



January 29, 2010

Mr. Doug Morrison  
Manager, Security and Surveillance  
British Columbia Lottery Corporation  
10760 Shellbridge Way  
Richmond, British Columbia  
V6X 3H1

Dear Mr. Morrison,

**Subject: Compliance Examination Findings**

**Examination Date: November 30, 2009 – December 9, 2009**

**Period Examined: January 1, 2009 – October 15, 2009**

The purpose of this letter is to advise you of the results of our recent compliance examination to verify your compliance with the requirements under Part 1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and associated Regulations. This examination included on-site reviews from November 30, 2009 – December 9, 2009 of River Rock Resort and Casino, Grand Villa Casino, Starlight Casino, Great Canadian Casino – View Royal, Lake City Casino – Kelowna and Lake City Casino – Vernon.

We would like to express our appreciation for your cooperation with our compliance team during the examination process. However, as we advised you verbally on December 17, 2009, we have identified the following deficiencies that result in your organization being in non-compliance with Part 1 of the PCMLTFA at present:

**Deficiency #1: Compliance Regime - Special Measures for High Risk, Regulation s. 71.1**

Your organization has the obligation, in respect of the activities that pose high risk, to mitigate the risks identified, to take reasonable measures to keep information up to date and conduct ongoing monitoring for the purpose of detecting reportable transactions, as required by section 71.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Although the risk assessment document you provided to us identifies some areas of high risk, it provides no concrete mitigation measures and only speaks to potential or future enhancements to your policies and procedures, and/or client monitoring software. Moreover, in the December 4, 2009 head office interview, the compliance staff acknowledged that to date, no special measures to mitigate the identified high risk areas had been implemented.

Canada

Your risk assessment also states it is a “common practice that winnings are verified” but we interviewed Cage staff at the selected sites and found that, with the exception of slot jackpots, little to no verification of client gaming activity was taking place – particularly for transactions that had been identified as high risk.

In addition, your risk assessment does not take into consideration the geographic locations of the sites operated by the British Columbia Lottery Corporation and the unique characteristics and challenges that may be presented by each location.

**Deficiency #2: *Ascertaining Identity – At time of transaction, Regulations 64(2)(b)***

Your organization has the obligation to ensure that the identity is ascertained at the time of the transactions, as required by paragraph 64(2)(b) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

*Specifically, after reviewing large cash transaction records and incident files at the six casino locations, we found 9 instances where the staff failed to ascertain the identity of the client when he or she accumulated buy-ins equal to or greater than \$10,000 within a 24-hour period.*

Location	# of instances where ID was not obtained
Grand Villa Casino	3
Starlight Casino	6

It should be noted that this deficiency was also cited during the last FINTRAC examination of BCLC conducted in October 2008.

**Deficiency #3: *Reporting – LCT: Reporting time limit, Regulations 5(2)***

Your organization has the obligation to send a report, in respect of a transaction for which a large cash transaction record must be kept and retained, to FINTRAC within 15 days after the transaction, as required by subsection 5(2) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

*Specifically, upon review of 1577 large cash transaction reports during the period of January 1, 2009 to October 15, 2009, we identified 165 large cash transaction reports filed in excess of the 15 day requirement.*

Location	LCTRs reviewed	# of LCTRs reviewed which were filed late
River Rock Resort and Casino	500	87
Grand Villa Casino	500	1
Starlight Casino	500	75
Great Canadian Casino – View Royal	74	2
Lake City Casino – Kelowna	3	0

**Deficiency #4: Reporting – Large Cash Transactions, Regulations 40(1)(a)**

Your organization has the obligation to report the receipt of an amount in cash of \$10,000 or more in the course of a single transaction, together with the information referred to in Schedule 1, as required by section 40 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

*Specifically, upon review of 1577 large cash transaction reports during the period of January 1, 2009 to October 15, 2009, we identified that 206 reports included incorrect transaction dates, and therefore were not submitted to FINTRAC in the prescribed form and manner.*

Location	LCTRs reviewed	LCTRs not submitted in prescribed form and manner
River Rock Resort and Casino	500	110
Grand Villa Casino	500	18
Starlight Casino	500	78
Great Canadian Casino – View Royal	74	0
Lake City Casino – Kelowna	3	0

*Moreover, upon review of 1577 large cash transaction reports during the period of January 1, 2009 to October 15, 2009, we identified 369 reports where the information on the occupation of the client lacked adequate detail, for example “self-employed” or “business owner.”*

Location	LCTRs reviewed	LCTRs lacking adequate detail for occupation
River Rock Resort and Casino	500	158
Grand Villa Casino	500	89
Starlight Casino	500	117
Great Canadian Casino – View Royal	74	5
Lake City Casino – Kelowna	3	0

It should be noted that this deficiency was also cited during the last FINTRAC examination of BCLC conducted in October 2008.

**Deficiency #5: Reporting – Large Casino Disbursement: Reporting time line, Regulations 5(2)**

Your organization has the obligation to send to FINTRAC a large casino disbursement report within 15 days after the disbursement, as required by paragraph 5(2) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

*Specifically, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified that all 500 large casino disbursement reports sampled were reported in excess of the 15 day requirement.*

**Deficiency #6: Reporting - Large Casino Disbursement: Redemption of chips/tokens/plaques, Regulations 42(1)(a)**

Your organization has the obligation to report the disbursement of \$10,000 or more in respect of the redemption of chips, tokens or plaques, together with the information set out in Schedule 8, as required by paragraph 42(1)(a) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

*Specifically, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified that all 500 large casino disbursement reports sampled were not submitted to FINTRAC in the prescribed form and manner. As discussed, during the examination, your organization confirmed that these reports were being incorrectly submitted to FINTRAC as transactions taken place at the casino site in Williams Lake, rather than the correct casino sites across British Columbia.*

*Moreover, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified 72 reports where the information on the occupation of the client lacked adequate detail, for example "self-employed" or "business owner."*

*New provisions of the PCMLTFA and Regulations came into force on September 28, 2009. The following deficiencies are being cited under the provisions which were in force prior to September 28, 2009 and at the time the deficiency occurred.*

**Deficiency #7: Record Keeping - Large Cash Disbursement Records: Redemption of chips, tokens or plaques, Regulations 42(1)(a)**

Your organization has the obligation to keep a large cash disbursement record in respect of the redemption of chips, tokens or plaques in cash of \$10,000 or more, as required by paragraph 42(1)(a) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

*Specifically, upon review of 2005 large cash disbursement records during the period of January 1, 2009 to September 27, 2009, we identified 155 records where the information on the occupation of the client lacked adequate detail, for example "self-employed" or "business owner."*

Location	LCDRs reviewed	LCDRs lacking adequate detail for occupation
River Rock Resort and Casino	500	34
Grand Villa Casino	500	59
Starlight Casino	500	58
Great Canadian Casino – View Royal	280	0
Lake City Casino – Kelowna	125	1
Lake City Casino - Vernon	100	3

It should be noted that this deficiency was also cited during the last FINTRAC examination of BCLC conducted in October 2008.

Consequently we request that you provide us with an action plan identifying what steps you have taken or will be taking, to rectify these compliance issues, in writing, no later than 30 days from the date of this letter. After that time, a FINTRAC Compliance Officer may conduct a follow-up examination to verify if the steps have assisted your organization in meeting its obligations under the PCMLTFA and its Regulations.

Please note that independent of other compliance actions, deficiencies such as those cited in this letter could lead to civil or criminal penalties.

We would like to thank you in advance for your assistance and cooperation. For more information about your legislative requirements, please refer to the PCMLTFA, its associated Regulations and FINTRAC's Guidelines at [www.fintrac-canafe.gc.ca](http://www.fintrac-canafe.gc.ca)

Yours Sincerely,



Robby Judge  
Regional Compliance Officer

cc: Terry Towns  
Vice-President – Corporate Security & Surveillance  
British Columbia Lottery Corporation

cc: Michael Graydon  
President & CEO  
British Columbia Lottery Corporation

cc: Terri Van Sleuwen  
Executive Director – Audit and Compliance Division  
Gaming Policy and Enforcement Branch

February 24, 2010



Mr. Murray Dugger  
Regional Director  
Western Region  
FINTRAC  
1120-1185 West Georgia Street  
Vancouver, B.C  
V6E 4E6

Dear Mr. Dugger:

**Re: Compliance Examination Findings**

**Examination Date: November 30 – December 9, 2009**

**Period Examined: January 1 - October 15, 2009**

BCLC  
10760 Shellbridge Way  
Richmond, BC V6X 3H1  
T 604.270.0649  
F 604.276.6424  
www.bclc.com

Further to your correspondence dated January 29, 2010 and the deficiencies identified by your investigative auditors; I will address each of these items separately in the body of this reply. BCLC wishes to thank both you and Mr. Robby Judge, FINTRAC Regional Compliance Officer, for your cooperation, comments and suggestions through this audit process.

**Deficiency #1: Compliance Regime – Special Measures for High Risk**

*Your organization has the obligation, in respect of the activities that pose high risk, to mitigate the risks identified, to take reasonable measures to keep information up to date and conduct ongoing monitoring for the purpose of detecting reportable transactions, as required by section 71.1 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations (PCMLTFA).*

BCLC has had in place a number of measures to mitigate high risk activities, identify these risks and apply reasonable measures to document and monitor these high risk requirements that fall within section 71.1 PCMLTFA. These measures had been implemented well in advance of this compliance review. I believe BCLC is only missing from our risk assessment, the geographical locations aspect for our gaming locations throughout the province. I believe that in conversation with both you and Mr. Judge, I advised that this was an oversight on my part and that BCLC is currently in the process of addressing the geographical component and that this will be done shortly.

