

Review of: British Columbia Lottery Corporation

**INTERNAL AUDIT
AND ADVISORY SERVICES**



**Ministry of
Finance**

**Review of the British Columbia Lottery Corporation
(BCLC)**

**Internal Audit & Advisory Services
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Abbreviations

AML	Anti-Money Laundering
B2B	Business-to-Business
BC	British Columbia
BCLC	British Columbia Lottery Corporation
BCM	Business Continuity Management
BCP	Business Continuity Plan
BT	Business Technology Division
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGC	Community Gaming Centre
CIO	Chief Information Officer
Compensation Policy	Crown Corporation Executive Compensation Policy
DRP	Disaster Recovery Plan
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
FTE	Full Time Equivalent
GCA	Gaming Control Act
GLE	Government's Letter of Expectations
GMS	Gaming Management System
GPEB	Gaming Policy and Enforcement Branch
GSA	GameSense Advisor
HLG	Host Local Government
HR	Human Resources
IAAS	Internal Audit and Advisory Services

ICBC	Insurance Corporation of British Columbia
IPS	Information Privacy and Security
IT	Information Technology
OSA	Operational Service Agreement
PG	Problem Gambling
PHO	Provincial Health Officer
PSEC	Public Sector Employer's Council
RG	Responsible Gambling
VLT	Video Lottery Terminal
VP	Vice President
VSE	Voluntary Self-Exclusion

Executive Summary

British Columbia Lottery Corporation (BCLC) is a Crown corporation reporting to the Minister of Finance. It provides gaming entertainment for its patrons and generates net win of approximately \$2.1 billion annually with over 75% of the adult population participating in some form of gaming, including the purchase of a lottery ticket, in the past year. One of BCLC's key measures of success is net win, which is total gaming revenue after prizes are paid. Since fiscal 2008/09 net win has been relatively stable with little growth.

BCLC's head office is in Kamloops, with a corporate office in Vancouver, and employs approximately 900 people. In addition to the three gaming divisions (lottery, gaming facilities and eGaming), BCLC also has corporate activities that include marketing and distribution, finance, human resources and information technology (IT). These activities are integral in supporting gaming operations, as well as meeting BCLC's responsibilities as an employer and Crown corporation.

As part of government's commitment to review Crown corporations, Internal Audit and Advisory Services (IAAS) conducted a review of BCLC to ensure it is being well managed and adhering to government's mandate. IAAS, working with a Deputy Ministers' Committee, evaluated BCLC's gaming and financial operations, organizational governance, forecasting, cost mitigation and IT.

Lotteries

Lottery products include lotto draw games, instant win games and social games, sold through approximately 3,800 lottery retail locations. Net win from lotteries has remained stable and accounts for 21% of BCLC's total net win.

Overall, BCLC has strong oversight tools to manage lottery operations and continues to educate and monitor lottery retailers for compliance with prize payout best practices. The Lottery Division faces a number of challenges over the coming years to address its aging technology, as well as its concern about a declining customer base due to an aging demographic and a younger generation less interested in playing lottery games. A lottery optimization project was initiated to provide a long-term business strategy and plan to address these issues. The project is currently on hold due to other corporate priorities.

BCLC has expanded its retail network to include Signature stores, with the concept to enhance the player experience and attract the younger generation. Given the significantly higher capital investment than typical for a kiosk, and with no business case or formal evaluation criteria, it is difficult to determine if these stores are achieving their objectives. Results to date indicate minimal growth in sales over what it replaced.

Both BCLC and the Gaming Policy and Enforcement Branch (GPEB) conduct oversight of lottery retailers to help ensure that they meet their contractual and legal requirements. The primary emphasis of oversight is on prize payout procedures which are typically tested through secret shopper programs conducted by both BCLC and GPEB. Over the last two years, BCLC reported compliance of nearly 90%.

Gaming Facilities

Gaming facilities include 17 casinos, seven commercial bingo halls and 18 community gaming centres (which offer slot machines and bingo) all run by service providers. Net win from gaming facilities grew significantly until fiscal 2008/09 as more facilities were opened and since that time has stabilized. Currently, 76% of BCLC's net win is generated in gaming facilities with Host Local Governments receiving a 10% commission of the net gaming revenue of gaming facilities in their jurisdictions.

BCLC's relationship with service providers is similar to that of a franchisee in that franchisees are granted the right to provide services with controls regarding service standards. Service providers own or lease the gaming facility and are required to provide staff, as well as ensure the physical security of the building and equipment.

BCLC has a 10 year operational service agreement with each gaming facility service provider. These agreements currently lack performance standards, such as revenue targets or responsible gambling requirements, which would improve operational management and oversight and allow BCLC to better monitor the service providers' performance.

Gaming facilities received operating and facility commissions amounting to approximately \$630 million in fiscal 2013/14. Depending on the mix of games offered, the operating commissions typically range from 25% to 40% of net win. Facility commissions ranging from 3% to 5% of net win are also paid on eligible expenditures, to assist in capital investments by the service providers, in order to provide higher quality facilities and thereby increase player visits. These project based commissions are

payable upon substantial completion; however, this practice is not consistently followed and has resulted in gaming facilities receiving commissions at earlier stages. It has been nearly 20 years since the commission structure in British Columbia (BC) was created and BCLC is currently unable to clearly demonstrate the effectiveness of the commission structure.

Currently, BCLC does not have a clear set of criteria to differentiate between a conversion, relocation and a new gaming facility. When establishing a new facility, BCLC should ensure that a competitive process is used in keeping with the spirit and intent of government procurement policy.

BCLC is undergoing the implementation of a new gaming management system to replace its legacy casino applications at 35 gaming facilities across the province. The project is expected to be completed by March 2015 at a total cost of \$119 million and is generally progressing in scope, on schedule and under budget. However, current revenue projections suggest that estimated benefits will be approximately 32% lower from an initial \$515 million (over the first 10 years) to \$352 million, indicating a weakness in project planning that overstated the revenue projections.

eGaming

eGaming products consist of online lottery games, sports betting, bingo and other casino games. Over the last five years, eGaming net win grew from \$14.7 million to \$58.9 million and accounts for 3% of BCLC's total net win. To date, BCLC has not been able to accurately forecast its eGaming revenue growth, with actual net win consistently lower than its forecasted targets.

BCLC is the only legally authorized provider of online gaming, in BC, which is delivered through its web-based platform PlayNow.com. Games offered are certified to technical standards established by GPEB, and validated by a qualified third party laboratory.

Many online gaming sites are unregulated and players on these sites are at risk of fraud, cheating or other illegal acts. In 2012, BC residents spent an estimated \$125 million on unregulated online gaming sites.

BCLC commenced a Business-to-Business arrangement for other jurisdictions where BCLC provides the gaming platform, PlayNow.com, and operational support for a fee. Initial estimates for the Business-to-Business service predicted a level of profitability that has yet to be attained.

Responsible
Gambling

Responsible gambling commences with the provision of tools and information necessary for gamblers to make informed choices. Problem gambling develops when gambling becomes uncontrolled and the gambler develops behavioral issues which can negatively impact their lives, family, friends and place of employment.

The lowest standard prevalence rates of problem gambling tend to occur in Europe, with intermediate rates in North America and Australia, and the highest rates in Asia. In Canada, somewhat higher than average prevalence rates have occurred in New Brunswick, Alberta and BC. Problem gambling prevalence studies were done in BC in 2007 and most recently in 2014, in a forthcoming report, which show a 28% decrease in problem gamblers, from 4.6% to 3.3% of the total population during that period.

BCLC is responsible for retail, internet and facilities-based responsible gambling programs, while GPEB is responsible for provision of problem gambling services (including counselling and treatment), responsible gambling initiatives and managing gambling research.

BCLC has a GameSense program providing responsible play information and the risks associated with gambling to players. BCLC also manages a Voluntary Self-Exclusion program where a person elects to exclude themselves, for a set period of time, from gambling activity (other than lotteries). Once made, this commitment cannot be revoked. The effectiveness of the Voluntary Self-Exclusion program has been challenged in court which found that the casinos' policies, surveillance and security systems were appropriate and reasonable.

Gaming
Protection

BCLC is responsible for ensuring service provider and retailer compliance with legislation. This involves training, conducting compliance reviews and investigating issues related to federal and provincial regulations with lottery retailers and gaming operators.

GPEB routinely audits BCLC gaming operations. In most cases, audits appropriately identified areas requiring improved controls, although some audit areas and findings were based on BCLC's policy and procedures, as opposed to a GPEB standard. Despite continued improvement in retailer compliance, there was no evidence of a plan to rationalize the number of inspections using a risk based approach.

BCLC is required by federal legislation to report any suspicious transactions, as well as transactions greater than \$10,000, on behalf of service providers, including patron information. BCLC has implemented a number of anti-money laundering initiatives, including the increased use of electronic banking methods and proactively banning known criminals. In order to streamline reporting and better facilitate expanded federal requirements, BCLC is also implementing a new anti-money laundering IT system.

Regulatory
Oversight

Gaming regulation and enforcement is important in ensuring the integrity of gaming. GPEB, reporting to the Minister of Finance, is the regulatory body overseeing the activities of BCLC in supporting the integrity of gaming, and investigating allegations of wrongdoing.

The work that BCLC and GPEB perform in managing and regulating the gaming industry in BC promotes fairness and game integrity. Better understanding and agreement of roles and responsibilities between BCLC and GPEB should increase the efficiency and effectiveness of both organizations.

The need for improved clarity of the roles has been identified by government, and BCLC has been directed to work with GPEB to jointly develop key principles that will inform their respective roles and responsibilities.

While GPEB has gaming standards, some of them are not sufficiently detailed and, in some areas, GPEB's work is not consistently risk based. Having robust policies, standards and procedures will allow GPEB to operate more efficiently and effectively.

BCLC conducts reviews of its service providers and lottery retailers to ensure service standards are met and, while not replacing the work of the regulator, GPEB could place reliance on the controls and audit work undertaken by BCLC to ensure the best use of limited resources.

Governance and
Performance

BCLC receives its direction from government through a Government's Letter of Expectations, and BCLC's Service Plan has been consistently aligned with government's priorities. While the board fulfills its responsibilities by providing strategic direction for BCLC, there are opportunities for the board and executive to improve their communication, decision-making and oversight of the organization.

BCLC reports its performance using measures in each of its four corporate goals: Player, People, Public and Profit. Divisions within BCLC prepare a business plan aligned with these corporate goals; however, they do not include any performance measures in their plans to demonstrate performance over time and contribution to the achievement of the corporate goals.

Information
Technology

BCLC is heavily reliant on IT to help sustain and grow its business and has invested more than \$197 million on IT-related capital projects over the past five years. The Business Technology Division effectively supports BCLC's lines of business and their IT requirements and has made a number of organizational changes to improve IT services and better align with BCLC business strategies. Opportunities still exist to enhance the maturity of some of the business processes; in particular, disaster recovery planning.

BCLC has an organization-wide privacy and information security function and has recently implemented a number of initiatives to enhance the security and privacy roles within BCLC. These can be further strengthened by enhancing incident tracking, data classification and data ownership, as well as by implementing the envisioned security and privacy requirements for service providers.

BCLC has reasonable security controls and procedures in place to ensure confidentiality and integrity of gaming systems and related data. Various automated tools are also used to monitor the IT environment for security issues.

Financial
Management

Over the last few years, BCLC operating expenses have increased faster than net win, primarily as a result of increased salary and benefit costs. In order to reduce operating costs and meet financial targets, BCLC plans to reduce operating costs by \$20 million in fiscal 2014/15. At the mid-way point of the 2014/15 fiscal year, BCLC reports that it is on track to achieve its cost saving targets.

Government directed BCLC to manage their cost of operations to not exceed a cost ratio of 42.5% of total net win. Using one overall ratio creates the risk that cost containment is not prioritized as net win grows. A combination of measures such as divisional cost ratios, limiting expense types by ratios or fixed amounts could provide more effective cost containment results.

BCLC uses a project portfolio management approach to manage current or proposed projects and ensure their alignment with organizational objectives. The project portfolio management framework is not standardized across the organization, leading to inconsistent project management practices within divisions. In

addition, BCLC compares the actual project cost against the final approved budget rather than the original baseline budget. This does not always provide an accurate financial assessment of the project as the final approved budget may encompass multiple changes.

BCLC prepares business cases for executive approval for major organizational or capital projects, including new IT systems. However, BCLC has not established clear criteria for determining when a project requires a business case. BCLC acknowledges deficiencies in its current business case process and is introducing new templates.

BCLC spends approximately \$230 million annually on goods and services using three types of procurement methods: competitive bid, direct award and corporate purchasing cards for low dollar value purchases. BCLC used competitive processes for 88% of its purchases, with direct awards and corporate purchase cards accounting for the remaining 12%.

BCLC's procurement policies and procedures generally align with government's procurement policy and provincial trade agreements. However, some of BCLC's procurement practices could be improved by enhancing documentation practices and more clearly demonstrating value for money in procurement.

