



**BRITISH  
COLUMBIA**

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**Ministry of Public Safety  
and Solicitor General**

**Gaming Policy and Enforcement Branch**

**GPEB Five Year Audit Plan for BCLC Commercial Gaming  
(2007/08 – 2011/12)**

**February 18, 2008**

## Table of Contents

1. Authority and Responsibility .....	1
2. Approach .....	2
Risk Management.....	2
Reliance .....	2
Business Knowledge .....	2
3. Audit Plan .....	3
Strategic Objectives.....	3
A. BCLC's Overall Conduct and Management of All Forms of Gaming.....	3
Specific Objectives.....	3
B. BCLC's Conduct and Management of Lottery Gaming .....	5
Specific Objectives.....	5
C. BCLC's Conduct and Management of Commercial Gaming (Casino, Community Gaming Centres, Bingo Halls and Racetracks).....	7
4. Reporting.....	10
Assignment Level .....	10
Organizational Level .....	10
5. Additional Projects.....	10

## **1. Authority and Responsibility**

Audit and Compliance Division (ACD) operates within the Gaming Policy and Enforcement Branch (GPEB) and our authority is defined in the Gaming Control Act (GCA) and Regulation. Our audit work is further guided by policy directives and public interest standards issued by GPEB. We conduct our work in accordance with government's overall requirements in terms of confidentiality and conduct, supplemented by policies unique to GPEB and further tailored to suit the sensitivity of our role.

In addition, the Gaming Policy and Enforcement Branch is accountable to the Ministry of Finance and to the Auditor General for the management of gaming revenues the Branch distributes on behalf of the Province. Certainty of the amount and timing of net gaming income to government and of financial claims made against those programs (such as by gaming service providers) is central to our mandate. Specific areas that require our involvement include managing the distribution of government's gaming proceeds, including grants to: community organizations; local governments; for local economic development (DAC grants); and to support the revitalization of B.C.'s horse racing industry.

Our mission is to protect the integrity of gaming by:

- Delivering a comprehensive risk-based audit strategy to assess regulatory compliance for commercial gaming, including lottery gaming, licensed gaming and community organization's use of gaming proceeds; and
- Encouraging enhanced compliance through public education programs and advisory services.

ACD is comprised of two operating units, whose regulatory compliance roles are:

- **Commercial Gaming Audit** – All commercial gaming including lotteries, casinos, community gaming centres, bingo halls and racetracks. Much of Commercial Audit's work involves conducting compliance audits of the conduct, management and operation of commercial gaming activities by the British Columbia Lottery Corporation (BCLC) and its services providers.
- **Charitable Gaming Audit** – Compliance of licensed gaming events with related licence terms for both event conduct and use of proceeds, as well as confirmation of appropriate use of proceeds by recipients of grant program funding.

## **2. Approach**

### ***Risk Management***

This plan has been developed from a risk assessment using various information sources such as, external reports, previous GPEB audit reports, BCLC's internal information systems (i.e.: ITRAC), retailer inspections, and the Ombudsman's report (dated May 31, 2007). As more information is obtained during our audit fieldwork, risk assessments may change which may result in a revision of priorities and identification of additional audits that may be required. Follow-up audit work will be carried out, when deemed necessary, to determine if relevant actions have been implemented.

### ***Reliance***

Reliance may be placed on audits or compliance programs performed by BCLC and/or external third parties. As per accepted audit practice, we will review the extent and depth of any audit work performed by third parties to determine whether reliance can be placed on the work performed in order to reduce duplication of efforts.

### ***Business Knowledge***

Additional fieldwork will be undertaken by GPEB auditors throughout the fiscal year in order to gain knowledge of other areas of the BC Lottery Corporation's activities. These efforts will ensure that ACD has the appropriate context to perform its audit work. This fieldwork will not be considered audit fieldwork and, therefore, formal audit reports will not be issued for this work. Examples of this will include the collection of information and documents, and ensuring ACD has an understanding, concerning BCLC's:

- Organizational structure (to gain an understanding of assigned roles and responsibilities);
- Public reporting, Freedom of Information and privacy protection processes;
- Performance metrics; and
- Staff code of conduct.