To provide an overview of BCLC Special 'High Risk' Measures, I propose to provide a synopsis of the various instruments that are currently employed to reduce these risks.



- a) As of July 2009 BCLC commenced generating, tracking and analyzing reports pertaining to all cheques issued at gaming facilities in the province. The purpose of this data collection and analysis is two fold.

A determination can be made if a gaming property is issuing more cheques than what is considered to be in the normal range. This leads to follow up with management staff at that particular site to ensure proper protocols are being followed in accordance to the verified win policy and cheque issuance.

BCLC has made policy changes to ensure that the verified win policy is enforced and that winnings at table play are verified by casino floor/management staff. Ultimately, the difference between a patron's buy-in and cash-out is the verified win. This of course is dependant upon verification again by floor/management staff signing off the patron's tracking sheet.

BCLC continues to monitor a patron's play and if a player is receiving a high volume of cheques, this is brought to the attention of the BCLC Casino Investigators. They review the entire circumstance including a tape review if necessary and then if required file a suspicious financial transaction report (SFTR) to FINTRAC if deemed necessary. We also note that if the patron has given an occupation description such as "housewife" or "unemployed" and yet are dealing with large sums of money, again that would be reviewed and if deemed suspicious, a SFTR would be submitted.

- b) BCLC Casino Investigators are dedicated to each gaming property through the province. These investigators are for the most part retired law enforcement officers or individuals that have years of experience within the gaming industry in BC. Thus, each gaming site's commitment to FINTRAC is being overseen by an experienced investigator that is trained in making FINTRAC presentations and trained in all segments of our commitment to FINTRAC reporting. Each investigator has the capacity to review all aspects of our FINTRAC reports generated by site personnel as well as making suggestions and/or changes to these reports prior to submission to FINTRAC. This includes all Large Cash Transaction reports (LCOTR), Foreign Exchange reports (FER), Disbursement reports and all Suspicious Financial Transaction reports (SFTR). These same investigators oversee our reporting requirements within our ITrak province-wide internal reporting system. They also oversee and review each and every Player Gaming Fund Account to ensure FINTRAC reporting and compliance issues are identified and maintained. Basically, every investigator can review, investigate and report each and every high risk transaction. I think it important to note, that in certain 'high risk' locations, BCLC has gone as far as to increase the number of our investigators, thus providing enhanced focus on risk.
- c) On November 18, 2009 IPSA International completed a further review of BCLC Casino Gaming AML/ATF Program – Risk Assessment Update of which a copy was supplied to both FINTRAC and GPE. In their conclusions, IPSA makes mention that "BCLC AML/ATF program has made significant progress over the past year to effectively implement a Risk Based Assessment (RBA)". IPSA indicates that BCLC "resources are now better focused on where they can have the most important risk management impact. Operational priorities, for example, are appropriately based on the risk-based identification of the highest risks and the risk-based development of strategies to mitigate them."

- d) With these same Casino Investigators oversee all aspects of the FINTRAC submissions they are consistently conducting reviews, making determinations and taking reasonable steps to inform and keep agencies such as RCMP Integrated Proceeds of Crime (IPOC) unit, RCMP Gang and Integrated Intelligence unit, Canada Revenue Agency together with the Integrated Canadian Border Services and Intelligences aware of high risk individuals. Coupled with this direct flow of intelligence, each Casino investigator has routine meetings with law enforcement agencies throughout the province, thus ensuring an open dialogue is being maintained with these agencies on local and/or regional concerns.
- e) BCLC Casino Investigators are encouraged to share information amongst each other on any 'risk' patron within the gaming community so that records are updated and any/all associate intelligence is documented for all investigators to review and share.
- f) BCLC continues to meet on a quarterly basis with the Western Regional Director and Regional Compliance Officer - FINTRAC. On many of the meetings BCLC has brought forward issues or items that are being implemented and/or contemplated to ensure a smooth communication flow between BCLC and FINTRAC.

BCLC continues to meet with the Executive Director, Commercial Gaming Audit, Audit and Compliance Branch together with the Executive Director, Internal Compliance and Risk Management – Gaming Policy and Enforcement Branch thereby ensuring open communication on issues or concerns.

**ACTION PLAN:**

BCLC is continuing to develop a geographical locations risk matrix which will identify unique characteristics as required by FINTRAC. BCLC risk matrix and risk assessment for each of our individual properties and a general geographical overview for each property to deal with the risk will be undertaken. This action item will be completed and submitted by March 31, 2010.

**Deficiency #2: Ascertaining Identity – At time of Transaction Regulation 64(2) (b)**  
*Your organization has the obligation to ensure that the identity is ascertained at the time of the transactions, as required by paragraph 64(2) (b) of the PCMLTFA.*

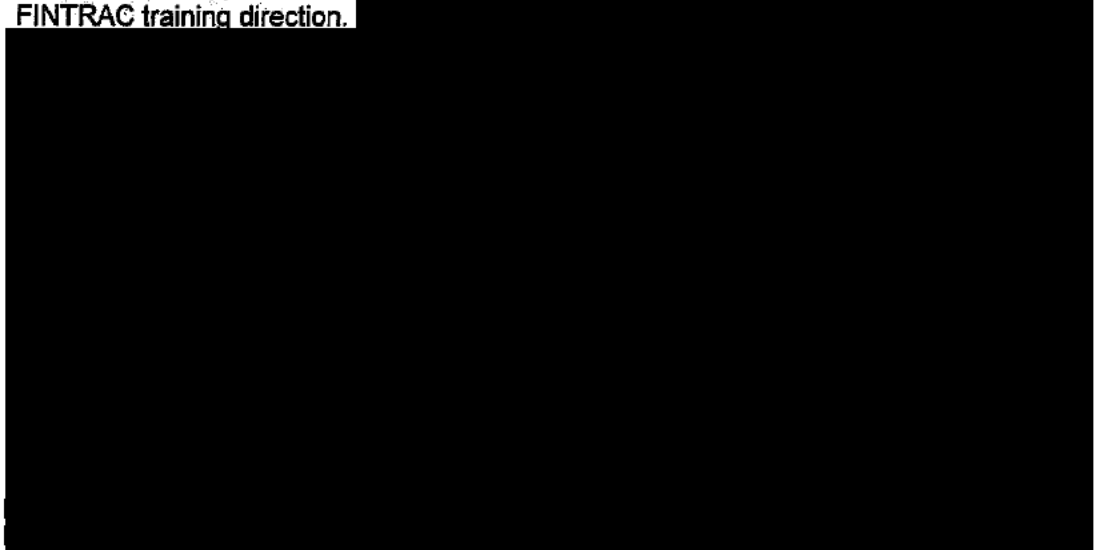
*Specifically, after reviewing large cash transaction records and incident files at the six casino locations, we found 9 instances where the staff failed to ascertain the identity of the client when he or she accumulated buy-ins equal to or greater than \$10,000 within a 24 hour period.*

Without the specific LCT numbers, I cannot look at the specific instances where no identification was obtained from the patron on the LCT transaction. Thus, my response will be general in nature and not specific to the nine (9) incidents noted.

In speaking with FINTRAC Regional Compliance Officer, Mr. Robbie Judge he advised that for the Grand Villa and Starlight Casino sites where these issues ensued, Service Provider (SP) staff should have commenced an LCTR prior to reaching the threshold.



Now, should the patron refuse or not have identification then their gaming privileges should have stopped. However, it appears that these SP followed BCLC policy and our FINTRAC training direction.



FIPPA  
s. 15(1)

BCLC training is consistent with FINTRAC legislation in that a patron who cannot produce identification when they reach the threshold are denied any further transactions until proper identification is produced. This issue will be brought forward to ensure proper training in this area is undertaken, in that identification must be requested prior to reaching the threshold level.

**ACTION PLAN:**

BCLC is currently designing further training materials to refresh our training programs. It should be noted that since 2007 – BCLC has trained 1858 Service Provider staff in 2008 and more recently 4646 Service Provider staff in 2009 – a 150% increase.

Specifically, our new training initiative will directly focus on this particular deficiency. It is anticipated, that this entire training refresh will be completed and in place on our BCLC training website by July 1, 2010.

**Deficiency #3: Reporting – LCT: Reporting time limit, Regs 5(2)**

*Your organization has the obligation to send a report, in respect of a transaction for which a large cash transaction record must be kept and retained, to FINTRAC within 15 days after the transaction, as required by subsection 5(2) of the PCMLTFA.*

*Specifically, upon review of the 1577 LCTR during the period of January 1st, to October 15<sup>th</sup> 2009, we identified 165 LCTR filed in excess of 15 day requirement.*

In order to properly respond to this reporting deficiency – BCLC believes that by providing a timeline of technical problems/issues may be the best method to illustrate BCLC commitment to FINTRAC reporting and meeting reporting timelines.

# **Issue Timeline:**

1. 2009MAR10 – First batch of LCTR filed is rejected by FINTRAC software. Any Foreign Exchange that was combined with a Buy-in or Cash-out is rejected.
2. 2009MAR13 – FINTRAC software was not accepting any LCTR filed with multiple entries, i.e. approx. one half of LCTR filed were combined either a Buy-in or Cash-out.  
  
The other half, Buy-in with Foreign Exchange or Foreign Exchange with Cash-out. The rejection code was '995' indicated 'no indication that the 24 hour rule applies, therefore there should only be one transaction in the report'.  
  
