

Return to Player Settings Audit – Q1 Chances Kamloops

Audit Services

June 25, 2018

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Transmittal Letter

June 27, 2018

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

Dear Mr. Pieper,

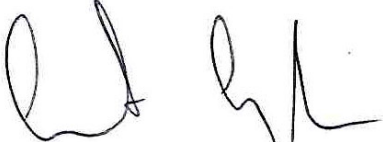
Re: Return to Player (RTP) Audit – Chances Kamloops

Attached is Audit Services' audit report on the RTP testing which occurred at Chances Kamloops on June 25, 2018. 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 40 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
Ken Bach, Regional Manager
Trevor Sharkey, Manager, Business Operations

Introduction

RTP Slot Management audit was included in Audit Services' approved audit plan for fiscal 2018-2019. 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 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, 2018 to March 31, 2019.

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 Chances Kamloops, the BCLC staffing component consists of a Manager Business Operations and a 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 40 machines tested on June 25, 2018.

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 Hastings Park Racetrack

Audit Services

June 14, 2018

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Transmittal Letter

June 28, 2018

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

Dear Mr. Pieper,

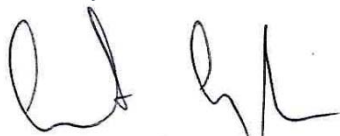
Re: Return to Player (RTP) Audit – Hastings Park Racetrack

Attached is Audit Services' audit report on the RTP testing which occurred at Hastings Park Racetrack on June 14, 2018. The scope of our audit focused specifically on the RTP settings at Hastings Park Racetrack for a selected sample of slot machines.

Hastings Park Racetrack has 536 slot machines in total. Audit Services noted one error in RTP settings during the initial testing of 100 slot machine on June 14, 2018. The slot machine with the error was placed out of service from June 14-19, 2018 because a programming chip needed to be ordered to change the setting. The setting was fixed on June 19, 2018 as soon as the chip arrived. Once corrected, the machine was placed back into operation. Due to the exceptions noted, we increased the sample size and performed additional testing; no further exceptions were noted.

We would like to thank management and staff of Hastings Park Racetrack 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
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 2018-2019. 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 Hastings Park Racetrack 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, 2018 to March 31, 2019.

Statement of Methodology

Our methodology and approach included:

- Testing RTPs of randomly selected slot machines
- Confirming 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
- Identifying 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 Hastings Park Racetrack, the BCLC staffing component consists of a Manager of Business Operations, one Senior Technician and two Technicians. We noted during this audit, that the BCLC staff at Hastings Park Racetrack has a minimal staff turnover rate.

Conclusion

Audit Services noted one error in RTP settings during the initial testing of 100 slot machine on June 14, 2018. The slot machine with the error was placed out of service from June 14-19, 2018 because a programming chip needed to be ordered to change the setting. The setting was fixed on June 19, 2018 as soon as the chip arrived. Once corrected, the machine was placed back into operation. Due to the exceptions noted, we increased the sample size and performed additional tested; no further exceptions were noted.

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.

Service Provider Player Data Privacy Review – Treasure Cove

Audit Services

March 21, 2018

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Transmittal Letter

June 30, 2018

Garth Pieper
Director, Operations, Casino & Community Gaming
2940 Virtual Way
Vancouver, BC V5M 0A6

Dear Mr. Pieper,

Re: Service Provider (SP) Player Data Privacy Review – Treasure Cove

Attached is Audit Services' report on Service Provider (SP) Player Data review for Treasure Cove Casino. This engagement was performed during the fourth quarter of FY2018.

In this report, we have noted one finding on SP employee access to BCLC systems and a few opportunities for improvement to further strengthen the key controls over SP's access to our player data.

We would like to thank management and staff who assisted us during this review for their cooperation and support.

Sincerely,



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

cc: Kevin Sweeney, Director Security, Privacy and Compliance
Brad Desmarais, VP Casino and Community Gaming

Introduction

Encore player data is owned by BCLC but also shared with and used by the Service Providers (SP) through the s 15(1)(l) system s 15(1)(l) has robust controls inherently built into the system, which helps ensure that private information is only accessible to those employees with sufficient system permissions. Through internal discussions, Audit Services noted that access to player information by non-BCLC employees was a risk area.