BCLC spent approximately \$25 million on marketing, advertising and promotions in fiscal 2013/14. While individual campaigns in some areas are assessed for their impact, overall BCLC cannot clearly demonstrate the return on its marketing and advertising expenditures.

Staffing and Compensation

Over the last five years, the total number of Full Time Equivalents has increased by 25% to 919 with total compensation increasing by 43% to \$93.1 million in the same period. These increases are attributed by BCLC to initiatives such as implementing recommendations from the 2007 Ombudsman's report and merit increases in pay. BCLC's compensation was found to be generally comparable with other Crown corporations.

BCLC, in following the new Crown Corporation Executive Compensation Policy eliminated perquisites and allowances and the bonus program. For executives, the changes made complied with this new policy. However, for some of the non-executive employees, the changes were more generous and contrary to the intent of the policy.

BCLC completed a staff restructuring in March 2014 as part of a larger \$20 million cost saving initiative. As a result of the larger than expected number of employees taking advantage of the early retirement and severance packages being offered, as well as involuntary terminations, the cost of the initiative was approximately \$25 million. With better internal planning and coordination, BCLC could have minimized the costs and staffing impact of this restructuring exercise.

* * *

We would like to thank the management and staff of BCLC, GPEB, as well as the other stakeholders who participated in and contributed to this review, for their cooperation and assistance.

A handwritten signature in blue ink, appearing to read "Chris D. Brown", with a horizontal line underneath.

Chris D. Brown, CA, CIA
Assistant Deputy Minister
Internal Audit & Advisory Services
Ministry of Finance

December 4, 2014

Introduction

British Columbia Lottery Corporation (BCLC) is a Crown corporation reporting to the Minister of Finance. It provides gaming entertainment for its patrons and revenue for the Province of British Columbia, through its lottery, gaming facilities and eGaming divisions.

British Columbia (BC) started selling lottery products in 1974 after joining the three other western provinces in a partnership called the Western Canada Lottery Foundation. In 1985, the government established its own lottery corporation. In 1997, the government gave BCLC the responsibility to conduct and manage slot machines and, the following year, BCLC assumed responsibility for all casino gaming. In 2004, BCLC introduced eGaming through an internet lottery site called PlayNow.com.

Governed by the *Gaming Control Act (GCA)*, BCLC operates under the legislative, regulatory and policy framework established by the Province of British Columbia. Within this framework, BCLC has been directed to conduct and manage gaming in a socially responsible manner for the benefit of all British Columbians. The Gaming Policy and Enforcement Branch (GPEB) is the regulatory body overseeing the activities of BCLC in supporting the integrity of gaming, and reports to the Minister of Finance.

Gaming Operations

BCLC gaming operations includes lottery, gaming facilities (casinos, community gaming centers (CGC) and bingo halls) and eGaming. It generates approximately \$2.1 billion in annual net win, with over 75% of the adult population participating in some form of gaming, including the purchase of a lottery ticket, in the past year. Net win, which is the total gaming revenue after prizes have been paid, has been relatively stable since 2008/09. More than half of this is used to support social programs, health care and education. BCLC oversees lottery retailers and gaming facility service providers while directly delivering eGaming. Each of these business lines is managed through separate divisions in BCLC.

Lottery products include lotto draw games, instant win games and social games, sold through approximately 3,800 lottery retail locations. Gaming facilities include 17 casinos (two with racetracks), seven commercial bingo halls and 18 CGCs (which offer slot machines and bingo) all run by service providers. eGaming products consist of online lottery games, sports betting, bingo and other casino games, such as slots and poker, delivered through PlayNow.com.

Protection of
Public and
Gaming Industry

In 2003, government established its Responsible Gambling Strategy to promote responsible gambling (RG) and effectively address problem gambling (PG). BCLC believes players and the public need to have information to make informed choices about gaming. They have developed a program for RG education, called GameSense, so players can learn about how games work, their odds of winning, when to stop and how to recognize PG.

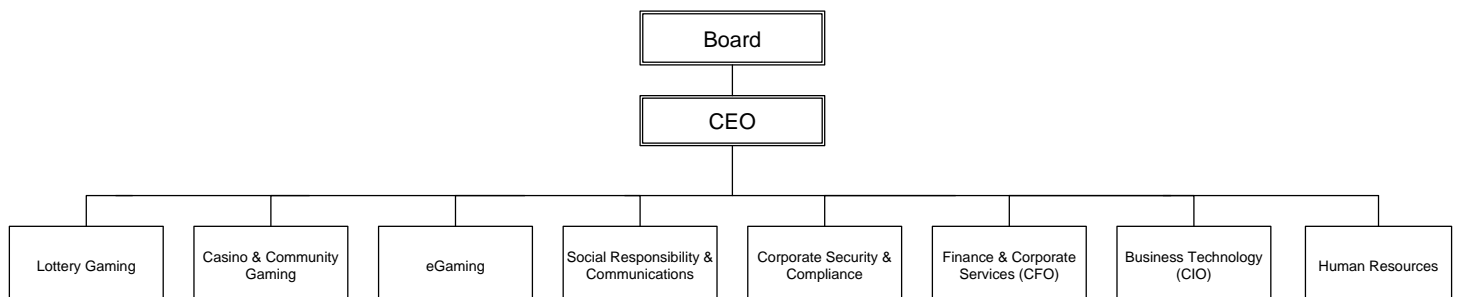
BCLC's Corporate Security & Compliance division protects the reputation, physical security and information of BCLC and ensures regulatory compliance through audits and training of lottery retailers and gaming operators. The division is also directed by government to take a leadership role in anti-money laundering (AML) initiatives.

Gaming regulation and enforcement is important in ensuring the integrity of gaming. GPEB has regulatory oversight of BCLC's operations, the province's horseracing industry and licensed gaming events. GPEB is responsible for regulating gaming in BC, ensuring the integrity of gaming industry companies, people and equipment, and investigating allegations of wrongdoing.

BCLC
Operations

BCLC's head office is in Kamloops, with a corporate office in Vancouver, and employs approximately 900 people. In addition to the three gaming divisions (lottery, gaming facilities and eGaming), BCLC also has corporate activities that include marketing and distribution, finance, human resources (HR), and information technology (IT). These activities are integral in supporting gaming operations, as well as meeting BCLC's responsibilities as an employer and Crown corporation.

The following chart shows BCLC's board and executive structure.



Purpose and Objectives

This review examined BCLC's governance framework, operations, planning and forecasting, and financial performance.

The review evaluated and, as appropriate, made recommendations relating to the following:

1. The effectiveness of BCLC's governance framework, including strategic direction and alignment with government priorities.
2. BCLC's operations, including agreements and relationships with its service providers and lottery retailers and with GPEB.
3. BCLC's financial performance, including:
 - a) operating costs, administrative costs, and employee compensation and incentive programs;
 - b) forecasts, to help plan, budget and manage costs;
 - c) cost mitigation strategies, including the identification of potential operating efficiencies;
 - d) revenue generation and profit margins;
 - e) capital asset management and utilization; in particular, IT; and
 - f) progress and expenditures on BCLC's Gaming Management System (GMS) project.
4. The growth of gaming related products for lotteries, gaming facilities and eGaming in a socially responsible manner.
5. Examination of other matters that arose over the course of the review deemed appropriate by the review team.

Approach

Internal Audit and Advisory Services (IAAS) conducted a broad review of BCLC, working with an Executive Steering Committee. The approach included:

- conducting interviews with key management and staff across BCLC and related stakeholders;
- reviewing and analyzing legislation and policies;
- researching comparable information from other relevant organizations and other jurisdictions;
- reviewing and analyzing financial reports and variance reports; and
- reviewing and analyzing key operations, processes and IT systems.

During the course of the review, the Chief Executive Officer (CEO) of BCLC resigned. As a result, the Minister of Finance requested that IAAS conduct a separate review to determine whether the CEO had been in a potential conflict of interest.

While IAAS found that the former CEO had been in a conflict of interest during the two months prior to the time he left BCLC, no evidence was found that he or his new employer benefited from the conflict.

A copy of the full report can be found on the government's website at: <http://www.newsroom.gov.bc.ca/2014/07/report-on-resignation-of-former-bc-lottery-corporation-ceo.html>

Overall Conclusion

Gaming operations have been effective in generating a steady revenue stream for the province; however, there are opportunities for improvement. BCLC needs a plan to address challenges in the lottery division with aging equipment and IT systems, and a declining customer base. BCLC should review the effectiveness of the service provider commission structure, as well as institute performance standards that would allow for better monitoring of the service providers.

The protection of the public and the gaming industry appears effective, promoting Responsible Gambling, fairness and game integrity. However, better understanding and agreement of roles and responsibilities between BCLC and GPEB would increase the efficiency and effectiveness of both organizations. While BCLC conducts reviews of its service providers and lottery retailers, this does not replace the work of the regulator. GPEB could improve by having more robust policies and standards, and taking a risk based approach.

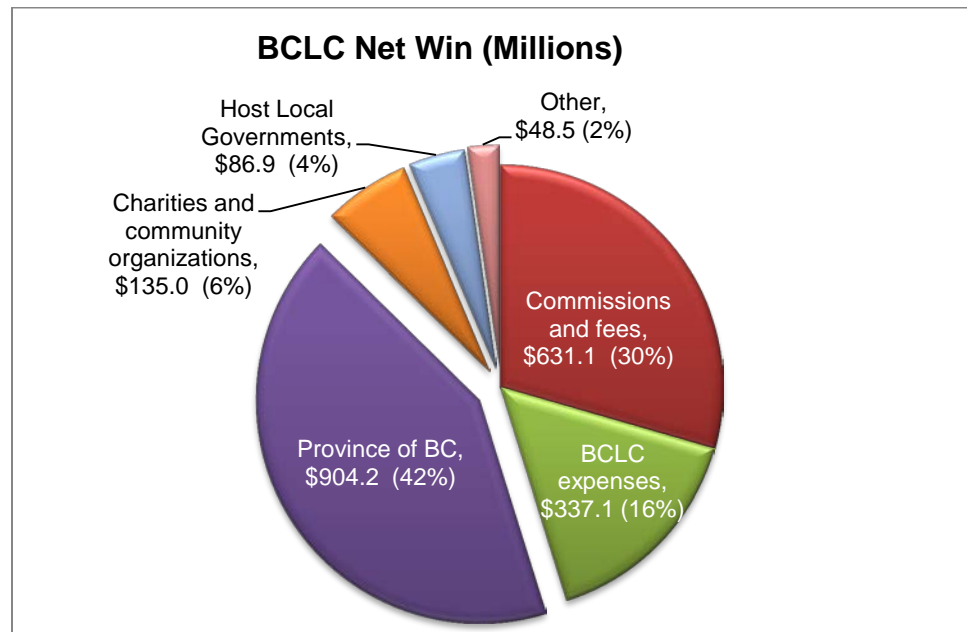
Overall BCLC's operations are aligned with government's priorities although there are opportunities for the board and executive to improve their communication, decision-making and oversight of the organization. BCLC could also improve the rigour in strategic and business planning to ensure that initiatives such as staff restructuring as well as capital and operating projects, receive the scrutiny required. In keeping with government's cost containment priority, BCLC should demonstrate greater value for money in procurement and develop a comprehensive framework of cost containment measures, such as divisional cost ratios, limiting expense types by ratios or fixed amounts, to provide more effective results.

1.0 Gaming Operations

1.1 Overview of Gaming Revenue

Of the \$2.1 billion BCLC generated in net win in fiscal 2013/14, 46% was paid to service providers for commissions and fees, and BCLC operations. Local governments that host casinos or CGCs received a percentage (4%) of net win generated by facilities in their community. These funds can be used for any purpose that benefits that community. The remaining 50% (\$1.1 billion) was primarily used to support social programs, healthcare and education.