FINTRAC Regional Compliance Officer Mr. Robby Judge advised another 30 LCTR were rejected under the '995' code. Mr. Judge advises that even though LCTR were filed on time they had been rejected and were now deemed late. FINTRAC software will no longer accept LCTR with multiple entries.
3. 2009MAR16 – Soren Fredrickson from iView Systems is notified and seeking a solution to these issues. BCLC IT FINTRAC assistant Ash Kosmadia is advised and updated and reviewing issues with iView Systems.
4. 2009MAR18 – Foreign Exchanges filed under the \$10,000 threshold rejected by FINTRAC. BCLC are now deleting all multiple transactions that were submitted and rejected and now BCLC is resubmitting single transactions only to FINTRAC.
5. 2009MAR31 – All Foreign Exchanges filed by BCLC under the \$10,000 threshold are batch rejected under FINTRAC Code '998' – 'Foreign Exchanges under the reportable threshold'.
6. 2009APR01 – Mr. Robby Judge advised that the BCLC module was not compatible with the FINTRAC module as the FINTRAC module had changed to a new reporting platform. BCLC Casino Investigators advised that we were unaware of any reporting changes. Mr. Judge advised it was on the FINTRAC website. Mr. Judge agreed to consult with Fredrickson from iView Systems in order to facilitate the instituting of a 'patch' by iView Systems to bridge the software gap. Mr. Judge delivers correspondence requesting BCLC develop a plan outlining the steps BCLC is taking to resolve these software issues. Plan developed, together with frequent telephone and email dialogue to rectify this software issue.
7. 2009APR 15 – Newly developed iView Systems software 'patch' is initiated into the system by BCLC IT and appears to resolve filing issues.
8. 2009APR21 – FINTRAC software is now rejecting all BCLC filed LCTR with buy-ins over \$10,000 combined with foreign exchanges over \$10,000.
9. 2009MAY05 – A newly developed software 'patch' implemented by iView Systems to resolve the APR21 software issue.
10. 2009MAY07 – Twenty-nine (29) LCTR remain outstanding but the software 'patch' implemented appears to be working and submitting data to FINTRAC.
11. 2009MAY14 – Another twenty-six (26) filed LCTR are batch rejected by FINTRAC software under the error Code '995' – There is no indication that the 24 hour rule applies, therefore there should only be one transaction in this report'.
12. 2009MAY15 – BCLC IT and iView Systems are advised the 'patch' has failed and were now back to deleting all foreign exchanges under the \$10,000 threshold and all cash outs. Only single buy-in transactions over the \$10,000 are filed.
13. 2009MAY16 – BCLC IT and iView Systems rectify software issues. BCLC is now able to capture all foreign exchange entries under the \$10,000 threshold and cash outs internally without further software submission issues.

BCLC did not experienced any further software problems/ issues of significance until after September 28, 2009 with the new software rollout capturing FINTRAC 'disbursements'. Therefore, it appears that 165 LCTR filed late can be directly attributed to issues that were software related. Although, initially filed and processed on time by BCLC they were subsequently rejected by FINTRAC software and became part of the reconciliation process between BCLC investigators, BCLC IT, iView Systems integration and FINTRAC IT which rendered these reports out of the 15 day FINTRAC reporting allowance.

**ACTION PLAN:**

BCLC Casino Investigators continue to monitor (on a daily basis) all of the various IT elements - BCLC IT, iView Systems and FINTRAC IT ensuring that all maintain an open communication port to review, discuss and rectify future operational reporting issues. At the time of writing this response, it appears that all reporting systems appear to be responding to each other and no issues remain.

**Deficiency #4: Reporting – Large Cash Transactions, Regs 40(1) (a)**

*Your organization has the obligation to report the receipt of an amount in cash of \$10,000 or more in the course of a single transaction, together with the information referred to in Schedule 1, as required by section 40 of the PCMLTFA.*

*Specifically, upon review of 1577 large cash transaction reports during this period of January 1, 2009 to October 15, 2009, we identified 206 reports included incorrect transaction dates and therefore were not submitted to FINTRAC in the prescribed form and manner.*

FINTRAC Audit identified 206 LCTs report out of a total of 1577 filed that contained incorrect transaction dates. These comparisons would have been between the electronic copy and the hard copy of the report retained on site by the Service Provider. Upon comparison it appears they identified discrepancies between the two. This is obviously a human error issue in transposing data from one form to another. In our LCT training we emphasize the issue of accuracy when preparing and uploading reports into the electronic system.

**ACTION PLAN:**

In order to address this 'human error' issue of transposing wrong date information - BCLC has three proposals to address this:

First, the current BCLC web-based FINTRAC training program is going to be updated and revised. Specifically, BCLC will include updated information that will provide greater emphasis on teaching service provider staff that they must be more diligent in transposing data.

Additionally, BCLC will design additional scenarios to help SP capture and transpose specific transaction information and dates.

Finally, BCLC Casino investigators will continue to communicate with casino cash staff to ensure that data is transposed correctly.

**Deficiency #5: - Large Casino Disbursement: Reporting time line, Regulations 5(2)**

*Your organization has the obligation to send to FINTRAC a large casino disbursement report within 15 days after the disbursement, as required by paragraph 5(2) of the PCMLTFA.*

-7-

*Specifically, upon review of 500 large cash disbursement reports during the period of September 28, 2009 to October 15, 2009 we identified that all 500 large casino disbursement reports sampled were reported in excess of the 15 day requirement.*

In order to meet the new disbursement reporting conditions, BCLC needed new software that captured FINTRAC previous reporting requirements coupled with obligations in relation to casino disbursements. Although, the software was tested and introduced on time and given submission approval by FINTRAC, BCLC in conjunction with iView Systems encountered two (2) software difficulties.

This first issue dealt with the "type of identification" field in the electronic FINTRAC reporting module. FINTRAC's own software rejected BCLC electronic casino disbursement submissions as it could not recognize certain "schema" related to the identification field in the BCLC's electronic reporting software. Simply put, the buy in documentation and the disbursement documentation of the FINTRAC documentation provided two different ways of spelling license (licence). iView Systems and BCLC did not realize this fact – until all BCLC submissions were continually being rejected by FINTRAC. Once the issue was identified, several IT software patches were needed to be created by iView Systems together with BCLC IT before the issue was totally addressed.

The second issue concerning late filings to FINTRAC was identified by FINTRAC. Ultimately, what occurred was that all BCLC disbursement reports were being filed incorrectly from a single location in the province - Signal Point CGC, Williams Lake, BC; rather than from the correct submitting gaming facility. The root cause was that when the casino disbursement reporting software was created by iView Systems, the software developer neglected to take into account the need to ensure that all casino disbursements submitted were in fact being attached to the proper Casino facility throughout the province. Unfortunately, the software installed locked in on Signal Point Community Gaming Center and gave the false impression that all casino disbursements were being reported from this single location. Since this was an obvious software glitch, neither BCLC nor the Casino Service Providers were aware of this reporting malfunction. Once the issue was identified by FINTRAC auditors, further software reconfigurations were required to meet our FINTRAC reporting conditions.

#### **ACTION PLAN:**

BCLC casino investigators continues to keep an open communication link with iView Systems and our BCLC IT staff to ensure that any FINTRAC error code issues that surface are reviewed and addressed quickly. Together with this aspect, BCLC IT continues to develop a communication link with FINTRAC IT technical services, attempting to foster a much more cooperative approach and relationship to better resolve issues.

#### **Deficiency #6: Reporting – Large Casino Disbursement: Redemption of chips, tokens/plaques, Regulations 42(1) (a)**

*Your organization has the obligation to report the disbursement of \$10,000 or more in respect of the redemption of chips. Tokens or plaques, together with information set out in Schedule 8, as required by paragraph 42(1) (a) of the PCMLTF Regulations.*

*Specifically, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified that all 500 large casino disbursement reports sampled were not submitted to FINTRAC in the prescribed form and manner. As discussed, during the examination, your organization confirmed that these reports were being incorrectly submitted to FINTRAC as transactions taken place at the casino site in Williams Lake, rather than the correct casino sites across British Columbia.*

*Moreover, upon review of the 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified 72 reports where the information on the occupation of the client lacked adequate detail, for example "self-employed" or business owner".*

*New provisions of the PCMLTFA and Regulations came into force on September 28, 2009. The following deficiencies are being cited under the provisions which were in force prior to September 28, 2009 and at the time the deficiency occurred.*

BCLC electronic reports were not submitted to FINTRAC in the prescribed form and manner i.e.: these reports were being incorrectly submitted to FINTRAC as transactions taken place at the community gaming center (CGC) facility in Williams Lake rather than the correct casino sites across British Columbia. This was identified as an iView Systems software issue. When the casino disbursement reporting software was created the software developer neglected to take into account the need to ensure that casino disbursements submitted were in fact being attached to the proper Casino site. In essence the software locked in on Signal Point Casino and gave the wrong impression that all casino disbursements were being reported from this location. Neither BCLC nor the Casino Service Providers would have known this was taking place until it was identified and brought to their attention by FINTRAC. This matter has since been rectified as a result of an IT software patch created by iView Systems and subsequently installed by BCLC IT.

To address the issue of vague occupations being accepted by casino staff, BCLC has two proposals to address this:

First, the current on-line FINTRAC training is going to be updated and revised. Specifically it will include updated information and scenarios to attempt to teach service provider staff that they must ask for more specific occupations from patrons. Second, as of January 2010, a weekly report is generated from our iTrak reporting system which lists all the LCTs transactions in which these specific occupations were used – "businessman", "unemployed", "self employed" and "housewife". If a particular casino or CGC property is generating any LCTs with these types of occupations entered, BCLC can follow up with the site staff to address and rectify these issues.

#### **ACTION PLAN:**

BCLC continues to define this aspect in our training programs and will continue to stress occupation in our new training modules currently being developed and refined. BCLC is endeavoring to limit this deficiency, however even with these mitigation processes in place, the issue of identifying occupation is limited by service provider staff. If a patron refuses to divulge further information, the only recourse that the service provider has is to record the comments made by the patron. While all attempts are being made to reduce this error rate it will always be difficult to achieve total compliance on this issue.

