

May 1, 2017

Onkar Kang  
Interprovincial Lottery Corporation  
40 Holly Street – 6th Floor  
Toronto, ON M4S 3C3



Dear Mr. Kang:

Re: BCLC's Report on Compliance with ILC Control Standards

We have completed the audit of BCLC's compliance with the Interprovincial Lottery Corporation's ("ILC") Control Standards as required in the Regional Responsibilities (Section 1.2) of the ILC Policies and Procedures Manual.

Please find attached the completed Annual ILC Control Standards Audit report (referred to as Appendix 12 B).

The enclosed audit report is intended for the exclusive use of BCLC and ILC in assessing BCLC's compliance with the Control Standards as at March 31, 2017, and is not to be relied upon for any other purpose.

Yours truly,

A handwritten signature in black ink, appearing to read 'Gurmit Aujla', is written over a horizontal line.

Gurmit Aujla, CPA, CA, CIA, CRISC, CRMA  
Director, Audit Services

cc: J. Lightbody – President and CEO, BCLC  
K. Gass – Vice-President, Lottery Gaming, BCLC  
P. Davis – Chief Information Officer, BCLC  
A. Hobson – VP & CFO, Finance & Corporate Services, BCLC

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## Appendix 12 B – RMO Annual Control Standards Audit – Review Template

ILC Policies & Procedures Manual: Part 1 – Section 12 Control Activities ANNUAL AUDIT BCLC: April 1, 2016 to March 31, 2017			
Standard	Compliance Y or N	Issue / Auditors' Comment	Management Comments / Action Plan
<b>12.1 – 12.2 Purpose and Objectives</b>	N/A	N/A	<i>this is a statement of guidance and expectation, rather than an auditable standard</i>
<b>12.3 – 12.8 ILC Responsibilities</b>	N/A	N/A	<i>this is a statement of guidance and expectation, rather than an auditable standard</i>
<b>Regional Responsibilities</b>			
<b>1.1</b> Each jurisdiction is expected to: <ul style="list-style-type: none"> <li>• design and implement sufficient appropriate internal controls to meet these control activities and</li> <li>• ensure such internal controls operate effectively throughout the year</li> </ul>	N/A	As per ILC, this is a statement of guidance and expectation, rather than an auditable standard.	N/A

**ILC Policies & Procedures Manual: Part 1 – Section 12 Control Activities**

**ANNUAL AUDIT**

**BCLC: April 1, 2016 to March 31, 2017**

<b>Standard</b>	<b>Compliance Y or N</b>	<b>Issue / Auditors' Comment</b>	<b>Management Comments / Action Plan</b>
<p><b>1.2</b> Each jurisdiction must complete an audit of its compliance with these control activities at a point in time agreed to by the auditors and management, from within the last quarter of the fiscal year, and provide the audit report to the ILC by May 1<sup>st</sup> each year. This audit report will be prepared in accordance with Canadian generally accepted auditing standards such as those established by the CICA, IIA or ISACA. Additionally, the jurisdiction will prepare a letter of transmittal that provides a high level summary of the audit and the findings of the auditor with respect to the region's compliance with the <i>ILC CONTROL ACTIVITIES</i>, accompanied by the <i>AUDITOR AND MANAGEMENT COMMENTS</i> (see Appendix 12 B for template).</p>	Y	Reported on May 1, 2017	N/A

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<p><b>1.3</b> The lead auditor responsible for directly supervising and reviewing the audit work will have an appropriate professional audit designation, such as CA, CIA, or CISA*, and accordingly must meet appropriate standards for independence, objectivity, technical proficiency, and due professional care such as those established by the CICA, IIA, ISACA** or equivalent professional auditing associations applicable in Canada. While it is not necessary that all members of the team performing these audits each hold similar designations, each member is required to meet these same professional standards.</p> <p>* Chartered Accountant, Certified Internal Auditor, Certified Information Systems Auditor</p> <p>** Canadian Institute of Chartered Accountants, Institute of Internal Auditors, Information Systems Audit and Control Association</p>	<p align="center">Y</p>	<p>As per ILC, this is a statement of guidance and expectation, rather than an auditable standard.</p>	<p align="center">N/A</p>

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<b>Retail Policy (Appendix 12 C)</b>			
<p>1. A Retailer agreement must exist or similar signed document and at a minimum address directly or through reference the following:</p> <ul style="list-style-type: none"> <li>a) Retailer Code of conduct/Expected retailer behaviour</li> <li>b) Responsibility of the retailer and their action and the action of their employees</li> <li>c) Requirement for retailer training and support</li> <li>d) Adherence to policies and procedures including any instructions, directives and operations manual</li> <li>e) Adherence to applicable Laws</li> <li>f) Adherence to applicable Regulatory requirements</li> <li>g) Corrective measures for non-compliance</li> </ul>	Y	None	N/A