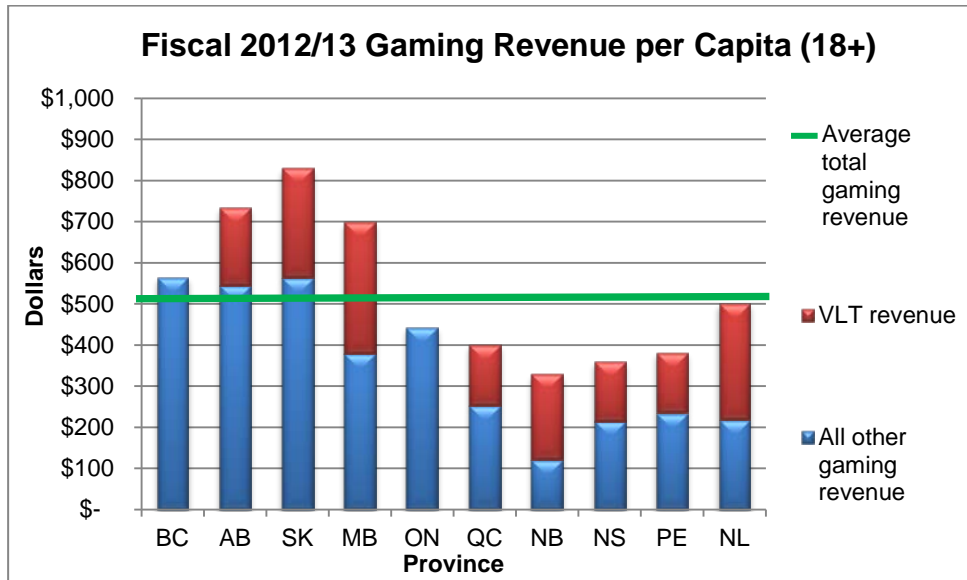
BCLC's fiscal 2013/2014 net win was distributed as follows:



Source: Data from BCLC Annual Service Plan Report 2013/14

Jurisdictional Comparison

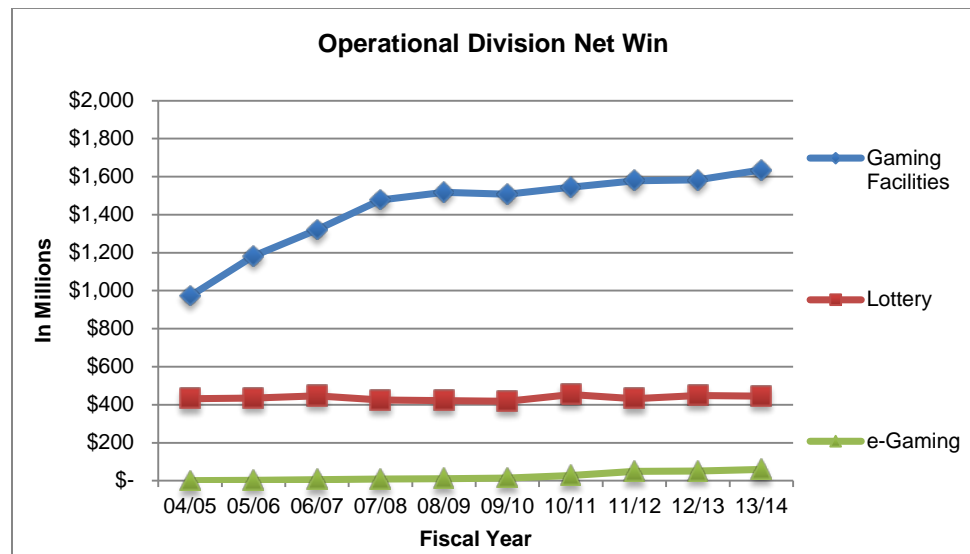
As shown in the following chart, BC was above the national per capita average revenue of \$524 in fiscal 2012/13. Alberta, Saskatchewan and Manitoba significantly exceeded the national average in part because they permit video lottery terminals (VLTs). A VLT refers to a slot-type machine used in licensed premises outside of traditional gaming facilities. BC and Ontario currently do not permit the use of VLTs.



Source: Data from Canadian Gambling Digest 2012/13

Net Win

One of BCLC's key measures of success is net win, which is total gaming revenue after prizes are paid. In fiscal 2013/14, 76% of BCLC's net win was generated in gaming facilities. The following graph shows that net win from gaming facilities grew significantly until fiscal 2008/09 as more facilities were opened. Since that time, net win has stabilized. Net win from lotteries has remained stable and, in fiscal 2013/14, accounted for 21% of BCLC's total net win. Net win from eGaming has grown; however, early projections have not been realized. In fiscal 2013/14, eGaming accounted for 3% of BCLC's total net win.



Source: Data from BCLC

1.2 Lotteries

BCLC has a wide variety of lottery products including:

- Lotto draw games: Lotto 6/49, BC/49, Extra, Lotto Max and Poker Lotto;
- Instant win games: Scratch and Win, pull tabs, Set for Life; and
- Social games: Keno, Sports Action, Pacific Hold'em and BC 50/50.

These lottery products generate over \$1 billion in sales each year. Some lotto games are national (Lotto 6/49, Lotto Max) and coordinated by the Interprovincial Lottery Corporation of which BCLC is a member.

Overall, BCLC has strong oversight tools to manage lottery operations and continues to educate and monitor lottery retailers for compliance with prize payout best practices. BCLC faces a number of challenges over the coming years to address its aging equipment and IT systems, as well as its concern about a declining customer base due to an aging demographic and a younger generation less interested in playing lottery games.

Provincial Comparisons

The lottery market across Canada is considered mature with revenues remaining relatively flat over the past five years. However, BC is faring better than other provinces, growing slightly while other provinces have declined.

The table below shows that BC has a lottery outlet for every 973 adults and generates the third highest lottery revenue per capita across Canada.

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
People/lottery outlet	973	1,148	986	1,082	1,087	769	701	740	673	450
Lottery revenue/capita (18+):	\$ 135	\$ 130	\$ 114	\$ 109	\$ 139	\$ 129	\$ 119	\$ 119	\$ 124	\$ 215

Source: Data from Canadian Gambling Digest 2012/13

Locations

BCLC delivers its lottery products to customers through a network of approximately 3,800 locations across the province:

1. Retail outlets such as gas stations, convenience, grocery and drug stores (71%);
2. Hospitality such as bars and pubs (24%); and
3. Kiosks and stores leased and maintained by BCLC but operated by independent contractors (5%).

Retailers receive a standard commission of 5% and, depending on the volume of sales, may receive performance triggered incentive bonuses.

In 2012, BCLC opened its first Lotto signature store, and opened a second store in 2014. The concept of these stores is to enhance the player experience and attract the younger generation. Signature stores require a significantly higher capital investment than typical under the kiosk network. There was no business case done to establish the need for these stores and, without formal evaluation criteria, it is difficult to determine if these stores are achieving their objectives. Analysis of the 2012 store results to date indicates minimal growth in sales over what it replaced.

With the addition of stores, BCLC's kiosk program now has a broader range of leasing, set-up and maintenance costs. BCLC has no formal guidelines on the extent of the targeted costs or revenue per outlet. This creates the risk that the increased cost of new outlets will outstrip the related benefit.

Recommendation

- (1) **BCLC should establish critical success factors for its lottery retailers in order to evaluate performance and report on results.**

New Retailers

Retailers must be registered with BCLC before they are authorized to sell lottery products. Once registered, all employees selling lottery are expected to take online training within 60 days of being hired.

After BCLC performs a background check of a potential lottery retailer, GPEB conducts a criminal record check before approving the registration. BCLC and GPEB use separate databases in managing registrations which creates inefficiencies.

Retailer registration lasts for three years after which retailers must renew it by undergoing another criminal record check. The registration and renewal process appears excessive when compared with the lack of significant issues being identified and the GCA requirement of a five year renewal period.

Retailer
Oversight

Both BCLC and GPEB conduct oversight of lottery retailers to help ensure that they meet their contractual and legal requirements. The primary emphasis of oversight is on prize payout procedures which are typically tested through secret shopper programs conducted by both BCLC and GPEB.

In 2007, the BC Ombudsman conducted a review of BCLC's prize payout procedures, and issued a report containing recommendations to strengthen its practices and improve the integrity with which lottery is conducted and managed in the province. In general, BCLC has addressed the concerns raised in the Ombudsman's report and continues to educate and monitor lottery retailers for compliance with prize payout best practices.

Over the six years since the Ombudsman report, retailers have shown continued improvement in following the prescribed prize payout procedures. Over the last two years, compliance reported by BCLC was nearly 90%.

Every retailer selling lottery products has a check-a-ticket terminal so that lottery customers can self-check their tickets to learn the results. When the retailer validates a customer's ticket, the lottery monitor displays whether that ticket is a winner, what amount was won, and plays a jingle.

For prize claims over \$1,000, BCLC creates a winner's record. For wins over \$3,000, BCLC takes steps to establish that the person claiming the win is the legitimate owner of the ticket before paying out the prize.

Lottery retail employees are not permitted to purchase lottery products at their place of work. Retailers are required to keep BCLC informed of all employees selling lottery products; not only to track whether employees have taken the required training, but also to enable BCLC to monitor retailer wins.

Other oversight includes testing whether retailers are selling lottery products to minors. GPEB uses minors to attempt to purchase lottery products from retailers. In a recent test, 40% of the retailers sold lottery products to a minor. In these instances, GPEB issued a warning or a violation ticket of \$288.

Complaint
Handling

BCLC has both a retailer and a consumer complaint hotline where they document customer concerns. The retailer hotline helps retailers resolve equipment issues, report product theft and major wins. Similarly, the consumer complaint hotline addresses concerns raised by players. Calls are logged, and if necessary, assigned to the appropriate department for follow-up and resolution.

IT Environment

BCLC uses several systems to support lottery operations. The Lottery Central System is the key application used to sell and redeem lottery products. Other lottery systems are also used to provide customer relationship management, payment processing and financial services.

Overall, key security controls and procedures are in place to ensure confidentiality and integrity of the lottery systems and related data. Various automated tools are also used to monitor the Lottery IT environment for security issues.

Lottery systems have periodically been reviewed by BCLC Internal Audit, as well as by independent parties such as GPEB and external auditors. Opportunities to enhance the system controls have been identified over time and have been addressed by BCLC.

The Lottery Central System and other lottery supporting applications represent the majority of BCLC legacy systems. Although the lottery operations are primarily supported by aging systems, the related technology is stable with minimal unscheduled system downtime in the past three years.

Looking Ahead

Given the age of the core lottery systems, BCLC faces issues associated with a lack of flexibility to accommodate new business requirements and in some cases, progressively higher upgrade costs. BCLC owns all lottery terminals and these are expected to reach the end of their useful life within the next three to five years.

BCLC recognizes the issues associated with aging technology and initiated a Lottery Optimization project to provide a long-term business strategy for lottery operations, including a plan for the replacement of legacy systems. The Lottery Optimization project is currently on hold due to other corporate priorities.

These issues, combined with concerns over a declining player base, indicate that significant challenges exist in going forward.

1.3 Gaming Facilities

BCLC is currently responsible for 42 gaming facilities comprised of 17 casinos offering table games and slot machines, 18 CGCs and seven commercial bingo halls. Across BC, gaming facilities host more than 870 table games and 12,500 slot machines.

BCLC owns all gaming products and equipment used in gaming facilities including slot machines, table games, shufflers, cards, chips, etc. All gaming supplies and equipment used in gaming are pre-approved by GPEB and maintained by BCLC in accordance with the GCA and regulations.

Types of Player

Encore Rewards is BCLC's player loyalty program, collecting data primarily through slot machine use for projection and analysis of the player base. In fiscal 2013/14, an estimated 12.3% of BCLC's gaming facility patrons were active Encore members.

BCLC categorizes its estimated 2.1 million gaming patrons into four segments - casual, light, moderate and core, depending on the average number of visits per year. BCLC estimates that more than \$60 million in net win is generated by 45 high net-worth players.

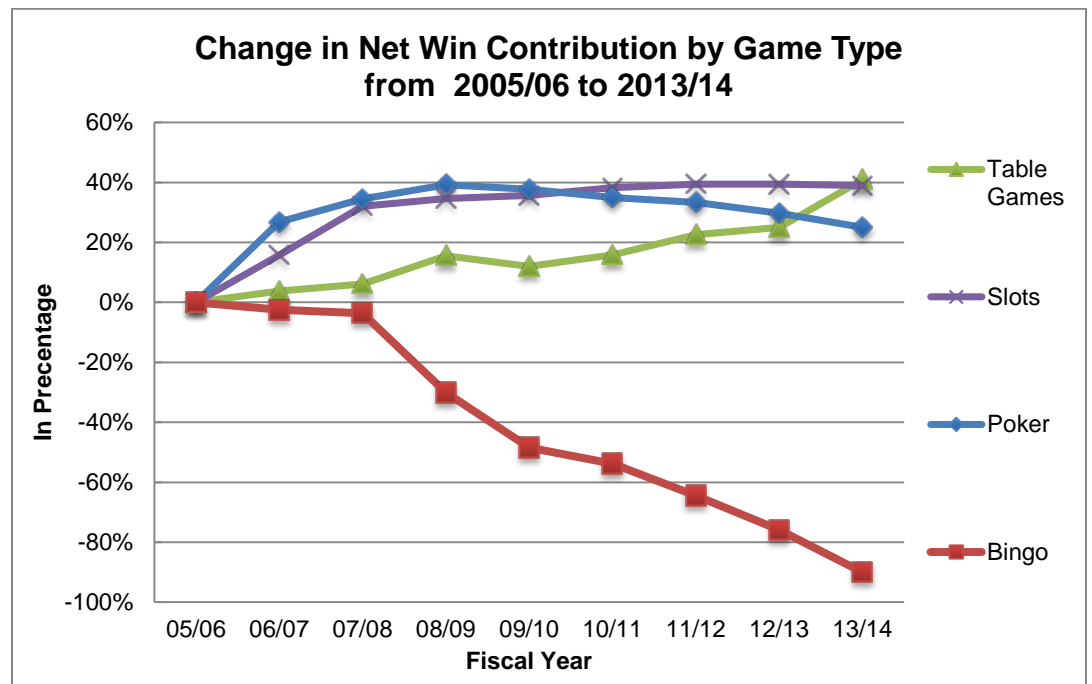
BCLC is focussing on growing casual and light player segments in order to increase the number of player visits through marketing campaigns and promoting gaming facilities as entertainment destinations. The following table shows segmented player data acquired through the approximately 260,000 Encore members, extrapolated by BCLC to the entire gaming population for fiscal 2013/14.

