

Fourth Status Report on Responsibilities Regarding GPE and Ombudsman Lottery Retailer Recommendations

Introduction

The Gaming Policy and Enforcement (GPE) is implementing recommendations contained in the B.C. Ombudsman's May 2007 report, "Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process."

The report made 27 recommendations to improve the BC Lottery Corporation's (BCLC) retailer lottery winnings and prize validation procedures, as well as the oversight provided by GPE. Of these, four pertained to GPE and the remaining 23 to BCLC. GPE accepted all of the recommendations made. Most of the recommendations made to BCLC had implications for GPE.

Status of recommendations

GPE has addressed nearly all of the recommendations made by the Ombudsman; this includes:

- Implementing a comprehensive and independent lottery retailer registration program;
- Registering all new lottery retailers and initiating a ten month program to register all pre-existing retailers (approximately 3,700 of 4,000 retail sites have been completed);
- Implementing a comprehensive and independent lottery equipment and lottery ticket certification program for all existing and new lottery equipment and tickets;
- Developing and implementing a comprehensive audit plan for BCLC's lottery network;
- Enhancing GPE's independent investigation program for BCLC's lottery business;
- Completing reviews, and where necessary further investigating all known multiple win retailer files from 2000 until 2006;
- Developing and implementing processes to identify any recurring and/or systemic problems with BCLC's lottery retailer system;
- Implementing a comprehensive approach to track and report on GPE's and BCLC's implementation of new lottery policies and procedures; and
- Completing the hiring of all additional staff necessary to implement recommendations.

Elements that are still in progress include:

- Registering managers at the remaining 300 pre-existing lottery retail outlets by August 30, 2008; and
- Monitoring and reporting on BCLC's compliance with recommendations made by GPE (BCLC has complied with all of the recommendations) and the Ombudsman (currently 16 of 23 recommendations have been completed).

**Fourth Status Report on Responsibilities Regarding GPE and
Ombudsman Lottery Retailer Recommendations**

Detailed Action Plan and Status Report

| Registration Responsibilities | | |
|--|--|-----------------------------------|
| Detailed Responsibilities | | Status |
| <i>Register lottery retail managers and others</i> | | |
| GPE will fully implement a comprehensive program to register appropriate persons representing retailers (including a background check, criminal record check, and so forth). | | Complete |
| GPE will identify all lottery retailer site staff that will require registration (based on information provided by BCLC). | | Complete (ongoing) |
| GPE 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). | | Complete |
| GPE will register all lottery retail managers in: | | |
| • BCLC's retail stores group (kiosks), | | Complete |
| • BCLC's corporate account group (7-Eleven, etc.), and | | Complete |
| • Individual retailers. | | In progress (85% complete) |
| GPE 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. | | Complete |
| <i>Establish and maintain full and immediate access to BCLC's inventory of retailers and retailer employees</i> | | |
| GPE will ensure BCLC creates and maintains a database of all retailers. | | Complete |
| GPE will ensure BCLC creates and maintains a database of all retailer employees. | | Complete |
| GPE will work with BCLC to identify and address data and information issues concerning lottery retailers and employees. | | Complete |
| GPE will ensure BCLC provides immediate, direct and full ongoing access to information to GPE. | | Complete |
| <i>Certify lottery products (other than nation-wide tickets) for technical integrity</i> | | |
| GPE will certify existing lottery products (such as Break Open and Scratch & Win Tickets) and issue certificates of integrity for approved products. | | Complete |
| GPE 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. | | Complete (ongoing) |
| GPE 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. | | Complete |
| GPE will implement policies and procedures to ensure BCLC complies with its obligation to have all lottery products certified by GPE prior to their introduction into the marketplace, and coordinate this effort with audit and compliance monitoring responsibilities. | | Complete |
| GPE will implement policies and procedures to ensure BCLC complies with its responsibility to report malfunctions or defects in lottery products to GPE, and coordinate this effort with audit and compliance monitoring responsibilities. | | Complete |
| GPE will initially certify products using established international technical standards. | | Complete |