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<b>Standard</b>	<b>Compliance Y or N</b>	<b>Issue / Auditors' Comment</b>	<b>Management Comments / Action Plan</b>
<p><b>2.</b> Code of conduct/expected retailer behavior must be defined and address the requirement for Retailers and their employees to:</p> <ul style="list-style-type: none"> <li>a) Act in an ethical honest manner</li> <li>b) Comply with applicable laws, regulations, policies and procedures and contractual agreements</li> <li>c) Understand the consequences of non-compliance</li> </ul>	Y	None	N/A
<p><b>3.</b> Compliance will include methods and procedures to ensure that retailers are complying with policies and procedures, applicable laws and regulations, retailer agreement, code of conduct/expected retailer behavior. At a minimum, compliance must include:</p> <ul style="list-style-type: none"> <li>a) Assessment of non-compliance segregated from the Sales function</li> <li>b) Investigate location based on criteria such as: customer complaints; fraud detection techniques (for example, VIRN phishing; data analytics); mystery shop; emerging industry risks; past behaviour; random sampling;</li> <li>c) An active mystery shop which includes validations procedures and sales to minors</li> <li>d) Corrective action taken for incidents of non-compliance</li> </ul>	Y	None	N/A

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<p><b>4.</b> Remedy matrix (includes notion of progressive discipline) must exist for all non-compliance and must contain specific remedies related to sales to minors.</p>	<p align="center">Y</p>	<p align="center">None</p>	<p align="center">N/A</p>
<p><b>5.</b> Training must exist for retailers and their employees that is up to date and reflective of current business policies and procedures and must address:</p> <ul style="list-style-type: none"> <li>a) Life cycle of the ticket - selling , cancellation, validation and redemption process</li> <li>b) Compliance</li> <li>c) Not selling to minors</li> <li>d) Code of conduct/expected retailer behavior – expected behaviors when conducting Lottery business</li> <li>e) Availability of responsible gaming information</li> <li>f) Training all individuals who operate the terminal or access to trained individuals</li> </ul>	<p align="center">Y</p>	<p align="center">None</p>	<p align="center">N/A</p>

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<p><b>6.</b> Policies and procedures for Lottery operations at retail will be in place. Specifically, they will:</p> <ul style="list-style-type: none"> <li>a) Clearly articulate selling, cancellation, validation and redemption policies and procedures</li> <li>b) Outline retailer responsibility to ensure operators are properly trained</li> <li>c) Articulate social responsibility – sale to minors and, responsible gambling messaging</li> <li>d) Ensure consumer notification of prize (i.e. audio and visual)</li> </ul>	<p align="center">Y</p>	<p align="center">None</p>	<p align="center">N/A</p>



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<b>Retailer Fraud (Appendix 12 D)</b>			
<b>1.</b> Monitor and track Lottery retail location transactions for purposes of detecting fraud, at a minimum address patterns and trends in: <ul style="list-style-type: none"> <li>a) Retailer and retailer employee wins</li> <li>b) Cancellations</li> <li>c) Reprints</li> <li>d) Validation activity</li> <li>e) Prize redemption</li> <li>f) Lost &amp; stolen tickets</li> <li>g) Excessive sales</li> <li>h) Customer complaints about fraud</li> </ul>	Y	None	N/A
<b>2.</b> Documented investigations of anomalous behaviour with processes that allow for follow up and documented resolution in a timely manner.	Y	None	N/A
<b>3.</b> Identify and implement corrective actions for newly identified fraud activity.	Y	None	N/A
<b>4.</b> Confirmed fraudulent activity by the retailer will result in termination of all Lottery transactions at the location.	Y	None	N/A

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<p><b>5.</b> Confirmed fraudulent activity by a retailer employee will result in termination of all Lottery transactions at the location unless: i) offending employee no longer involved in Lottery product ii) retraining specific to the area of non-compliance and/or fraud activity and/or written communication occurs and iii) compliance monitoring intensified.</p>	Y	None	N/A
<p><b>6.</b> Criminal background check for all new retailer agreements.</p>	Y	None	N/A
<p><b>7.</b> Implement and maintain preventative steps in the validation process in support of fraud mitigation. At a minimum, the following procedures must be in place:</p> <ul style="list-style-type: none"> <li>a) Return validation slip and winning ticket to customer</li> <li>b) Ability for customers to perform self checking with ticket checkers</li> </ul>	Y	None	N/A
<p><b>8.</b> As applicable communicate to ILC outcomes of investigations that identifies new fraudulent activities and/or trends for timely sharing across RMOs.</p>	Y	None	N/A
<p><b>9.</b> Communication plan will exist addressing the current techniques in which customers can protect themselves against fraudulent activities.</p>	Y	None	N/A

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<b>10.</b> If applicable, ILC will compile and report back to RMOs any cases as defined in control activity #8.	N/A	ILC Responsibility (No new fraudulent activities reported for FY2016-2017)	N/A
<b>11.</b> The job functions with accountabilities for key processes are identified and supported by a continuity plan (i.e. actions such as cross training that ensures key processes are never dependent on too few people)	Y	None	N/A

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<b>Technology Operation and Reliability (Appendix 12 E)</b>			
<p><b>1.</b> Lottery Development and Operational Procedures must be documented, reviewed, updated and utilized in day to day operation. At a minimum, the following areas must be addressed:</p> <ul style="list-style-type: none"> <li>a) Scheduled and emergency software updates related to change and release management</li> <li>b) Daily operational checklists – backups, game startup, game shutdown</li> <li>c) Software development and testing plan</li> <li>d) Incident management procedures with a clear identification of the escalation matrix</li> <li>e) Basic configuration (server, disk, application) information about key gaming components are documented</li> </ul>	Y	None	N/A