Player Segment:	Casual	Light	Moderate	Core
Average visits per year	2	12	52	104
% of Players	75.8%	18.2%	3.8%	2.2%
% of Gaming Facility Revenue	2.0%	6.0%	16.4%	75.6%

Source: Data from BCLC.

Gaming Mix

BC gaming facilities offer a variety of games including slot machines, table games, bingo and poker. The following graph demonstrates the change in contribution of each game type to the division's net win since fiscal 2005/06. The overall net win trend demonstrates a small growth in slots and table games over time, and a steady decrease in bingo due to a declining player base.



Source: Win By Game Type from BCLC's 5 year Pro-forma statements

Service Provider Oversight

BCLC's relationship with service providers is similar to that of a franchisee, in that franchisees are granted the right to provide services with controls regarding service standards. Service providers own or lease the gaming facility and are required to provide staff as well as ensure the physical security of the building and equipment.

BCLC facilitates regular planning sessions with individual service providers in order to align business strategies and share business and marketing plans.

BCLC enters into Operational Service Agreements (OSA) with service providers to establish operational services at their gaming facility.

OSAs are typically for 10 years with an option to extend the agreement in 10 year increments, with BCLC approval. If a service provider does not fulfil their agreement, BCLC can appoint itself or a third party to operate the facility until a solution is found. There have not been any instances where a renewal was denied or a replacement operator was appointed.

BCLC monitors the performance of gaming facilities through financial and compliance measures, as well as on-site relationship management, but does not have performance standards, such as requiring revenue targets or RG goals, in their OSAs.

BCLC recognises that the existing OSAs do not facilitate effective operational management of gaming facilities and, in 2014, BCLC established a cross-functional working group to improve them. BCLC is also in the early stages of developing risk management agreements to monitor the financial viability of service providers. As OSAs are renewed, risk management agreements are expected to be implemented to help address BCLC's risk in the event that service providers encounter financial difficulty.

Recommendation

(2) BCLC should ensure that agreements with service providers include comprehensive performance standards.

Operating Commissions

In 1997, government introduced the service provider payment and operating framework, currently administered by BCLC. Service provider operating commissions are based on the types of games offered and include:

- 25% of slot machine and electronic games net win;
- 40% of the casino games net win, less 1% to reimburse BCLC for gaming equipment and gaming supplies; and
- 60% of bingo revenue (after prizes are paid) on the first \$20,000; 40% of the next \$60,000; and 25% on revenue over \$80,000 per week.

Facility Development Commissions

In addition to operating commissions, service providers can also earn commissions of 3 to 5% of net win for capital projects and ongoing site development. This is intended to encourage capital investment that results in higher quality facilities which attract a broader player base. Eligible expenditures include land, building and improvements. Non-gaming related expenses such as planning submission costs, staff facilities and equipment are excluded.

OSAs outline the commission entitlement, and are generally consistent across similar-type facilities. Two agreements reviewed have alternate development commission structures, but still result in a similar net distribution as the other service providers.

Project-based commissions are payable to the service provider upon substantial completion of the project up to the lesser of the amount earned, or the cost of the project. BCLC has not consistently followed its policy in the administration of these commissions. For example:

- BCLC released commissions to service providers on receipt of individual expenses rather than on substantial completion of the whole project; and
- one gaming facility received commissions in advance of earning them.

In a separate instance, a gaming facility was permitted to accrue commissions on a project at an earlier stage than usual. The service provider will receive these commissions when construction begins, rather than upon substantial completion. BCLC advises that this was necessary to assist in the financing of high construction costs unique to the project.

While the intent of these commissions is to increase clientele and encourage an improved return, BCLC has not conducted a comprehensive analysis to determine how effective they have been.

Industry reports suggest that gaming industry profits exceed other hospitality industries in Canada. BC is the only province delivering gaming exclusively through contracted service providers, making the comparison to other provinces a challenge. It has been nearly 20 years since the commission structure in BC was created and BCLC, at this time, is unable to clearly demonstrate the effectiveness of the commission structure.

Recommendation

- (3) BCLC and the Ministry of Finance should conduct a review of service provider commissions for gaming facilities to ensure an appropriate and effective structure.**

Gaming
Equipment and
Inventory

BCLC owns more than 12,500 slot machines which have proven to be very profitable, with a full return on investment to BCLC after an average of four months of use and an expected lifespan of eight years.

BCLC slot machine inventory is comprised of 79 different platforms from eight unique vendors. A platform is the internal mechanism of a slot machine with a unique combination of hardware, software and operating system.

Having a large quantity of platforms has resulted in increased inventory, training and maintenance costs. BCLC has not explored potential cost containment opportunities available through the reduction of vendors and platforms.

BCLC's inventory management system is unable to track current parts levels at gaming facilities. In fiscal 2013/14, BCLC wrote off obsolete slot machine parts inventory at BCLC and gaming facilities of approximately \$3.9 million.

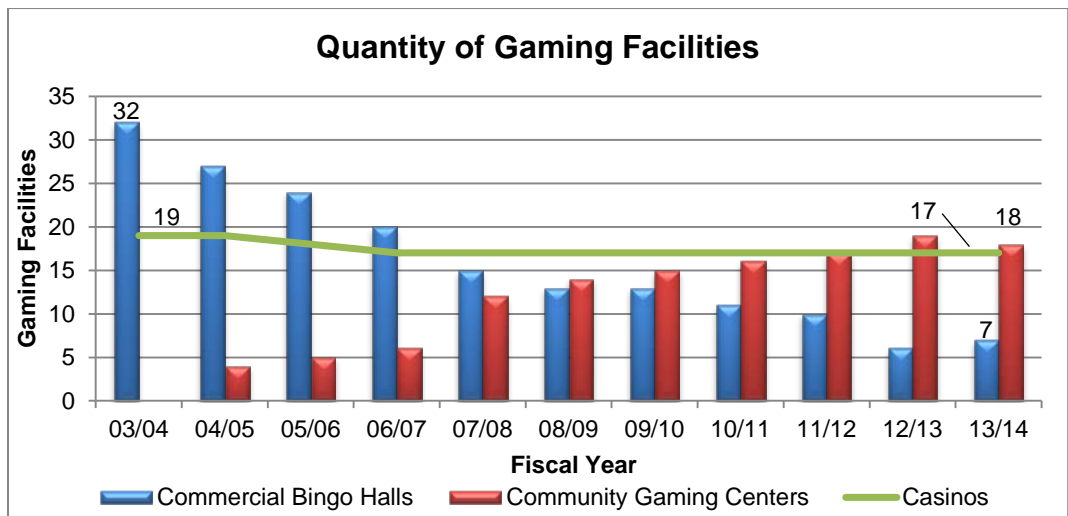
Recommendations

- (4) **BCLC should explore potential cost containment opportunities available through the reduction of vendors and platforms.**
- (5) **BCLC should evaluate options to improve inventory management systems.**

Locations

Historically, the Province of BC contracted with service providers to operate charitable gaming facilities. In 1998, BCLC assumed responsibility for these contracts.

Since 2003, the number of gaming facilities has decreased by nine, primarily through the conversion and consolidation of bingo halls to CGCs. The following graph illustrates the number of facilities by type over the past 11 years.



Source: Data provided by BCLC

BCLC has considered the changes in gaming facilities to be conversions or relocations and has given existing service providers the first right of refusal. Given that all but one of the changes have been within the same player area, and due to the relationship between service providers and their players, this generally appears reasonable.

Currently, BCLC does not have a clear set of criteria to differentiate between a conversion, a relocation and a new gaming facility. When establishing a new facility, BCLC should ensure that a competitive process is used in keeping with the spirit and intent of government procurement policy.

Recommendation

(6) BCLC should develop a clear set of criteria for gaming facility procurement.

Host Local
Government

Before establishing a facility in an area, BCLC uses a comprehensive process to ensure compliance with the legislation including Host Local Government (HLG) consultations and service provider business planning. HLG casino and gaming approval processes vary across the province, with some local governments having strict caps on the quantity of games.

Through an agreement between a HLG and the Province of BC, HLGs are provided with a 10% commission of the net gaming revenue of the gaming facilities in their jurisdictions. Net gaming revenue is the net win of the hosted facility less BCLC's proportionate costs and service provider commissions.

Distributions to HLGs across BC over the past five years were approximately \$418 million. In 2014, 31 of BC's local governments received gaming commissions totalling \$86.9 million, ranging from \$223,000 to \$17.3 million.

IT Environment

BCLC has multiple systems that manage casino operations, some of which are legacy systems with limited vendor support. This situation prompted BCLC to conduct an external benchmarking initiative in 2008 to determine whether these casino systems would continue to meet industry standards and support BCLC's future business needs. The assessment concluded that the legacy systems were at their end of life due to their increasing maintenance costs, inability to expand their product portfolio and a lack of vendor support.

In late 2009, BCLC conducted a joint competitive process with Ontario Lottery and Gaming Corporation to select a new gaming management system (GMS) for both organizations. The system selected is expected to provide increased functionality and a better gaming experience for BCLC customers.

BCLC is currently in the last fiscal year of the GMS implementation project which will replace the legacy casino systems in 35 gaming facilities in the province. As most of the major sites have already been converted, approximately 84% of the electronic gaming machines are now operating in the GMS environment.

Overall, reasonable security controls and procedures are in place to ensure data confidentiality and integrity of the casino systems, including the transition to the new GMS system.

Casino applications, including GMS have been periodically reviewed by BCLC's Internal Audit and Information Privacy and Security (IPS) departments, as well as by independent third parties such as GPEB, and external auditors. The GMS and related systems are stable with minimal unscheduled system downtime since its implementation.

GMS Project
Management

The GMS project is a multi-year initiative that began in May 2012 and is scheduled to be completed by March 2015.

The transition to GMS involves replacing the software and infrastructure that operates slot machines and monitors table games at 35 gaming facilities across the province.

Overall, the GMS implementation has followed reasonable steps to support an effective implementation and meet time and budget commitments. The project is generally progressing in scope, on schedule and under budget. However, current revenue projections suggest that initially estimated benefits will be approximately 32% lower from an initial \$515 million (over the first 10 years) to \$352 million.

GMS Benefits

The GMS business case identified increased revenue from new marketing and business intelligence capabilities that intended to increase annual revenues in casino operations by \$64 million when fully implemented and utilized. In September 2012, BCLC revised its business case to reflect more current assumptions. Among these assumptions was incorporating the impact of the delayed roll-out of the campaign and marketing components on the implementation.

In December 2013, BCLC reassessed these key revenue assumptions and concluded that they were overstated. The impact of delayed implementation of project milestones, along with the changes to key assumptions, has reduced the projected benefits by \$163 million from the initial business case projection. This reduction is due to a decrease in revenue assumptions of \$106 million, indicating a weakness in project planning, with the remaining \$57 million a result of a delay in implementing campaign and marketing components.

BCLC established a formal risk management process in order to identify, monitor and mitigate GMS project risks. These risks were regularly reassessed for their likelihood and impact and newly emerging risks were added to the risk register, when identified.

The risk register formed part of the monthly project meetings and BCLC Internal Audit maintained oversight of risk management decisions through attendance at these meetings. GPEB added oversight by visiting converted gaming facilities to solicit feedback and otherwise keep informed about potential implementation concerns.

Timelines, Scope
and Budget

The GMS project is divided into two phases of implementation. Phase 1 delivers system infrastructure upgrades with the core operational capabilities. Phase 2 includes campaign and marketing management software, as well as enhanced RG features which will allow players to manage their own accounts and set personal limits for spending and time on device.

While the initial rollout of the project started later than planned, BCLC reconfigured the overall project implementation schedule to finish on time. To date, there have been no significant scope reductions that would impact the strategic objectives of the project.

The total implementation cost of the GMS project is budgeted at \$124 million (plus a \$16 million contingency fund). The project is estimated to finish at \$119 million. Savings are as a result of efficiencies achieved in infrastructure costs through better server utilization, as well as efficiencies gained from reduced professional and contractor fees.

After some of the initial site conversions, BCLC implementation teams assessed the lessons learned in an effort to improve subsequent implementations. A final post-implementation review of the project is planned at the completion of the project, but it is unclear whether a detailed benefits realization will form part of this review.