**Fourth Status Report on Responsibilities Regarding GPE and
Ombudsman Lottery Retailer Recommendations**

| | | |
|--|---|---------------------------|
| | GPE will develop a British Columbia Technical Standard for Lottery Products to replace current standard. | Complete |
| | GPE will implement methods to review changes in technology and in BCLC lottery products in order to pursue the extension of GPE's lottery product certification efforts to products (if any) not initially certified. | Complete (ongoing) |
| <i>Certify technological security enhancements and upgrades to lottery systems designed to monitor self-checking machines, speakers and other security devices.</i> | | |
| | GPE will monitor BCLC's implementation of technological (hardware, software, etc.) enhancements and upgrades of all its lottery systems. | Complete (ongoing) |
| | GPE 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 GPE prior to their introduction into the marketplace, and to coordinate this effort with audit and compliance monitoring responsibilities. | Complete (ongoing) |
| | GPE 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. | Complete (ongoing) |
| Audit & Compliance Responsibilities | | |
| | GPE has two major responsibilities regarding lottery retailer recommendations: | |
| | Confirming BCLC's compliance with recommendations made by GPE (December 2006) and the B.C. Ombudsman (May 2007). | |
| | 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. | |
| Detailed Responsibilities | | Status |
| | GPE's comprehensive lottery audit strategy will review: | |
| | • BCLC's collection, management and use of retailer and retailer employee information; | Complete (ongoing) |
| | • BCLC's reporting of activities to GPE, BCLC's Board of Directors, CEO, audit committee and the public regarding activities related to lottery retailers; | Complete (ongoing) |
| | • BCLC's public reporting on the rate of "insider win"; | Complete (ongoing) |
| | • BCLC's management and processes for public and customer complaints, and BCLC's compliance with those procedures; | Complete (ongoing) |
| | • 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); | Complete (ongoing) |
| | • 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 GPE, 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); | Complete (ongoing) |

**Fourth Status Report on Responsibilities Regarding GPE and
Ombudsman Lottery Retailer Recommendations**

| | |
|--|------------------------------|
| <ul style="list-style-type: none"> 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); | Complete (ongoing) |
| <ul style="list-style-type: none"> 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); | Complete (ongoing) |
| <ul style="list-style-type: none"> 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.); | Complete (ongoing) |
| <ul style="list-style-type: none"> Processes for ensuring that BCLC is reporting in a timely manner under Section 86 of the Gaming Control Act; | Complete (ongoing) |
| <ul style="list-style-type: none"> Processes for monitoring and tracking changes in BCLC's policies, procedures and systems concerning its lottery business; | Complete |
| <ul style="list-style-type: none"> Processes for reporting, where appropriate or necessary, compliance issues involving the registration of retailers, registered employees, or gaming supplies; | Complete (ongoing) |
| <ul style="list-style-type: none"> Procedures for identifying and, where necessary, conducting extensive and independent audits of recurring or systemic problems relating to the lottery retailer system; and | Complete |
| <ul style="list-style-type: none"> Processes for sharing, where appropriate or necessary, information for the purpose of a formal investigation. | Complete |
| Establishing a comprehensive audit and compliance strategy for BCLC's conduct, management and operation of gaming | |
| GPE 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, GPE public interest standards, and all related policies and procedures and directives from GPE and/or government. | Complete (ongoing) |
| Investigation Responsibilities | |
| Detailed Responsibilities | Status |
| <i>BCLC awareness of reporting obligations</i> | |
| GPE will routinely confirm BCLC's obligation to: | |
| <ul style="list-style-type: none"> Notify GPE (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 | Complete (ongoing) |
| <ul style="list-style-type: none"> Provide to GPE, as soon as possible and with urgency, full and comprehensive files in support of each initial Section 86 notification. | Complete (ongoing) |
| GPE will develop procedures to ensure BCLC's compliance with its Section 86 reporting obligations. | |
| GPE has reconfirmed, in writing, BCLC's reporting obligation, amended procedures to require follow-up on reported incidents, and will regularly communicate obligations to BCLC. | Complete (ongoing) |