In Q4 FY2018, Audit Services initiated a player data privacy review at select Service Providers. The first site we reviewed was Treasure Cove Casino in Prince George, BC on January 24, 2018. It is managed by an independent SP and is the largest gaming facility north of the lower mainland, with 539 slot machines, 17 table games and bingo tables to satisfy different entertainment needs of various players. Audit Services conducted interviews with both the SP management and BCLC management residing on site.

Statement of Objectives

The objective of this review was to understand Treasure Cove's processes and controls related to the protection of BCLC's player data, specifically:

- Who has authority to access player data.
- Types of player personal information (player data) that is accessible.
- Where and how player data is accessed and used.
- Risks associated with the player data transmission, cleaning and mailing process.
- Retention and/or destruction of player data.

Statement of Scope

The scope of the review is limited to design of the control environment over the systems at this Casino where BCLC player data was stored, accessed and transmitted.

Statement of Methodology

Our methodology and approach included:

- Interviews, inquiries and observations with SP management and BCLC site personnel;
- Review of processes and controls on access to BCLC Player Data;
- Identifying potential areas of concern and risks;
- Preparing a flowchart demonstrating the process flows, pinpointing key controls, and highlighting the risks;
- Validating the results with key stakeholders; and
- Providing recommendations to address and mitigate risks.

Statement of Audit Standards

We conducted our review in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the engagement to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under review. 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 work provides a reasonable basis for our conclusions.

Conclusion

Audit Services reviewed the control environment in place at Treasure Cove to protect player privacy. Controls, process flows and risks related to player data were documented by Audit Services in flowcharts and process documentation, which was provided to SP Management. We noted that four terminated employees still had access to certain secondary BCLC systems. SP management reviewed access logs and confirmed to Audit Services that these terminated employees had not access any BCLC systems after their termination. The SP management remediated this access issue in a timely manner and Audit Services verified that these employees were deactivated. Please refer to Finding section below.

Finding

Following is the issue that we identified during our work along with associated recommendations to address this issue. To assist management in prioritizing actions 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.

1. FOUR TERMINATED EMPLOYEES WERE NOT PROPERLY OFF BOARDED AFTER THEY LEFT (HIGH)

Finding

One terminated employee still had access to BCLC's s 15(1)(l) system (s 15(1)(l) System) and three terminated employees still had access to BCLC s 15(1)(l) System (s 15(1)(l) System).

Recommendation

Audit Services recommended the SP management file request to BCLC immediately upon an employee's termination to deactivate or remove the access. Service Provider management should also ensure that key controls over future off-boarding process are operating effectively.

Management Response

Management agreed with the finding and filed a request to BCLC Identity & Access team immediately to deactivate the identified individuals' access to s 15(1)(l)

Audit Services Follow-up

Casino management confirmed to Audit Services that these individuals had not accessed any systems after termination. Audit Services also verified that these individuals' access were subsequently deactivated.

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 engagement.

Service Provider Player Data Privacy Review – Chances Kelowna

Audit Services

March 21, 2018

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Transmittal Letter

June 30, 2018

Garth Pieper
Director, Operations, Casino & Community Gaming
2940 Virtual Way
Vancouver, BC V5M 0A6

Dear Mr. Pieper,

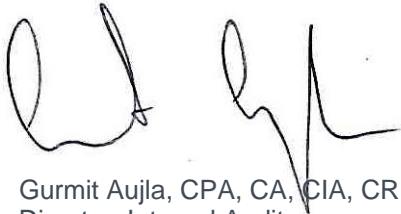
Re: Service Provider (SP) Player Data Privacy Review – Chances Kelowna

Attached is Audit Services' report on Service Provider (SP) Player Data review for Chances Kelowna. This engagement was performed during the fourth quarter of FY2018.

In this report, we have noted one finding on SP employee access to BCLC systems and a few opportunities for improvement to further strengthen the key controls over SP's access to our player data.

We would like to thank management and staff who assisted us during this review for their cooperation and support.

Sincerely,



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

cc: Kevin Sweeney, Director Security, Privacy and Compliance
Brad Desmarais, VP Casino and Community Gaming

Introduction

Encore player data is owned by BCLC but also shared with and used by the Service Providers (SP) through the § 15(1)(l) system § 15(1)(l) has robust controls inherently built into the system, which helps ensure that private information is only accessible to those employees with sufficient system permissions. Through internal discussions, Audit Services noted that access to player information by non-BCLC employees was a risk area.