Recommendation

- (7) **BCLC should conduct a comprehensive post-implementation review of the GMS project that includes benefits realization.**

1.4 eGaming

BCLC is the only legally authorized provider of online gaming in BC, which is delivered through its web-based platform PlayNow.com. In delivering eGaming, BCLC partners with developers and network-hosting contractors. The software suppliers are compensated through fixed or variable fees, or a combination of the two.

Many online gaming sites are unregulated and players on these sites are at risk of fraud, cheating or other illegal acts. In 2012, BC residents spent an estimated \$125 million on unregulated online gaming sites.

Games offered on PlayNow.com are certified to technical standards established by GPEB and validated by a qualified third party laboratory. Regulating the market helps ensure that games are played fairly, paid out as promised, and that gaming is not used for money laundering and other illegal purposes. It also restricts underage gamblers, ensures people with gambling problems have access to tools that limit their deposits, bets, overall play, or exclude themselves entirely.

To access PlayNow.com, players must be BC residents 19 years of age, or older. Players must be registered with PlayNow.com, and be physically located in BC at the time of play. This is in contrast to other regulated gaming activities (lottery, gaming facilities) where players do not have to be a BC resident.

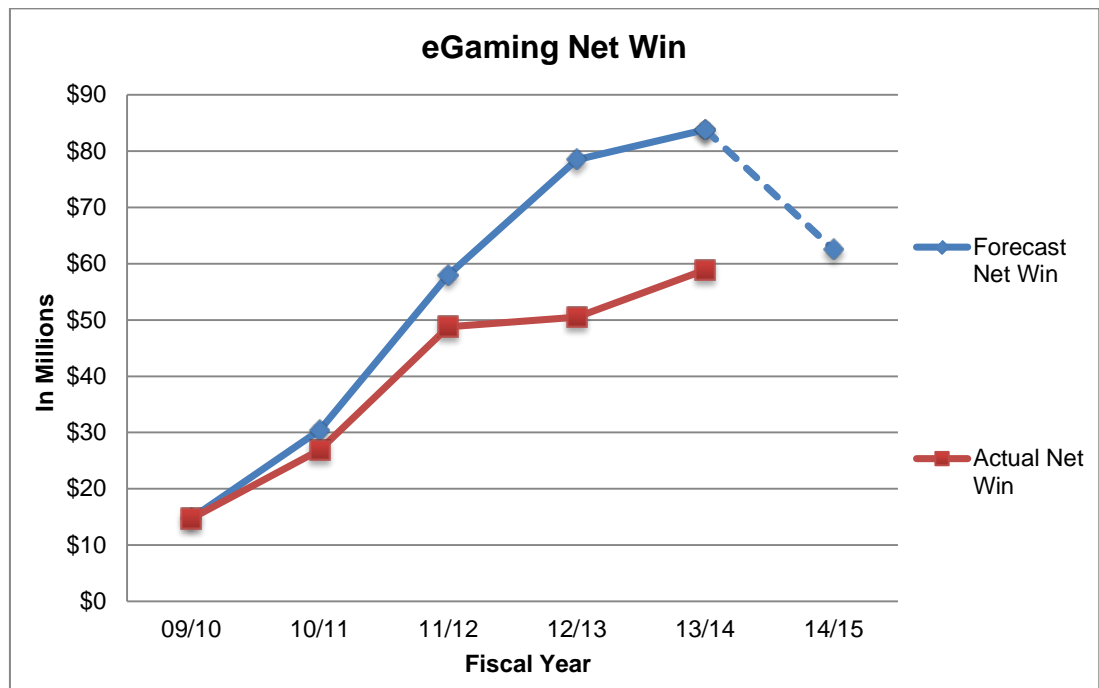
In July 2010, the system was temporarily shut down when BCLC determined that 134 player accounts were not properly protected. The problem was resolved and the Privacy Commissioner concluded that BCLC had taken reasonable steps in response to the breach.

Today, PlayNow.com has a selection of nearly 100 games including free games (played without wagering) for Casino and Poker, as well as offering Keno, Lottery, Sports and Bingo products.

Performance

Over the last five years, eGaming net win grew from \$14.7 million to \$58.9 million. After the first full year of operation, fiscal 2005/06, PlayNow.com had nearly 30,000 registered users, and by the end of 2013/14 had over 293,000 accounts. eGaming's growth is attributed to continued expansion of its casino and poker portfolios, and enhancements to sports betting and mobile gaming.

To date, BCLC has not been able to accurately forecast its eGaming revenue growth with actual net win consistently lower than its forecasted targets, as shown in the graph below:



Source: Proforma by BCLC business units

In fiscal 2013/14, the eGaming division adopted a zero-based budget methodology which, along with their experience over the last few years, is intended to produce more accurate revenue forecasts. In fiscal 2013/14, the majority of eGaming revenues came from casino games (48%), and Lotto (20%).

BCLC commenced a Business-to-Business (B2B) arrangement for other jurisdictions where BCLC provides the gaming platform, PlayNow.com, and operational support for a fee. Initial estimates for the B2B service predicted a level of profitability that has yet to be attained.

IT Environment

In delivering the current suite of games available, BCLC collaborates with several third party entities to support specific aspects of eGaming services. Some of the services include virtual slot games, ePoker system services and eSports games for odds setting, settlement and monitoring.

Overall, reasonable security controls and procedures are in place to ensure data integrity and confidentiality of the eGaming systems and related data. As a result of this review, BCLC is implementing additional controls for eGaming systems, which are expected to be completed by March 2015.

eGaming applications have been subject to periodic reviews conducted by BCLC Internal Audit and IPS, as well as by independent parties such as GPEB and external auditors. Opportunities to enhance the system controls were identified over time and have generally been addressed by BCLC.

As required by the GCA, any new gaming systems (or existing ones subject to changes) must receive a Certificate of Technical Integrity from GPEB before being permitted to operate in the live environment. eGaming technology has been reasonably stable with minimal unscheduled downtime during the past three years.

Looking Ahead

BCLC has identified a number of opportunities within eGaming that includes expanding betting options and increasing the accessibility of products.

Novelty betting (a bet which includes a selection for a novelty and/or non-sport/non-racing event such as a song contest, election results, etc.) has recently received approval and once implemented, will be added to the list of betting options.

Currently, federal legislation requires sports betting to be on a minimum of two sporting events. BCLC estimates that this requirement amounts to approximately \$20 million a year in lost revenue. There is currently a federal bill seeking to change this law and allow single event sport betting.

BCLC plans to pilot sports betting through PlayNow.com at select gaming facilities at the end of 2014, in an effort to attract a broader player base and drive revenue growth. This initiative will be assessed by BCLC for potential broader implementation.

To improve the accessibility of gaming products, BCLC also plans to develop a new mobile lottery application that will offer more attractive features than currently available.

2.0 Protection of Public and Gaming Industry

2.1 Responsible Gambling

The RG team at BCLC is responsible for education, compliance and program development. Gaming divisions are expected to consider RG implications in the development of their products.

RG commences with the provision of tools and information necessary for gamblers to make informed choices. Combining RG education, information about the games, and the risks associated with gambling allows adults to make educated decisions about their play.

PG develops when gambling becomes uncontrolled and the gambler develops behavioral issues which can negatively impact their lives, family, friends and place of employment. There are free, confidential, province-wide counselling and treatment services available through GPEB for problem gamblers and their families who seek help.

In October 2013, the Provincial Health Officer's (PHO) annual report "Lower the Stakes – A Public Health Approach to Gambling in British Columbia" was released. The report examined gambling trends in BC from a public health perspective and included 17 recommendations directed at the Ministries of Finance, Health, and Education to address PG from a public health perspective.

A cross-ministry working group, with representation from BCLC, is developing the government's Plan for Public Health and Gambling. Development of the plan is considering the PHO recommendations, findings from a forthcoming 2014 BC Problem Gambling Prevalence Study, other relevant research, and government policies related to the delivery of services in the education, health, and gaming sectors.

Roles and Responsibilities

The Government's Letter of Expectations (GLE) directs BCLC to "Operate the gaming business within the social policy framework established by Government...". This framework is not described in legislation, nor formally documented. It consists of a combination of legislation (e.g., *GCA, Canada's Criminal Code*), and Minister's or GPEB directives and strategies (e.g., BC's Responsible Gambling Strategy), that pertain to RG and PG.

GPEB, with input from BCLC, developed BC's Responsible Gambling Strategy which outlines key responsibilities:

- BCLC is responsible for the conduct and management of gaming in BC, which includes retail, internet and facilities-based RG programs.
- GPEB is responsible for provision of PG services (including counselling and treatment), RG initiatives and managing gambling research.

The strategy includes a three-year plan which details goals and initiatives, and assigns responsibilities. However, the plan expired at the end of fiscal 2013/14 and is currently being updated.

Corporate Culture

A RG culture is important to BCLC and, as such, it has a number of initiatives to promote RG, for example:

- developing and implementing RG programming;
- funding research on the social and behavioural aspects of gambling;
- managing operations for staffed and self-serve GameSense Information Centres; and
- managing a voluntary self-exclusion (VSE) program.

Corporate Social Responsibility Assessments are expected to be done on all new products prior to market release. In 2014, two products went to market without having these assessments completed, creating the risk that RG standards were not complied with. In these instances, BCLC determined retroactively that these products met the requirements.

GameSense

GameSense is a BCLC program combining responsible play information with information about the risks associated with gambling.

GameSense is available at all gaming facilities and lottery retailers, and online. The key objective is to provide people with the tools that they need to make informed choices on how to play responsibly. GameSense makes information available to players, including the odds of different games, the difference between games of chance and skill, commonly held myths about gambling, and tips for playing responsibly.

GameSense Advisors (GSA) staff the centres in casinos to provide personalized education on responsible play strategies. In fiscal 2013/14, GSAs recorded 54,656 interactions with players about RG. This represents an increase of 24% over the previous year, and BCLC advises that this was due to an increased awareness of the program.

Voluntary Self-Exclusion

In 1998, BCLC implemented its VSE program, where a person voluntarily elects to exclude themselves from gambling activity (other than lotteries). They may self-exclude for a period of six months to three years and, once made, this commitment cannot be revoked. Over the last three years, there has been an average of between 8,000 and 8,500 individuals enrolled in the VSE program at any one time.

To assist individuals that have signed up for the VSE program, BCLC and its service providers in gaming facilities use tools to identify the self-excluded individuals such as license plate scanning, facial recognition software and randomly checking identification as players enter facilities or while playing, should they manage to enter a venue and begin playing.

The VSE program does not provide a guarantee that a self-excluded individual will be identified and removed from a gaming facility. During 2013, staff at gaming facilities detected 5,876 violations with the majority of violations occurring in the five lower mainland casinos.

The effectiveness of the VSE program has been challenged in court and it was found that the casinos' policies, surveillance and security systems were appropriate and reasonable.

In 2010, the provincial legislature made changes to the GCA that allowed BCLC to withhold jackpots from VSE program participants. This has subsequently been upheld by the courts. Withheld jackpots are used to fund research into PG behaviours.

The VSE program has demonstrated some inconsistency in its implementation between gaming facilities and eGaming. When a player completes the VSE registration at a gaming facility, they are prohibited from entering all facilities and their PlayNow.com account is suspended for the self-exclusion period.

However, if the VSE registration is initiated through PlayNow.com, the individual is still permitted to enter a gaming facility, gamble and collect their winnings.

Recommendation

- (8) BCLC should ensure a consistent approach to administering the VSE program across gaming facilities and eGaming.**

Prevalence of Problem Gambling

Between 1975 and 2012, there were over 200 studies done around the world that involved jurisdiction-wide adult prevalence surveys of PG. These results were standardized in 2012 in a report for the Ontario Gambling Research Centre, enabling comparisons between jurisdictions, as well as within the same jurisdiction over time.

According to this report, the lowest standardized prevalence rates of PG tend to occur in Europe, with intermediate rates in North America and Australia, and the highest rates in Asia.

In Canada, Quebec and Prince Edward Island have consistently low rates, while somewhat higher than average rates have occurred in Alberta, New Brunswick and BC.

In BC, PG prevalence studies were done in 2007 and most recently in 2014 in a forthcoming report. As described in the following table, the results of these two studies show that the prevalence of problem gamblers, as a percentage of the total population, has decreased by 28% from 2007 to 2014.

Year	Moderate Problem Gambling Prevalence	Severe Problem Gambling Prevalence	Total Prevalence of Problem Gamblers
2007	3.7%	0.9%	4.6%
2014	2.6%	0.7%	3.3%

Source: 2007 and 2014 BC Problem Gambling Prevalence Studies

Social Responsibility Metrics

BCLC determines the effectiveness of its RG efforts by tracking indicators in three areas: Player, People, Public. BCLC released its first separate Social Responsibility Report in 2013/14. Current performance measures include the following:

- employees who understand what social responsibility means to BCLC;
- number of stakeholder engagement sessions; and
- achieving re-certification at Level 4 of the World Lottery Association (WLA) Responsible Gambling framework. (This is the highest level of WLA certification).

