implement a list of patrons who would be restricted from playing using unsourced cash.

5.78 In other industries, such as banking, securities dealers and MSBs, internal policies and procedures are developed based on the entity's risk based approach to determine when transactions should be rejected. Through review of policies and procedures at GPEB, BCLC and the Service Provider, it was noted that there has been no directives made to reject funds where the source of the cash cannot be determined and verified.

5.79 Reasonable grounds to suspect Money Laundering activity through the use of unsourced funds has been confirmed by the Service Providers and BCLC through the EDD processes. Interviews have confirmed that players are indeed wealthy non-residents, or business persons with interests both in Vancouver and China, coming to Vancouver to gamble. While the patron may be bona fide, the unsourced cash being accepted by the casino may be associated with criminal activity and poses significant regulatory, business and reputational risk.

5.80 The use of possible underground banking operations using large volumes of unsourced cash have become increasingly common and accepted as a convenience feature for VIP players who may not be able to send funds to Canada due to currency restrictions in their own country. The funding arrangements have been confirmed through interviews conducted by BCLC investigators with targeted patrons. The patron advises that they are provided with a contact in Vancouver, either locally or prior to arriving in Vancouver. The contact the person via phone for cash delivery. The funds are later repaid through cash holdings in China. This transaction flow forms an underground or unregistered Hawala type operation using unsourced cash into the casino.

5.81 River Rock staffs have fostered a culture accepting of large bulk cash transactions. Through interviews and conversations with facility staff, there is a false reliance of the KYP process, which is developed through the frequency of transactions dealing with large cash values rather than any verified information. This has resulted in a desensitization to the inherent AML risks associated to cash transactions. This was identified by a number of staff at various levels in GPEB, BCLC and the Service Providers.

5.82 BCLC's current systems and technology do not allow for analytics or system alerts for activity which is deemed to be suspicious or excessive. There is a reliance on the Operator to file UFTs which may prompt the need for EDD. The implementation of SAS has been significantly delayed due to vendor customization issues which has hindered BCLC's ability to perform efficient and effective monitoring.

5.83 Staffing levels do not allow for EDD or deep dive investigations to be completed in a timely manner which allows activity to continue at the facility supporting the apathy to large cash transactions.

- The EDD process should be reviewed to ensure that data collected and information gleaned from various sources provide a clear picture of the risks and profile of the patron for risk assessment and mitigation purposes.

5.84 EDD "Deep dives" have indicated that the players who have been subject of UTFs are themselves are not directly associated with criminal activity. Further actions or reporting is then not deemed suspicious based on reasonable grounds to suspect ML/TF activity. The use of bulk unsourced cash, and the possible use of proceeds of criminal activity, is not clearly identified in the BCLC Risk Assessment.

6.0 RESTRICTIONS AND LIMITATIONS

6.1 This report is private and confidential. It is not intended for general circulation or publication. For certainty, this report may not be disclosed, copied, quoted, or referred to in whole or in part, whether for the purposes of litigation, disciplinary proceedings or otherwise, without our prior written consent in each specific instance. It is not to be distributed to any other persons without the prior express written consent of MNP. Such consent, if given, may be on conditions, including without limitation an indemnity against any claims by third parties arising from release of any part of our documents or reports. We do not and will not assume any responsibility or liability for losses incurred by the Gaming Policy Enforcement Branch or their employees or by any other parties as a result of the circulation, publication, reproduction, use of, or reliance upon any reports or documents contrary to the provisions of this paragraph. Further, we understand that this Report may be the subject of a request under the Freedom of Information and Protection of Privacy Act. Should a request be made, MNP will work with GPEB to fulfill the request in accordance with the Act.

6.2 Comments in any document or report we produce in the course of this engagement shall not be interpreted to be legal advice or opinion.

6.3 BCLC remains solely responsible at all times for adherence with all its compliance obligations.

Yours truly,

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