

Financial Information Act Audit Report

Audit Services

September 14, 2017

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Transmittal Letter

September 11, 2017

Tom Powell
Director, Corporate Finance
74 West Seymour Street
Kamloops, BC V2C 1E2

Dear Tom:

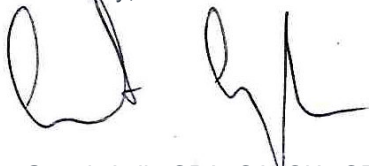
Re: Financial Information Act

Attached is Audit Services' report on management's key controls used in the preparation of the Statement of Financial Information. This Statement is required under the Financial Information Act (FIA).

Based on the audit work performed and within the limited scope of the engagement, we conclude that the controls used in the development of the FIA report were adequate. There are no significant audit findings from the audit of this report.

We thank the management and staff of the Corporate Finance department for their cooperation and assistance during this audit.

Sincerely,

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

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

cc: Amanda Hobson, VP Finance and Corporate Services & CFO
Tricia Turner, Senior Manager, Corporate Finance

Introduction

As per BC legislation¹, BCLC must prepare and release statements of financial information. Due to financial system limitations, several of the key processes in developing this report are manual in nature. Audit Services as part of their annual audit plan performs an audit of the controls used in developing the FIA report.

Statement of Objectives

The objective of this engagement was to confirm the adequacy of the controls used in the preparation of the FIA report.

Statement of Scope

The scope of this audit encompassed several key controls that were identified by Audit Services and Corporate Finance. The scope was limited to the following key control areas:

- Reviewed updates to theory document, list of procedures, and FIA regulations.
- Reconciliation to the financial statements and Public Sector Employers' Council (PSEC) reporting.
- Department review of FIA reporting information approved by the managers responsible in their respective finance areas.
- Overall reviews completed by Corporate Finance on FIA data by Manager of Financial Reporting & Systems and Senior Manager and Director of Corporate Finance.
- Final review and approval by VP Finance on FIA report.

Key Risks Identified

The key risks identified around the preparation of the FIA report are:

- Reliance on multiple reporting systems
- Manual nature of the compilation and reconciliation process
- Inherently difficult nature to completely reconcile accrual accounting versus cash accounting
- Reliance on many different individuals from different departments

Management is aware of these risks and management has implemented processes and controls to mitigate these risks.

¹ http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_96140_01

Statement of Methodology

Audit Services identified the key control areas and developed the testing procedures required to assess the key controls. A test process was developed to address each of the control areas and additional substantive testing as required.

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 to key control areas during all engagements related to BCLC's core functions. Personnel changes can impact the control environment, effectiveness of key controls, and loss of risk and control knowledge. During this engagement, we discussed personnel changes, retirements, and revisions to roles with management and no significant changes in personnel were noted.

Audit Conclusions

While there are still risks associated with the manual nature of the report preparation and the continuity of key FIA preparation employees, the control environment is adequate to mitigate any significant risks.

During our audit, opportunities to further strengthen controls were discussed with management and process changes have been incorporated.

Based on the audit work performed, we conclude that the controls tested for this audit were found to be sufficient and provide a reasonable level of protection.

Acknowledgements

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

Return to Player Settings Audit – Q1 Starlight Casino

Audit Services

June 22, 2017

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Transmittal Letter

August 11, 2017

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

Dear Mr. Pieper,

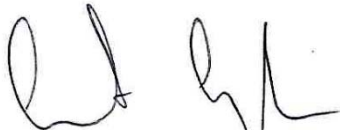
Re: Return to Player (RTP) Audit – Starlight Casino

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

During the course of our work conducted at Starlight Casino, we noted that out of the 100 slot machines tested, two slot machines' RTP settings were set in error. In total, Starlight Casino has 927 slot machines.