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<p><b>2.</b> Documented monitoring procedures with corrective action which are adhered to and specifically address the following:</p> <ul style="list-style-type: none"> <li>a) Identified critical operational areas for monitoring</li> <li>b) Produce output of monitored activity</li> <li>c) Review of output (error reporting)</li> <li>d) Conduct corrective action that addresses immediate incident and where appropriate root cause problem</li> </ul>	Y	None	N/A
<p><b>3.</b> Lottery Gaming System environment and associated software such as operating system, hardware must be maintained and must operate with a supported version of technology products.</p>	Y	None	N/A

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<p><b>4.</b> Lottery System must have a documented disaster recovery plan. Specifically the DRP:</p> <ul style="list-style-type: none"> <li>a) Must be tested annually and take corrective action where necessary</li> <li>b) Must be maintained and updated annually</li> <li>c) Must support draw process and processing a winner within 24 hours</li> <li>d) Must provide prize payment capabilities within 7 calendar days</li> </ul>	Y	None	N/A
<p><b>5.</b> Confirm that a strategy exists for your technology platform</p>	Y	None	N/A
<p><b>6.</b> The job functions with accountabilities for key processes are identified and supported by a continuity plan (i.e. actions such as cross training that ensures key processes are never dependent on too few people)</p>	Y	None	N/A

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<b>Prize Payment (Appendix 12 F)</b>			
<p>1. Documented prize claim policies and procedures are in place. At a minimum it must address:</p> <ul style="list-style-type: none"> <li>a) Mechanism to identify a retailer who tries to redeem a prize greater than the set regional limit</li> <li>b) Independent (from Lottery Sales unit) investigative unit and processes to determine the rightful owner for: <ul style="list-style-type: none"> <li>(i) all major prize claims with individual major prize set at \$10,000 in each RMO</li> <li>(ii) irregular or suspicious claims</li> <li>(iii) claims by designated persons as defined by the RMO (i.e. insider; related parties; registered parties; non-arms length)</li> </ul> </li> </ul> <p>The investigation requirements defined below apply to points i, ii, iii:</p> <ul style="list-style-type: none"> <li>(iv) Determine validity of ticket – a) security code (check digit) b) control number c) When &amp; where purchased and validated d) identify irregularities</li> </ul>	Y	None	N/A

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<p>(v) Determine validity of claimant – a) claimant interview b) previous win history of claimant c) previous win history of retailer d) complaint history of retailer e) any outstanding complaint about the ticket</p> <p>(vi) Independent sign off from 1st level of contact</p> <p>c) Escalation process for prize claim issue resolution</p> <p>d) Not disclosing specifics to the public such as retailer location, date and time of sale until such time as the prize has been claimed and validated</p>			



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<p><b>2.</b> Documented retail prize claim policies and procedures are in place. At a minimum must address the following:</p> <ul style="list-style-type: none"> <li>a) Level of redemption allowed at retail set at a maximum of up to \$2000</li> <li>b) Customer Display Unit must be operational, customer facing. A visual and audio indication of the prize validation outcome must be provided to the customer</li> <li>c) Winning number information must be available independent from the retailer to every player</li> <li>d) Have customer sign before validation</li> <li>e) Provide the validation slip and return the ticket to customer</li> <li>f) Retrieval of cancelled high tier (top two prize categories) winning tickets from retail</li> </ul>	Y	None	N/A
<p><b>3.</b> The job functions with accountabilities for key processes are identified and supported by a continuity plan (i.e. actions such as cross training that ensures key processes are never dependent on too few people)</p>	Y	None	N/A

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<b>Fraud and Unauthorized Access (Appendix 12 G)</b>			
<p><b>1.</b> Management must review users' access rights at regular intervals using a formal process which includes:</p> <ul style="list-style-type: none"> <li>a) Users' access rights must be reviewed at regular intervals, (e.g. after any changes, such as promotion, demotion, or termination of employment);</li> <li>b) User access rights must be reviewed and re-allocated when moving from one employment to another within the same organization;</li> <li>c) Authorizations for special privileged access rights must be reviewed at quarterly intervals;</li> <li>d) Privilege allocations must be checked at regular intervals to ensure that unauthorized privileges have not been obtained;</li> <li>e) Changes to privileged accounts must be logged for periodic review</li> </ul>	Y	None	N/A
<p><b>2.</b> All users must be uniquely identified (always know who is accessing either through unique user id or assigned generic account).</p>	Y	None	N/A

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<b>3.</b> All users must be authenticated using strong password authentication methods.	Y	None	N/A
<b>4.</b> Lottery terminal must be uniquely identified and authenticated at sign on.	Y	None	N/A
<b>5.</b> Segregation of duty requirements are documented with a view of appropriate roles and systems thus limiting access to high risk combinations	Y	None	N/A
<b>6.</b> Where possibility of collusion exists, activity logging must be in place and reviewed regularly.	Y	None	N/A
<b>7.</b> An encryption standard must exist and at a minimum include: a) A review of sensitive data and application of encryption where required b) Ensure you are compliant with relevant industry standards (e.g. PCI) c) Encryption of data travelling over a public network d) Safeguarding of cryptographic keys	Y	None	N/A

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<p><b>8.</b> Procedures addressing the prevention, detection and correction / response of / to intrusion, specifically</p> <ul style="list-style-type: none"> <li>a) Login attempts</li> <li>b) Firewall logs</li> <li>c) High profile (i.e. privileged) activity log</li> <li>d) Database logs</li> <li>e) Unauthorized file access</li> <li>f) Proper configuration and maintenance of hardware and operating system</li> <li>g) Implementation of latest security patches</li> <li>h) Vulnerability assessment</li> </ul>	Y	None	N/A
<p><b>9.</b> Physical access to production gaming system data centers, computer rooms, network operations and other critical areas shall have two-factor authentication process except if staffed at all times then electronic access control methods are acceptable.</p>	Y	None	N/A