Finally, BCLC casino investigators continue to keep an open communication link with iView Systems and our BCLC IT staff to ensure that any FINTRAC error code issues that surface are reviewed and addressed quickly. Together with this aspect, BCLC IT continues to develop a communication link with FINTRAC IT technical services in an attempt to foster a cooperative relationship.

**Deficiency #7: Record Keeping – Large Cash Disbursement Records: Redemption of chips, tokens or plaques, Regulations 42(1) (a)**

*Your organization has the obligation to keep a large cash disbursement record in respect of the redemption of chips, tokens or plaques in cash of \$10,000 or more, as required by paragraph 42(1) (a) of the PCMLTF Regulations.*

*Specifically, upon review of 2005 large cash disbursement records during the period of January 1, 2009 to September 27, 2009, we identified 155 records where the information on the occupation of the client lacked adequate detail, for example "self-employed" or "business owner".*

In order to address the issue of vague occupations being accepted by casino staff, BCLC has two proposals to address this. First, the current on-line FINTRAC training is going to be updated and revised. Specifically it will include updated information and perhaps a few scenarios to attempt to teach service provider staff that they must ask for more specific occupations from patrons filing LCTs.

Secondly, as of January 2010, a weekly report is generated from our iTrak system which lists all the LCTs transactions in which these specific occupations were used – "businessman", "unemployed", "self employed" and "housewife". If a particular casino or CGC property is generating any LCTs with these occupations entered, again we can follow up with the site staff to address these concerns.

Even with these mitigation processes in place, the issue of identifying occupation is limited by service provider staff.

**ACTION PLAN:**

Ultimately, this is a training and delivery issue. BCLC continues to define this aspect in our training programs and will continue to stress occupation in our new training modules currently being developed.

**CONCLUSION:**

In reviewing 2009, many of the issues identified during this audit and now contained within this audit report can be addressed through enhancing our BCLC training program through 'key message deliverables'. BCLC Casino Security has already commenced in addressing our training and will impart these key messages through enhanced scenarios-type presentations and some enhanced training program changes. It is anticipated that this training initiative will be completed by early June 2010 and will subsequently be moved to the BCLC training site – [learn@bclc.com](mailto:learn@bclc.com) in early July 2010. This will streamline all of our FINTRAC training moving forward.

BCLC has made tremendous strides in getting the message out concerning FINTRAC reporting and training to all gaming facilities in the province. Currently, for the year 2009, BCLC has been able to get our various training initiatives to capture 90 % of gaming staff province wide. This figure represents a 150% increase in trained staff over our 2008 training. In 2010, BCLC is hoping to capture and train all remaining staff.

Finally, BCLC has been faced with a number of software issues in relation to FINTRAC moving onto an XML Schema language platform in early February/March 2009. This, together with some very specific software issues, created reporting problems and problems in even identifying FINTRAC error codes so that the issue could be resolved. Even with the roll-out of BCLC new disbursement module and updated software program on September 28, 2009, much of these latest software glitches needed the combined IT expertise from iView Systems, BCLC IT and FINTRAC technical IT to dissect and resolve.

While it now appears that all of these IT issues have been resolved, BCLC Casino Investigations continue to monitor/review all electronic submissions made; to ensure we continue to meet our compliance obligations.

Sincerely,



D.D. Morrison MB, MBA, MA, BA, CPP  
Manager, Casino Security and Surveillance

cc Terri Van Sleuwen  
Executive Director – Audit and Compliance Division  
Gaming Policy & Enforcement Branch

Michael Graydon  
President and CEO, BCLC

Terry Towns  
Vice President, Corporate Security & Compliance, BCLC



**PROTECTED A**

June 15, 2010

Mr. Michael Graydon  
President and CEO  
British Columbia Lottery Corporation  
10760 Shellbridge Way  
Richmond, BC  
V6X 3H1

**Subject: Follow-up to Compliance Examination Findings**  
**Examination Date (on-site): November 30 – December 9, 2009**  
**Period Examined: January 1, 2009 – October 15, 2009**

Dear Mr. Graydon,

This letter is further to the meeting held on March 16, 2010, between the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) Western Regional Office and the British Columbia Lottery Corporation (BCLC), where the details of the above-mentioned FINTRAC examination results, as cited in the Findings Letter dated January 29, 2010, were discussed.

FINTRAC advised you that deficiencies such as those cited in the Findings Letter could lead to civil penalties. Enclosed, you will find a Notice of Violation, resulting from this examination that was conducted starting in November 2009 and concluded in March 2010.

Please do not hesitate to contact Mr. Murray Dugger, Regional Director, Western Region at (604) 666-8245 should you have any questions.

Sincerely,

Chantal Jalbert  
Assistant Director  
Regional Operations and Compliance

Encl.

...2



-2-

c.c.: Terry Towns, Vice-President – Corporate Security & Surveillance, BCLC  
Doug Morrison, Manager, Security and Surveillance, BCLC

Terri Van Sleuwen, Executive Director, Audit and Compliance Division, GPEB

Murray Dugger, Regional Director, Western Region, FINTRAC

Michael Donovan, Manager, Compliance Enforcement Unit, FINTRAC



Financial Transactions and  
Reports Analysis Centre  
of Canada

Centre d'analyse des opérations  
et déclarations financières  
du Canada

# NOTICE OF VIOLATION / AVIS DE PROCÈS-VERBAL

Date: June 15, 2010

Entity Name / Nom de l'entité <b>British Columbia Lottery Corporation</b>	RE No / No d'ED [REDACTED]	AMPs File Number / No du dossier PAP <b>AMP1011-00001</b>
Operating as / Faisant affaires sous le nom <b>BCLC</b>	Address / Adresse <b>74 West Seymour Street</b>	
	City / Ville <b>Kamloops</b>	
	Province <b>British Columbia</b>	Postal Code / Code postal <b>V2C 1E2</b>

Pursuant to section 73.13 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, FINTRAC has determined that the above named person or entity committed the violation(s) so noted in the attached "List of Violations". FINTRAC thereby imposes the following administrative monetary penalty:

Conformément à l'article 73.13 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* (la Loi), CANAFE a établi que la personne ou l'entité susmentionnée a commis les violations notées à la liste de « procès-verbal ». Par conséquent, CANAFE impose la pénalité administrative pécuniaire suivante :

<b>Total Monetary Penalty</b> <b>Pénalité administrative pécuniaire totale</b> Amount payable in Canadian funds Montant à payer en dollars canadiens	<b>\$ 695,750.00</b>	<b>Due Date</b> <b>Date d'échéance</b> <b>2010-07-15</b> (YYYY-MM-DD / AAAA-MM-JJ)
---	----------------------	---

The above-named person or entity has the right to make representations regarding the violation and the penalty to the Director of FINTRAC on or before the above noted "Due Date". For instructions on making representations to the Director, please refer to the details as described on the back of this notice.

La personne ou l'entité susmentionnée a le droit de présenter des observations concernant la violation et la pénalité imposée à la directrice de CANAFE d'ici la « date d'échéance » ci-haut mentionnée. Pour des directives concernant la façon de procéder pour présenter des observations à la directrice, veuillez consulter les détails au verso de cet avis.

More information about the administrative monetary penalties regime can be found at: <http://www.fintrac.gc.ca/re-ed/in-eng.asp>. For more information about this notice of violation, you may contact FINTRAC toll free at 1-866-346-8722.

Pour de plus amples renseignements concernant le régime des pénalités administratives pécuniaires, veuillez consulter le site <http://www.canafe-fintrac.gc.ca/re-ed/in-fra.asp>. Pour plus d'information sur cet avis de procès-verbal, communiquez avec CANAFE sans frais au 1-866-346-8722.

JUN 15 2010

Assistant Director, Regional Operations and Compliance, FINTRAC  
Directeur adjoint, Opérations régionales et conformité, CANAFE

Date

See payment instructions on reverse of this Notice / Voir les instructions sur les paiements au verso de cet avis de procès-verbal



Financial Transactions and  
Reports Analysis Centre  
of Canada

Centre d'analyse des opérations  
et déclarations financières  
du Canada

## PAYMENT / PAIEMENT

Name / Entity Name Nom / Nom de l'entité <b>British Columbia Lottery Corporation</b>	RE No / No d'ED [REDACTED]
	AMPs File Number / No du dossier PAP <b>AMP1011-00001</b>

**Amount Paid (Cdn\$)**  
**Montant payé (\$CA)**  
**\$ 695,750.00**

**Due Date / Date d'échéance**  
**2010-07-15**  
(YYYY-MM-DD / AAAA-MM-JJ)

**FINTRAC / CANAFE**  
**Finance Unit / Unité des finances**  
**24<sup>th</sup> floor, 234 Laurier Ave. W. / 234, av. Laurier Ouest, 24<sup>e</sup> étage**  
**Ottawa, ON K1P 1H7**

Please remit certified cheque, money order or bank draft made payable to the  
**Receiver General for Canada**  
Veuillez émettre le chèque, le mandat ou la traite bancaire à l'ordre du  
**Receveur général du Canada**

**NOTICE OF VIOLATION / AVIS DE PROCÈS-VERBAL**  
**Payment Instructions / Instructions de paiement**

**PAYMENT INSTRUCTIONS**

Acceptance of the violation and penalty requires payment by the "Due Date" indicated on the front of this Notice.

To effect payment, the named person or entity must fill out the attached remittance form and include payment by certified cheque, money order or draft note in the amount indicated on page one, payable to the **Receiver General for Canada**, and send it to the address indicated on the remittance form.

