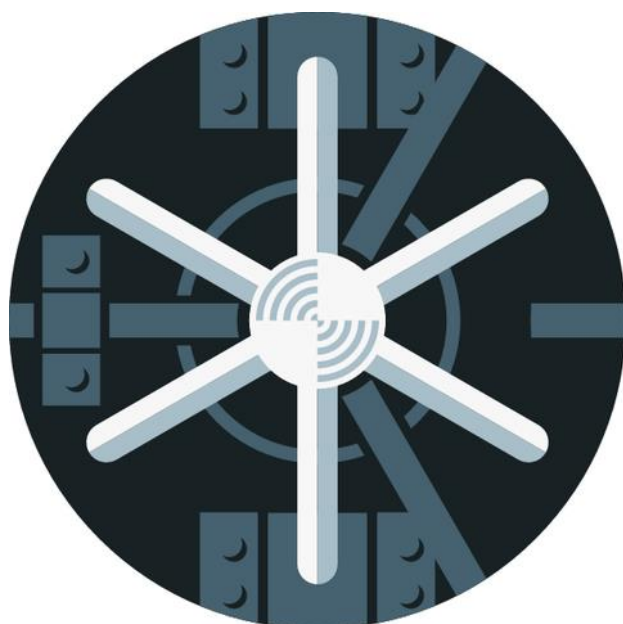




# British Columbia Lottery Corporation (BCLC)

PlayNow.com eGaming  
Anti-Money Laundering (AML)  
Independent Assessment Report

**March 25, 2021**



This report is intended solely for the information and internal use of British Columbia Lottery Corporation (BCLC) and should not be used or relied upon by any other person or entity.

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# Report Preamble

Deloitte's services and the contents of this report do not constitute an engagement to provide audit, compilation, review or attestation services as described in the pronouncements on professional standards issued by the Chartered Professional Accountants Canada ("CPA Canada") or other regulatory bodies, and, therefore, Deloitte is not expressing an opinion or any other form of assurance with respect to the British Columbia Lottery Corporation ("BCLC") system of internal control over financial reporting or its compliance with laws, regulations, or other matters relating to financial reporting. With respect to the same, BCLC is, and will continue to be, solely responsible for establishing and maintaining an effective internal control system, including, without limitation, systems designed to assure achievement of its control objectives and its compliance with applicable laws and regulations.

This report will not be used by or circulated, quoted, disclosed, or distributed to, nor will reference to such reports or other materials be made to, anyone except the Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC") and BCLC's regulatory oversight body, the Gaming Policy and Enforcement Branch ("GPEB"), without Deloitte's prior written consent.

BCLC is solely responsible for, among other things: (a) making all management decisions and performing all management functions; (b) complying with regulatory requirements, and BCLC policies and procedures; and (c) establishing and maintaining internal controls, including, without limitation, monitoring ongoing activities.

This report was based on documentation and information provided by BCLC management and identified stakeholders who were interviewed and consulted during this assessment in January and February 2021.

This independent assessment is intended to support BCLC with its obligations to comply with the requirements set out in the Proceeds of Crime (Money Laundering) and Terrorist Financing Act ("PCMLTFA"), including associated Regulations ("PCMLTFR"), and FINTRAC guidelines, as applicable. As described in the Statement of Work ("SOW"), this report is exception-based and summarizes the program-related observations which do not meet the statutory requirements. Therefore all findings identified represent areas where the current process does not appear to be in line with regulatory requirements.

# Background and Overview

The PCMLTFA, read with the associated Regulations, require that reporting entities undergo a comprehensive AML review biennially. BCLC engaged Deloitte to complete an independent assessment of BCLC's AML and sanctions compliance programs ("BCLC AML Program") in accordance with the requirements outlined within the PCMLTFA, PCMLTFR and FINTRAC guidelines ("the assessment"). The assessment was performed in accordance with the scope agreed-upon in our SOW dated January 14, 2021 and is specific to only internet-based gaming operations ("eGaming" or "PlayNow").

Through document review, sample testing and discussions with management and other identified stakeholders, including individuals at specified gaming facilities, we have:

- assessed where BCLC's AML Program is compliant with AML legislative requirements;
- conducted a gap analysis for policy and procedure design;
- reviewed the governance and oversight structure; and
- performed sample testing on a variety of AML requirements including:
  - Know Your Patron ("KYP")
  - Training
  - Ongoing monitoring and enhanced due diligence (EDD) measures
  - Regulatory Reporting

## Objective and scope

The objective of the assessment was to assess whether BCLC is meeting its obligations under the PCMLTFA, and accompanying PCMLTFR, read with the applicable FINTRAC guidelines, in developing and implementing a compliance program for eGaming. The five pillars as set out in FINTRAC's Compliance Program Requirements are:

1. The appointment of a person who is responsible for the implementation of the compliance program (compliance officer);
2. The development and application of written compliance policies and procedures that are kept up-to-date, and include enhanced measures to mitigate high risks;
3. A risk assessment of business activities and relationships (i.e. all the components of the risk-based approach, where applicable, as explained in the FINTRAC Guidance on the risk based approach to combatting money laundering and terrorist financing including risk assessment, risk mitigation and ongoing monitoring of business relationships);
4. The development and maintenance of a written ongoing compliance training program for employees, agents, and others authorized to act on your behalf; and
5. The institution and documentation of an effectiveness review of your compliance program (policies and procedures, risk assessment and training program) every two years (minimum) for the purpose of testing its overall effectiveness.

