

## **Status Report on Lottery Retail Recommendations by B.C.'s Ombudsman and Deloitte and Touche (February 2011)**

### **1. Introduction**

In May 2007, the B.C. Ombudsman issued a 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's) lottery retail system and prize validation procedures, as well as the oversight provided by the Gaming Policy and Enforcement Branch (GPEB). Of these, four pertained directly to GPEB and 23 to BCLC, though these recommendations had implications for GPEB as well.

In June 2007, following the release of a report by the B.C. Ombudsman, Government appointed Deloitte & Touche as independent auditors to review the province's lottery retail system and GPEB's regulation of BCLC's conduct and management of the lottery business. The result, "Report on the Independent Review and Assessment of the Retail Lottery System in British Columbia," confirmed that government and BCLC were taking the necessary steps to ensure public trust and confidence in the lottery retail system. The report made 44 recommendations to further enhance lottery gaming, and in some instances, gaming in general in the province.

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

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

This report provides an update on GPEB's work and its observations of BCLC's work related to these recommendations.

### **2. Status of Recommendations**

#### **2.1 B.C. Ombudsman**

The Government of British Columbia accepted all of the recommendations made by the B.C. Ombudsman. In April 2009, GPEB completed its work on all of the recommendations that were made directly to the Branch or had implications for it. These include considerable enhancements to GPEB's registration, equipment and game certification, audit and investigation operations.

For nearly all of the recommendations GPEB has implemented permanent new programs and has an ongoing responsibility to monitor programs implemented by either GPEB or BCLC.

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The previous report indicated that BCLC had completed 21 of its 23 recommendations. The two outstanding recommendations were

- the implementation of mandatory retail swipe cards, and
- the tracking of all scratch and win tickets at the time of sale.

BCLC has implemented a tracking system for scratch and win tickets that has been reviewed by the Ombudsperson. The Ombudsperson has stated the BCLC's system satisfies the intent of the initial recommendation. BCLC continues to explore the use of swipe cards and account based play at lottery retail outlets. In sum, BCLC has completed 22 of 23 recommendations made by the Ombudsperson. GPEB will continue to monitor BCLC's actions to ensure this recommendation on swipe cards is appropriately addressed.

In addition, GPEB continues to monitor the effectiveness of programs and processes implemented by BCLC to address the other recommendations made by the Ombudsman, and, where necessary and appropriate, will make recommendations to enhance the integrity of lottery gaming in the province.

In previous reports, GPEB reviewed BCLC's actions related to the Ombudsman's observation that retailers are not obligated to make public when, or if, a major prize has been won from a Pull Tab box. The Ombudsman did not make a recommendation on the matter, but she did suggest that BCLC consider ensuring that all players have access to the same information as retailers concerning when major prizes have been paid. BCLC has conducted a study into this matter and concluded their pilot process did not work effectively and should not be implemented on a large scale.

### **2.2. Deloitte & Touche**

GPEB is nearing completion of the recommendations made by Deloitte & Touche and accepted by government. This work has included further enhancements to GPEB's registration, equipment and game certification, audit and investigation operations in addition to the creation of a new Internal Compliance and Risk Management Division.

GPEB has now articulated the roles and responsibilities of gaming industry stakeholders other than GPEB and BCLC (e.g. gaming service providers, gaming workers, charitable gaming operators, players, etc.). GPEB has also completed the initial iteration of its formal risk management plan. Work on this plan, including updates and refinements, will be ongoing over the 2011/12 fiscal year. Similarly, GPEB has initiated work on implementing a risk management strategy for the gaming industry as a whole, and this work will be ongoing for 2011/12.

The previous report indicated that BCLC had completed 26 of the 28 recommendations made by Deloitte. BCLC has now completed the recommendation to enhance its operations and information technology by

- Implementing a data classification scheme across their lotteries data, and
- Completing their records management inventory and strategy.