**Fourth Status Report on Responsibilities Regarding GPE and
Ombudsman Lottery Retailer Recommendations**

| <i>BCLC awareness of the independence of GPE investigations</i> | | |
|---|--|------------------------------|
| GPE will routinely confirm and demonstrate its complete independence in dealing with: | | |
| <ul style="list-style-type: none"> Section 86 notifications concerning any potential impropriety or fraud by a retailer or retailer employee; | | Complete (ongoing) |
| <ul style="list-style-type: none"> Any notifications received from any party other than BCLC; and | | Complete (ongoing) |
| <ul style="list-style-type: none"> Any potential recurring or systemic problems with BCLC's lottery business. | | Complete (ongoing) |
| GPE 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. | | Complete (ongoing) |
| GPE has reconfirmed, in writing, this independence, amended procedures to emphasize GPE's independent decision-making concerning reported offences, and will regularly communicate obligations to BCLC. | | |
| <i>Investigations of Section 86 and other complaints</i> | | |
| GPE will conduct a thorough and independent investigation of: | | |
| <ul style="list-style-type: none"> Any complaint or allegation of retailer or retailer employee impropriety (e.g., fraud, theft) received from any party other than BCLC; and | | Complete (ongoing) |
| <ul style="list-style-type: none"> Any complaint or allegation of impropriety (e.g., fraud, theft) concerning any employee of BCLC. | | Complete (ongoing) |
| GPE 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. | | Complete (ongoing) |
| GPE, where appropriate, will provide post registration reports regarding retailer employee impropriety. | | Complete (ongoing) |
| GPE will review and where necessary conduct investigations into instances of multiple retailer wins. | | Complete |
| GPE will conduct independent reviews of any complaint or allegation of retailer or retailer employee impropriety (e.g.: fraud, theft) received from BCLC and conduct investigations when it is warranted. | | Complete (ongoing) |
| GPE will 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 will conduct an investigation when it is warranted. | | Complete |
| Specifically, GPE will conduct an independent investigation of at least 10% of all alleged violations from January 1, 2005 to December 31, 2006. | | Complete |
| <i>Investigations of recurring or systemic problems</i> | | |
| GPE will implement processes (e.g.: liaison with BCLC, liaison with GPE, reviews of files and complaints that are received, etc.) to identify systemic or recurring problems with BCLC's lottery business. | | Complete |
| GPE will conduct an independent investigation of any systemic or recurring problems. | | Complete (ongoing) |

**Fourth Status Report on Responsibilities Regarding GPE and
Ombudsman Lottery Retailer Recommendations**

| Legislative, Regulatory and Reporting Responsibilities | | |
|--|-----------------|---------------------------|
| Detailed Responsibilities | Due Date | Status |
| <i>Act, Regulations and Directives</i> | | |
| GPE will recommend a series of legislative/regulatory amendments and directives to ensure the integrity of B.C.'s lottery retail system. | | Complete |
| GPE will consider developing public interest standards specifically for lottery retail outlets. | | Complete |
| <i>Tracking & Monitoring of Progress</i> | | |
| GPE will track: | | |
| <ul style="list-style-type: none"> • Changes BCLC makes that impact it's conduct and management of lotteries; | | Complete (ongoing) |
| <ul style="list-style-type: none"> • BCLC's implementation of GPE's and the Ombudsman's recommendations relative to BCLC; | | Complete (ongoing) |
| <ul style="list-style-type: none"> • Implementation of its own and the Ombudsman's recommendations relative to GPE; | | Complete (ongoing) |
| <ul style="list-style-type: none"> • Registration, equipment/ticket certification, audit and compliance and investigation activities relative to BCLC's lottery business; and | | Complete (ongoing) |
| <ul style="list-style-type: none"> • Any recurring or systemic problems and how they are being addressed. | | Complete (ongoing) |
| GPE will monitor and periodically report publicly on the status of all elements contained within this document. | | Complete (ongoing) |
| <i>Public Reporting</i> | | |
| GPE 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. | | Complete |
| GPE 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). | | Complete (ongoing) |