In remitting payment to FINTRAC, the named person or entity forgoes the right to appeal and to make representations to FINTRAC.

**INSTRUCTIONS DE PAIEMENT**

Si la personne ou l'entité accepte la violation et la pénalité imposée, elle doit effectuer le paiement d'ici la « **date d'échéance** » indiquée sur la première page de cet avis.

Pour effectuer un paiement, la personne ou l'entité doit remplir le formulaire ci-inclus et l'accompagner d'un chèque certifié, d'un mandat ou d'une traite bancaire au montant indiqué à la première page et à l'ordre du **Receveur général du Canada**. Elle doit ensuite faire parvenir le tout à l'adresse indiquée sur le formulaire.

En remettant le paiement à CANAFE, la personne ou l'entité désignée se désiste de son droit de présenter des observations à CANAFE et de son droit d'appel.

The right to make representations to the Director of FINTRAC with respect to this notice of violation must be made within 30 days after the day on which the Notice is received. If making a representation to FINTRAC, do not make payment.

Representations must be made in writing by **July 15, 2010** and sent to the address below. An explanation, and any additional supporting information, should accompany the written request. In correspondence with FINTRAC, please quote the AMP File number.

Send representations to:

**FINTRAC**

**Attention: Review and Appeals Unit Ottawa,  
 24<sup>th</sup> floor, 234 Laurier Ave. West  
 ON K1P 1H7  
 Fax: 613-943-7931**

Toute personne ou entité souhaitant présenter des observations à la directrice de CANAFE en vertu du présent avis de violation, doit le faire dans les 30 jours suivant la réception du présent avis. Le cas échéant, ne pas envoyer de paiement.

Les observations doivent être présentées par écrit d'ici le **15 juillet 2010** et envoyées à l'adresse inscrite ci-dessous. La demande écrite doit être accompagnée d'une explication et de tout autre fait à l'appui. La lettre à CANAFE doit comprendre le numéro du dossier de la PAP.

Veuillez faire parvenir le tout à :

**CANAFE**

**À l'attention de l'Unité de révision et des appels  
 234, av. Laurier Ouest, 24<sup>e</sup> étage  
 Ottawa (Ontario) K1P 1H7  
 Télécopieur : 613-943-7931.**

**NOTE** - If payment of the penalty or a request for a review in accordance with the Notice is not made by the "Due Date" indicated on the front of this Notice, the violation(s) will be deemed to have been committed and payment of the full amount of the penalty must be made. Unpaid penalties and interest due constitute a debt to the Crown that may be recovered as such in the Federal Court of Canada. Interest is calculated at the prescribed rate pursuant to section 9 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Administrative Monetary Penalties Regulations*, for the period beginning on the first day after the day on which the amount was required to be paid and ending on the day on which the amount is paid.

**REMARQUE** - À défaut de recevoir le montant de la pénalité ou, le cas échéant, les observations d'ici la « **date d'échéance** », les violations seront réputées avoir été commises et le montant complet de la pénalité devra être payé. Les pénalités et les intérêts courus constituent une créance du gouvernement du Canada, dont le recouvrement peut être poursuivi à ce titre devant la Cour fédérale du Canada. Les intérêts sont calculés conformément à l'article 9 du *Règlement sur les sanctions administratives pécuniaires-recyclage des produits de la criminalité et financement des activités terroristes*, pour la période commençant le lendemain de la date d'échéance et se terminant le jour du paiement.

**NOTICE OF VIOLATION / AVIS DE PROCÈS-VERBAL**  
**List of Violations / Liste des violations**

Pursuant to section 73.13 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, FINTRAC has determined that British Columbia Lottery Corporation, operating as BCLC was a casino as defined in the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, at the after mentioned date(s) and committed the following violations:

Conformément à l'article 73.13 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, CANAFE a établi que British Columbia Lottery Corporation faisant affaires sous le nom de BCLC était un casino, au sens du Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes, à la date /aux dates ci-après mentionnée(s) et a commis les violations suivantes:

1. Failure of a prescribed person or entity, in respect of the activities that pose high risks, to take prescribed special measures, that occurred on December 4, 2009, which is contrary to subsection 9.6(3) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and section 71.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Fait, pour toute personne ou entité visée, à l'égard des activités qui présentent un risque élevé, de ne pas prendre les mesures spéciales visées, et ce le 4 décembre 2009, en contravention au paragraphe 9.6(3) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* et de l'article 71.1 du *Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes*.

2. Failure of a specified person or entity to ascertain in the prescribed manner and within the prescribed period the identity of every individual with whom the person or entity conducts a transaction in respect of which a record must be kept, that occurred on 8 separate occasions during the period of April 9, 2009 to October 2, 2009, which is contrary to section 6.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, section 53 and paragraph 64(2)(b) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Fait, pour toute personne ou entité visée, de ne pas vérifier, de la manière et dans le délai réglementaires, l'identité de tout individu qui effectue avec elle une opération pour laquelle un relevé est exigé, et ce à 8 reprises au cours de la période du 8 avril 2009 au 2 octobre 2009, en contravention à l'article 6.1 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, de l'article 53 et à l'alinéa 64(2)(b) du *Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes*.

3. Failure to report a large casino disbursement or a transaction for which a large cash transaction record must be kept and retained within 15 days after the disbursement or transaction, that occurred on 165 separate occasions during the period of February 6, 2009 to July 20, 2009 for large cash transactions and on 419 separate occasions during the period of October 28, 2009 to November 19, 2009 for large casino disbursements, which is contrary to subsection 9(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and subsection 5(2) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Ne pas faire une déclaration relative à un déboursement de casino important ou à une opération pour laquelle un relevé d'opération importante en espèces doit être tenu et conservé, dans les quinze jours suivant le déboursement ou l'opération, et ce, à 165 reprises au cours de la période du 6 février 2009 au 20 juillet 2009 concernant les opérations importantes en espèces et à 419 reprises au cours de la période du 28 octobre 2009 au 19 novembre 2009 concernant les déboursements de casino importants, en contravention au paragraphe 9(1) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* et au paragraphe 5(2) du *Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes*.

4. Failure of a casino to report the receipt of an amount in cash of \$10,000 or more in the course of a single transaction, together with the prescribed information, that occurred on 366 separate occasions during the period of February 6, 2009 to September 19, 2009, which is contrary to subsection 9(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, paragraph 40(1)(a) and Schedule 1 Part D10 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Fait, pour tout casino qui reçoit une somme en espèces de 10 000 \$ ou plus au cours d'une seule opération, de ne pas déclarer cette opération et de ne pas joindre à la déclaration les renseignements prévus, et ce à 366 reprises au cours de la période du 6 février 2009 au 19 septembre 2009, en contravention au paragraphe 9(1) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, à l'alinéa 40(1)a) et à l'Annexe 1 partie D10 du *Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes*.

5. Failure of a casino to report the disbursement of \$10,000 or more in the course of prescribed transactions, together with the prescribed information, that occurred on 72 separate occasions during the period of October 28, 2009 to November 19, 2009, which is contrary to subsection 9(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, paragraph 42(1)(a) and Schedule 8 Part D10 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, as it reads since September 28, 2009.

Fait, pour tout casino, de ne pas déclarer les opérations réglementaires au cours desquelles une somme de 10 000 \$ ou plus est déboursée et de ne pas joindre à la déclaration les renseignements réglementaires, et ce à 72 reprises au cours de la période du 28 octobre 2009 au 19 novembre 2009, en contravention au paragraphe 9(1) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, à l'alinéa 42(1)a) et à l'Annexe 8 partie D10 du *Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes*, tel que rédigé depuis le 28 septembre 2009.

6. Failure of a casino to keep a large cash disbursement record in respect of prescribed transactions in the course of which the total amount of cash disbursed is \$10,000 or more, that occurred on 155 separate occasions during the period of January 3, 2009 to September 27, 2009, which is contrary to section 6 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, paragraphs 42(1)(a) and 42(2)(b) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, as it read until September 27, 2009.

Fait, pour tout casino, de ne pas tenir des relevés de déboursement important en espèces relativement aux opérations réglementaires au cours desquelles une somme de 10 000 \$ ou plus est déboursée, et ce à 155 reprises au cours de la période du 3 janvier 2009 au 27 septembre 2009, en contravention à l'article 6 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* et aux alinéas 42(1)(a) et 42(2)b du *Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes*, tel qu'il se lisait jusqu'au 27 septembre 2009.

June 30, 2010

BY FACSIMILE (613) 943-7931



FINTRAC  
Attention: Review and Appeals Unit Ottawa  
24<sup>th</sup> Floor  
234 Laurier Avenue West  
Ottawa, Ontario K1P 1H7

Dear Sirs:

Re: Representation/British Columbia Lottery Corporation/Notice of Violation Re [REDACTED]  
File Number AMP1011-00001

BCLC  
10780 Shellbridge Way  
Richmond, BC V6X 3H1  
T 604.270.0649  
F 604.276.6424  
www.bclc.com

The following is our written representation sent in response to our receipt of Notice of Violation, with monetary penalty, issued June 15, 2010, by the Western Regional Office.

The British Columbia Lottery Corporation ("BCLC") confirms its complete commitment to compliance with the *Proceeds of Crime (Money-Laundering) and Terrorist Financing Act* (the "Act") and its regulations. BCLC has directed significant attention and has expended very considerable time and resources, to initiate, and adjust when issues were identified, a compliance regime intended to meet full compliance with the requirements of the Act, and to address concerns and deficiencies in its program identified by FINTRAC in its audit of BCLC's program. More detailed outlines of the steps which have been taken, follow in this representation.