**Testing Period:** the assessment covered a testing period of June 1, 2020 to December 31, 2020.

The following table outlines the applicable in-scope areas and those that were excluded from the assessment:

*Table 1: Summary of in-scope areas and exclusions*

	In-scope:	Out-of-scope:
BCLC Product Areas:	eGaming including BCLC's online gaming website PlayNow.com.  <i>Note: eGaming includes eCasino, eLottery, eSports, and eBingo</i>	<ol style="list-style-type: none"> <li>1. Land-based Casino and Community Gaming: <ul style="list-style-type: none"> <li>o Poker</li> <li>o Bingo games/All Bingo Halls</li> <li>o Table games</li> <li>o Slot machines</li> </ul> </li> <li>2. Land-based Lottery</li> <li>3. Land-based sports betting</li> </ol>
Regulations:	Deloitte's assessment was based on the requirements outlined in the PCMLTFA and the PCMLTFR. The in-scope regulatory requirements are listed in <b>Appendix A</b> .	<ol style="list-style-type: none"> <li>1. Gaming Control Act and associated Regulations</li> <li>2. GPEB Technical Gambling Standards for Internet Gambling Systems ("TGS5")</li> <li>3. Canada's Criminal Code</li> </ol>

### Limitations and exclusions:

- Transaction testing of Terrorist Property Reports ("TPRs") and Electronic Funds Transfers ("EFTs") were not reviewed as we were informed that there were no instances within this period.
- Large Cash Transactions Reports ("LCTRs") do not apply to online gaming as no cash is accepted for online gaming. As such, LCTRs were not included in the scope.
- BCLC does not extend credit to its clients, as such obligations related to the extension of credit of \$3,000 or more were not included in scope.
- BCLC does not offer foreign exchange services to its clients, as such obligations related to foreign currency exchange of \$3,000 or more were not included in the scope.
- As it relates to ongoing monitoring, BCLC's AML investigation cases are identified by eGaming investigators. If AML indicators are identified by eGaming investigators, an Unusual Financial Transaction report (UFT) is created and escalated to an AML investigator. The independent review tested a sample of UFTs and did not include the review of other cases conducted by eGaming investigators.
- Deloitte was provided restricted access to BCLC's Casino Reporting System ("iTrak"), eGaming Management System ("OpenBet"), and Customer Relationship Management System ("Salesforce"). Deloitte was not provided access to the Enterprise Data Warehouse ("EDW") and the Gaming Management System ("GMS") or the AML Unit's shared network folder. Therefore, Deloitte relied upon BCLC staff to provide the relevant data and supporting documents related to monitoring process (i.e. "OSINT", "FINSCAN", etc.) and transaction reports submitted by BCLC either electronically (e.g. batch file transfers) or manually through FINTRAC's reporting system ("F2R").



# Approach

Our independent testing and assessment efforts were based on our understanding of the applicable regulatory requirements, as well as the documented policies and procedures of BCLC.

The assessment was conducted through a combination of testing and interviews. Refer to **Appendix B** for the list of documentation examined and **Appendix C** for the list of interview participants.

Deloitte's independent testing followed a phased-based approach and consisted of performing the following activities, as applicable:

*Table 2: High-level project plan*

Phase	Activities
1. Planning	<ul style="list-style-type: none"><li>• Identified and requested supporting information and documents required to conduct the program assessment</li><li>• Held meeting with BCLC Working Group to:<ul style="list-style-type: none"><li>◦ align on expectations, sampling methodology and format of draft and final deliverables;</li><li>◦ validate understanding of current landscape (including risk-based approach); and</li><li>◦ identify relevant stakeholders</li></ul></li><li>• Developed a project status update and proposed reporting template</li></ul>
2. Design Assessment	<ul style="list-style-type: none"><li>• Reviewed relevant documentation related to BCLC's AML Program (A list of requested documentation can be found in <b>Appendix B</b>)</li><li>• Conducted process "walkthroughs" to observe and gain an understanding of related policies, procedures, systems, controls, and training programs</li><li>• Assessed the program areas and related controls</li></ul>
3. Operating Assessment	<ul style="list-style-type: none"><li>• Requested supporting documentation</li><li>• Conducted interviews with BCLC personnel to understand BCLC's AML Program and associated processes, as well as their roles and responsibilities in relation to the AML Program (An interview list can be found in <b>Appendix C</b>)</li><li>• Conducted detailed sample testing to assess whether program areas and related controls are operating as intended. Judgmental sampling was used when seeking to corroborate our understanding of a process or system based on our interviews and walkthroughs, and/or where sample sizes were not large enough to merit statistical sampling.</li><li>• Assessed the program areas and related controls for operating effectiveness</li></ul>
4. Reporting	<ul style="list-style-type: none"><li>• Developed a report summarizing assessment results, where applicable</li><li>• Provided the report for review by the relevant BCLC stakeholders and incorporated feedback</li><li>• Obtained management responses from BCLC for observations</li><li>• Verbal/informal update on recommendations for enhancement</li></ul>

# Summary of the Results

The table below outlines observations relating to BCLC's AML program elements that are not in compliance with statutory requirements as set out in the PCMLTFA and PCMLTFR, read with the FINTRAC guidelines.

Observations are classified as follows:

- **Documentation observations noted:** These are observations where BCLC has not documented all their obligations in their relevant AML policies and procedures. It is important to note, however, that for these observations, management have related operational procedures in place which meets the regulatory standards.
- **Observations noted:** These are all other observations.