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<b>10.</b> All employees must have appropriate security awareness at a minimum: a) Code of conduct/defined expected behavior b) Relevant IT policies, procedures and control environment related to access and information security	Y	None	N/A

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<b>Draw Outcome is Compromised (Appendix 12 H)</b>			
<p>1. Document, implement and adhere to procedures that ensure the integrity, security and transparency of the draw (i.e. before, during and after the draw), at a minimum:</p> <ul style="list-style-type: none"> <li>a) Maintain security of draw area</li> <li>b) Maintain draw equipment according to quality standards at a minimum                             <ul style="list-style-type: none"> <li>(i) Inspection of draw appliances and ball sets on deliver and thereafter</li> <li>(ii) Maintenance activities will be defined and be carried out annually or according to any manufacturing guidelines</li> <li>(iii) Use of balls sets that are manufactured to those measurements and weight tolerance compatible with draw machines</li> <li>(iv) Security storage including sealed cases, movement and handling</li> <li>(v) Draw ball retirement and destruction process</li> </ul> </li> </ul>	Y	BCLC does not use physical draw machines that utilize balls. All games use software RNGs.	N/A

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<ul style="list-style-type: none"> <li>(vi) Number generation (RNG) applications must be independently certified</li> <li>(vii) Certified RNG application is subject to dual control (minimum of two individuals) for the configuration and building of the RNG equipment</li> <li>(viii) RNG equipment must have tamper proof detection or other mechanism such as dual processing on different equipment</li> <li>c) Ensure integrity and fairness of lottery draws at a minimum:                             <ul style="list-style-type: none"> <li>(i) Criteria for validity of draw</li> <li>(ii) Roles &amp; responsibilities of individuals participating at draw including external witnesses</li> <li>(iii) Escalation process to address issues encountered during the draw</li> <li>(iv) Record of draw process</li> <li>(v) Checklist to perform draw</li> <li>(vi) Retain draw information for a period of 18 months</li> </ul> </li> </ul>			

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<ul style="list-style-type: none"> <li>d) Ensure accurate distribution of unofficial winning numbers and prize shares</li> <li>e) Appropriate management of segregation of duties</li> <li>f) Ensure winner selection procedures have integrity and reliability</li> <li>g) Ensure wagers managed outside the gaming system (subscriptions) are accurately captured and completely recorded in the gaming system prior to the draw process</li> <li>h) Ensure proper education and training on the draw process and procedures for all participants</li> </ul>			
<p><b>2.</b> A Draw auditor independent from IT computer operations in order to ensure the accuracy, integrity and reliability, at a minimum:</p> <ul style="list-style-type: none"> <li>a) Verification of game shutdown and sales figures</li> <li>b) Conducts an independent audit of each draw's sales, winner selection</li> <li>c) Receives sales transaction data before any draw is completed</li> </ul>	Y	None	N/A



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<ul style="list-style-type: none"> <li>d) Has direct responsibility for computer equipment and staff utilized to conduct the independent draw audit process</li> <li>e) Uses 3rd party written and maintained software that must produce independent results</li> <li>f) Must have procedures to address failure in 3rd party software</li> <li>g) Confirms to ILC correct number of winners by prize division</li> <li>h) Verify correct share values for each prize division in on-line system is performed</li> </ul>			
<p><b>3.</b> ILC as an integrator of the draw process across Canada must have supporting documented and adhered to procedures, at a minimum:</p> <ul style="list-style-type: none"> <li>a) Ensures that each region has shutdown sales and confirms that it is appropriate to start the draw</li> <li>b) Publish correct winning numbers to each region</li> <li>c) Share value calculation and roll up should be verified – original calculator and independent review</li> </ul>	N/A	ILC Responsibility.	N/A

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d) Publish correct share value calculation			
4. The job functions with accountabilities for key processes are identified and supported by a continuity plan (i.e. actions such as cross training that ensures key processes are never dependent on too few people)	Y	None	N/A

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<b>Standard</b>	<b>Compliance Y or N</b>	<b>Issue / Auditors' Comment</b>	<b>Management Comments / Action Plan</b>
<b>Customer Complaints (Appendix 12 I)</b>			
<p><b>1.</b> Documented and adhered to process must be in place to address customer complaints related to retailer inappropriate behaviour, at a minimum</p> <ul style="list-style-type: none"> <li>a) Complaints will be captured in a source of record for reference</li> <li>b) Complaints will be categorized (e.g. stolen ticket; validation slip not returned)</li> <li>c) A prioritization mechanism will be in place</li> <li>d) Review, investigate and escalate complaints where required</li> <li>e) Take corrective action in timely manner</li> <li>f) Provide feedback to complainant (close the call)</li> <li>g) Provide reporting capabilities (e.g. ability to track and monitor the incidents)</li> <li>h) Ensure proper education and training for the handling of customer complaints related to inappropriate retailer behavior is provided.</li> </ul>	Y	None	N/A
<p><b>2.</b> Establish appropriate performance objectives for customer complaints related to retailer inappropriate behaviour (e.g. complaint close rate; average time to close).</p>	Y	None	N/A