In Q4 FY2018, Audit Services initiated a player data privacy review at select Service Providers. On February 1, 2018, we visited Chances Kelowna, which is managed by an independent Service Provider. Chances Kelowna is a Community Gaming Center (CGC) with 335 slot machines, 5 e-table games and electronic bingos tables to satisfy the entertainment needs of different players. Audit Services conducted interviews with both the SP management and BCLC management residing on site.

Statement of Objectives

The objective of this review was to understand Chances Kelowna's processes and controls related to the protection of BCLC's player data, specifically:

- Who has authority to access player data.
- Types of player personal information (player data) that is accessible.
- Where and how player data is accessed and used.
- Risks associated with the player data transmission, cleaning and mailing process.
- Retention and/or destruction of player data.

Statement of Scope

The scope of the review is limited to design of the control environment over the systems at Chances Kelowna where BCLC player data was stored, accessed and transmitted.

Statement of Methodology

Our methodology and approach included:

- Interviews, inquiries and observations with SP management and BCLC site personnel;
- Review of processes and controls on access to BCLC Player Data;
- Identifying potential areas of concern and risks;
- Preparing a flowchart demonstrating the process flows, pinpointing key controls, and highlighting the risks;
- Validating the results with key stakeholders; and
- Providing recommendations to address and mitigate risks.

Statement of Audit Standards

We conducted our review in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the engagement to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under review. 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 work provides a reasonable basis for our conclusions.

Conclusion

Audit Services reviewed the control environment in place at Chances Kelowna to protect player privacy. Controls, process flows and risks related to player data were documented by Audit Services in flowcharts and process documentation, which was provided to Chances Kelowna and BCLC Management. We noted that one terminated employee still had access to certain BCLC systems. The management of Chances Kelowna reviewed access logs and confirmed to Audit Services that the individual had not accessed any BCLC systems after their termination. The SP management remediated this access issue in a timely manner and Audit Services verified that this individual was deactivated. Please refer to Finding section below.

Finding

Following is the issue that we identified during our work along with associated recommendations to address this issue. To assist management in prioritizing actions 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.

1. ONE TERMINATED EMPLOYEE WAS NOT PROPERLY OFF BOARDED AFTER THEY LEFT (HIGH)

Finding

One terminated employee still had access to BCLC's s 15(1)(l) System (s 15(1)(l)).

Recommendation

Audit Services recommended the SP management file request to BCLC immediately upon an employee's termination to deactivate or remove the access. Service Provider management should also ensure that key controls over future off-boarding process are operating effectively.

Management Response

Management agreed with the finding and filed a request to BCLC Identity & Access team immediately to deactivate the identified individual's access to s 15(1)(l)

Audit Services Follow-up

Chances Kelowna management confirmed to Audit Services that this individual had not accessed any systems after termination. Audit Services also verified that this individual's access were subsequently deactivated.

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 engagement.

memo



Audit Services has performed a review of BCLC's Public Sector Executive Compensation report (Compensation report) for the fiscal year 2017-2018 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 Compensation report. The scope was limited to a review the following key controls:

- Current year's Disclosure Guidelines were reviewed, referenced and incorporated into the planning and compilation stage of the project
- Review of BCLC's Compensation Plan
- Review of new process implemented to collect data for reporting
- Reconciliation of final Compensation report to the SAP financial reporting and analyses as well comparisons to the prior years for reasonability
- Overall reviews and approvals completed of all PSEC reporting by 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
- Reliance on third party calculations (Morneau Shepell – Pension Company, ARI - Leased Car Company)

Conclusion

Audit Services performed a review of the PSEC reporting process and all key controls in place to adequately mitigate the inherent risks associated with the manual nature of the report preparation. A full reconciliation, variance analysis and review of supporting documentation were completed. HR and Finance addressed any improvement opportunities and exceptions noted from Audit Services' review of the PSEC report and revisions were made prior to formal sign-off by the Board Chair.

Based on the tests performed, no exceptions were noted with the finalized Compensation report submitted to PSEC and the report was prepared in accordance with the PSEC's Disclosure guidelines.