Regulatory Requirement	Design Effectiveness	Operating Effectiveness
1. Compliance Officer	No issues noted	No issues noted
2. Policies and Procedures		
Know Your Patron	Documentation observations noted	Observations noted
Record Keeping	Documentation observations noted	Observations noted
Ongoing Monitoring & Enhanced Due Diligence	Documentation observations noted	Observations noted
Transaction Reporting	Observations noted	Observations noted
3. Risk Assessment	Observations noted	Covered as part of ongoing monitoring and enhanced due diligence
4. Training	Documentation observations noted	Observations noted
5. Effectiveness Review	No issues noted	No issues noted

A summary of observations noted are outlined in the tables below:

1. Regulatory Requirement:	Compliance Officer
<i>The appointment of a person who is responsible for the implementation of the compliance program.</i>	
N/A – No issues noted	

2. Regulatory Requirement:	Policies and Procedures
<i>The development and application of written compliance policies and procedures that are kept up-to-date and include enhanced measures to mitigate high risks.</i>	
<p>Section 71(1)(b) of the PCMLTFR prescribe that reporting entities are required to develop and apply written compliance policies and procedures. Further, FINTRAC guidance states that written policies and procedures are expected to outline all obligations applicable to a reporting entity's business under the PCMLTFA and associated Regulations and the corresponding processes and controls have been put in place, including:</p> <ul style="list-style-type: none"> <li>• when the obligation is triggered;</li> <li>• the information that must be reported/recorded or considered;</li> <li>• the procedures created to ensure that the obligation is fulfilled; and</li> <li>• the timelines associated the obligations and methods of reporting (if applicable).</li> </ul>	

The section below outlines observations related to this requirement. Specifically, whether obligations are appropriately documented in BCLC's policies and procedures and whether those procedures are applied effectively.

#### **Know Your Patron (KYP) – Documentation observation (ref.#1)**

Section 60 of the PCMLTFR read with the FINTRAC know your client requirements guidance states that as a Casino, BCLC is responsible for identifying clients for the following relevant transactions:

- Account openings and signature card creations
- Remittance or transmission of \$1,000 or more
- Casino disbursements
- Suspicious transactions

It was noted that BCLC has outlined their obligation to identify clients when opening accounts in their Compliance Manual. However, BCLC has not documented their obligations to identify clients for the following transactions:

- Remittance or transmission of \$1,000 or more
- Casino disbursements
- Suspicious transactions

As per inquiry with management, it was noted that BCLC is aware of their obligations to identify clients for the aforementioned transactions and that they have procedures in place to conduct the client identification procedures. Further, as it pertains to the remittance or transmission of \$1,000 or more, BCLC relies on the client identification procedures conducted as part of the account opening process.

#### **KYP – Methods to verify the identity of an individual – Documentation observation (ref.#2)**

Sections 64(1) and 64(2) of the PCMLTFR read with FINTRAC guidance states that there are 3 methods to verify the identity of an individual:

- Method A: Government-issued photo identification method
- Method B: Credit file method
- Method C: Dual-process method

It was noted that BCLC has documented Methods A and C in their Compliance Manual. As part of the independent review, inquiry procedures were conducted with management to validate whether BCLC uses the credit file method to identify individuals. It was noted that BCLC uses the credit file method but have not documented as such in their Compliance Manual. BCLC's investigation procedures indicate that the credit file method is used when opening eGaming accounts, however, no further information or guidance was provided.

#### **Record keeping - Documentation observation (ref.#3)**

Sections 40 to 44 of the PCMLTFR read with FINTRAC guidance states that as a casino, BCLC is responsible to keep the following relevant records:

- Suspicious transaction report records
- Casino disbursement records
- Records of remitting or transmitting funds of \$1,000 or more
- Account records
  - Account operating agreements
  - Deposit slips
  - Debit and credit memos
- Reasonable measures records

Furthermore, Section 69(1) of the PCMLTFR read with FINTRAC guidance also states that records are to be kept for a minimum of five years.

It was noted that BCLC has identified its record keeping obligations as part of their Compliance Manual for reasonable measures records where the retention period for those records are also included (i.e. five years). However, BCLC has not identified its record keeping obligations nor their related retention period for the other aforementioned records.

Further, Sections 43 and 64 of the PCMLTFR read with FINTRAC guidance prescribes that every time a casino opens an account for individuals, a record of the following must be kept: name, address, date of birth and the nature of their principal business or occupation.



As part of the independent review, 25 accounts opened during the review period were selected to validate that the record keeping obligations were fulfilled. It was noted that for 4 accounts, the occupation was not recorded, however, there was no activity on these accounts as no withdrawals or deposits were conducted (i.e. free play). FINTRAC does not prescribe when an account is considered to be active as it relates to record keeping obligations; ultimately, BCLC's policies and procedures do not document when their obligations to record individuals' occupation is triggered.

#### **Ongoing monitoring – Documentation observation (ref.#4)**

Sections 60.1, 60.2, and 71.1 of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must conduct ongoing monitoring of all individuals with which entities have a business relationship. The Regulations require ongoing monitoring of business relationships to be carried out on a periodic basis.

As part of the independent review, it was noted that BCLC has documented a variety of ongoing monitoring activities that apply to all their customers. However, it was noted that one ongoing monitoring activity that is documented in the Compliance Manual is not conducted. s 15(1)

It is important to note that, as of March 2021, BCLC was in the process of reviewing and revising their customer risk ranking criteria as well as the ongoing monitoring procedure to be applied based on customer risk ranking.

#### **Ongoing monitoring – Risk assessment of business relationships – Documentation observation (ref.#5)**

Sections 60.2 and 71.1 of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must conduct a risk assessment for each client in order to determine the level of risk they pose in relation to committing a money-laundering or terrorist activity financing offence.

s 15(1)

It is important to note that, as of March 2021, BCLC was in the process of reviewing and revising their customer risk ranking criteria as well as the ongoing monitoring procedure to be applied based on customer risk ranking.

#### **Enhanced due diligence – Operating effectiveness observation (ref.#6)**

Section 71.1 of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must conduct enhanced measures on high risk clients.