These performance measures are somewhat limited and on their own are not sufficient to assess and demonstrate the effectiveness of the social responsibility program. More performance measures that are outcome based (e.g., prevalence rate) would be better indicators of program effectiveness.

Recommendation

- (9) BCLC should develop outcome based performance measures for responsible gambling.**

2.2 Gaming Protection

BCLC is responsible for ensuring service provider and retailer compliance with the *GCA*, the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, and the related reporting requirements. This involves training, monitoring and investigating issues related to federal and provincial regulations with lottery retailers and gaming operators.

BCLC Compliance Investigations

BCLC conducts compliance reviews and investigations of its service providers and lottery retailers. This work includes:

- confirming compliance with BCLC policies and procedures, reviewing controls, and investigating customer complaints and criminal events in all gaming operations;
- supporting, training and ensuring BCLC and service provider compliance with provincial and federal legislated reporting;
- supporting the casino security information system that manages incident reporting; and
- overseeing the VSE program in gaming facilities.

Provincial legislation requires that BCLC and service providers report to GPEB any incident or activity that may be criminal, and/or contrary to the *GCA*. In fiscal 2013/14, BCLC and service providers reported approximately 17,000 incidents of which most were classified in three categories:

1. banned patrons;
2. potential criminal event; or
3. assistance to GPEB, police or other agencies.

GPEB Audits and Investigations

GPEB routinely audits BCLC gaming operations as part of its role in ensuring the integrity of gaming in BC. Gaming facilities, eGaming and lottery retailers receive regular compliance reviews to ensure that gaming in the province is conducted in accordance with gaming legislation, directives, policies, and procedures.

In most cases, GPEB's casino and eGaming audits appropriately identified areas requiring improved controls, although some audit areas and findings were based on BCLC's policies and procedures, as opposed to a GPEB standard.

Lottery retailer inspections included interviews regarding theft and fraud, and concerns about sales to minors. Despite continued improvement in retailer compliance, there was no evidence of a plan to rationalize the number of inspections based on a lower risk factor.

GPEB Investigators have Special Provincial Constable status which permits them greater access to law enforcement resources. GPEB reviews incident files received from various sources, including service providers, retailers, BCLC, police and the public.

Approximately 40% of incidents are related to violations of the VSE program. Of the non-VSE incidents, 36% of files were retained for evidence in related police or intelligence files, more than 30% could not be resolved due to insufficient information, and 1.1% of the cases investigated by GPEB resulted in a charge under the *Criminal Code* or *GCA*.

Anti-Money
Laundering

Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is a federal independent agency established to operate within the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. FINTRAC is responsible to aid in the detection of money laundering and terrorist activity in the Canadian financial system, including BC gaming facilities.

FINTRAC requires BCLC to report any suspicious transactions as well as individual or cumulative financial transactions greater than \$10,000 on behalf of service providers, including information regarding patron identity and their source of wealth, or the origin of their funds.

In fiscal 2013/14, BCLC reported approximately 86,000 large cash transactions and 1,000 unusual or suspicious financial transactions to FINTRAC. This is a significant increase over reports filed prior to a 2009 FINTRAC compliance review, although this represents a small percentage of the total number of reports filed in BC. BCLC advised this increase is primarily a result of improvements made in processes, systems and training as well as increased play.

In February 2014, FINTRAC expanded “Know Your Client” monitoring requirements. Transactions thought to be suspicious, such as proceeds of crime, terrorist financing, or money laundering require additional collection of data, increased monitoring, client risk analysis and further examination of clients’ business relationships.

In order to streamline reporting and better facilitate the new requirements, BCLC is implementing a new AML IT system in 2015. Expected results include increased capacity and improved accuracy, reporting and identification of high-risk persons, and patterns of activity using data analytics.

Government's 2014/15 Letter of Expectations requires that BCLC deliver enhanced AML programs, including continued implementation of measures to move the industry away from cash.

BCLC's current AML initiatives include options such as:

- expanded data sources for background checks;
- proactively banning known criminals or associates;
- internet banking transfers through Patron Gaming Fund Accounts offered at five lower mainland casinos;
- debit machines at the cash cage;
- convenience cheques (up to \$10,000) for the return of buy-in funds; and
- Public Automated Teller Machine (ATM), and global cash and credit card advances.

BCLC reported that there were \$1.2 billion in non-cash transactions in fiscal 2012/13 and \$1.5 billion in fiscal 2013/14. Of the total amounts brought into and/or played in BC gaming facilities each year, non-cash play represents approximately 20%.

Year	Amount Played*	Total Non-Cash	Total Cash
2012/13	\$6.37 billion	\$1.2 billion	\$5.17 billion
2013/14	\$6.66 billion	\$1.5 billion	\$5.16 billion

*Amount played is amounts collected at tables and deposited into slot machines and does not necessarily represent wagers.

Source: Data provided by BCLC

Efforts which have been implemented by GPEB and BCLC to improve AML monitoring have included:

- ongoing work and information sharing with jurisdictional law enforcement agencies; and
- a cross-agency AML task force to identify and address criminal activity in gaming facilities.

2.3 Regulatory Oversight

GPEB regulates gaming in BC, including the operations of BCLC, which conducts and manages gaming in the province.

While there is room for improvement in the clarity of roles and responsibilities between the two, the work that BCLC and GPEB perform in managing and regulating the gaming industry in BC promotes fairness and game integrity. Better understanding and agreement of roles and responsibilities between BCLC and GPEB should increase the efficiency and effectiveness of both organizations.

Legislation

Legislation applicable to gaming in BC includes: the *GCA*; *Gaming Control Regulation*; and Canada's *Criminal Code*.

The *GCA* requires:

1. GPEB to be responsible for the overall integrity of gaming and horse racing.
2. BCLC to be responsible for the conduct and management of gaming and may develop, undertake, organize, conduct, manage and operate provincial gaming on behalf of the government.

In general, the working relationship between BCLC and GPEB is strong, but has experienced its challenges; particularly in the execution of roles and responsibilities under the *GCA*.

Roles and Responsibilities

The need for improved clarity of the roles has been identified by government, and BCLC has been directed to work with GPEB to jointly develop key principles that will inform their respective roles and responsibilities.

BCLC provides gaming through the use of contracted services, with the exception of online gaming which is provided directly. The gaming facility contractors are similar to franchisees with established areas in which to provide gaming, while BCLC oversees their service delivery.

BCLC ensures its service providers and lottery retailers are meeting the customer service standards currently defined, as well as ensuring that any standards set by the regulator are met. Audits conducted by BCLC on its service providers represent sound business practice and good contract and performance management, but does not replace the work of the regulator.

Prior to forwarding incidents on to GPEB, BCLC typically performs investigations in a number of areas including potential criminal incidents, suspicious financial transactions and customer service issues. BCLC's stated intent is to ensure the reported incident is criminal in nature and appropriate to report to GPEB. BCLC's "preliminary" investigations can lead to delays in providing GPEB with appropriate information.

As the regulator, GPEB's responsibility is to ensure the integrity of gaming through clear and comprehensive standards, with appropriate audit and investigation work to ensure compliance.

While GPEB has gaming standards, some of them are not sufficiently detailed and, at times, GPEB uses BCLC's policies and procedures as standards to which they audit. Having robust policies, standards and procedures will allow GPEB to operate more efficiently and effectively through the following:

- establishing the appropriate level of acceptable risk to ensure the integrity of gaming; and
- providing consistency in decision making and activities undertaken by GPEB including the appropriate level of review of BCLC and their contracted service providers.

Ultimately, policy, standards and procedures provide a framework to promote the integrity of gaming and avoid the potential for misunderstanding between the regulator and BCLC.

Comprehensive audit and investigation practices ensure that appropriate objectives and acceptable levels of risk are determined in advance. They also ensure that there is coordination of work and standards between all parties.

In its role as regulator, GPEB performs audits of BCLC and its service providers, confirming gaming activities meet the standards expected. In some areas, GPEB's work is not consistently risk based. Where appropriate, GPEB could place reliance on the controls and audit work undertaken by BCLC, to ensure the best use of limited resources.

Under the GCA, GPEB is the only authority designated to conduct investigations related to gaming and, as such, should have an agreement with BCLC over what types of incidents should be clarified before reporting them to GPEB.

Recommendations

- (10) GPEB should develop comprehensive policies and standards to support the integrity of gaming.**
- (11) GPEB should implement a risk based approach to direct its activities in assessing compliance with gaming policies and standards.**

3.0 Internal Operations

3.1 Governance and Performance

BCLC receives its direction from government through a GLE and BCLC's Service Plan has been consistently aligned with government's priorities.

BCLC's board has provision for nine members, but currently consists of seven. BCLC is working with the Board Resourcing and Development Office in recruiting the two additional directors. Turnover of board members at BCLC is reasonable, allowing for new perspectives while retaining some experienced directors to ensure continuity.

A BCLC board self-evaluation completed in 2012 noted that the board was performing well, but identified a lack of IT experience. The current recruitment process intends to address this gap.

The board fulfills its responsibilities by providing strategic direction for BCLC, and ensures that risks are reviewed and discussed quarterly. However, there are opportunities to improve their decision-making and monitoring of BCLC.

BCLC conducts strategic planning that is informed by a market scan on opportunities and threats, as well as board direction. This results in a 3-year Annual Service Plan tabled in the Legislature.

Board Operations

BCLC's board meets six to eight times a year to oversee the corporate decisions of BCLC's management. Prior to each meeting, members receive a detailed package of materials for discussion at the meeting.

The packages sent to board members are extensive, including management reports, financial dashboards, divisional and project updates and other presentation materials. However, the material often lacked executive summaries of the key issues. Such summaries would help focus attention on key issues for discussion or decision by the board.

BCLC's board minutes are well documented and appropriately record the topics discussed and decisions made. Decisions made in-camera (closed board meetings) are documented in the regular minutes of the board, but there are no minutes or materials available from the in-camera portion of the meeting. To strengthen the continuity of information, minutes of in-camera sessions should be maintained.

The board believes it has a good working relationship with management and that management informs the board about major issues through reports, presentations, advice and recommendations. However, there have been instances where the board has not had sufficient, appropriate or timely information on which to base decisions or monitor the operations of BCLC such as the staff restructuring in fiscal 2013/14 and the introduction of Signature stores. As a result, the board has not always had the opportunity to challenge management on its actions or proposed actions.

Recommendation

(12) BCLC's board and executive should ensure that sufficient, appropriate and timely information is communicated and that strategies are appropriately challenged.

(13) Government should reinforce the roles and responsibilities for board members and executive within Crown corporations.

Performance Measurement

BCLC reports its performance using measures in each of its four corporate goals: Player, People, Public and Profit. There are 11 high-level measures, including player satisfaction, net win per capita and employee engagement.

Each business unit prepares a business plan aligned with these corporate goals; however, they do not include any performance measures or targets in their plans to demonstrate how each unit contributes to the achievement of these corporate goals.

While there is an executive dashboard and some of the business units have key performance indicators, these are limited and not sufficient to assess performance at the divisional level. Each business unit should have clear performance measures with targets that define areas of emphasis, measure the results achieved and align with BCLC corporate goals.

Recommendation

(14) BCLC should establish performance measures linked to corporate goals for each business unit.

3.2 Information Technology

BCLC places a strong reliance on IT to help sustain and grow its business. Beginning in fiscal 2009/10, BCLC started to make more significant technology investments, concentrating on new initiatives to increase revenues, such as online gaming and the new Casino gaming management system. In the past five years, BCLC has invested over \$197 million (44% of BCLC's total capital spending) on IT-related capital projects.

The IT function in BCLC is largely represented by the Business Technology (BT) Division. BT is responsible for the technology and systems that support BCLC's operations, including enterprise architecture and the IT landscape related to gambling and back office systems. In fiscal 2014/15, BT had budgeted operating costs of \$36 million (21% of BCLC's total budgeted operating costs) and budgeted staff of 183 Full Time Equivalents (FTEs).

While the BT Division effectively supports BCLC's lines of business and their IT requirements, opportunities exist for BT to enhance the maturity of some of its business processes.

IT Governance

BT's various departments report to a Chief Information Officer (CIO) who has a direct reporting relationship to BCLC's CEO. The CIO has the appropriate authority, accountability and reporting relationship to lead the IT function.

Despite the sound leadership structure currently established within BT Division, no formal IT steering committee is in place with representation from key functional areas across BCLC to provide a senior oversight role over IT operations. The roles of an IT steering committee would include the assessment of BT performance, monitoring of IT Strategic Plan initiatives, as well as integration of IT projects across the organization.