BCLC has also enhanced its enterprise risk management efforts by using risk registers to monitor risk profiles on an ongoing basis at both divisional and enterprise levels. BCLC is taking a Key Risk Indicator approach at an operational level by including process risk assessments for

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new initiatives, including where possible the development of automated risk and control monitoring. In sum, BCLC has completed implementing 28 of 28 recommendations made by Deloitte.

GPEB will continue to provide updates on the status of recommendations made by the B.C. Ombudsman and Deloitte on a semi-annual basis.

## **Appendix A: Chronology of Events Regarding the Integrity of Gaming in B.C.**

**September 14, 2001** – The Solicitor General announced significant changes to the management of gaming in B.C. The four agencies previously responsible for regulating gaming, the Gaming Policy Secretariat, the B.C. Gaming Commission, the B.C. Racing Commission, and the Gaming Audit and Investigation Office were consolidated into the Gaming Policy and Enforcement Branch (GPEB).

**November 20, 2001** – Responsibility for commercial bingo halls in the province is transferred to the BC Lottery Corporation (BCLC)

**June 3, 2002** - The Problem Gambling Program is moved, to GPEB. GPEB assumed responsibility for delivery of all problem gambling programs, including the service contracts.

**July 25, 2002** – Government announces the passing of a new set of laws entitled the B.C. Gaming Control Act to strengthen and streamline the management of gaming in B.C.

**August 19, 2002** – The Gaming Control Act comes into effect.

**July 20, 2005** – The Auditor General of B.C. released a report entitled “Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos.” The report examined the 19 casinos operating in the province between September 2004 and January 2005 and determined that government is adequately managing casino gaming integrity risks. Responses to the report by GPEB and BCLC were included.

**April 26, 2006** – Government amended several sections of the Gaming Control Act to simplify procedures and help maintain the overall integrity of gaming in the province. The amendments require that all GPEB and BCLC employees have regular background checks, enhance the punitive actions that can be taken against individuals or companies that contravene the Gaming Control Act and streamline the gaming facility approval process.

**June 27, 2006** – Government amended B.C.'s gaming regulations to allow government to take action against businesses that teach kids to gamble.

**August 15, 2006** – GPEB issued a status report on its implementation of the recommendations made by the Auditor General.

**October 24, 2006** – CBC's *Fifth Estate*, identified the possibility of significant lottery fraud perpetrated by lottery retailers in Ontario.

**October 25, 2006** – In response to concerns about Ontario lotteries the Solicitor General directed GPEB to investigate and report on the integrity of B.C.'s lottery retailer network.

**December 14, 2006** – GPEB issued its report and recommendations.

**December 18, 2006** – B.C.'s Ombudsman announced she would investigate B.C.'s lottery system.

**May 29, 2007** – B.C.'s Ombudsman released her report (which made 27 recommendations to improve BCLC's retailer lottery winnings and prize validation procedures, as well as the regulation and oversight provided by GPEB).

**May 29, 2007** – Government accepted all 27 recommendations. Of these, four pertained to GPEB and the remaining 23 to BCLC (several of the recommendations made to BCLC had implications for GPEB).

**May 29, 2007** – The Solicitor General announced that he will launch an independent and comprehensive audit of BCLC's retail lottery system and GPE.

**June 1, 2007** - The Board of Directors of BCLC terminated Vic Poleschuk, President and CEO.

**June 8, 2007** – The Board of Directors of BCLC named Dana Hayden as Interim President and CEO.

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**June 8, 2007** – Deloitte and Touche identified as independent auditors to review BCLC's lottery systems and GPE's oversight of it.

**August 23, 2007** – BCLC released an audit completed by Blair Mackay Mynett Valuations. The audit addressed questions about the frequency of wins by lottery retailers.

**August 23, 2007** – The Board of Directors of BCLC reached a severance agreement with the former President and CEO, Vic Poleschuk.

**September 12, 2007** – GPEB and BCLC released first quarterly reports on the status of their implementation of recommendations made by the B.C. Ombudsman.

**October 4, 2007** – GPEB released a final status report on its implementation of the recommendations made by the Auditor General.