**ILC Policies & Procedures Manual: Part 1 – Section 12 Control Activities**

**ANNUAL AUDIT**

**BCLC: April 1, 2016 to March 31, 2017**

<b>Standard</b>	<b>Compliance Y or N</b>	<b>Issue / Auditors' Comment</b>	<b>Management Comments / Action Plan</b>
<b>3.</b> All consumer complaints related to inappropriate retailer behaviour must be routed to and addressed by the security / investigation group.	Y	None	N/A
<b>4.</b> Customer complaint hotline must be available.	Y	None	N/A
<b>5.</b> The job functions with accountabilities for key processes are identified and supported by a continuity plan (i.e. actions such as cross training that ensures key processes are never dependent on too few people)	Y	None	N/A

**ILC Policies & Procedures Manual: Part 1 – Section 12 Control Activities**

**ANNUAL AUDIT**

**BCLC: April 1, 2016 to March 31, 2017**

<b>Standard</b>	<b>Compliance Y or N</b>	<b>Issue / Auditors' Comment</b>	<b>Management Comments / Action Plan</b>
<b>Products or Services Design (Appendix 12 J)</b>			
<p><b>1.</b> Appropriate governance for the product life cycle, at a minimum addresses approval and documentation of the following:</p> <ul style="list-style-type: none"> <li>a) Social responsibility assessment</li> <li>b) Player protection / fraud assessment</li> <li>c) Game mechanics and fair outcome assessment</li> <li>d) Security assessment</li> <li>e) Financial assessment</li> <li>f) Specifications, test plans and sign off</li> <li>g) Training and communication material for players, retailers and employee</li> </ul>	Y	None	N/A
<p><b>2.</b> The job functions with accountabilities for key processes are identified and supported by a continuity plan (i.e. actions such as cross training that ensures key processes are never dependent on too few people)</p>	Y	None	N/A

**ILC Policies & Procedures Manual: Part 1 – Section 12 Control Activities**

**ANNUAL AUDIT**

**BCLC: April 1, 2016 to March 31, 2017**

<b>Standard</b>	<b>Compliance Y or N</b>	<b>Issue / Auditors' Comment</b>	<b>Management Comments / Action Plan</b>
<b>External Communications (Appendix 12 K)</b>			
<p><b>1.</b> External communications and supporting processes (i.e. response protocols) must address requirements for all social media vehicles (e.g. facebook etc...), at a minimum:</p> <p style="padding-left: 40px;">a) Only authorized personnel shall be permitted to respond to social media comments, blogs, tweets, posts etc... on behalf of the corporation</p> <p style="padding-left: 40px;">b) Employee code of conduct/expected behaviors addresses expected behavior with respect to social media use as it relates to Lottery business</p>	Y	None	N/A
<p><b>2.</b> Communicate to staff the defined code of conduct/ expected behaviors</p>	Y	None	N/A

# Lottery Draws Controls Framework

## Audit Services

April 28, 2017

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## Transmittal Letter

June 30, 2017

Kevin Sweeney  
Director, Security, Privacy and Compliance  
74 West Seymour Street  
Kamloops, BC, V2C 1E2

Dear Mr. Sweeney,

**Re: Lottery Draws Controls Framework**

Attached is Audit Services' report on the Lottery Draws Controls Framework.

In Q3 of FY2016, Audit Services completed a control design review of BCLC's Lottery Draws. In FY2017, changes were made to the Lottery Draw processes, including the addition of the Daily Grand draw. As a result, Audit Services agreed to assess these changes and any resulting impact on key controls. The Lottery Compliance Specialist updated the process flowcharts developed during the control design phase and we validated these with our external auditor KPMG, who monitors and verifies BCLC's lottery draws. Audit Services then updated the process flowcharts and controls matrices based on KPMG validation.

Based on our review and assessment, we concluded that sufficient controls are in place to mitigate any significant risks.

We thank management and staff of the Corporate Security and Compliance for their cooperation and assistance during this review.

Sincerely,



Gurmit Aujla CPA, CA, CIA, CRISC, CRMA  
Director, Internal Audit

cc: Kevin Gass, VP Lottery Gaming  
Laird Robinson, Manager Operational Gaming Compliance

## Introduction

Audit Services completed a control design review of Lottery Draws in FY2016. In FY2017, changes were made to the Lottery Draws processes, including the addition of the Daily Grand draw. As a result, we agreed to assess these changes and their resulting impact on key controls. The Lottery Compliance Specialist updated the process flowcharts and we validated these with our external auditor KPMG. Subsequently, Audit Services updated the process flowcharts based on KPMG's validation and completed the assessment of the overall lottery draws control framework.

## Statement of Objective

The objectives of this review were to:

- Assess the changes made to the lottery draw processes, specifically for:
  - Lotto 6/49 and Lotto Max
  - BC 49 and Extra
  - Daily Grand
- Assess personnel changes and their impact on the business unit under review

## Statement of Scope

The scope of this engagement includes the updated Lottery Draw processes. The scope excludes the review and assessment of the Lottery Draw Machine Replacement project.

## Statement of Methodology

Our methodology and approach included:

- Review of updated written lottery draw processes
- Obtaining updated process flowcharts from Lottery Compliance Specialists
- Validating process flowcharts with KPMG
- Assessing changes made to the lottery draws and their impact on key controls (if there are any)
- Updating process flowcharts and controls matrices based on KPMG validation

## Statement of Audit Standards

We conducted our engagement in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## Personnel Changes in Key Control Areas

BCLC's Audit Committee has requested that Audit Services include information about personnel changes to key control areas during audit engagements. Personnel changes can impact the control environment, effectiveness of key controls, and loss of risk and control knowledge.