### 3. Audit Plan

#### **Strategic Objectives**

- Verify compliance with the Gaming Control Act (GCA), including Section 86 reporting, Regulation, GPEB directives and public interest standards;
- Confirm that the integrity, fairness, security and public safety of the gaming environment, gaming equipment, gaming assets, and gaming supplies is maintained; and
- Confirm that a safe and supportive environment for the delivery of gaming products and services is in place where responsible gambling is encouraged, gambling risks are minimized, and effective and timely information and assistance is provided for those with gambling problems.

These objectives are common to all audits conducted by the Commercial Gaming Audit group and so are not repeated in the detailed audit plans on subsequent pages.

#### **A. BCLC’s Overall Conduct and Management of All Forms of Gaming**

The Strategic Objectives, as noted above, are common to all audits conducted by the Commercial Gaming Audit group and so are not repeated in each of the detailed audit plans.

#### **Specific Objectives**

- Verify that BCLC’s operations, processes and internal control systems, as they impact BCLC’s conduct, management and operation of any form of gaming, comply with the GCA and Regulation, GPEB public interest standards, and all policies and procedures and directives from GPEB and/or government; and
- Verify the accurate and complete management and reporting of net gaming revenues to government.

Priority	Area	Description	Risk Rating	2007/08	2008/09	2009/10	2010/11	2011/12
1.	<b>GPEB Registration</b>	This <u>annual</u> audit will include verifying that GPEB registration requirements regarding people, equipment and companies are met.	Required	✓	✓	✓	✓	✓
2.	<b>Responsible Gambling and Advertising</b>	This <u>annual</u> audit will include verifying compliance with Responsible Gambling Standards and Advertising and Marketing Standards for the B.C. gambling Industry for all forms of gaming.	Required	✓	✓	✓	✓	✓

**GPEB Five Year Audit Plan for BCLC Commercial Gaming (2007/08 – 2011/12)**

Priority	Area	Description	Risk Rating	2007/08	2008/09	2009/10	2010/11	2011/12
3.	<b>Complaint Process</b>	This <u>annual</u> audit will review the processes and controls that are in place to document, route and follow up on all complaints, including the completeness and timeliness of concluding the file and forwarding Section 86 complaints to GPEB.	High	✓	✓	✓	✓	✓
4.	<b>Compliance Regime</b>	Audits will include reviewing the function of internal audit and other compliance functions (lottery, casino and bingo) (1)	TBD		✓	✓	✓	✓
5.	<b>Communications and Reporting to GPEB and BCLC's Service Providers</b>	Audits will include reviewing BCLC's retailer and service provider communications and verifying that information related to the integrity of gaming has been reported to GPEB in a timely and accurate manner. (1)	TBD		✓	✓	✓	✓
6.	<b>Accounting for Gaming Revenues and Expenditures Reported to GPEB</b>	These audits will include reviews of internal controls and reporting of gaming revenues to GPEB as these activities relate to GPEB's own accountabilities. For example, DACs, HFAAs, horse racing, and independent bingo Ka-Chingo net revenue. Reliance will be placed on audit work already carried out to the extent possible. (1)	TBD		✓	✓	✓	✓
7.	<b>IT</b>	This annual audit will be an overview of functionality, security and controls and will include reliance on audits and reviews already completed to the extent possible. (1)	TBD		✓	✓	✓	✓

**Note:**

1. This audit area will be broken down into several components that may be performed over a period of years.

**B. BCLC’s Conduct and Management of Lottery Gaming**

The Strategic Objectives, as noted above, are common to all audits conducted by the Commercial Gaming Audit group and so are not repeated in each of the detailed audit plans.

**Specific Objectives**

- Verify BCLC’s compliance with: GPEB’s recommendations resulting from GPEB’s review of BCLC’s lottery prize payout procedures (report dated December 2006); the B.C. Ombudsman’s recommendations to BCLC (report dated May 31, 2007)); and the independent auditor Deloitte and Touche’s recommendations to BCLC as they impact or relate to GPEB’s accountabilities (report dated October 31, 2007).