As part of the independent review, 10 high risk patrons were selected to validate whether enhanced due diligence procedures were conducted. It was noted that for 2 samples, enhanced due diligence measures were not conducted. Refer to **Appendix D – Item I** for further details.

#### **Reporting Casino Disbursement Reports (CDR) – eSports winnings (ref.#7)**

Section 42(1) of the PCMLTFA read with FINTRAC guidance prescribes that casino disbursement reports are applicable to the following types of transactions:

- redemptions of slot tickets, chips, tokens or plaques;
- front cash withdrawals;
- safekeeping withdrawals;
- advances on any form of credit, including advances by markers or counter cheques;
- payments on bets, including slot jackpots;
- payments to clients of funds received for credit to that client or any other client;
- cashing of cheques or other negotiable instruments; and
- reimbursements to clients of travel and entertainment expenses

Further, FINTRAC guidance 10A on submitting CDR indicates:

Part F1 – reason for disbursement include: *"Payment to a client or a patron (codes 10 to 17) of any of the following: [...] on bets (including payments on lottery-type games, sports betting, etc., but excluding payments made by casino chips, slot tickets, tokens or vouchers)"*

As part of the independent review, it was noted that eLottery, eSports, and eBingo disbursements are not considered to be reportable by BCLC. It is important to note that BCLC has considered these transactions not to be reportable to FINTRAC based on a Policy Interpretation (PI) previously published on FINTRAC's website. A copy of the PI was obtained by BCLC where it is noted that sports betting is not subject to the disbursement requirements. However, at the time of the review it was noted that the reference PI-4694 was not published on FINTRAC's website.

Further, as part of operating effectiveness testing, 10 withdrawals over \$10,000 were selected to validate whether they met the definition of a CDR and if so, whether they were reported to FINTRAC. It was noted that 1 sample was related to eSports winnings and was not reported to FINTRAC. Refer to **Appendix D – Item II(a)** for further details.

#### **Reporting Casino Disbursement Reports (CDR) – Reporting timeline (ref.#8)**

Section 5(2) of the PCMLTFA read with FINTRAC guidance 10A prescribes that casinos have to send a casino disbursement report to FINTRAC within 15 calendar days after the disbursement.

As part of the independent review, 25 CDRs were selected to validate whether the 15 days reporting requirement was met. It was noted that for 1 sample, a report was submitted after the 15 days period. It is important to note however that this report included a correction that was identified as part of an internal audit review and that the original report was submitted within the 15 day timeframe.

Nonetheless, FINTRAC guidance indicates that an obligation to report is not fulfilled until the complete report is sent to FINTRAC. Refer to **Appendix D – Item II(b)** for further details.

#### **Suspicious Transaction Reporting (STR) – Reporting account holder information (ref.#9)**

Section 64.2 of the PCMLTFA read with FINTRAC guidance prescribes which information is to be included when submitting STRs. Specifically as it pertains to account holder information, FINTRAC guidance indicates that if the transaction or attempted transaction involves an account, the following relevant details must be included in Part C – "Account information, if the transaction involved an account":

- Account number
- Type of account
- Currency code
- Full name of each account holder
- Status of the account at the time the transaction was initiated

s 15(1)

As part of operating effectiveness testing, it was noted that 5 STRs out of 10 were related to transactions where the conductor was unknown. It was noted that out of the 5 STRs, the names of the account holders were not specified in Part C. Refer to **Appendix D – Item III** for further details.



4. Regulatory Requirement:	Training
<i>The development and maintenance of a written ongoing compliance training program for employees, agents, and others authorized to act on BCLC's behalf.</i>	
<p><b>Ongoing Training – Documentation observation (ref.#11)</b></p> <p>Section 71(1)(d) of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must document the following elements in writing as it relates to their ongoing compliance training program:</p> <ul style="list-style-type: none"> <li>• who needs to be trained;</li> <li>• what type of training is required and the topics covered;</li> <li>• how training is provided;</li> <li>• how often training is needed (timing and frequency, e.g. before handling transactions and yearly thereafter); and</li> <li>• documentation showing that the training has taken place.</li> </ul> <p>In accordance to FINTAC's expectation, it was noted that BCLC's training program covered the following topic areas:</p> <ul style="list-style-type: none"> <li>• An overview of the PCMLTFA and FINTRAC;</li> <li>• Reporting requirements, including large cash transaction, suspicious transaction and casino disbursement reports;</li> <li>• Record keeping requirements;</li> <li>• Compliance Program requirements;</li> <li>• Customer identification requirements;</li> <li>• An overview of money laundering and terrorist financing activities and how gaming products and services may be vulnerable to money laundering</li> <li>• An overview of relevant indicators of suspicious transactions.</li> </ul> <p>Per BCLC's Compliance Manual, it was noted that:</p> <ul style="list-style-type: none"> <li>• Training is mandatory for all front line and senior management staff who have contact with client, see client transaction activity, handle cash or funds in anyway, and who are responsible for overseeing the AML compliance regime including BCLC's PlayNow Operations and Customer Service team members;</li> <li>• Training applies to new employees as part of their on-boarding process and all current BCLC employees;</li> <li>• Training is also conducted for the BCLC Executive Team and Board of Directors (those responsible for implementing/overseeing the compliance program); and</li> <li>• Training must be conducted at least annually for service provider employees.</li> </ul> <p>However, as part of our review, it was noted that the ongoing training frequency for BCLC employees is not defined, unlike the annual requirement for service provider employees. Per inquiry with management, BCLC employees are required to complete the AML training course as part of their onboarding and every 2-years after. An allowance of 1-month past the 2-year deadline is also provided for employees to accommodate for other job responsibilities.</p> <p><b>Ongoing Training – Operating effectiveness observation (ref.#12)</b></p> <p>As part of the independent review, procedures were conducted to validate that all relevant employees requiring AML training completed their mandatory training as per the Compliance Manual. It was noted that 1 BCLC employee had not completed their mandatory training in the required timeline of every 2-years plus 1 month. See <b>Appendix D – Item IV</b> for details.</p>	