May 1, 2018

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, 2018, 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 faint, illegible printed name.

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 Finance & Corporate Services & CFO, 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, 2017 to March 31, 2018 | | | |
|--|------------------------------|---|---|
| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
| 12.1 – 12.2 Purpose and Objectives | N/A | N/A | <i>this is a statement of guidance and expectation, rather than an auditable standard</i> |
| 12.3 – 12.8 ILC Responsibilities | N/A | N/A | <i>this is a statement of guidance and expectation, rather than an auditable standard</i> |
| Regional Responsibilities | | | |
| 1.1 Each jurisdiction is expected to: <ul style="list-style-type: none"> • design and implement sufficient appropriate internal controls to meet these control activities and • ensure such internal controls operate effectively throughout the year | 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, 2017 to March 31, 2018

| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|---|------------------------------|--|--|
| <p>1.2 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 1st 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, 2018 | N/A |

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

ANNUAL AUDIT

BCLC: April 1, 2017 to March 31, 2018

| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|---|------------------------------|--|--|
| <p>1.3 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> |

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

ANNUAL AUDIT

BCLC: April 1, 2017 to March 31, 2018

| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|--|------------------------------|--|--|
| Retail Policy (Appendix 12 C) | | | |
| <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"> a) Retailer Code of conduct/Expected retailer behaviour b) Responsibility of the retailer and their action and the action of their employees c) Requirement for retailer training and support d) Adherence to policies and procedures including any instructions, directives and operations manual e) Adherence to applicable Laws f) Adherence to applicable Regulatory requirements g) Corrective measures for non-compliance | Y | None | N/A |

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

ANNUAL AUDIT

BCLC: April 1, 2017 to March 31, 2018

| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|--|------------------------------|--|--|
| <p>2. 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"> a) Act in an ethical honest manner b) Comply with applicable laws, regulations, policies and procedures and contractual agreements c) Understand the consequences of non-compliance | Y | None | N/A |
| <p>3. 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"> a) Assessment of non-compliance segregated from the Sales function b) Investigate location based on criteria such as: customer complaints; fraud detection techniques (for example, VERN phishing; data analytics); mystery shop; emerging industry risks; past behaviour; random sampling; c) An active mystery shop which includes validations procedures and sales to minors d) Corrective action taken for incidents of non-compliance | Y | None | N/A |

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

ANNUAL AUDIT

BCLC: April 1, 2017 to March 31, 2018

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

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

ANNUAL AUDIT

BCLC: April 1, 2017 to March 31, 2018

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

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

ANNUAL AUDIT

BCLC: April 1, 2017 to March 31, 2018

| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|---|------------------------------|--|--|
| Retailer Fraud (Appendix 12 D) | | | |
| 1. 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"> a) Retailer and retailer employee wins b) Cancellations c) Reprints d) Validation activity e) Prize redemption f) Lost & stolen tickets g) Excessive sales h) Customer complaints about fraud | Y | None | N/A |
| 2. Documented investigations of anomalous behaviour with processes that allow for follow up and documented resolution in a timely manner. | Y | None | N/A |
| 3. Identify and implement corrective actions for newly identified fraud activity. | Y | None | N/A |
| 4. Confirmed fraudulent activity by the retailer will result in termination of all Lottery transactions at the location. | Y | None | N/A |

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

ANNUAL AUDIT

BCLC: April 1, 2017 to March 31, 2018

| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|--|------------------------------|--|--|
| <p>5. 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>6. Criminal background check for all new retailer agreements.</p> | Y | None | N/A |
| <p>7. 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"> a) Return validation slip and winning ticket to customer b) Ability for customers to perform self checking with ticket checkers | Y | None | N/A |
| <p>8. 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>9. 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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|--|------------------------------|---|--|
| <p>10. If applicable, ILC will compile and report back to RMOs any cases as defined in control activity #8.</p> | <p align="center">N/A</p> | <p>ILC Responsibility (No new fraudulent activities reported for FY2017-2018)</p> | <p align="center">N/A</p> |
| <p>11. 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> | <p align="center">Y</p> | <p align="center">None</p> | <p align="center">N/A</p> |