We would like to thank management and staff of Starlight Casino 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
Paul Bystrowski, 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 were 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 Starlight Casino 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 (a PAR sheet details 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 Starlight Casino, the BCLC staffing component consists of an Interim Manager of Business Operations and eight technicians. We noted during this audit, that the BCLC staff at Starlight Casino has a minimal staff turnover rate.

Conclusion

Audit Services noted two exceptions out of the 100 machines tested on June 22, 2017. All exceptions noted have been corrected.

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.

Lottery Order Processing Controls Audit

Audit Services

May 19, 2017

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Transmittal Letter

September 28, 2017

Craig James
Director Lottery Sales & Operations
2940 Virtual Way
Vancouver, BC, V5M 0A6

Dear Mr. James,

Re: Lottery Order Processing Controls Audit

Attached is Audit Services' report on the Lottery Order Processing Controls Audit.

In Q4 of FY2017, we completed phase 1, the control design review of BCLC's current Lottery Order Processing and noted that sufficient controls were in place to mitigate any significant risks. During Q1 of FY2018, we completed phase 2, the testing of the effectiveness of identified key controls.

Based on our audit testing, we conclude that overall controls are effective with the exception of the access to the lottery vault that was not updated to reflect current employee privileges. However, Audit Services confirmed that compensating controls are in place to mitigate the risks of this exception. Management has agreed to develop an internal off-boarding process to ensure that employee vault access is updated in a timely manner and confirmed that the vault access had been updated immediately after the exception was found.

We also noted an area for improvement, which was discussed with and agreed to by management.

We thank management and staff of the Lottery Order Processing and Corporate Security & Compliance departments 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
Janice Sheldon, Manager Lottery Operations
Kevin Sweeney, Director Security, Privacy & Compliance

Introduction

Audit Services completed a control design review of BCLC's current Lottery Order Processing in Q4 of FY2017. At that time, we identified the risks and controls and concluded that key controls in place were sufficient to mitigate any significant risks.

In Q1 of FY2018, Audit Services completed the testing of the identified key controls to reasonably ensure their effectiveness.

Statement of Scope and Objective

The scope and objectives of this review were to:

- Test the effectiveness of the key controls identified during the FY2017 control design review engagement
- Assess changes in personnel and their impact on key controls

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 people changes and transitions for key roles in Lottery Order Processing. The key roles identified related to Lottery Order Processing included a Lottery Operations Manager, a Team Lead Order Processing and 7 Order Processors down from 8. We also noted that one Order Processor is on leave. After consulting with management, we confirmed that while staff transitions do generally impact the team, current resources and processes are in place and the controls over the areas assessed has not been affected.

Conclusion

Based on our test of effectiveness, we noted that the employee vault access was not current. Audit Services confirmed that compensating controls are in place to mitigate the associated risks and that the vault access has been updated. We also noted an area for improvement, which was discussed with and agreed to by management.

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.

Audit Findings

Following is the most significant issues that we identified during our work along with associated recommendations to address these issues. To assist management in prioritizing action plans in response to our recommendations, we have categorized each issue by level of risk, using the following scale:

- High – Issue should be addressed and resolved immediately.
- Moderate – Issue requires management attention and should be addressed and resolved within a reasonable time period.
- Low – Issue is of lesser significance that is administrative in nature. Any low risk findings have been discussed with management and therefore excluded from the report.

These rating levels are measured in the context of this audit and its objectives, rather than as related to overall corporate risk. Audit Services commits to conducting follow-up audits on all significant findings within six months from the date this audit report was issued.

1. VAULT ACCESS NOT UPDATED (MODERATE)

Finding

The vault access of a former Order Processing staff member who transferred to another BCLC Department was not cancelled.

Risk

Untimely update of the lottery vault access may lead to unauthorized access and potentially result in loss of assets.

Recommendation

Management should ensure that lottery vault access is updated in a timely manner to reflect current employee privileges.

Management Response

Management agreed to develop an internal off-boarding process to ensure that any employee vault accesses are remove when they resign or transfer to another department.