BT's annual IT strategic planning process defines how BT will contribute to, and support, BCLC's strategic objectives. The IT Strategic Plan is appropriately driven by BCLC's strategic business priorities and considers an analysis of IT trends. However, attention is required to address aspects of the strategic planning process and related initiatives, as follows:

- a) BT strategies are not being consistently monitored and reported. These activities were supposed to be performed using a Balanced Score Card, which has not been implemented.
- b) BT's envisioned three-year resource plan to address the training and development needs for BT has yet to be created.
- c) Plans for the decommissioning and replacement of key legacy systems need to be developed.

Recommendations

- (15) **BCLC should establish an IT Steering Committee with representation from key functional areas across the organization.**
- (16) **BCLC should develop plans for the decommissioning and replacement of key legacy systems that are expected to be retired.**

Business Continuity Management

Since 2012, BCLC has undergone a number of initiatives to strengthen its Business Continuity Management (BCM) program, including the establishment of BCM policies, development of a 5-year roadmap to improve BCLC's response to business disruption, and implementation of emergency safety plans for the Vancouver and Kamloops office. While these initiatives have enhanced BCLC's state of preparedness, the BCM program is not yet fully mature as key aspects still need to be addressed, including the following:

- a) Business Continuity Plans (BCP) are an important element of the BCM program. Such plans are designed to minimize the impact of potential disruptions on key business areas. At the time of this review, BCPs were not in place for the business units. BCLC was conducting business impact assessments for some key areas which will support the development of the related BCPs.
- b) Disaster Recovery Plans (DRP) are also part of the BCM program. They are designed to ensure that IT processes and controls are in place to recover the IT systems of an organization in the event of a disruption. While BCLC has tested the recovery of some systems after a planned disruption in service, BCLC does not have formal DRPs for all of its critical systems. Without such plans, BCLC may still be able to recover its systems from a significant incident through ad-hoc recovery procedures and IT redundancy, but this is unlikely to occur within the desired recovery time.

Recommendation

- (17) **BCLC should ensure that BCP and DRP plans are developed, implemented and periodically tested.**

Information
Security and
Privacy

BCLC has established an organization-wide information security function, which is under the responsibility of the IPS department. In early 2013, BCLC strengthened this function by integrating it with Information Privacy, Freedom of Information and Records Management.

IPS collaborates with other BCLC program areas and external parties as needed, to conduct information security reviews and privacy assessments on BCLC's information assets, coordinate response to security incidents, and monitor compliance with information security policies and legislation.

Under the new structure, IPS has implemented a number of initiatives to enhance the security and privacy roles within BCLC. Opportunities still exist for IPS to further strengthen related aspects, including incident and user account management, data classification and data ownership. As described below, a few initiatives are already in progress to address some of the internal control gaps identified.

IPS has an appropriate reporting relationship with its senior management. However, an information and privacy steering committee, with representation from key functional areas, is not in place. BCLC could benefit from establishing such a committee, which would provide governance oversight of the IPS functions and allow for formal participation from business units to collaborate on related topics.

As part of its initiative to strengthen security and privacy, IPS has drafted new service provider requirements that are currently under review and planned to be incorporated into the new OSAs.

IPS coordinates the response, investigation and reporting of information security incidents. While a formal process is in place to identify and handle security incidents within BCLC, there is a need to enhance its related policy, as well as incident tracking and reporting capabilities to ensure that information security events are properly reported, recorded and classified.

The review of access to BCLC core systems is coordinated by IPS on a regular basis. It requires the business owners responsible for the systems to ensure that the permissions assigned to the user accounts remain appropriate. IPS is strengthening its user account management practices, with outstanding initiatives expected to be completed in 2015.

BCLC's information security policy provides a summary description of the data classification levels (public, internal and confidential). However, BCLC corporate data is not currently classified. This situation undermines BCLC efforts to apply an appropriate level of information security controls, which should be based on the classification (e.g., criticality and sensitivity) of its corporate data. Part of IPS's strategic priorities includes the development and implementation of an organization-wide data classification framework, including the requirements for data protection according to data criticality and sensitivity.

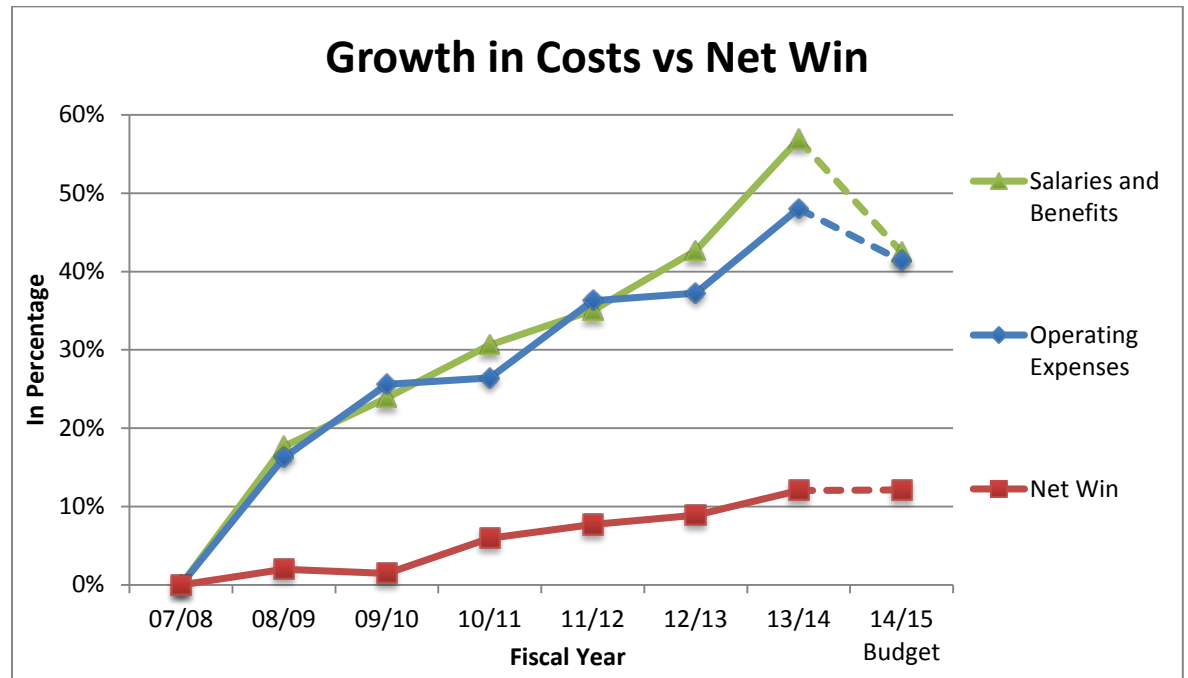
Data ownership is not fully inventoried and assigned across the organization. BCLC acknowledges the importance of creating an organization-wide data ownership inventory in order to clearly define the responsibility, ownership and accountability related to its corporate data. At this time, BCLC is focusing on key systems with implementation scheduled for March 2015.

Recommendations

- (18) BCLC should enhance its tracking and reporting of information security incidents, and communicate incident management policies to BCLC staff.**
- (19) BCLC should ensure that security and privacy requirements for the protection of player information are implemented and followed by service providers.**
- (20) BCLC should ensure that corporate data is classified and that data ownership is fully inventoried.**

3.3 Financial Management

Over the last few years, BCLC operating expenses have increased faster than net win, primarily as a result of increased salary and benefit costs. These costs are attributed by BCLC to initiatives such as implementing recommendations from the 2007 Ombudsman's report. The graph below compares growth of operating costs, which includes salaries and benefits, against net win since fiscal 2007/08.



Source: BCLC Data.

In order to reduce operating costs and meet financial targets, BCLC plans to reduce operating costs by \$20 million in fiscal 2014/15. It is planned that this will be achieved, in part, by reducing salary and benefit costs by \$6.6 million and advertising costs by \$6.2 million. (These planned reductions are included in the projected figures contained in the graph above). At the mid-way point of the 2014/15 fiscal year, BCLC reports that it is on track to achieve its cost saving targets.

Over the past five years, BCLC's short-term net income forecasts and actual results were consistently lower than the long-term forecasts made for the same period in earlier years. Such significant reductions to forecasts can impact government's ability to deliver a balanced budget. BCLC has acknowledged that long-term forecasting requires more rigour and is taking steps to implement improvements.

Comprehensive
Cost Ratio

Government directed BCLC to manage their cost of operations to not exceed a cost to net win ratio of 42.5% in fiscal 2013/14. This comprehensive cost ratio is calculated by dividing total costs (before taxes) by total net win. This means that during periods of net win growth, BCLC is able to incur \$42.50 of additional costs for every \$100 of additional net win earned, regardless of whether these additional costs are attributed to the increase.

Using one overall cost containment ratio creates the risk that cost containment is not prioritized as net win grows. A combination of measures such as divisional cost ratios, limiting expense types by ratios or fixed amounts could provide more effective cost containment results.

Recommendation

(21) BCLC and the Ministry of Finance should develop a comprehensive cost containment framework.

Project Portfolio
Management

Project portfolio management is a set of processes and business practices used to collectively manage current or proposed projects and ensure their alignment with organizational objectives. BCLC has enhanced the project portfolio management process in the IT division by implementing new procedures, basic project analytics and reports. Although progress has been made, the review identified the following areas for improvement:

- a) BCLC's project portfolio management framework is not standardized across the organization, leading to inconsistent project management practices within divisions.
- b) Performance indicators are not universally used to report out on the status of projects (e.g., percentage of projects on budget and on time, percentage of projects that meet/exceed project benefits).
- c) In order to determine whether a project is on budget, BCLC compares the actual project cost against the "final approved budget". This approach does not always provide an accurate assessment since the "final approved budget" may encompass multiple changes to the original baseline budget that was approved for the project.

Recommendations

(22) BCLC should standardize its project portfolio management framework including key performance indicators.

(23) BCLC should monitor project budget variance by comparing actual project cost to the baseline budget.

Business Cases

Business cases assist organizations in assessing the merits and critical assumptions of projects or initiatives, and allow for a robust assessment of the expected costs and benefits.

BCLC prepares business cases for executive approval for major organizational or capital projects, including new IT systems. However, BCLC has not established clear criteria for determining when a project (operational or capital) requires a business case. Some projects which did not have business cases prepared would have benefited from additional analysis, oversight and accountability.

In addition, BCLC's business case template does not clearly demonstrate how benefits will be measured and monitored. Where information was included, the analysis was not always sufficiently rigorous, and for the GMS project, resulted in benefits being significantly overstated. This makes assessing whether the project achieved its goals difficult, if not impossible.

BCLC acknowledges these areas for improvement in its current business case template and is introducing new templates in fiscal 2014/15.

Recommendation

(24) BCLC should ensure that the business case process is sufficiently rigorous to allow for fully informed decision making and accountability.

Procurement

BCLC spent approximately \$233 million on goods and services in fiscal 2013/14 and used three types of procurement methods: competitive bid, direct award and corporate purchasing cards for low dollar value purchases. BCLC used competitive processes for 88% of its purchases, with direct awards and corporate purchase cards accounting for the remaining 12%.

BCLC's procurement policies and procedures generally align with government's procurement policy and provincial trade agreements. However, some of BCLC's procurement practices could be improved by enhancing documentation practices and more clearly demonstrating value for money in procurement.

In fiscal 2013/14, BCLC direct awarded over \$27 million, of which \$12 million did not require a justification. Of the remaining \$15 million, 13 contracts were sampled; seven of which (\$1.2 million total value) did not have appropriately documented justification. There were also two contracts where the vendor delivered service prior to there being a signed contract between BCLC and the vendor.

BCLC's competitive bid process generally assesses business and technical solutions before considering pricing. This approach may result in getting higher quality goods or services without demonstrating value for money. This may be appropriate for specialized purchases, but may be less suitable in cases where goods and services are widely available.

A sample of contracts found that required documentation was not always retained by BCLC. For example, bid files for a significant procurement project had been inadvertently destroyed. In addition, a large number of contract files sampled did not have key documentation such as conflict of interest forms, reference checks, and post-contract evaluations. This is contrary to BCLC's policies and procedures.

BCLC issues corporate purchasing cards to some employees for low value purchases. Approximately 30% of purchasing card transactions sampled were either without sufficient documentation or were not in compliance with policy. To address this issue, BCLC updated its purchasing card policy which now requires the completion of a purchasing expenditure form stating the business expense rationale and identifying the attendees for business expenses, such as meetings.

Recommendation

(25) BCLC should ensure its procurement practices support the achievement of value for money.

Advertising and Marketing

BCLC spent approximately \$25 million on marketing, advertising and promotions in fiscal 2013/14; 50% was spent on lottery, 21% for gaming facilities and 19% for eGaming. The remaining 10% was utilized for other advertising and marketing in areas such as social responsibility. All BCLC advertising must comply with GPEB advertising and marketing and RG standards to help ensure gaming activities are carried out in a socially responsible manner.