BCLC requests withdrawal of the Notice of Violation, including therewith the imposition of monetary penalty; detailed reasoning for the representation and request follows. BCLC notes that the administrative penalty scheme is intended to be used as a tool for FINTRAC to ensure compliance with the Act and regulations. The use of this civil penalty regime is to encourage compliance and not for punitive ends. BCLC, as we hope is demonstrated by the representations included in this correspondence, is fully committed to compliance, and has been taking appropriate steps in each instance of identification of shortcomings with its compliance regime, to rectify and meet the identified requests of FINTRAC in the administration of the Act. BCLC is dedicated to ensuring full compliance with the Act; and was expending considerable resources and expertise to deliver compliance to the requirements of FINTRAC well prior to the issuance of the violation notice.

BCLC, using external consultants, and in the spirit of cooperation with FINTRAC, has taken corrective action where issues have been identified. It has at no time failed to give full and concerned consideration to the Act, the guidelines issued by FINTRAC, the suggested formats for appropriate compliance regimes, the audit results of



FINTRAC  
June 30, 2010  
Page 2 of 8

FINTRAC examination, and the recommendations of its professionals. BCLC remains committed to improving its compliance regime, and to satisfying FINTRAC as to rectification of deficiencies. As a consequence, BCLC is of the view that Notice of Violation, and imposition of a monetary penalty, is not necessary to meet the purposes of the regulation, which is to ensure compliance. Further, BCLC is of the view that publication of a violation notice would have a contrary effect to the intention, in that it would indicate to the patrons of casinos that it is possible to avoid the necessary identification, recording and reporting, under the Act, which is a message BCLC does not wish to have made.

The public notice will detract from the very considerable efforts BCLC is making to appropriately comply. It will encourage inappropriate behaviour by the patrons of the gaming establishments which is contrary to the intention of the Act, and the compliance program which BCLC has been working strenuously to implement, and consistently to improve.

#### **Commitment to Improvement in Compliance**

BCLC has undertaken significant reviews, both internal and through a third party assessment, of its compliance regime. It has coupled the results of those reviews with the FINTRAC audit reports to identify areas of particular focus for improvement in its compliance regime. The specific steps and programs which BCLC has identified are intended to address issues noted during each of those reviews, and most specifically to select areas for improvement that are linked to the identified deficiencies noted in the FINTRAC audit. Programs have been implemented, and continue to be modified and tweaked, intended to provide measurable improvement in those areas where deficiencies have occurred. In the majority of instances many of the deficiencies have been diagnosed and appropriate steps taken to rectify the issues noted.

The specific areas in which program improvements have been, or are in the process of, being implemented include the following:

- (a) As BCLC worked with its technology provider to create an effective reporting interface with FINTRAC, a series of technology based issues arose, which resulted in the vast majority of the failures noted in the FINTRAC audit report included with the Notice of Violation of June 15, 2010. Each of these has been reviewed, the technology shortcomings diagnosed, and technology changes completed so as to result in an effective reporting interface. Our review of the reporting efficiency, subsequent to the identification of these issues, and the software rectification which was required, has indicated that timely, correctly formatted, reports have been completed between BCLC and FINTRAC since that date. While BCLC regrets the reporting issues which arose as a consequence of the interface difficulties between the two reporting systems, it did move quickly with iView Systems as each issue was identified to retain appropriate software expertise to work on rectification. During the period from March 2009 to May 2009, consistent and sequential software fixes were required, to deal with interface issues arising as a consequence of FINTRAC's software rejecting filed LCTRs. In each instance a software patch was required, and was implemented, as soon as the rejection issue was identified, and software revisions could be designed to allow the effective and timely

FINTRAC  
June 30, 2010  
Page 3 of 8

reporting. These steps were taken in each instance as soon as the issue was identified.

It is believed that the system, and the reporting interfaces, to the extent they can be completed by BCLC, have been done so. There remains some technology discussion that needs to be held between FINTRAC and BCLC, and we have been working towards scheduling these discussions, in order to ensure immediate and effective interface. BCLC has committed significant time and resources to the rectification of these software issues, and looks forward to being able to complete the necessary technology discussions with FINTRAC to ensure full and complete compliance. Our diagnosis of the issues identified by FINTRAC indicate that the vast majority of the audit failures identified are rectified by the correction of the reporting interface between BCLC and FINTRAC.

- (b) When BCLC undertakes periodic new product launches, BCLC has determined that in each instance an AML compliance review will be completed as to the player identification, recording and reporting required to best fit the nature of the new products, or the change in player processes. This is done prior to launch, and includes a specific review by internal legal counsel, the compliance officer, and external legal counsel. In each instance the nature of the product, the process for the delivery of the product, the requirements of the Act and issued guidelines, are all reviewed to ensure compliance on a product delivery specific basis.
- (c) BCLC has enhanced its senior management and Board level oversight and training. The top down commitment of both the Board of Directors and senior management is being published as policy for BCLC, and its service providers, and each of the members of senior management and the Board have committed to additional training to ensure their capability of providing the overall compliance oversight desirable for BCLC. Specific training sessions have been scheduled over the summer of 2010, and policy announcements of enhanced senior oversight will be released to the service providers, on a staff notification basis.
- (d) BCLC is committed to a regular review, and expansion and adjustment of its anti-money laundering policies, including its procedures and training guides, consistent with the Act, revisions to regulations and guidelines, and the recommended best practices. This is a continuing process and updating is underway at the time of this writing. BCLC specifically has been undertaking external reviews of its compliance program, to supplement the audit review of FINTRAC, and has been actively engaged with IPSA International in these reviews. The initial review by IPSA was completed in March of 2008, and a follow up review was completed in November of 2009. This was undertaken to supplement the gap analysis of the compliance regime which was completed on an internal basis in October of 2009. Conclusions of each of these reviews are that BCLC is in compliance with the requirements of FINTRAC Guideline No. 4, however, recommendations for improvement have been included in those reports. Each of the recommendations for improvement is being specifically addressed by BCLC notwithstanding the assessment that the



implementation of the compliance regime has been appropriately performed. One of the recommendations which is being focussed on is an improvement in client identification, particularly the obtaining of occupations on a more specific basis for patrons. Staff training has been enhanced, and the requirements for compliance with anti-money laundering and anti-terrorist financing compliance standards are incorporated into the service provider staff job descriptions and performance evaluations. Another area of specific requirement is to enhance the risk based approach, this is particularly being focussed on cheque issuance practices, limiting cheque issuance significantly, and restricting it to the net amount of verified wins. Staff training is being extended to the risk based compliance program, including enhanced training on identification (supplemented by technology assistance such as license plate recognition software), for both staff that have contact with clients and the security staff present at each of the service providers' locations. This training is being done on both in person and web based training programs, and is a necessary part of the staff responsibilities.

Senior management is actively engaged in the review of the gap analysis, and IPSA recommendations, and reports are being made on a regular basis to both senior management and to the Board of Directors.

#### **Specific steps taken to improve compliance**

A number of specific steps have been taken to improve compliance, on a general basis, and BCLC remains committed to regular review, and reporting with regard to each of these steps. In each instance notification of specific requirements has been disseminated to those members of management, and the service providers and their staff, ensuring knowledge of these specific requirements, and advice of the commitment of senior management and the Board of Directors to carrying out each of the steps. The steps, active at this time, include the following:

- (a) BCLC is subject to regular process audits, the Provincial Gaming Regulator conducts these audits, and the audits include AML procedures. BCLC has expanded the internal audit instructions so as to require an annual audit engagement with the objective of reviewing the overall effectiveness of BCLC's AML procedures. ~~This will be done against a comparison to the advice of external consultants, identified specific instances of deficiencies, FINTRAC audit requirements, among other reviews being conducted.~~
- (b) BCLC has appointed a compliance trends analyst, this position has been in place for some time. This position has been restructured such that AML compliance is now the priority item on her duty list. The compliance trends analyst has been fully briefed and is conversant with the requirements for AML compliance for BCLC. The compliance trends analyst will undertake periodic gap analysis of the AML compliance program.
- (c) BCLC has a robust information technology division. A position has been created as a dedicated resource to the AML compliance program. It is believed that this focus in the information technology division will assist in preventing the

technology issues which resulted in essentially all of the identified deficiencies in the FINTRAC audit.

- (d) BCLC has a security and compliance division, this is staffed by highly trained persons, with specific expertise in AML issues. A managerial position has been created within the division which is fully dedicated to AML compliance, this will result in more focussed managerial oversight.
- (e) The retainer of external advisors and legal counsel to assist on project specific, and more general, review of the compliance processes and protocols; as noted above this is done on a project specific basis for new products or process changes, and on a regular, yearly, basis for the balance of the compliance program.
- (f) The manual materials which form the subject matter of senior management and Board of Directors oversight, and the policy directives issued to frontline personnel, are being regularly reviewed and enhanced. Policy directives are being issued to the service providers, with a requirement that the notification form part of staff training, and regular staff communication.
- (g) Enhanced director, senior officer, and personnel training is being implemented. BCLC specifically implemented a service provider staff and security level training program, which is required to be completed by all appropriate personnel. Security staff are required, as a mandatory part of their job criteria, to ensure that they have completed the appropriate anti-money laundering training programs. Staff personnel who deal with the public, receiving or disbursing funds, are also required to complete the training program prior to commencing duties on the gaming floors. The training programs have been enhanced to ensure regular delivery, and the availability of continuous updates. This is done by in-person personnel training and by online delivery.
- (h) The improved interconnectivity between the technology systems of BCLC and FINTRAC to allow timely and accurate reporting is being regularly reviewed. As any issue is identified, it is immediately referred to appropriate senior management, and technology intervention is engaged to complete any required software or hardware adjustments necessary to improve the reporting timeliness. BCLC is requesting an increased communication directly with FINTRAC technology staff to ensure that the interconnectivity issues between the technology systems, including the formatting and nature of the reporting, in electronic format, does not create further issues of the nature identified by the FINTRAC audit.
- (i) Periodic staff notice and training programs are being monitored and delivered, on any change in compliance requirements. This also includes specific response to identified shortcomings by the external consultants, external legal counsel and FINTRAC audit reviews, as well as general training.
- (j) There is a prior review of each new program and product launch, for practices and procedures, to ensure AML compliance where this is required by the Act, and by the nature of the product being delivered.