Audit Services assessed the key roles in Lottery Draws and identified the Lottery Compliance Specialist as the BCLC personnel providing oversight over the draws. We noted an Interim Lottery Compliance Specialist is currently in place to mitigate any impact of the Lottery Compliance Specialist's current leave.

## Conclusion

Based on our assessment of the draw process changes and their impact on key controls, we noted that sufficient controls are in place to mitigate any significant risks.

## Acknowledgement

We wish to thank management and staff for their participation, assistance and cooperation during this audit. Audit Services was given full access to all resources and information required to complete this engagement.

# Return to Player Settings Audit – Q1 Chances Kamloops

**Audit Services**

June 22, 2017

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## Transmittal Letter

June 29, 2017

Garth Pieper  
Director, Operations  
2940 Virtual Way  
Vancouver, BC V5M 0A6

Dear Mr. Pieper,

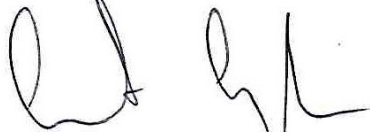
**Re: Return to Player (RTP) Audit – Chances Kamloops**

Attached is Audit Services' audit report on the RTP testing which occurred at Chances Kamloops on June 22, 2017. The scope of our audit focused specifically on the RTP settings at Chances Kamloops for a selected sample of slot machines.

During the course of our work conducted at Chances Kamloops, we noted that all 26 slot machines tested had their RTP settings set correctly. In total, Chances Kamloops has 198 slot machines.

We would like to thank management and staff of Chances Kamloops for their cooperation and assistance during this audit.

Sincerely,



Gurmit Aujla, CPA, CA, CIA, CRISC, CRMA  
Director, Internal Audit

cc: Kevin Sweeney, Director Security, Privacy and Compliance  
Tom Maryschak, Senior Manager Casino Operations  
Trevor Sharkey, Manager, Business Operations

## Introduction

RTP Slot Management audit was included in Audit Services' approved audit plan for fiscal 2017-2018. These audits are to ensure the settings are set correctly based on information provided by the Casino and Community Gaming Product Team. RTP is the term the gaming industry uses to describe the percentage of all the wagered money a slot machine will pay back to players over time.

## Statement of Objectives

Audit Services' objective through this engagement was to test the RTP settings at Chances Kamloops on randomly selected slot machines. The machines' current RTP settings were compared to the master data information looking for any discrepancies.

## Statement of Scope

This audit is one component of several RTP audits scheduled to occur each fiscal quarter. The scope of these engagements includes the review of slot machine settings at various casinos and CGCs in the province for the period April 1, 2017 to March 31, 2018.

## Statement of Methodology

Our methodology and approach included:

- Tested RTPs of randomly selected slot machines
- Confirmed/matched the RTP from slot machines to Master Data; rCasino database and/or Probability Accounting Reports (PAR) sheets (PAR sheets detail how a particular slot machine is programmed)
- Interviews & inquiries
- Identified process weaknesses, risks and controls

## Statement of Audit Standards

We conducted our audit in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## Personnel Changes in Key Control Areas

BCLC's Audit Committee has requested that Audit Services include information about personnel changes and vacancies to key control areas during audit engagements. Personnel changes and vacancies can impact the control environment, control effectiveness, and loss of knowledge. At Chances Kamloops, the BCLC staffing component consists of a Manager of Business Operations and one senior technician. We noted during this audit, that the BCLC staff at Chances Kamloops has a minimal staff turnover rate.

## Conclusion

Audit Services found no RTP exceptions in the 26 machines tested on June 22, 2017.

## Acknowledgements

We wish to thank management and staff for their participation, assistance and cooperation during this audit. Audit Services was given full access to all resources and information required to complete this audit.



# Return to Player Settings Audit – Q1 River Rock

**Audit Services**

June 22, 2017

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## Transmittal Letter

June 29, 2017

Garth Pieper  
Director, Operations  
2940 Virtual Way  
Vancouver, BC V5M 0A6

Dear Mr. Pieper,

**Re: Return to Player (RTP) Audit – River Rock**

Attached is Audit Services' audit report on the RTP testing which occurred at River Rock on June 22, 2017. The scope of our audit focused specifically on the RTP settings at River Rock for a selected sample of slot machines.

During the course of our work conducted at River Rock, we noted that one of the 50 slot machines tested had their RTP settings set incorrectly. The slot machine was corrected on June 22, 2017. In total, River Rock has 1,109 slot machines.

We would like to thank management and staff of River Rock for their cooperation and assistance during this audit.

Sincerely,



Gurmit Aujla, CPA, CA, CIA, CRISC, CRMA  
Director, Internal Audit

cc: Kevin Sweeney, Director Security, Privacy and Compliance  
Laurie Stewart, Regional Manager, Operations  
Don Chow, Manager, Business Operations

## Introduction

RTP Slot Management audit was included in Audit Services' approved audit plan for fiscal 2017-2018. These audits are to ensure the settings are set correctly based on information provided by the Casino and Community Gaming Product Team. RTP is the term the gaming industry uses to describe the percentage of all the wagered money a slot machine will pay back to players over time.

## Statement of Objectives

Audit Services' objective through this engagement was to test the RTP settings at River Rock on randomly selected slot machines. The machines' current RTP settings were compared to the master data information looking for any discrepancies.

