

## Second Status Report on Responsibilities Regarding Deloitte & Touche Lottery Retailer Recommendations

### Introduction

In June 2007, following the release of a report by the B.C. Ombudsman, the Solicitor General (the former minister responsible for Gaming Policy and Enforcement) appointed Deloitte & Touche as independent auditors to review the province's lottery retail system and the Gaming Policy and Enforcement's (GPE) regulation of the BC Lottery Corporation's (BCLC) conduct and management of their lottery business area. The result, "Report on the Independent Review and Assessment of the Retail Lottery System in British Columbia," confirmed that government and BCLC are taking the necessary steps to ensure public trust and confidence in the lottery retail system.

GPE is in the process of implementing recommendations contained in Deloitte's report. The report made 44 recommendations to further enhance lottery gaming in the province.

Of these, GPE and BCLC share responsibility for four recommendations and GPE has sole responsibility for 19 recommendations. Several of the recommendations made to BCLC have implications for GPE. GPE and BCLC have acted on all the recommendations accepted by the Solicitor General.

Several of the recommendations made by Deloitte build upon or enhance the recommendations made in the Ombudsman's May 2007 report.

### Status of Recommendations

Since the release of Deloitte's report, GPE has completed several initiatives to address the recommendations made. In addition to activities initiated in response to the Ombudsman's report, these include:

- Clearly articulating responsibilities and authority of GPE and the subsequent implications these have on BCLC (especially as they relate to gaming worker and service provider registration, equipment certification, audit and investigations);
- Restructuring GPE's organization to enhance its focus on enforcement and compliance issues (especially, but not only, as they relate to B.C.'s lottery systems), better balance the policy and enforcement components of GPE, increase the emphasis on responsible gambling, and enhanced public accountability;
- Creating a new Director of Internal Compliance and Risk Management position to manage GPE's risk management strategy for the gaming industry. The director will also focus on GPE's internal audit and whistleblower programs;
- Scheduling regular GPE and BCLC joint executive meetings to increase communication, cooperation and coordination between the organizations, at the same time respecting GPE's independent oversight;
- Acquiring full access to BCLC's inventory of retailers and retailer employees;
- Completing a systematic review of BCLC's quality assurance work;

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- Verifying that all GPE employees formally acknowledge and accept GPE's expanded standards of conduct and conflict of interest guidelines;
- Developing and implementing certification standards to ensure the technical integrity of pull-tab and scratch and win lottery products; and
- Implementing a comprehensive five-year audit plan that covers BCLC's conduct and management of all forms of gaming, including BCLC's lottery business.

Initiatives that are still in progress include:

- Completing the staffing the newly created, Director, Internal Compliance and Risk Management position (competition in progress). The Director will be responsible for:
  - Developing and implementing an internal audit program by October 30, 2008;
  - Developing and implementing formal risk management processes for GPE and facilitating the development and implementation of a risk management strategy for the gaming industry by October 30, 2008; and
  - Developing and implementing a whistle blower program by October 30, 2008.
- Working with BCLC to articulate the roles and responsibilities of others involved in the lottery business (gaming service providers, players, etc.) by October 30, 2008.

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**Detailed Action Plan and Status Report**

<b>Shared Responsibilities between GPE and BCLC</b>		
<b>#</b>	<b>Deloitte &amp; Touche's Recommendation</b>	<b>Status</b>
<b>3a</b>	In order to improve relations and communications between BCLC, GPE and the Government, we recommend that a regular schedule of executive meetings between GPE and BCLC be scheduled to enhance the level of co-operation and co-ordination between the organizations, while at the same time maintaining GPE's independence.	<b>Complete:</b> GPE and BCLC executive meet on a quarterly basis.
<b>4</b>	We recommend that formal, sustainable risk management processes be implemented at GPE and that both BCLC and GPE define their tolerance for risk accordingly. As the regulator, GPE has a broad outlook and is in a position to assess the overall risks attached to gaming regulation in the Province, including the lottery retail network. BCLC in turn will consider the risks to fulfilling its mandate as the operator. We recommend that BCLC and GPE align their risk management programs and discuss the collective risks facing the gaming industry, and their collective tolerance for each risk. Each organization can make recommendations to Government, through the Minister, regarding strategies to manage and mitigate risks that exceed acceptable tolerances.	<b>In Progress:</b> GPE is leading an industry-wide risk management strategy; BCLC is a full participant in the development and implementation of this strategy.
<b>15d</b>	The accuracy and completeness of the new Retailer tracking database should be subject to separate audit by both BCLC and GPE, in addition to the completeness checks on the Retailer listings being completed by the BCLC sales representatives each time they visit a Retailer location.	<b>Complete:</b> Addressed in GPE's five-year audit plan.
<b>17</b>	We recommend BCLC introduce new processes to track customer complaints or queries that have been referred to other departments outside of the CSC. We would also recommend that GPE and BCLC audit the complaint database on a routine basis to ensure the proper handling of complaints.	<b>Complete:</b> Addressed in GPE's five-year audit plan.
<b>GPE Responsibilities</b>		
<b>#</b>	<b>Deloitte &amp; Touche's Recommendation</b>	<b>Status</b>
<b>2</b>	We recommend that the roles and responsibilities of each of the operators (BCLC, Retailers and suppliers), regulator (GPE) and the player be clearly defined and communicated to all relevant stakeholders. We believe that clarification may need to be made to both the governing legislation and supporting regulatory directives and standards.	<b>In progress:</b> GPE and BCLC authorities and responsibilities have been clearly articulated. Definitions of the roles of retailers, players, etc. are under development (due: Oct. 30, 2008).
<b>3b</b>	In order to improve relations and communications between BCLC, GPE and the Government, we recommend that GPE share the high level details of its future lottery audit plans with BCLC as this should enhance the level of co-operation and assistance GPE would receive from BCLC when they conduct their independent reviews and assessments	<b>Complete:</b> Addressed in GPE's five-year audit plan.