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| Technology Operation and Reliability (Appendix 12 E) | | | |
| <p>1. 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"> a) Scheduled and emergency software updates related to change and release management b) Daily operational checklists – backups, game startup, game shutdown c) Software development and testing plan d) Incident management procedures with a clear identification of the escalation matrix e) Basic configuration (server, disk, application) information about key gaming components are documented | Y | None | N/A |

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| <p>2. Documented monitoring procedures with corrective action which are adhered to and specifically address the following:</p> <ul style="list-style-type: none"> a) Identified critical operational areas for monitoring b) Produce output of monitored activity c) Review of output (error reporting) d) Conduct corrective action that addresses immediate incident and where appropriate root cause problem | Y | None | N/A |
| <p>3. 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>4. Lottery System must have a documented disaster recovery plan. Specifically the DRP:</p> <ul style="list-style-type: none"> a) Must be tested annually and take corrective action where necessary b) Must be maintained and updated annually c) Must support draw process and processing a winner within 24 hours d) Must provide prize payment capabilities within 7 calendar days | Y | None | N/A |
| <p>5. Confirm that a strategy exists for your technology platform</p> | Y | None | N/A |
| <p>6. 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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|--|------------------------------|--|--|
| Prize Payment (Appendix 12 F) | | | |
| <p>1. Documented prize claim policies and procedures are in place. At a minimum it must address:</p> <ul style="list-style-type: none"> a) Mechanism to identify a retailer who tries to redeem a prize greater than the set regional limit b) Independent (from Lottery Sales unit) investigative unit and processes to determine the rightful owner for: <ul style="list-style-type: none"> (i) all major prize claims with individual major prize set at \$10,000 in each RMO (ii) irregular or suspicious claims (iii) claims by designated persons as defined by the RMO (i.e. insider; related parties; registered parties; non-arms length) <p>The investigation requirements defined below apply to points i, ii, iii:</p> <ul style="list-style-type: none"> (iv) Determine validity of ticket – a) security code (check digit) b) control number c) When & where purchased and validated d) identify irregularities | 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>2. Documented retail prize claim policies and procedures are in place. At a minimum must address the following:</p> <ul style="list-style-type: none"> a) Level of redemption allowed at retail set at a maximum of up to \$2000 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 c) Winning number information must be available independent from the retailer to every player d) Have customer sign before validation e) Provide the validation slip and return the ticket to customer f) Retrieval of cancelled high tier (top two prize categories) winning tickets from retail | Y | None | N/A |
| <p>3. 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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| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
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| Fraud and Unauthorized Access (Appendix 12 G) | | | |
| <p>1. Management must review users' access rights at regular intervals using a formal process which includes:</p> <ul style="list-style-type: none"> a) Users' access rights must be reviewed at regular intervals, (e.g. after any changes, such as promotion, demotion, or termination of employment); b) User access rights must be reviewed and re-allocated when moving from one employment to another within the same organization; c) Authorizations for special privileged access rights must be reviewed at quarterly intervals; d) Privilege allocations must be checked at regular intervals to ensure that unauthorized privileges have not been obtained; e) Changes to privileged accounts must be logged for periodic review | Y | None | N/A |
| <p>2. 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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| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|---|------------------------------|--|--|
| 3. All users must be authenticated using strong password authentication methods. | Y | None | N/A |
| 4. Lottery terminal must be uniquely identified and authenticated at sign on. | Y | None | N/A |
| 5. 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 |
| 6. Where possibility of collusion exists, activity logging must be in place and reviewed regularly. | Y | None | N/A |
| 7. 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>8. Procedures addressing the prevention, detection and correction / response of / to intrusion, specifically</p> <ul style="list-style-type: none"> a) Login attempts b) Firewall logs c) High profile (i.e. privileged) activity log d) Database logs e) Unauthorized file access f) Proper configuration and maintenance of hardware and operating system g) Implementation of latest security patches h) Vulnerability assessment | Y | None | N/A |
| <p>9. 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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| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
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| 10. 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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| Draw Outcome is Compromised (Appendix 12 H) | | | |
| <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"> a) Maintain security of draw area b) Maintain draw equipment according to quality standards at a minimum <ul style="list-style-type: none"> (i) Inspection of draw appliances and ball sets on deliver and thereafter (ii) Maintenance activities will be defined and be carried out annually or according to any manufacturing guidelines (iii) Use of balls sets that are manufactured to those measurements and weight tolerance compatible with draw machines (iv) Security storage including sealed cases, movement and handling (v) Draw ball retirement and destruction process | 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"> (vi) Number generation (RNG) applications must be independently certified (vii) Certified RNG application is subject to dual control (minimum of two individuals) for the configuration and building of the RNG equipment (viii) RNG equipment must have tamper proof detection or other mechanism such as dual processing on different equipment c) Ensure integrity and fairness of lottery draws at a minimum: <ul style="list-style-type: none"> (i) Criteria for validity of draw (ii) Roles & responsibilities of individuals participating at draw including external witnesses (iii) Escalation process to address issues encountered during the draw (iv) Record of draw process (v) Checklist to perform draw (vi) Retain draw information for a period of 18 months | | | |