Priority	Area	Description	Risk Rating	2007/08	2008/09	2009/10	2010/11	2011/12
1.	<b>Retailer Sales</b>	Follows the flow of information and documentation from the retailer order entered into the billing system through to revenue recorded in the BCLC system. There will be an emphasis on customer ticket purchases, processes and controls safeguarding those transactions.	High		✓	✓	✓	✓
2.	<b>Prize Payout Process</b>	Verify that appropriate policies, controls and procedures are in place to support the prize payout process and that they are being followed; and, tracking and reporting of 'insider' wins. (1)	High	✓	✓	✓	✓	✓
3.	<b>Implementation of Recommendations</b>	Verify recommendations in GPEB, Ombudsman and Deloitte & Touche (as they impact or relate to GPEB's accountabilities) reports have been addressed and that ongoing monitoring of these issues is maintained.	Required	✓	✓	✓		
4.	<b>E-gaming</b>	This annual audit reviews the e-gaming system and controls in place to ensure gaming integrity.	Required	✓	✓	✓	✓	✓
5.	<b>Retailer Contract Framework</b>	Review framework to LOA and evaluate enforcement of contract terms and conditions, including progressive discipline for breaches.	Medium		✓		✓	
6.	<b>Manufacturing Process</b>	Review the policies and procedures in place to control the integrity of the manufacturing process from S&W ticket data transmitted to manufacturer through to the shipment to the retailer.	Medium		✓		✓	

**GPEB Five Year Audit Plan for BCLC Commercial Gaming (2007/08 – 2011/12)**

Priority	Area	Description	Risk Rating	2007/08	2008/09	2009/10	2010/11	2011/12
7.	<b>Lotto Draw Process</b>	Review processes covering the generation of winning numbers and matching to winning tickets.	Medium		✓		✓	
8.	<b>Validation Process</b>	Verify that retailers are utilizing appropriate systems and following policies and procedures to safeguard the integrity of the validation process for the customer.	Medium		✓		✓	
9.	<b>Subscription Ticket Process</b>	Review of subscription ticket buying process from retailer to logging and matching of customer subscription information by BCLC Kamloops and that payouts are made in accordance with policies and procedures.	Medium		✓		✓	
10.	<b>IT</b>	This audit will be an overview of IT controls specific to lotteries and will include reliance on audits and reviews already completed to the extent possible.(1)	Medium		✓	✓	✓	
11.	<b>Inventory</b>	A review of security measures and controls in place over lottery product inventory.	Low		✓			
12.	<b>Mailed in Ticket Process</b>	Review processes to verify that tickets received in the mail room are appropriately logged and included for prize claims.	Low		✓	✓		
13.	<b>Retailer Support &amp; Maintenance</b>	Audits will include a review of the retailer hotline, retailer maintenance process, retailer equipment maintenance and retailer training. (1)	Low		✓	✓	✓	✓
14.	<b>Lottery Finance</b>	Audits will include a review of the retailer banking process, delinquent account handling, lottery liability maintenance and expired ticket accounting. (1)	Low		✓	✓	✓	✓

Retailer inspections will continue to be carried out in each fiscal period as a method of gathering information for many of the audits listed above.

Note:

1. This audit area will be broken down into several components that may be performed over a period of years.

**C. BCLC’s Conduct and Management of Commercial Gaming**  
**(Casino, Community Gaming Centres, Bingo Halls and Racetracks)**

The Strategic Objectives, as noted above, are common to all audits conducted by the Commercial Gaming Audit group and so are not repeated in each of the detailed audit plans.

The comprehensive audit program of gaming facilities continues with additional emphasis on several new operational components as determined by our risk assessment.

Priority	Area	Description	Risk Rating	Base 2007/08	2007/08	2008/09	2009/10	2010/11	2011/12
1.	<b>Casinos</b>	<p>Audits will include a review of all operational functions within each gaming site.</p> <p>The specific objectives of this <u>annual</u> audit are to verify:</p> <ul style="list-style-type: none"> <li>• That the system of internal controls provides an adequate audit trail, accurate documentation and safeguards over gaming assets; and</li> <li>• Compliance with the BCLC Casino Standards, Policies and Procedures.</li> </ul> <p>(These audits include casinos operations located at racetracks facilities.)</p>	Required	18	✓	✓	✓	✓	✓
2.	<b>Community Gaming Centres</b>	<p>Audits will include a review of all operational functions within each gaming site.</p> <p>The specific objectives of this <u>annual</u> audit are to verify:</p> <ul style="list-style-type: none"> <li>• That the system of internal controls provides an adequate audit trail, accurate documentation and safeguards over gaming assets; and</li> <li>• Compliance with BCLC Community Gaming Centre Standards, Policies and Procedures.</li> </ul>	Required	9	✓	✓	✓	✓	✓