5. Regulatory Requirement:	Effectiveness Review
<i>The institution and documentation of an effectiveness review of BCLC's compliance program (policies and procedures, risk assessment and training program) every two years (minimum) for the purpose of testing its overall effectiveness.</i>	
N/A – No issues noted	



## Appendix A: List of In-scope Regulations

The following table outlines the legislation and reporting requirements outlined by FINTRAC that were in-scope. These regulations were used to inform the assessment of the program's overall compliance status.

Regulatory Reference
PCMLTFA and PCMLFTR
FINTRAC compliance program requirements
FINTRAC guidance on the risk-based approach to combatting money laundering and terrorist financing
FINTRAC know your client requirements – Casinos
FINTRAC record keeping requirements – Casinos
FINTRAC reporting guidelines
FINTRAC ML & TF indicators – Casinos

## Appendix B: Summary of Documentation Examined

The following table provides a high-level summary of the documentation that was examined for each in-scope program assessment area during the assessment.

Program Assessment Area	Documents Examined
1. Compliance Officer	<ul style="list-style-type: none"> <li>Current AML Unit organizational structure/chart</li> <li>Job/role descriptions/documents describing authority, roles and responsibilities for all AML / sanctions compliance personnel/positions including chief AML officer ("CAMLO")</li> <li>Board of Directors, Executive management, and other relevant committee(s) meeting minutes related to AML / sanctions risk</li> <li>Relevant management reports and dashboards</li> </ul>
2. Policies and Procedures	<ul style="list-style-type: none"> <li>BCLC Compliance Manual (version 9 – effective as of 6/30/2020)</li> <li>BCLC eGaming Investigations Procedure Manual</li> </ul>
Know Your Patron	<ul style="list-style-type: none"> <li>Snapshots of all data elements captured during the online casino account (PlayNow) registration process (indicating mandatory and optional fields)</li> <li>Total number of online gaming accounts opened between June 1, 2020 to December 31, 2020:</li> <li>Flowchart for opening and verifying new accounts</li> </ul>
Record Keeping	<ul style="list-style-type: none"> <li>Review schedule for patrons subject to enhanced due diligence (EDD) reviews</li> </ul>
Ongoing Monitoring & Enhanced Due Diligence	<ul style="list-style-type: none"> <li>List of all high-risk patron accounts during the testing period</li> <li>Reviewed EDD investigation results on Salesforce</li> </ul>
Transaction Reporting	<ul style="list-style-type: none"> <li>List of required transaction reports submitted during the testing period for online gaming: <ul style="list-style-type: none"> <li>Casino Disbursement Reports (CDRs)</li> <li>Suspicious Transaction Reports (STRs)</li> <li>Unsubstantiated unusual financial transactions (UFTs)</li> </ul> </li> <li>Copies of relevant financial transaction and eGaming records (through OpenBet, Salesforce, and iTrak)</li> </ul>
3. Risk Assessment	<ul style="list-style-type: none"> <li>Previous and most recently completed AML / sanctions risk assessments of business activities and relationships</li> <li>Summary of alerts implemented in accordance with the PCMLTFA and associated Regulations</li> </ul>
4. Training	<ul style="list-style-type: none"> <li>AML/sanctions employee and service provider training course materials</li> <li>Corresponding training attendance registers/reports/tracking sheets per course or session</li> <li>Corresponding training assessment/test results per course or session</li> </ul>
5. Effectiveness Review	<ul style="list-style-type: none"> <li>Previous FINTRAC and other regulatory compliance examinations/audit reports including the engagement or scope letter/statement of work and management's response and action plans</li> <li>Previous internal/external audit reports and/or compliance testing results including the engagement or scope letter/statement of work and management's response and action plans</li> </ul>

## Appendix C: Interview List

The following table lists the various personnel from BCLC who participated in interviews including other *ad hoc* discussions and meetings, during the assessment.

Meeting Dates:	Multiple discussions between January 26 and February 26, 2021
1.	<b>Kevin deBruyckere</b> – Director, AML & Investigations (AML Unit, Legal, Compliance, & Security)
2.	<b>Bal Bamra</b> – Manager, AML Intelligence (AML Unit, Legal, Compliance, & Security)
3.	<b>Daryl Tottenham</b> – Manager, AML Programs (AML Unit, Legal, Compliance, & Security)
4.	<b>Kris Gade</b> – Manager, Investigations (AML Unit, Legal, Compliance, & Security)
5.	<b>Cherilyn Leffler</b> – Manager, eGaming Operations (eGaming Operations)
6.	<b>Brad Rudnicki</b> – AML Intelligence Specialist (AML Unit, Legal, Compliance, & Security)
7.	<b>Steve Beeksma</b> – Specialist, AML Programs (AML Unit, Legal, Compliance, & Security)
8.	<b>Jenny Lam</b> – AML Investigator (AML Unit, Legal, Compliance, & Security)
9.	<b>Rob Stratford</b> – Investigator (AML Unit, Legal, Compliance, & Security)
10.	<b>Troy Weaving</b> – Senior Operations Specialist (eGaming Operations)
11.	<b>Cameron Dodson</b> – Investigator (AML Unit, Legal, Compliance, & Security)



## Appendix D: Operating Effectiveness Observations

The following section details the operating effectiveness observations noted as part of the review.