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18	We recommend that the responsibilities of GPE and BCLC with regards to investigations be explicitly clarified to reflect the organizations' enforcement and operating roles, respectively, under the GCA. We also recommend that Section 86 reporting requirements be clearly articulated to more explicitly identify what form of complaints, occurrences and conditions must be reported by BCLC to GPE. Furthermore, we recommend that BCLC consider implementing a procedure to require periodic review by senior BCLC security management to help ensure the completeness and accuracy of BCLC's Section 86 reporting to GPE.	<b>Complete:</b> GPE has clarified its authorities and responsibilities regarding its oversight of BCLC and has clearly articulated the implications for BCLC.
29	We recommend that GPE's policy and enforcement groups be given equal status within the organization in order to adequately discharge GPE's various mandates.	<b>Complete:</b> GPE has completed a GPE-wide restructuring.
30	We recommend that the amendments to the GCA be considered to support changes deemed necessary to meet the recommendations in the Ombudsman's Report and this report.	GCA amendments are not being considered at the present time.
31	We recommend that formal, sustainable risk management processes be implemented at GPE and that risk tolerance be defined accordingly. As described in recommendation #4 above, we recommend that GPE and BCLC align their risk management programs and discuss the collective risks facing the retail lottery system, and their collective tolerance for each risk.	<b>In Progress:</b> GPE is implementing a formal risk management strategy and will align it with BCLC's risk management strategy (due Oct. 30, 2008).
32	We recommend GPE consider implementing a whistleblower program to foster a culture of integrity, honesty and openness within GPE.	<b>In Progress:</b> GPE is implementing a whistleblower program.
33	We recommend that all GPE employees formally acknowledge the standards of conduct and conflict of interest guidelines.	<b>Complete:</b> All GPE employees have signed these documents.
34	We recommend GPE undergo regular independent audits of its activities based on a comprehensive risk-oriented audit approach.	<b>In Progress:</b> An internal audit program is being implemented (due Oct. 30, 2008).
35	We recommend GPE establish a three to five year comprehensive audit plan that would cover all aspects of BCLC's operations. We encourage GPE to include audits of BCLC's entire processes and controls around complaints, supplier registrations, and Retailer registrations (as indicated in the high level lottery focus document). The high level details of the plan should be discussed and shared with BCLC to help enhance the level of co-operation and assistance GPE would receive from BCLC when they conduct their independent reviews and assessments.	<b>Complete:</b> Addressed in GPE's five-year audit plan.
36	We recommend GPE require BCLC to provide a monthly written report which includes all Section 86 reports submitted to GPE and that GPE reconcile the report to ensure completeness of the receipt of these reports from BCLC.	<b>Complete:</b> GPE has clarified its authorities and responsibilities regarding its oversight of BCLC and has clearly articulated the implications for BCLC.