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

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| <ul style="list-style-type: none"> d) Has direct responsibility for computer equipment and staff utilized to conduct the independent draw audit process e) Uses 3rd party written and maintained software that must produce independent results f) Must have procedures to address failure in 3rd party software g) Confirms to ILC correct number of winners by prize division h) Verify correct share values for each prize division in on-line system is performed | | | |
| <p>3. 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"> a) Ensures that each region has shutdown sales and confirms that it is appropriate to start the draw b) Publish correct winning numbers to each region c) Share value calculation and roll up should be verified – original calculator and independent review | 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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| Customer Complaints (Appendix 12 I) | | | |
| <p>1. 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"> a) Complaints will be captured in a source of record for reference b) Complaints will be categorized (e.g. stolen ticket; validation slip not returned) c) A prioritization mechanism will be in place d) Review, investigate and escalate complaints where required e) Take corrective action in timely manner f) Provide feedback to complainant (close the call) g) Provide reporting capabilities (e.g. ability to track and monitor the incidents) h) Ensure proper education and training for the handling of customer complaints related to inappropriate retailer behavior is provided. | Y | None | N/A |
| <p>2. 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 |

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| Standard | Compliance Y or N | Issue / Auditors' Comment | Management Comments / Action Plan |
|--|------------------------------|--|--|
| 3. All consumer complaints related to inappropriate retailer behaviour must be routed to and addressed by the security / investigation group. | Y | None | N/A |
| 4. Customer complaint hotline must be available. | Y | None | N/A |
| 5. 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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| Products or Services Design (Appendix 12 J) | | | |
| <p>1. Appropriate governance for the product life cycle, at a minimum addresses approval and documentation of the following:</p> <ul style="list-style-type: none"> a) Social responsibility assessment b) Player protection / fraud assessment c) Game mechanics and fair outcome assessment d) Security assessment e) Financial assessment f) Specifications, test plans and sign off g) Training and communication material for players, retailers and employee | Y | None | N/A |
| <p>2. 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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| External Communications (Appendix 12 K) | | | |
| <p>1. 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>2. Communicate to staff the defined code of conduct/ expected behaviors</p> | Y | None | N/A |

Project Documentation Review

Audit Services

May 22, 2018

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Transmittal Letter

June 28, 2018

Pat Davis
Chief Information Officer
74 West Seymour Street
Kamloops, BC V2C 1E2

Dear Pat:

Re: PMO Project Documentation Review

Attached is the Audit Services' report on the Project Management Office (PMO) Project Documentation Review.

Our findings herein include recommendations that address one high risk and four moderate risk topics. Management has agreed with our recommendations and developed appropriate response plans to quickly address each item identified.

We thank the management and staff of the PMO for their cooperation and assistance during this review.

Sincerely,



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

cc: Bill White, Director PMO
Shirley Beveridge, Senior Manager PMO

Introduction

This review of the Project Management Office's (PMO) Project documentation was initiated through discussions between Audit Services and the CIO, and subsequently approved during the audit planning cycle. The purpose of this review was to provide reasonable assurance that a consistent and standardized framework is being applied to projects that are managed through the PMO.