For lottery, sales are strongly linked to the size of jackpots and therefore BCLC increases its marketing efforts to attract the "jackpot chasers"; customers who typically purchase more tickets when the jackpot is larger. Gaming facility marketing initiatives include game promotions, Encore reward offers, and location-directed advertising. The eGaming marketing focuses on media and digital advertising plus a variety of contests and promotions run throughout the year with the intention to acquire new players while retaining existing ones.

While individual campaigns in some areas are assessed for their impact, overall BCLC cannot clearly demonstrate the return on its overall marketing and advertising expenditures.

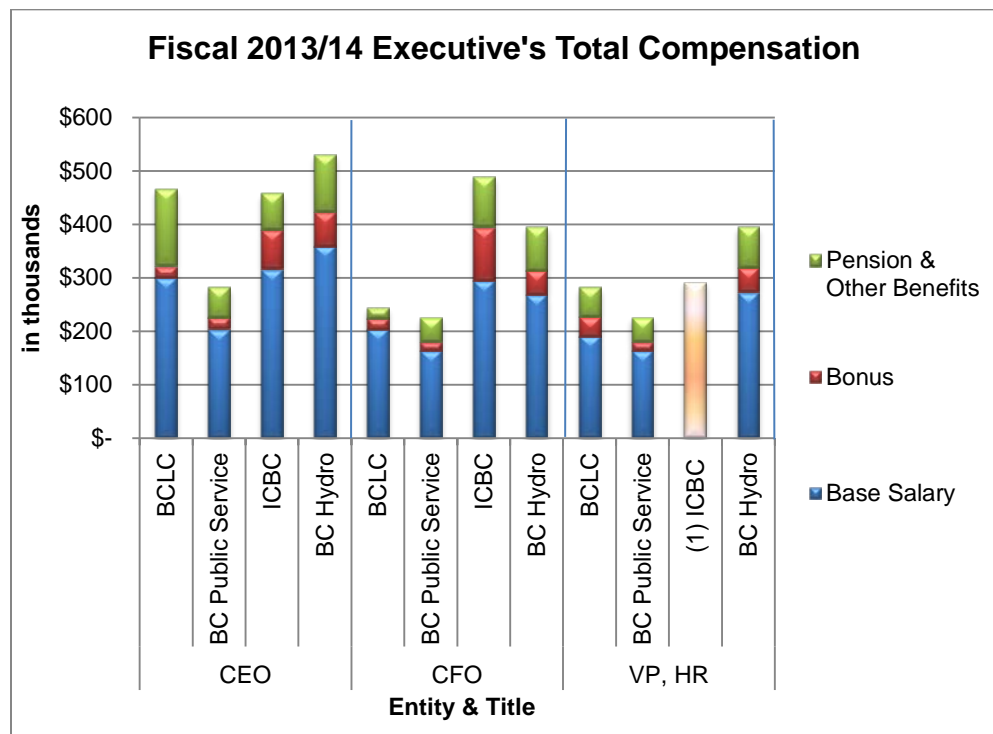
Recommendation

(26) BCLC should be able to demonstrate the effectiveness of its overall marketing expenditures.

3.4 Staffing & Compensation

Over the last five years ending in fiscal 2013/14, the total number of FTEs at BCLC has increased by 25% to 919 with total compensation increasing by 43% to \$93.1 million in the same period. These increases are attributed by BCLC to initiatives such as implementing recommendations from the 2007 Ombudsman's report and merit increases in pay. While BCLC tracks FTE data by division, it was not able to provide a breakdown between management and non-management staff over the five year period due to limitations in its HR systems.

BCLC's compensation was found to be generally comparable with other Crown corporations. The graph below compares CEO, Chief Financial Officer and Vice President (VP) positions.



Source: Public Sector Executive Compensation Reporting Forms¹

¹ As BCLC's CEO departed in January 2014, the base salary of \$300,000 with total compensation capped at \$465,000 was used.

² (1) Breakdown of VP, HR of ICBC (Total Compensation for 2013 was \$292,025) is not available. Total Compensation was obtained from ICBC's Statements and Schedules of Financial Information, December 31, 2013.

Crown
Corporation
Executive
Compensation
Policy

In July 2012, the Public Sector Employer's Council (PSEC) issued the Crown Corporation Executive Compensation Policy (Compensation Policy) which included the following directives:

- a) salary freeze for executives;
- b) elimination of bonuses and implementation of salary holdbacks for executives; and
- c) elimination of perquisites and allowances.

BCLC, along with other Crown corporations, are required to comply with PSEC directives. As a result of this new compensation policy, BCLC eliminated perquisites and allowances and the employee bonus program. Approval was granted for both management and executive to transition to a salary holdback program effective April 1, 2013 and April 1, 2014 respectively. Professional and administrative employees changed to straight salary effective April 1, 2014.

For executive, the changes made complied with PSEC's policy. However, for some of the non-executive employees the changes were more generous, and contrary to the intent of the policy. Rather than adding each employee's four year average bonus to the employee's base salary, BCLC used a standard percentage or their actual, whichever was higher.

Constructive
Dismissal

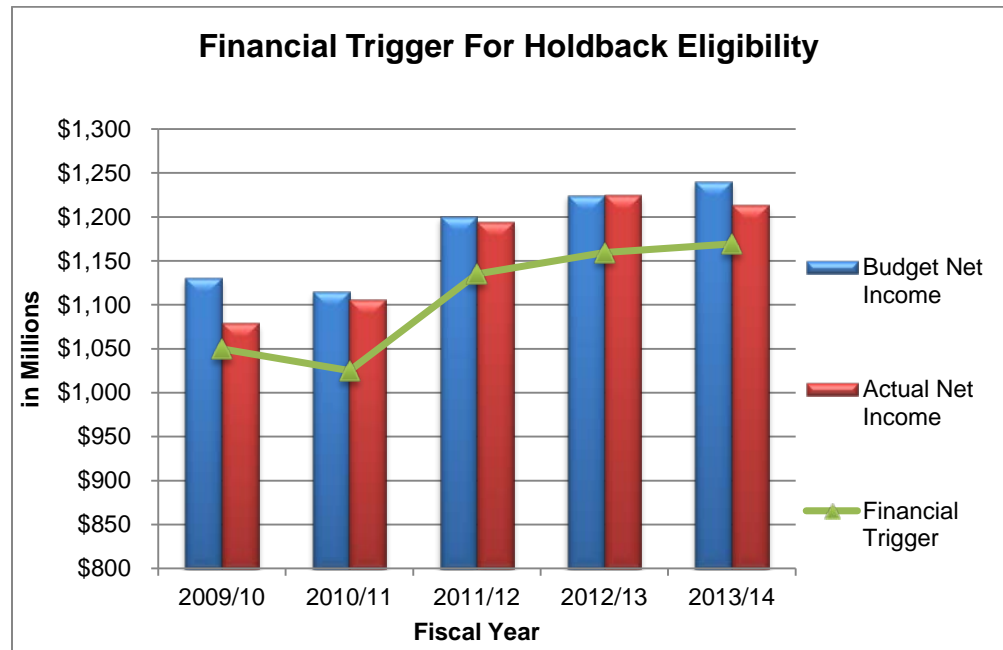
As a result of BCLC's changes to the compensation policy, four senior employees claimed constructive dismissal because of the salary freeze, reduction of potential bonus and elimination of \$12,000 in annual perquisites.

BCLC settled these claims by offering the employees 18 months of severance by way of salary continuance. This cost BCLC approximately \$1.2 million. The four employees were given working notice of up to nine months in addition to 18 months of severance. Working notice would normally be a reduction to the amount of severance paid. The intent of PSEC's policy changes was that working notice would be used to transition to the new policy and that no severance would be paid.

In September 2014, PSEC issued additional guidance for Executive and Excluded compensation, to provide clarity on working notice and severance payments.

Bonuses

BCLC used a corporate financial threshold to trigger the overall eligibility for employee bonuses. In the last five years, the trigger has ranged between 92% and 95% of budgeted net income, as illustrated in the graph below. As a result BCLC employees were eligible to receive bonuses even when BCLC did not meet its budgeted net income.



Source: Data provided by BCLC

¹ In fiscal 2012, the financial trigger changed from net income to net income before taxes.

Once eligible, employees could receive bonuses based on corporate and individual performance. Corporate performance consists of net income before tax and net win. Individual performance requires at least two individual job-related goals. In the past five years performance targets may not have been sufficiently challenging as more than 95% of staff received a bonus each year.

Effective in fiscal 2014/15, with the new compensation policy, bonuses are no longer paid and only management and executive staff are eligible for holdbacks. Additional non-financial performance measures combined with a more challenging financial trigger would help to ensure that the holdback program is sufficiently rigorous.

Recommendation

(27) BCLC should develop more challenging and comprehensive holdback measures.

Other Incentives

Other incentives available to employees include signing and retention bonuses, employee referral bonuses and recognition awards:

- BCLC pays signing and retention bonuses to attract new employees or retain key staff. In fiscal 2013/14, BCLC paid out \$17,000 as signing and retention bonuses.
- BCLC pays a referral bonus of \$500 or \$1,000 to employees for referring a successful candidate on a BCLC job posting. These rewards apply to any BCLC position and are not targeted at critical roles. In fiscal 2013/14, \$14,500 was paid in referral bonuses.
- In addition to meeting and team building expenses, BCLC spent approximately \$217,000 in fiscal 2013/14, on an employee recognition program that consists of giving cash, gift cards and merchandise to employees.

2013/14 Restructuring

BCLC completed a restructuring exercise in March 2014 as part of a strategy to reduce fiscal 2014/15 operating costs by \$20 million. The plan anticipated the elimination of 68 positions, saving approximately \$6.6 million. As part of the restructuring exercise, BCLC offered early retirement and severance packages to employees, aged 50 and older, to reduce the impact of involuntary terminations.

The restructuring resulted in 142 employees leaving BCLC and cost approximately \$25 million, consisting of \$11.6 million in severance payments and \$13.5 million in pension and other costs. During this restructuring, all senior manager-level employees and above received 18 months' severance regardless of their length of service with BCLC. Pension costs were significantly higher than initially forecast and then increased further because of higher than expected voluntary exits.

These restructuring costs were recognized in fiscal 2013/14 and caused BCLC to exceed the Treasury Board directive to manage operating costs within 42.5% of net win. With better internal planning and coordination, BCLC could have minimized the costs and staffing impact of this restructuring exercise.

Recommendation

⁽²⁸⁾ BCLC should improve planning and oversight over staffing and compensation initiatives.

Appendix 1 – Summary of Recommendations

1	BCLC should establish critical success factors for its lottery retailers in order to evaluate performance and report on results.
2	BCLC should ensure that agreements with service providers include comprehensive performance standards.
3	BCLC and the Ministry of Finance should conduct a review of service provider commissions for gaming facilities to ensure an appropriate and effective structure.
4	BCLC should explore potential cost containment opportunities available through the reduction of vendors and platforms.
5	BCLC should evaluate options to improve inventory management systems.
6	BCLC should develop a clear set of criteria for gaming facility procurement.
7	BCLC should conduct a comprehensive post-implementation review of the GMS project that includes benefits realization.
8	BCLC should ensure a consistent approach to administering the VSE program across gaming facilities and eGaming.
9	BCLC should develop outcome based performance measures for responsible gambling.
10	GPEB should develop comprehensive policies and standards to support the integrity of gaming.
11	GPEB should implement a risk based approach to direct its activities in assessing compliance with gaming policies and standards.
12	BCLC's board and executive should ensure that sufficient, appropriate and timely information is communicated and that strategies are appropriately challenged.
13	Government should reinforce the roles and responsibilities for board members and executive within Crown corporations.
14	BCLC should establish performance measures linked to corporate goals for each business unit.
15	BCLC should establish an IT Steering Committee with representation from key functional areas across the organization.
16	BCLC should develop plans for the decommissioning and replacement of key legacy systems that are expected to be retired.
17	BCLC should ensure that BCP and DRP plans are developed, implemented and periodically tested.

18	BCLC should enhance its tracking and reporting of information security incidents, and communicate incident management policies to BCLC staff.
19	BCLC should ensure that security and privacy requirements for the protection of player information are implemented and followed by service providers.
20	BCLC should ensure that corporate data is classified and that data ownership is fully inventoried.
21	BCLC and the Ministry of Finance should develop a comprehensive cost containment framework.
22	BCLC should standardize its project portfolio management framework including key performance indicators.
23	BCLC should monitor project budget variance by comparing actual project cost to the baseline budget.
24	BCLC should ensure that the business case process is sufficiently rigorous to allow for fully informed decision making and accountability.
25	BCLC should ensure its procurement practices support the achievement of value for money.
26	BCLC should be able to demonstrate the effectiveness of its overall marketing expenditures.
27	BCLC should develop more challenging and comprehensive holdback measures.
28	BCLC should improve planning and oversight over staffing and compensation initiatives.