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<b>37</b>	We recommend that GPE provide periodic feedback to BCLC in regards to any deficiencies noted with respect to the Section 86 reports and related information received from BCLC.	<b>Complete:</b> GPE has clarified its authorities and responsibilities regarding its oversight of BCLC and has clearly articulated the implications for BCLC.
<b>38</b>	We recommend the GPE Audit and Compliance division expand its planned reviews of BCLC's compliance with Section 86 reporting policies and procedures to ensure that all reports of conduct, activity or incident (indicating an offence under Criminal Code or the GCA) are delivered to GPE in a complete and appropriate manner.	<b>Complete:</b> Addressed in GPE's five-year audit plan.
<b>39</b>	We recommend that efforts be made to expedite the granting of access for GPE investigators to all police databases as soon as possible.	<b>Pending:</b> GPE is awaiting implementation by Police Services.
<b>40</b>	We recommend GPE establish formal procedures for communicating the results of its BCLC Retailer inspections with BCLC as well as define a plan to ensure issues identified are addressed appropriately by BCLC.	<b>Complete:</b> Addressed in GPE's five-year audit plan.
<b>41</b>	We recommend that GPE finalize and approve the guideline outlining the submission and approval process and the detailed work sheet for technical certifications of games and gaming equipment. The worksheet should be used to document the results of evaluations of each criteria and to communicate the results to BCLC to ensure that the rationale for issuing technical certificates is consistent and transparent.	<b>Complete:</b> GPE has developed worksheets for all lottery products and communicates results of evaluations to BCLC.
<b>42</b>	We recommend that GPE clarify the link between the detailed technical standards and the criteria documented in the GCA.	<b>Complete:</b> Technical Standards documents completed for lottery products.
<b>43</b>	To ensure a proper assessment of technical integrity, we recommend GPE finalize and approve the two outstanding technical standards for scratch-and-win tickets and for pull-tab tickets in a timely manner. Technical integrity of instant games should then be evaluated against these standards.	<b>Complete:</b> Technical Standards documents completed for lottery products.
<b>44</b>	We recommend GPE consider periodically reviewing BCLC's quality assurance work to support GPE's reliance on gaming equipment tests carried out by the BCLC.	<b>Complete:</b> Quality assurance audit completed.
<b>In accordance with its responsibilities, GPE is developing processes to monitor BCLC's response and actions to the following recommendation made by Deloitte.</b>		
<b>8</b>	We recommend BCLC continue to assess the cost/benefit of its programs and processes to ensure player protection is addressed, while balancing this protection of the public interest with the generation of net income distributed to the Government for charitable, health care, education and other social programs.	
<b>In accordance with its responsibilities, GPE has developed and implemented a five-year comprehensive audit plan which includes monitoring BCLC response and actions related to the following recommendations made by Deloitte.</b>		
<b>14</b>	We recommend that BCLC reinforce and monitor the Retailers' requirements to stamp all winning lottery tickets as paid and return them to players. BCLC should continue to research other options, including a self validation system that will eliminate the requirement for Retailers to handle lottery tickets for validation purposes.	
<b>15a</b>	We recommend that BCLC clearly define the signatories for Retailer prize payout cheques, their accountabilities and the dollar limit approval requirements.	

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<b>15b</b>	We recommend that to be consistent with the treatment of Retailers who are considered “insiders,” BCLC should consider running winner profiles against the employee database to monitor and track BCLC employee wins.
<b>15c</b>	We recommend that BCLC should continue to keep Retailers informed and trained on changes to procedures and more closely monitor Retailer activities (i.e. ensuring players are instructed by Retailers to sign the back of their tickets and that proper validation procedures are followed by Retailers to reduce the number of tickets put on hold). This could be accomplished through a more rigorous tracking and monitoring system as well as through an increased focus during the mystery shopper program.
<b>16</b>	We recommend BCLC consider revising the policies and procedures around its call centre and overall system. In the short term, this could include daily call sample reviews by CSC Team Leaders, regular audits, regular training of CSC staff by security and an overall policy framework with clear governance of what kinds of calls need to be escalated to security. In the longer term, BCLC should consider adopting similar procedures to other jurisdictions in Canada whereby callers can elect via the call centre system to designate their call as a complaint. Each complaint is then routed automatically to a security specialist, who can then discuss the case with the caller directly.
<b>19</b>	We recommend BCLC continue to create more rigorous standards for the documentation of the results of security investigations and train security staff on these new standards. Files should be prepared assuming they are going to be submitted for legal scrutiny.
<b>24</b>	We recommend BCLC review their portfolio of suppliers and identify those suppliers that are not GPE registered. BCLC should then obtain written confirmation from GPE as to whether those suppliers require GPE registration. For any supplier identified by GPE as requiring registration, BCLC should cease engaging the supplier until the supplier has obtained GPE registration and GPE have provided written confirmation to BCLC.
<b>25</b>	We recommend BCLC, as part of the current tendering of its ticket printing contract, include in the procurement documents about to be released and the final written contract the appropriate terms and conditions around assurance audits and other audit privileges of BCLC due to the importance of the ticket printing process in BCLC’s overall control environment.
<b>26</b>	We recommend BCLC implement a new procedure to monitor the set-up and activation of new retailers in the Retailer Masterfile database. Management should conduct a periodic review of new retailers to verify that the LOA has been signed-off, a peer review is completed for all of the retailer data entered into the database and is evidenced on file, and GPE registration is obtained prior to retailer set-up and activation.
<b>27</b>	We recommend that BCLC track security clearance confirmations of new Retailers. As a longer term measure, we recommend the Retailer Masterfile database be developed so that it captures the security confirmation status of each Retailer.
<b>28</b>	We recommend the product development process be revised to include documentation of key checkpoints for documented approvals by Responsible Gaming and Player Protection areas on new products. We also support the revision to product development processes to include documentation of key milestones for which Government approval is to be obtained.