### I. Ongoing Monitoring – Enhanced Due Diligence (EDD)

For 2 out of 10 samples, we noted the following exceptions:				
#	PlayNow ID	Regulatory Requirement	Observation Details	Conclusion
1	s 22	Section 71.1 of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must conduct enhanced measures on high risk clients.	The subject resides in Manitoba. Per BCLC policies and procedures, BCLC will communicate to the Manitoba Liquor and Lottery (MBLL) AML team who will then perform the EDD review for Manitoba players. This communication was not performed for this player.	Exception noted
2	s 22		No review for this individual has been conducted in 2021. Last review was in January 2020 (for the player's transactions between July to December 2019).	Exception noted

### II. Transaction Reporting – Casino Disbursement Reports (CDRs)

a. For 1 out of 10 withdrawals over \$1,000 sampled to validate whether they met the definition of a CDR, we noted the following exception:				
#	SF Case#	Regulatory Requirement	Observation Details	Conclusion
1	s 15(1)(l)	Section 42(1) of the PCMLTFA read with FINTRAC guidance 10A prescribes that for disbursement of \$10,000 or more (in a single transaction or a combination of multiple transactions within 24-hours), a CDR must be submitted to FINTRAC. This includes payment to a client on bets (including payments on lottery-type games, sports betting, etc., but excluding payments made by casino chips, slot tickets, tokens or vouchers).	CDR report was not submitted to FINTRAC.  Management considered eSports winnings as non-reportable disbursements and therefore, have not submitted an CDR for this transaction.	Exception noted



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b. For 1 out of 25 CDRs sampled to validate whether the 15 calendar day reporting requirement was met, we noted the following exception:				
#	SF Case#	Regulatory Requirement	Observation Details	Conclusion
1	s 15(1)(l)	Section 5(2) of the PCMLTFA read with FINTRAC guidance 10A prescribes that CDRs must be submitted to FINTRAC within 15 calendar days after the disbursement. Changes to submitted CDR must still meet the 15 calendar day reporting timeline.	The CDR was originally submitted on 8/25/2020, however, it was amended on 11/3/2020 due to a BCLC Internal Audit flag. This resulted in the CDR being resubmitted beyond the 15 day requirement.	Exception noted

### III. Transaction Reporting – Suspicious Transaction Reporting (STRs)

For 5 out of 10 samples, we noted the following exceptions:				
#	Incident#	Regulatory Requirement	Observation Details	Conclusion
1	s 15(1)(l)	Section 64.2 of the PCMLTFA read with FINTRAC guidance require that when submitting an STR, Part C <i>Account information, if the transaction involved an account</i> ) must be provided for each disposition that involved an account (completed or attempted transactions). For BCLC, it would be the relevant PlayNow account.	The submitted STRs do not meet the quality requirements for Part C. The relevant account detail was not included even though the transactions involved an account. Specifically, the account holder name was not included.	Exception noted
2	s 15(1)(l)			Exception noted
3	s 15(1)(l)			Exception noted
4	s 15(1)(l)			Exception noted
5	s 15(1)(l)			Exception noted

### IV. Ongoing Compliance Training Program

Per the weekly overdue training report as of 12/28/2020, the following 1 in-scope BCLC employee has not completed their AML training:				
#	Employee	Regulatory Requirement	Observation Details	Conclusion
1	s 22	Section 71(1)(d) of the PCMLTFA read with FINTRAC guidance prescribes that training program should be delivered and tailored to the following individuals: <ul style="list-style-type: none"> <li>those having contact with clients such as front line staff or agents;</li> <li>those involved in client transaction activities;</li> <li>those handling cash or funds in any way; and</li> <li>those responsible for implementing or overseeing the compliance program (such as senior management, information technology staff or internal auditors).</li> </ul>	The employee is part of the Social Purpose & Player Experience division and is required to complete the AML training every 2 years and 1 month. They last completed the training in December 2018 and have not completed the training as at 1/11/2021 (2 years, 1 month, 5 days).	Exception noted

This report is intended solely for the information and internal use of British Columbia Lottery Corporation (BCLC) and should not be used or relied upon by any other person or entity.



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#	<u>PCMLTFA and FINTRAC Requirement</u>	<u>Finding/Details</u>	<u>BCLC Response</u>	<u>Status</u>	<u>Accountable Party</u>
1	<p><b>Know Your Patron (KYP)</b></p> <p>Section 60 of the PCMLTFR read with the FINTRAC know your client requirements guidance states that as casino, BCLC is responsible for identifying clients for the following relevant transactions:</p> <ul style="list-style-type: none"><li>• Account openings and signature card creations;</li><li>• Remittance or transmission of \$1,000 or more;</li><li>• Casino disbursements;</li><li>• Suspicious transactions.</li></ul>	<p>BCLC has not documented their obligation to identify clients for the following transactions:</p> <ul style="list-style-type: none"><li>• Remittance or transmission of \$1,000 or more;</li><li>• Casino disbursements;</li><li>• Suspicious transactions.</li></ul>	<p>AML Compliance manual updated to include the following line: S 15(1)</p>	<b>Complete</b>	<b>AML unit</b>
2	<p><b>KYP-Methods to verify the identity of an individual</b></p> <p>Sections 64(1) and 64(2) of the PCMLTFR read with FINTRAC guidance states that there are 3 methods to verify the identity of an individual:</p> <ul style="list-style-type: none"><li>• Method A: Government issued photo identification method;</li><li>• Method B: Credit file method;</li><li>• Method C: Dual-process method.</li></ul>	<p>BCLC uses the credit file method but have not documented as such in the Compliance Manual.</p>	<p>AML Compliance manual updated to include reference to BCLC using the credit file. Process has actually been defined in the Investigations Process manual.</p>	<b>Complete</b>	<b>AML unit</b>

