

# BACKGROUND

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September 12, 2007

Ministry of Public Safety and Solicitor General

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

### **Chronology**

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

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

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

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

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

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

### **Summary of GPEB Actions**

In general, GPEB is:

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

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

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

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

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

	GPEB, where appropriate, will provide post registration to the reports regarding retailer employee impropriety.	06/21/07	<b>Complete but ongoing</b>
	GPEB will review and where necessary conduct investigations into instances of multiple retailer wins.	TBD by 10/31/07	<b>In progress</b>
	GPEB will be prepared, if necessary, to conduct an independent review of BCLC's investigation of each complaint or allegation of potential retailer impropriety (e.g., fraud, theft) from January 1, 2005 to December 31, 2006, and to conduct a thorough and independent investigation into any of those complaints or allegations when it is warranted.	TBD by 10/31/07	<b>In progress</b>
	Specifically, GPEB will conduct an independent investigation of at least 10% of all alleged violations.	06/21/07	<b>Complete but ongoing</b>
<b>Investigations of Recurring or Systemic Problems</b>			
	GPEB will implement processes (e.g.: liaison with BCLC, liaison with GPEB, reviews of files and complaints that are received, etc.) to identify systemic or recurring problems with BCLC's lottery business.	10/01/07	<b>In progress</b>
	GPEB will conduct an independent investigation of any systemic or recurring problems.	06/21/07	<b>Complete but ongoing</b>
<b>Legislative, Regulatory and Reporting Responsibilities</b>			
<b>Detailed Responsibilities</b>		<b>Due Date</b>	<b>Status</b>
<b>Act, Regulations and Directives</b>			
	GPEB will recommend a series of legislative/regulatory amendments and directives to ensure the integrity of B.C.'s lottery retail system.	03/31/08	<b>In progress</b>
<b>Tracking &amp; Monitoring of Progress</b>			
	GPEB will track:		
	<ul style="list-style-type: none"> <li>Changes BCLC makes that impact it's conduct and management of lotteries;</li> </ul>	08/30/07	<b>In progress</b>
	<ul style="list-style-type: none"> <li>BCLC's implementation of GPEB's and the Ombudsman's recommendations relative to BCLC;</li> </ul>	07/26/07	<b>Complete but ongoing</b>
	<ul style="list-style-type: none"> <li>Implementation of its own and the Ombudsman's recommendations relative to GPEB;</li> </ul>	07/10/07	<b>Complete but ongoing</b>
	<ul style="list-style-type: none"> <li>Registration, equipment/ticket certification, audit and compliance and investigation activities relative to BCLC's lottery business; and</li> </ul>	07/10/07	<b>Complete but ongoing</b>
	<ul style="list-style-type: none"> <li>Any recurring or systemic problems and how they are being addressed.</li> </ul>	07/10/07	<b>Complete but ongoing</b>
	GPEB will liaise other affected divisions and, as necessary, BCLC to track and monitor elements within this document.	TBD by 11/30/07	<b>In progress</b>
<b>Public Reporting</b>			
	GPEB will ensure it can report publicly on the above, both in its annual report and through any quarterly or occasional reporting which may be required.	09/15/07	<b>In progress</b>
	GPEB will ensure it has adequate data to be able to accurately comment on its satisfaction with BCLC's implementation of the recommendations (beginning with the second such report).	TBD by 11/30/07	<b>In progress</b>