## Statement of Scope

This audit is one component of several RTP audits scheduled to occur each fiscal quarter. The scope of these engagements includes the review of slot machine settings at various casinos and CGCs in the province for the period April 1, 2017 to March 31, 2018.

## Statement of Methodology

Our methodology and approach included:

- Tested RTPs of randomly selected slot machines
- Confirmed/matched the RTP from slot machines to Master Data; rCasino database and/or Probability Accounting Reports (PAR) sheets (PAR sheets detail how a particular slot machine is programmed)
- Interviews & inquiries
- Identified process weaknesses, risks and controls

## Statement of Audit Standards

We conducted our audit in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## Personnel Changes in Key Control Areas

BCLC's Audit Committee has requested that Audit Services include information about personnel changes and vacancies to key control areas during audit engagements. Personnel changes and vacancies can impact the control environment, control effectiveness, and loss of knowledge. At River Rock, the BCLC staffing component consists of a Manager of Business Operations, nine technicians and two senior technicians. We noted during this audit, that the BCLC staff at River Rock has a minimal staff turnover rate.

## Conclusion

Audit Services found one exception on the 50 machines tested on June 22, 2017. The on-site technician fixed the RTP immediately on June 22, 2017. Audit Services will work with the Casino Division to enhance the control environment for slot machines RTP settings.

## Acknowledgements

We wish to thank management and staff for their participation, assistance and cooperation during this audit. Audit Services was given full access to all resources and information required to complete this audit.

# memo



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To: Sandra Austin, Director, HR                      Date: May 10, 2017  
From: Audit Services  
Subject: Public Sector Executive Compensation (PSEC)

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## Background

PSEC provides guidelines containing principles and policies to assist public sector employers design and implement pay plans for executive compensation. Employers are required to provide disclosures statements to PSEC annually. PSEC provides guidelines with specific instructions on how to disclose the various components of executive compensation in order to be in compliance with these statutory requirements.<sup>1</sup>

Annually, the Ministry releases updated Public Sector Executive Compensation Disclosure Guidelines for Crown organizations to reference, as noted in the link below:

<http://www2.gov.bc.ca/gov/content/governments/organizational-structure/ministries-organizations/central-government-agencies/public-sector-employers-council-secretariat>

Audit Services has performed a review of BCLC's Public Sector Executive Compensation (PSEC) report for the fiscal year 2016 – 2017 at the request of the Chair of the Board.

## Scope of Work Performed

Audit Services performed a review to verify the process and key controls utilized by HR to compile the PSEC report. The scope was limited to a review the following key controls:

- Current year's PSEC guidelines were reviewed, referenced and incorporated into the planning and compilation stage of the project
- Reconciliation of final PSEC report to the SAP financial reporting variance analysis and comparisons to the prior years
- Overall reviews and approvals completed of all PSEC reporting by Director Human Resources

The work performed addressed the following key PSEC related risks:

- Inherent risk of the manual nature of the reporting process
- Inaccurate or incomplete reporting of compensation paid to CEO and executives
- Total compensation paid to BCLC executive exceeding limits set by PSEC
- Inconsistencies between PSEC report and subsequently released FIA report

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<sup>1</sup>Based on an extract from: [2017 Public Sector Executive Compensation Disclosure Guidelines](#)

# memo



Audit Services performed a review of the PSEC reporting process and all key controls. All SAP data was independently requested and verified against PSEC reporting to ensure accuracy and completeness. A full reconciliation, variance analysis and review of supporting documentation were completed and there were no exceptions noted.

## **Audit Findings**

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion. Audit Services reviewed the key controls in place; no exceptions were noted from our review of the PSEC report. The inherent risks associated with the manual nature of the report preparation are adequately mitigated by the strong control environment in place.

# Voluntary Self Exclusion Direct Marketing Audit

**Audit Services**

March 22, 2017



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## Transmittal Letter

June 8, 2017

Patrick Cloutier  
Interim Manager, SR Program Development and Evaluation  
2940 Virtual Way  
Vancouver, BC V5M 0A6

Dear Mr. Cloutier

**Re: Voluntary Self Exclusion Direct Marketing Audit**

Attached is Audit Services' audit report on the Voluntary Self Exclusion Direct Marketing Audit.

The scope of our audit focused on Encore related direct marketing emails and direct mail sent by the Customer Relationship Management (CRM) team on behalf of BCLC's Casino Marketing for select weeks during the months of November and December 2016.

During the course of the audit, Audit Services did not note any exceptions.

We would like to thank management and staff for their cooperation and assistance during this audit.

Sincerely,



Gurmit Aujla, CPA, CA, CIA, CRISC, CRMA  
Director, Internal Audit

cc: Susan Dolinski, Vice-President, Social Responsibility and Communication  
Monica Bohm, Vice-President, eGaming  
Tracey Porteous, Senior Manager Enterprise Customer Relationship Management  
Bethany MacGillivray, Sr. Responsible Gambling Specialist

## Introduction

Voluntary Self Exclusion (VSE) is a program available for people who want to voluntarily exclude from all gaming facilities with slot machines, commercial bingo halls, and/or BCLC's on-line gaming site, PlayNow.com, for a pre-determined amount of time. Per the VSE registration signed by the applicant, BCLC agrees to stop sending the applicant present and future direct marketing materials from BCLC and/or its gaming facility service providers.