FINTRAC  
June 30, 2010  
Page 6 of 8

### **Specific compliance program addressing the issues outlined in the FINTRAC Report**

See the attached BCLC Compliance Examination Action Plan. We ask that you note that these steps were initiated and in many instances completed prior to the issuance of the violation notice, and in many cases even prior to the receipt of the FINTRAC audit results.

### **Commitment to Compliance**

BCLC again expresses its commitment to full compliance with the Act, and with the specific recommendations and guidelines issued by FINTRAC in its supervision of compliance program. Specifically, BCLC is committed to the following:

- (a) A commitment to more rapid diagnosis of technology issues, particularly interconnection issues between the FINTRAC and BCLC systems in the reporting function.
- (b) An enhanced senior management and Board of Directors focus on anti-money laundering compliance with a clear top down direction as to not only the requirements for, but the commitment and intent to ensure, compliance with the Act, and the specifically enunciated AML practices and procedures of the compliance program of BCLC.
- (c) The implementation of experience based training and policies to be implemented using specific, identified issues, specific bulletins and periodic training. The program already developed and disseminated to the service providers staff is being monitored and reviewed on a continuous basis, with updates occurring as there are changes in policies and recommendations. In the presentation of the staff training, best practices are being continuously refreshed to meet FINTRAC recommendations, and industry based protocols, to ensure state of the art recommendations and training.
- (d) A commitment to improving communication between BCLC and FINTRAC, including an invitation for regular discussions on improved technology interconnectivity and new initiatives.

### **Representation**

BCLC again notes the purpose of the implementation of administrative monetary penalties, is a tool for compliance rather than for punitive ends. BCLC has worked diligently, and on a timely basis, to comply with the Act, and beyond the Act to comply with recommendations made by FINTRAC, guidelines issued and best practices as identified for the industry. BCLC has at no time ignored the recommendations of its service providers, its retained expert consultants, or FINTRAC, but rather has taken each of those recommendations, focussed senior management and Board of Directors attention on the recommendations, and has proceeded with improvements in its compliance program. Its expert independent consultants have advised that the casino gaming anti-money laundering program meets the requirements of the Act, and has

FINTRAC  
June 30, 2010  
Page 7 of 8

commented in the most recent review that there has been significant improvement in the details of this compliance delivery. The gap analysis which has been completed on an internal basis verifies the review finding.

BCLC regrets that technology issues arising from software changes necessary as a consequence of FINTRAC reporting requirement adjustments, created late filing issues on what would appear to be a large number of occasions. Given the volume of reporting activity necessary in a casino context, and for BCLC over a large range of service providers, the number of instances, each of which has been traced to a software issue, now rectified, does not reflect significant disregard by BCLC of its compliance requirements. Quite the opposite, BCLC has actively and, based upon external reviews, effectively, implemented a compliance regime, and has remained dedicated to the continuous review and improvement of its compliance standards with that regime. There is accordingly no requirement for the imposition of penalties, BCLC has been compliant, and is dedicated to the commitment to compliance. BCLC is dedicated to an open, transparent, reporting relationship with FINTRAC, and would invite increased discussion of compliance enhancement over time. BCLC, through its compliance officer, welcomes any recommendations to enhanced compliance. It will take each seriously, and work with its internal and external experts, in implementing appropriate adjustments to its compliance policies and regime. BCLC has elevated its compliance program to heightened awareness at the senior management and Board of Directors level, and has enhanced the training of those supervisory persons.

BCLC has been working continuously to enhance and focus its AML practices and procedures. The specific steps outlined in this representation started before the receipt of the FINTRAC audit, as did the retention of external experts to assess and make recommendations. The steps outlined in this letter, which demonstrate commitment to improving AML compliance, were started and diligently pursued well before the issuance of the violation notice.

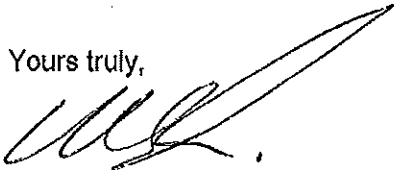
In addition, BCLC is concerned that publication of Notice of Violation would encourage members of the gaming public to attempt to avoid the appropriate identification procedures, being given the impression that BCLC does not take an active, aggressive approach to its compliance responsibilities. This is not a desirable result for BCLC in its compliance requirements, or for FINTRAC in its role as the recipient of the required reporting. Any matter which makes it more difficult for BCLC to gather the necessary information, we note that the casino environment is a very difficult environment within which to obtain the required information, will hamper BCLC's efforts to comply, and to enhance its record of compliance.

In closing, BCLC understands the need to be compliant with this legislation and is committed to taking all the steps necessary to achieve compliance. BCLC takes the AML legislation and our role within it very seriously. It is an essential part of our business and we are committed to providing the resources and technology to accomplish and maintain compliance.

FINTRAC  
June 30, 2010  
Page 8 of 8

We look forward to your consideration of this representation and appeal. We are open to the provision of any further materials or information which might enhance the ability to review BCLC's compliance program, and the practicalities of its reporting compliance.

Yours truly,

A handwritten signature in black ink, appearing to read 'M. Graydon', with a long, sweeping horizontal stroke extending to the right.

Michael Graydon  
President and CEO

Enclosure – BCLC Compliance Examination Action Plan

August 3, 2010

**BY FACSIMILE (613) 943-7931**

Financial Transactions and Report Analysis Centre of Canada  
Review and Appeals Unit  
234 Laurier Avenue West  
Ottawa, Ontario  
K1P 1H7



Attention: Julie Ethier, Senior Review and Appeals Officer

Dear Sirs:

Re: British Columbia Lottery Corporation / Notice of Violation Issued June 15,  
2010 / Review, Request

---

BCLC  
10760 Shellbridge Way  
Richmond, BC V6X 3H1  
T 604.270.0649  
F 604.276.6424  
www.bclc.com

Thank you for your letter of July 2, 2010, we appreciate the confirmation of receipt of the representations made concerning the notice of violation issued to British Columbia Lottery Corporation, and note your invitation to submit additional information provided it is in writing by August 4, 2010. We also appreciate the opportunity to add some supplemental information, at least some of which has become available, or desirable, as a consequence of events subsequent to the date of our initial request for review of June 30, 2010.

British Columbia Lottery Corporation, defined as "**BCLC**", has continued to review, in detail, the Notice of Violation, and has both continued to take steps to address the matters noted in the Notice and has reviewed to confirm the active steps taken for compliance prior to the issuance of the Notice of Violation. This has included a review by the Internal Audit department of BCLC, a review and discussion with the BC Gaming Policy and Enforcement Branch, a meeting with the responsible provincial minister (Rich Coleman, British Columbia Minister of Housing and Social Development), and meeting with the Audit Committee and full board of the Board of Directors of BCLC. Each of these meetings reviewed the compliance status of BCLC as to AML/ATF, and specifically its compliance both before and after the issuance of the Notice of Violation with regard to the specific items listed in the Notice of Violation. We wish to draw to the attention of FINTRAC the seriousness with which compliance is taken, and note the review of compliance, in general and specific to the Notice of Violation, has been at the highest possible levels both within BCLC, and its regulatory authorities.

We wish to note to FINTRAC, that combined with those specific meetings to discuss the status of compliance, and the Notice of Violation, educational programs have been held with the Minister and selected senior staff, and the board of directors of BCLC, including the Audit Committee of BCLC, to enhance their understanding of supervisory roles and responsibilities, and the background to the compliance requirements for BCLC, as a casino, under AML/ATF requirements in Canada.



BCLC continues to note that its intention to fully comply with the requirements of AML/ATF, in accordance with its comprehensive written compliance program, was in place before the issuance of the Notice of Violation, with consistently improving compliance programs being put in place over the past two years. As a consequence of its attention to compliance over the past couple of years, BCLC is particularly concerned about and has reviewed each of the specific violations listed with a view to ensuring that steps taken to ensure compliance prior to the issuance of the report continue, and are reaching successful conclusion. We provide this further report to our initial request for review because some of the investigation, and specific reviews, have been completed subsequent to the date of submission.

Initially, and potentially most importantly, a very significant number of the violations in the Notice of Violation were identified as late or delayed LCT reports and late or delayed LCDR reports. Detailed investigation undertaken has clearly indicated that the difficulties with regard to the submission of the reports under this category arose as a consequence of technical issues in the transmission of the data and which were being addressed in late 2009 and early 2010. The implementation of software through the iView system had resulted in issues integrating the three separate IT systems which were responsible for providing reporting. Although this was being corrected as each issue was identified during the period noted for the violations, and subsequent to that time, some issues required specific addressing in the spring of 2010, and were corrected during that period of time, subsequent to the reviews of February 2009 to July 20, 2009, as to the CT reports, and October 28, 2009 - November 19, 2009 as to LCDR reports but prior to the Notice of Violation. BCLC commissioned an internal audit review of the corrections in July 2010, as to the software issues which were resulting in rejected, and accordingly late when resubmitted, reports. This audit report was completed by the internal audit department, to the standards dictated by international standards for the professional practice of internal auditing established by the Institute of Internal Auditors. The conclusion reached by that report was that the corrections, and accordingly the procedures and controls that arose from those corrections, designed to reduce the deficiencies as to late or delayed reports, have been appropriately designed and implemented and are operating effectively. The report of the internal auditor, a qualified audit professional, is attached with these further materials. BCLC's internal auditor has found its IT reporting is now technically compliant.