3	<p><b>Record Keeping</b></p> <p>Sections 40 to 44 of the PCMLTFR read with FINTRAC guidance states that as a casino, BCLC is responsible to keep the following relevant records:</p> <ul style="list-style-type: none"><li>• Suspicious transaction report records;</li><li>• Casino disbursement records;</li><li>• Records of remitting or transmitting funds of \$1,000 or more;</li><li>• Account records:<ul style="list-style-type: none"><li>○ Account operating agreements;</li><li>○ Deposit slips;</li><li>○ Debit and credit memos;</li></ul></li><li>• Reasonable measures records.</li></ul> <p>Furthermore, Section 69(1) of the PCMLTFR read with FINTRAC guidance also states that records are to be kept for a minimum of five years.</p> <p>Sections 43 and 64 of the PCMLTFR read with FINTRAC guidance prescribes that every time a casino opens an account for individuals, a record of the following must be kept: name, address, date of birth and the nature of their principal business or occupation</p>	<p>BCLC has not identified its record keeping obligations nor the related retention period for the aforementioned records except reasonable measures records.</p> <p>As part of the independent review, 25 accounts opened during the review period were selected to validate that the record keeping obligations were fulfilled. It was noted that for 4 accounts, the occupation was not recorded, however, there was no activity on these accounts as no withdrawals or deposits were conducted (i.e. free play). FINTRAC does not prescribe when an account is considered to be active as it relates to record keeping obligations; BCLC policies and procedures do not document when their obligations to record individuals' occupation is triggered.</p>	<p>AML Compliance Manual has been updated to include that STRs, CDRs, LCTs, records of remitting or transmitting funds of \$1,000 or more, Account records must be retained for a 5 year period from the date the were created or submitted (STRs).</p> <p>Added S 15(1)</p> <p>Compliance Manual. to the AML</p>	Complete	AML Unit
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4	<p><b>Ongoing monitoring</b></p> <p>Sections 60.1, 60.2, and 71.1 of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must conduct ongoing monitoring of all individuals with which entities have a business relationship. The Regulations require ongoing monitoring of business relationships to be carried out on a periodic basis.</p>	<p>s 15(1)</p> <p>Note: BCLC was in the process of reviewing and revising the customer risk ranking criteria as well as the ongoing monitoring procedure to be applied based on customer risk ranking.</p>	<p>As noted by Deloitte, BCLC was in the process of reviewing and revising the customer risk ranking criteria as well as the ongoing monitoring procedures to be applied based on customer risk ranking. As a result, one of the noted observations re: Figure 1B was incorrect. Figure 1B was actually deleted in the manual that Deloitte failed to see; this is not a noted observation as the table does not apply.</p> <p>BCLC conducts ongoing monitoring of all individuals; various measures are in place for varying depositing transactions using a risk based approach. The AML Compliance manual has been updated to reflect this.</p> <p>s 15(1)</p>	Complete	AML Unit
5	<p><b>Ongoing Monitoring – Risk Assessment of Business Relationships</b></p> <p>Sections 60.2 and 71.1. of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must conduct a risk assessment for each client in order to determine the level of risk they pose in relation to committing a money-laundering or terrorist activity financing offence.</p>	<p>s 15(1)</p> <p>Note: BCLC was in the process of reviewing and revising the customer risk ranking criteria as well as the ongoing monitoring procedure to be applied based on customer risk ranking.</p>	<p>As noted by Deloitte, BCLC was in the process of reviewing and revising the customer risk ranking criteria as well as the ongoing monitoring procedures to be applied based on customer risk ranking. As a result, one of the noted observations re: Figure 1B was incorrect. Figure 1B was actually deleted in the manual that Deloitte failed to see; this is not a noted observation as the table does not apply.</p> <p>s 15(1)</p>	Complete	AML Unit

6	<p><b>Enhanced Due Diligence</b></p> <p>Section 71.1 of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must conduct enhanced measures on high risk clients.</p>	<p>As part of the independent review, 10 high risk patrons were selected to validate whether enhanced due diligence procedures were conducted. It was noted that for 2 samples, enhanced due diligence measures were not conducted.</p>	<p>The 2 samples identified were for Manitoba players (out of scope for this assessment). BCLC does not conduct enhanced due diligence for Manitoba players; these names are forwarded on to Manitoba gaming to conduct their own enhanced due diligence. AML compliance manual has been updated to reflect this.</p>	Complete	AML Unit
7	<p><b>Reporting Casino Disbursement Reports (CDR) – eSports winnings</b></p> <p>Section 42(1) of the PCMLTFA read with FINTRAC guidance prescribes that casino disbursement reports are applicable to the following types of transactions:</p> <ul style="list-style-type: none"> <li>• Redemptions of slot tickets, chips, tokens or plaques;</li> <li>• Front cash withdrawals;</li> <li>• Safekeeping withdrawals;</li> <li>• Advances on any form of credit, including advances by markers or counter cheques;</li> <li>• Payments on bets, including slot jackpots;</li> <li>• Payments to clients of funds received for credit to that client or any other client;</li> <li>• Cashing of cheques or other negotiable instruments;</li> <li>• Reimbursements to clients of travel and entertainment expenses</li> </ul>	<p>As part of the independent review, it was noted that eLottery, eSports, and eBingo disbursements are not considered to be reportable by BCLC. BCLC has considered these transactions not to be reportable to FINTRAC based on a policy interpretation previously published on FINTRAC’s website. A copy of the policy interpretation was obtained by BCLC where it is noted that sports betting is not subject to the disbursement requirements. At the time of the review, it was noted that the reference was not published on FINTRAC’s website.</p> <p>Further, as part of operating effectiveness testing, 10 withdrawals over \$10,000 were selected to validate whether they met the definition of a CDR and if so, whether they were reported to FINTRAC. It was noted that 1 sample was related to eSports winnings and was not reported to FINTRAC.</p>	<p>Discussion with FINTRAC confirmed that the guidance provided was confusing and as a result the policy interpretation bulletin had been removed from the website. FINTRAC guidance that BCLC separate casino-related disbursements for the purpose of CDR reporting still stands, if BCLC is able to segregate the transactions. FINTRAC representative is currently making additional enquiries with FINTRAC head quarters, but for the time being BCLC can maintain the status quo.</p> <p>As per the exit meeting with Deloitte, during which they agreed that BCLC need not take action on this recommendation without first confirming the guidance with FINTRAC, Director, AML &amp; Investigations, confirms that BCLC will continue reporting CDR’s as per BCLC procedures pending further guidance, or a system change that no longer allows for the separation of disbursements.</p>	Complete	AML Unit