Since April 2013, Audit Services has been performing an eGaming monitoring engagement on a quarterly basis, which includes a review to determine whether VSE registrants are excluded from receiving any direct marketing material from PlayNow.com. To increase assurance on the VSE program, this engagement focused on a review of the direct marketing materials sent from BCLC Casino Marketing.

## Statement of Objectives

The objective of the engagement is to assess whether registered VSE applicants are receiving direct marketing material from BCLC Casino Marketing.

## Statement of Scope

The scope of this engagement includes Encore related direct marketing emails and direct mail sent by the Customer Relationship Management (CRM) team on behalf of BCLC's Casino Marketing for select weeks during the months of November and December 2016. The scope excludes any direct marketing materials sent by PlayNow.com, as this is included in the quarterly eGaming monitoring review mentioned above.

## Statement of Methodology

We interviewed key personnel in the CRM team to establish an understanding of the direct marketing process to Encore members. We obtained the direct marketing mail and emails sent to customers for the selected period, and matched the recipient lists to the iTrak VSE listing by multiple key identifiers such as last name, first name and date of birth.

## Statement of Audit Standards

We conducted our audit in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## Personnel Changes in Key Control Areas

BCLC's Audit Committee has requested that Audit Services include information about personnel changes and vacancies to key control areas during audit engagements. Personnel changes and vacancies can impact the control environment, control effectiveness, and loss of knowledge. No issues related to personnel changes were noted through the work performed in this audit.

## Conclusion

Audit Services performed the tests on 1,506 direct mail and 1,705 emails sent to customers during randomly select weeks in November and December 2016. All recipients of the direct marketing materials tested were compared to the active VSE applicants. No exceptions were noted.

## Acknowledgements

We wish to thank management and staff for their participation, assistance and cooperation during this audit. Audit Services received full access to all resources and information required to complete this audit.

# Prize Payout Modernization Review

## Audit Services

April 28, 2017

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## Transmittal Letter

June 30, 2017

Sanam Bakhtiar  
Director Lottery Marketing  
2940 Virtual Way  
Vancouver, BC, V5M 0A6

Dear Ms. Bakhtiar,

**Re: Prize Payout Modernization Review**

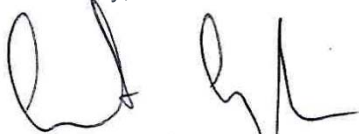
Attached is Audit Services' report on the Prize Payout Modernization Review.

In FY2017, Player Services completed their Prize Payout Modernization program which included Salesforce s 15(1)(l) , Deployment of s 15(1)(l) into Salesforce and the Integration of s 15(1)(l) with Finance. We have now reviewed the updated Prize Payout processes and all the associated key risks and controls in coordination with Player Services Management.

Audit Services performed a control design review that included updating the process flowcharts and controls matrices we prepared previously in this area. Based on our control design review, we noted that sufficient controls are in place to mitigate any significant risks. Audit Services also identified and discussed an improvement area with management regarding a segregation of duty risk in the processing of claims between \$10,000 and \$25,000. While adequate compensating controls are in place management has agreed to make improvements to further strengthen these controls.

We thank management and staff of the Player Services Department for their cooperation and assistance during this review.

Sincerely,



Gurmit Aujla CPA, CA, CIA, CRISC, CRMA  
Director, Internal Audit

cc: Kevin Gass, VP Lottery Gaming  
Aidan Flynn, Manager Player Services

## Introduction

Player Services is a department within the lottery division that is in charge of prize payouts. During FY2017, Player Services completed their modernization program that included Salesforce s 15(1)(l) Deployment of s 15(1)(l) into Salesforce and the Integration of s 15(1)(l) with Finance.

Audit Services completed a control design review of the new Player Services prize payout processes as part of our Audit Plan for FY2017.

## Statement of Objective

The objectives of this review were:

- To assess overall control design, specifically to:
  - Understand and document the new prize payout processes
  - Identify key risks and controls
  - Identify any areas for improvements
- To assess personnel changes and their impact on the business unit under review

## Statement of Scope

The scope of this engagement includes the updated prize payout processes. The scope excludes the testing of controls effectiveness, as that was included in the audit performed by GPEB during our review.

## Statement of Methodology

Our methodology and approach included:

- Review of current prize payout documentations in Salesforce
- Review of prize payout checklists and written procedures
- Flowcharting and documenting the processes under review
- Developing a controls framework/matrix
- Identifying and reporting opportunities for improvements



## Statement of Audit Standards

We conducted our engagement in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## Personnel Changes in Key Control Areas

BCLC's Audit Committee has requested that Audit Services include information about personnel changes to key control areas during audit engagements. Personnel changes can impact the control environment, effectiveness of key controls, and loss of risk and control knowledge.

Audit Services assessed the current staffing in Player Services and identified the key roles. In consultation with management, we confirmed that there were no recent changes in personnel that would impact the controls over the assessed areas.

## Conclusion

Based on our assessment, we noted that sufficient controls are in place to mitigate any significant risks. We also identified and discussed an improvement area with management regarding a segregation of duty risk in the processing of \$10,000 – \$25,000 claims. While adequate compensating controls are in place management has agreed to make improvements to further strengthen these controls. Audit Services will follow-up on these improvements in the prize payout process and the results of the GPEB audit.

## Acknowledgement

We wish to thank management and staff for their participation, assistance and cooperation during this audit. Audit Services was given full access to all resources and information required to complete this engagement.