**October 31, 2007** – Deloitte and Touche reported their findings to the Solicitor General.

**November 9, 2007** – the Solicitor General released Deloitte and Touche's October 31, 2007 report.

**January 24, 2008** – GPEB and BCLC released second quarterly reports on the status of their implementation of recommendations made by the B.C. Ombudsman. This included comments by GPEB on BCLC's progress in responding to those recommendations.

**February 18, 2008** – The Board of Directors of BCLC announced that Dana Hayden, had completed her assignment as Interim President and CEO. The Board named Scott Norman, Vice President of Information and Technology and Chief Information Officer as acting CEO.

**March 6, 2008** – The Board of Directors of BCLC named Michael Graydon as President and CEO.

**April 18, 2008** – GPEB released a document articulating the key regulatory responsibilities of GPEB and their application to BCLC.

**April 24, 2008** – GPEB and BCLC released third quarterly reports of the status of their implementation of the recommendations made by the B.C. Ombudsman. This included comments by GPEB on BCLC's progress in responding to those recommendations.

**April 24, 2008** – GPEB released first quarterly reports on the status of its implementation of recommendations made by Deloitte and Touche.

**May 21, 2008** – CBC released a story claiming that BCLC has been under-reporting suspected money laundering at the province's casinos.

**May 23, 2008** – CBC released a story regarding casino patrons who leave children in their cares while they gamble.

**May 24, 2008** – CBC released a story regarding suspected loan sharks operating around B.C. casinos.

**June 19, 2008** – GPEB released Technical Gaming Standards for pull tab and scratch and win lottery tickets.

**July 31, 2008** – GPEB and BCLC release fourth quarterly reports of the status of their implementation of the recommendations made by the B.C. Ombudsman. This included comments by GPEB on BCLC's progress in responding to those recommendations.

**July 31, 2008** – GPEB released second quarterly reports on the status of its implementation of recommendations made by Deloitte and Touche.

**July 31, 2008** – GPEB released a report on the findings of GPEB's Lottery Investigation Team on all historic multiple lottery retailer win files.

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**October 30, 2008** – GPEB and BCLC released fifth quarterly reports of the status of their implementation of the recommendations made by the B.C. Ombudsman. This included comments by GPEB on BCLC's progress in responding to those recommendations.

**October 30, 2008** – GPEB released third quarterly reports on the status of its implementation of recommendations made by Deloitte and Touche.

**January 29, 2009** – GPEB released a final report on its implementation of the recommendations made by the B.C. Ombudsman. BCLC releases sixth quarterly reports of the status of their implementation of the recommendations made by the B.C. Ombudsman. This included comments by GPEB on BCLC's progress in responding to those recommendations.

**January 29, 2009** – GPEB released fourth quarterly reports on the status of its implementation of recommendations made by Deloitte and Touche.

**April 30, 2009** – BCLC released seventh quarterly reports of the status of their implementation of the recommendations made by the B.C. Ombudsman. This included comments by GPEB on BCLC's progress in responding to those recommendations.

**April 30, 2009** – GPEB released fifth quarterly reports on the status of its implementation of recommendations made by Deloitte and Touche.

**July 21, 2009** – GPEB implemented a formal whistleblower program as recommended by Deloitte and Touche.

**August 13, 2009** – BCLC released eighth quarterly reports of the status of their implementation of the recommendations made by the B.C. Ombudsman. This included comments by GPEB on BCLC's progress in responding to those recommendations.

**August 13, 2009** – GPEB released sixth quarterly reports on the status of its implementation of recommendations made by Deloitte and Touche.

**February 11, 2010** – GPEB released an update on status of work related to recommendations made by the B.C. Ombudsman and Deloitte Touche.

**December 1, 2010** – Ombudsperson sent BCLC a letter confirming that the tracking system for scratch and win tickets satisfies the intent of Recommendation 10.

**February 10, 2011** – GPEB released an update on status of work related to recommendations made by the B.C. Ombudsman and Deloitte Touche.