8	<p><b>Reporting Casino Disbursement Reports (CDR) – Reporting Timeline</b></p> <p>Section 5(2) of the PCMLTFA read with FINTRAC guidance 10A prescribes that casinos have to send a casino disbursement report to FINTRAC within 15 calendar days after the disbursement.</p>	<p>As part of the independent review, 25 CDRs were selected to validate whether the 15 days reporting requirement was met. It was noted that for 1 sample, a report was submitted after the 15 days period. This report included a correction that was identified as part of an internal audit review and the original report was submitted within the 15 day timeframe.</p>	<p>No action required. Original report was submitted within the 15 day timeframe. Process is sufficient and exception confirms the due diligence that is undertaken.</p>	<p><b>Complete</b></p>	<p><b>AML Unit</b></p>
9	<p><b>Suspicious Transaction Reporting (STR) – Reporting Account Holder Information</b></p> <p>Section 64.2 of the PCMLTFA read with FINTRAC guidance prescribes which information is to be included when submitting STRs. Specifically as it pertains to account holder information, FINTRAC guidance indicates that if the transaction or attempted transaction involves an account, the following relevant details must be included in Part C – “Account information, if the transaction involved an account”:</p> <ul style="list-style-type: none"><li>• Account number;</li><li>• Type of account;</li><li>• Currency code;</li><li>• Full name of each account holder;</li><li>• Status of the account at the time the transaction was initiated.</li></ul>	<p>s 15(1)</p> <p>As part of operating effectiveness testing, it was noted that 5 STRs out of 10 were related to transactions where the conductor was unknown. It was noted that out of the 5 STRs, the names of the account holders were not specified in Part C.</p>	<p>As per discussion with FINTRAC, it was discussed that reporting on potential victims of fraud is a challenge, but where an account is involved in the transaction, BCLC is required to complete Part C with the accountholder information, but make it clear in Part G that the accountholder is suspected to be a victim of fraud.</p>	<p><b>Complete</b></p>	<p><b>AML Unit</b></p>

10	<p>Section 9.6(2) of the PCLMTFA read with FINTRAC guidance states that reporting entities are required to assess their inherent MLTF risk based on their business risks as follows:</p> <ul style="list-style-type: none"> <li>• Business risks <ul style="list-style-type: none"> <li>○ Products and services</li> <li>○ Delivery channels</li> <li>○ Geography</li> <li>○ Other factors relevant to the business</li> </ul> </li> <li>• Client risks <ul style="list-style-type: none"> <li>○ Products and services clients use</li> <li>○ The location where clients operate</li> <li>○ Profile and characteristics of clients</li> </ul> </li> </ul>	s 15(1)	<p>PlayNow products eLottery, eSports and eBingo has been added to the product risk assessment.</p> <p>The risk register addresses the factors relevant for online activities through the account based findings (AML tab) not through the actual product tab assessment.</p> <p>Crime stats have been included on the casino &amp; eGaming geographical risk tab already.</p> <p>Although BCLC has not identified where online gaming clients operate as part of the overall risk assessment, we do continue to look at data and conduct appropriate analytics to assess risk. This will continue to be a work in progress as we continue to assess device mapping software for fraud mitigation and Bio-metric scanning for registration verification purposes.</p>	Complete	AML Unit
11	<p>Section 71(1)(d) of the PCMLTFA read with FINTRAC guidance prescribes that reporting entities must document the following elements in writing as it relates to their ongoing compliance training program:</p> <ul style="list-style-type: none"> <li>• Who needs to be trained;</li> <li>• What type of training is required and the topics covered;</li> </ul>	<p>As part of the review, it was noted that the training frequency for BCLC employees is not defined. Per inquiry with management, BCLC employees are required to complete the AML training course as part of their onboarding and every 2 years after. An allowance of 1 month past the 2 year deadline is also provided for employees to accommodate for other job responsibilities.</p> <p>As part of the independent review, it was noted that 1 BCLC employee had not completed their mandatory training in the required timeline of every 2 years plus 1 month.</p>	<p>AML Compliance Manual updated to reflect that BCLC employees and contractors (level 1) working on behalf of BCLC must complete the mandatory AML online course every two years within 30 days after date of expiry.</p>	Complete	AML Unit



	<ul style="list-style-type: none"><li>• How training is provided;</li><li>• How often training is needed (timing and frequency); and</li><li>• Documentation showing that the training has taken place</li></ul> <p>Section 71(1) of the PCMLTFA read with FINTRAC guidance prescribes that ongoing compliance training must be implemented by required entities.</p>				
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