**GPEB Five Year Audit Plan for BCLC Commercial Gaming (2007/08 – 2011/12)**

Priority	Area	Description	Risk Rating	Base 2007/08	2007/08	2008/09	2009/10	2010/11	2011/12
3.	<b>Bingo Halls</b>	<p>Audits will include a review of all operational functions within each gaming site.</p> <p>The specific objectives of this <u>bi-annual</u> audit are to verify:</p> <ul style="list-style-type: none"> <li>• That the system of internal controls provides an adequate audit trail, accurate documentation and safeguards gaming assets; and</li> <li>• Compliance with BCLC Bingo Standards, Policies and Procedures.</li> </ul>	Required	17	✓	✓	✓	✓	✓
4.	<b>Racetracks</b>	<p>Audits will include a review of all normal non-race pari-mutuel operations, including event (betting) conduct, surveillance, security, cash handling and regulatory activities.</p>	Required	2	✓	✓	✓	✓	✓
5.	<b>FINTRAC Audit</b>	<p>This <u>annual</u> audit reviews BCLC's compliance with FINTRAC reporting requirements under the <i>Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)</i>.</p>	Required	1	✓	✓	✓	✓	✓
6.	<b>Service Provider Card Warehouses</b>	<p>The specific objectives of this audit are to verify:</p> <ul style="list-style-type: none"> <li>• That controls are in place to properly safeguard assets;</li> <li>• That controls provide adequate segregation and supervision over service provider warehouse functions; and</li> <li>• Compliance with BCLC Casino Standards, Policies and Procedures.</li> </ul>	Low	2	✓		✓	✓	
7.	<b>Foreign Chip Handling</b>	<p>The specific objectives of this audit are to verify:</p> <ul style="list-style-type: none"> <li>• That controls are in place to safeguard assets;</li> <li>• That controls provide adequate segregation and supervision over chip handling functions; and</li> <li>• Compliance with BCLC Casino Standards, Policies and Procedures.</li> </ul>	Low	1	✓			✓	

**GPEB Five Year Audit Plan for BCLC Commercial Gaming (2007/08 – 2011/12)**

Priority	Area	Description	Risk Rating	Base 2007/08	2007/08	2008/09	2009/10	2010/11	2011/12
8.	<b>BCLC Poker/Mahjong Tournaments</b>	The specific objectives of this audit are to verify: <ul style="list-style-type: none"> <li>• That the system of internal controls provides an adequate audit trail, accurate documentation and safeguards gaming assets; and</li> <li>• Compliance with BCLC Casino Standards, Policies and Procedures.</li> </ul>	Low	6	✓	✓	✓		
9.	<b>Prize Payout (slots and tables)</b>	The specific objectives of these audits are to verify that: <ul style="list-style-type: none"> <li>• Prizes are awarded to the rightful owner;</li> <li>• Amounts paid to winners are accurate; and</li> <li>• The prizes are paid in a timely manner.</li> </ul>	TBD	0		✓	✓		
10.	<b>Asset Maintenance</b>	The general objectives of these audits are to verify that gaming assets are being maintained as they relate to game integrity and public safety. For example, reviews of security and surveillance component plans and the BC Gold program. (1)	TBD	0	✓	✓	✓	✓	✓
11.	<b>Customer Service at Service Provider Level</b>	The general objective of this audit is to assess the players' gaming experiences with products and services provided by BCLC and its services providers. This may include reviewing the complaints process and service delivery standards. (1)	TBD	0				✓	

Note:

1. This audit area will be broken down into several components that may be performed over a period of years.

#### **4. Reporting**

##### ***Assignment Level***

ACD will prepare written reports summarizing audit coverage, findings, and recommendations for improvements throughout the audit period.

ACD will forward to BCLC, as soon as practicable, deficiencies identified through lottery retailer inspections that require immediate attention.

##### ***Organizational Level***

ACD will prepare annual reports summarizing lottery and corporate audit findings for each fiscal period.

#### **5. Additional Projects**

In addition to the above, ACD will be performing an ongoing monitoring function; will respond to additional audit requests from the Branch; and, investigate complaints from the public regarding procedural compliance issues.