Fifteen documents were identified as a standard framework for managing projects and have been in use by the PMO for a number of years. Many of the fifteen required documents have been in place since 2007-08 and have changed over time with newer processes being added later. The premise behind these documents align with Project Management Institute (PMI) best practices and consist of the following:

1. Project Charter
2. Project Budget
3. Project Schedule
4. Risk Register
5. Issue Log
6. Roles & Responsibilities
7. Communications Plan
8. Project Status Reports
9. Project Steering/Governance Committee Meeting Minutes
10. Project Team Meeting Minutes
11. Project Change Requests (PCR)
12. Operational Readiness Checklist
13. Peer Review Checklist
14. Go Live Gate
15. Project Lessons Learned

Statement of Scope

The scope of this engagement included a review of project documentation as relates to projects managed by the PMO. The fifteen documents are identified as forming the basis for controls and risk mitigation as it relates to PMO projects. The scope of the review included:

- Identifying and understanding all project documentation required during a project's life cycle.
- Reviewing a sampling of documents from six projects, for existence, completeness, and compliance.

Statement of Methodology

The audit program included the following procedures:

- Interviews with PMO individuals to obtain a further understanding on specific aspects of the process and gather perspectives on planning, reporting and other project management activities.
- Review the required project documentation, their stated purpose, and any related and relevant information to support the objectives of this engagement.
- Review of required project documentation for existence, completeness, and compliance, i.e. appropriate sign-off authority.

Statement of Audit Standards

We conducted our engagements in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform engagements to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under review. An audit also includes assessments of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the engagement's objectives. We believe that our work 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 and vacancies can impact the control environment, effectiveness of key controls. In the PMO, staffing consists of a Director and seven Managers, two of which are Senior Managers, and each responsible for various functional and operational areas (including teams of Project Managers).

We noted during this review, that the Project Manager (PM) turnover was not significant, however, if a PM departs mid-flight during a project, consideration of controls is required for effective transition and hand-off (also refer to Finding 2.3 below).

Conclusion

Based on the work performed, we conclude that there are five findings which indicate opportunities for improvement as outlined below.

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.

Findings

Following are 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 engagement and its objectives, rather than as related to overall corporate risk. Audit Services commits to conducting follow-up engagements on all significant findings within six months from the date this audit report was issued.

1. OVERALL VARIED AND INCONSISTENT USE OF STANDARDIZED TEMPLATES (MODERATE)

Finding

The existing fifteen documents used by the PMO provide a consistent and relatively standardized framework for the management of projects. Overall use and execution of some templates may vary across projects at the discretion of the Project Manager. While, the need for such flexibility is an important consideration, given the varied sizes and complexities of projects; it is not clear whether tailoring existing templates achieves maximum effectiveness. This identified a need to confirm the cost/benefit of employing each document and related processes, to determine their value or redundancy.

Risk:

Varied and inconsistent use of project documentation templates may lead to inefficient and/or ineffective processes and may negatively impact PM capacity and overall project agility and hand-off.

Corporate ERM Risk Linkage

Risk ID: BT.E23 BT Process Alignment Risk: The Risk that there might be inconsistent adherence to agreed BT processes. The anticipated impact on BCLC objectives is non-optimal development or management process with potential impact to internal operational efficiency, higher cost of operations or delays in project implementation.

Recommendation

Audit Services recommends that management conduct an end-to-end review of the fifteen documents to identify waste and/or opportunities for improvement and streamlining (i.e. through lean methodologies or other methodologies that achieve similar objectives).

Management Response

Management agrees with this recommendation and notes:

- As of April 12, 2018, PMO requires review with PMO Senior Manager and approval by PMO Director to deviate from standard PMO templates.
- PMO will review the 15 templates to identify opportunities to improve and create efficiencies.
- PMO will clarify and communicate to project managers expectations of document use.

2. SPECIFIC FINDINGS RELATED TO PROJECT DOCUMENTATION (HIGH – MODERATE)

In addition to the above overarching observation, the following findings were communicated to management as it relates to specific Project Documents and related processes:

- 1) Project Change Requests may lack sufficient and appropriate supporting approval documentation (High).
- 2) Budget tools lack basic end-user application controls (Moderate).
- 3) Documentation filing and Project Manager hand-off processes may be insufficient (Moderate).
- 4) Peer review process is not a robust quality assurance activity (Moderate).

Management Response

Management has taken steps to remediate these gaps or is, in the process of remediating and has implemented immediate improvements to documentation, training, and/or processes. Management will continue to evaluate additional controls and opportunities to further mitigate related risks.