Another area of continued review are the violations which note the obtaining of occupations on a categorization which FINTRAC has considered to be insufficiently specific. As noted in the request for review, BCLC has issued additional requirements for secondary questioning as to occupation, and has provided enhanced job occupation information through its ongoing training program. BCLC however notes that a number of practical issues have been identified in this ongoing review, and, in order to ensure full compliance with these expressed requirements, will need further assistance from FINTRAC. Specific examples, such as, a response "businessman", "retiree", or "consultant" are in the view of most responders valid, and acceptable, occupations. We note that reliable sources have identified tens of thousands specific subsets of

occupations which are followed in Canada. Notwithstanding this BCLC is preparing, and will be issuing, a drop down menu of selections for occupations, and will require that the occupation enquiry use one of the selected options. BCLC believes this will be compliant but remains concerned because there is no guidance given in any materials which could be identified in the review process as to acceptable specificity for occupations. There is no method available to verify a claim as to occupation. As a matter of review, we believe that the issuance of the Notice of Violation with regard to the non-specific occupations, particularly, creates a concern and issue for BCLC because there is no acceptable method to verify a customer's identified occupation.

BCLC is also working closely with its gaming regulator, BC Gaming Policy and Enforcement Branch, to further enhance compliance and cooperation. BC Gaming Policy and Enforcement Branch has confirmed its complete and total commitment to overseeing, encouraging and assisting compliance on the part of BCLC with regard to AML/ATF. BC Gaming Policy and Enforcement Branch intends to undertake a proactive program of review, audit, and management assistance, with regard to compliance by BCLC, and has requested this commitment be communicated to FINTRAC.

We do not wish, in this correspondence, to burden FINTRAC with repetition of the materials and information in our previous comprehensive request for review and withdrawal of the Notice of Violation. The intention of this correspondence was to draw your attention to the steps, actions, and further commitments, which have been taken subsequent to the submission of that review. BCLC does however wish to repeat its request for withdrawal of the Notice of Violation, on the basis set out in that correspondence.

A subsequent event, which in the view of BCLC strongly points to the desirability of such a withdrawal, occurred as a consequence of a public disclosure, from sources unknown to BCLC, of the issuance of the Notice of Violation to the press. Active enquiries have been made at BCLC and it has not been possible to identify the source of the disclosure with regard to the issuance of this Notice of Violation. BCLC had been under the impression, from all of the materials available and from its review of the process, that the issuance of the Notice of Violation would remain confidential until such time as reviews were complete and the Notice of Violation became final. Damage has been caused as a consequence of the premature public disclosure of the issuance of Notice of Violation, giving rise to concerns that it will in some manner adversely influence or affect the review process. Although we have complete confidence in the integrity of FINTRAC, and the review process which has been identified, we are concerned that the public disclosure could adversely affect the request, which we believe is valid and fully supported, for the withdrawal of the Notice of Violation. We do continue to believe that withdrawal is in the best interest of all parties. BCLC stands behind its statement that it has a full and complete corporate commitment to compliance, its compliance regime has been implemented in a manner intended to meet full compliance with the legislative, and guideline, requirements, and active steps and actions were taken with regard to the matters



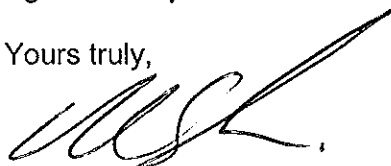
listed in the Notice of Violation before, and again subsequent, to the issuance of Notice of Violation. Given the purpose of encouraging compliance, we believe that any purpose which might have existed to the issuance of the Notice of Violation has been more than fully satisfied.

BCLC, as a reporting entity, must be compliant and maintain a public position of compliance, otherwise it will become increasingly difficult for front line personnel to be able to enforce the needed steps and actions for the appropriate opening of accounts, and obtaining of client information. In circumstances where there is a public perception that compliance is not fully respected, and the compliance policies and procedures rigidly adhered to, there will be increasing difficulty on the part of those front line personnel, trained in AML/ATF compliance but not well educated professionals, to comply. Further, it will undermine the training, and compliance requirements, which BCLC has been issuing on an increasingly frequent basis to its casino clients, and to the employees of those casino clients. It will give every appearance that compliance is not taken seriously, and will not be adequately enforced. We believe that a cooperative approach to the Notice of Violation, and the request for withdrawal, will enhance the appearance of BCLC's compliance, with its casino clients, with its employees and the employees of the casino clients, and with the public. A withdrawal of the Notice of Violation will confirm BCLC is a compliant reporting entity which works cooperatively with FINTRAC. The basis for withdrawal can, given the purpose of the administrative penalties, be stated to arise from BCLC's renewed commitment to full compliance. This is in the best interests of FINTRAC and BCLC as we continue to take steps to improve the technical details of compliance which underlies the violations noted in the Notice of Violation.

We appreciate your consideration to these further submissions. We would appreciate the opportunity to discuss a review of the implications of the public disclosure of the issuance of the Notice of Violation prematurely given the request for review. We would like to ensure that a fair and reasonable review process will be followed notwithstanding the public statements, and scrutiny, now being given to the process. We believe that a withdrawal of the Notice of Violation, in a suitably formatted manner, will create an impression of a compliant atmosphere at BCLC, and its client's casinos, and assist in furthering the compliance regime we are both anxious to have fully, and properly, functioning in the most difficult casino environments.

Again thank you.

Yours truly,



Michael Graydon  
President and CEO

Enclosure – BCLC Internal Auditor's Report

## INTERNAL AUDITOR'S REPORT

To the Board and the CEO of the British Columbia Lottery Corporation:

BCLC received a FINTRAC Notice of Violation, dated June 15, 2010, which included violations related to late or delayed large cash transaction and disbursement reports. Management indicated that certain difficulties with the submission of the reports under this category arose as a consequence of technical issues in the transmission of the data between BCLC and FINTRAC. Management noted they have committed significant time and resources to rectify these technical issues. Management has implemented key controls to: 1) detect and monitor the timely transmission of these reports and 2) resolve any issues that cause transmission errors and re-transmit reports on a timely basis.

We have audited specifically identified key controls that management has implemented. These key controls and our evaluation criteria are in the attached appendix.

### Standards and Responsibilities

We conducted our work in accordance with the International Standards for the Professional Practice of Internal Auditing established by The Institute of Internal Auditors. Those standards require that we plan and perform our audit to obtain reasonable assurance as a basis for our opinion. Our audit included examining on a test basis, evidence supporting the conformity of the identified key controls to the evaluation criteria.

BCLC management is responsible for the design, implementation and operation of the key controls. Our responsibility is to express an opinion on whether these identified key controls are appropriately designed, implemented and are operating effectively, based on our evaluation criteria.

### Conclusion

In our opinion, the identified key controls are appropriately designed and implemented and are operating effectively, based on the evaluation criteria contained in the appendix, as at the date of this audit report.

### Scope Limitations

The scope of our work was limited only to these identified key controls in the context of violation #3 identified in the FINTRAC Notice of Violation, and does not extend to any other violation in the FINTRAC Notice of Violation.

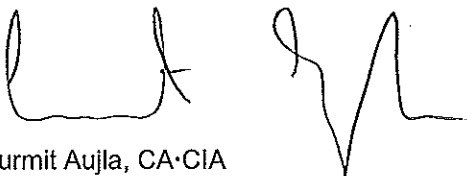


BCLC  
74 West Seymour Street  
Kamloops, BC V2C 1E2  
T 250.828.5500  
F 250.828.5631  
www.bclc.com



The projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions. To address this risk, we have recommended, and management has agreed, that we review these controls on a regular basis and report the results and any exceptions, if any, to the Board and the CEO.

This report is intended for the exclusive use of BCLC in assessing BCLC's implementation of the listed controls, and is not to be relied upon for any other purpose.

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a final horizontal stroke.

Gurmit Aujla, CA-CIA  
Director Internal Audit  
July 30, 2010

## **Appendix to INTERNAL AUDITOR'S REPORT**

### **Key Controls**

Management implemented controls designed to identify any large cash transaction and disbursement reports which do not transmit between BCLC's iTrak system and FINTRAC. After identifying these un-transmitted reports, management implemented controls to resolve the corresponding technical issues and re-transmit these reports on a timely basis. Specifically we identified the following key controls:

- 1) *On a daily basis BCLC monitors transmission of reports between BCLC and FINTRAC, to determine whether the reports were accepted without error by FINTRAC, and to specifically identify those reports that have not yet been accepted by FINTRAC.*
- 2) *On a timely basis, BCLC investigates those reports that have not yet been accepted by FINTRAC and resolves the condition that resulted in the error, such that those reports are accepted without error by FINTRAC in the form and timeline as required by the Act and Regulations.*

### **Evaluation Criteria**

We evaluated these key controls using the following evaluation criteria:

- ❖ That each key control described above has been designed and implemented appropriately to address the identified weaknesses and deficiencies.
- ❖ That each key control described above is operating effectively such that it mitigates the identified weaknesses and deficiencies.



Financial Transactions and Reports Analysis Centre of Canada  
Centre d'analyse des opérations et déclarations financières du Canada

234 Laurier Avenue West, 24<sup>th</sup> Floor / 234, avenue Laurier Ouest, 24<sup>e</sup> étage  
Ottawa, Ontario K1P 1H7  
(613) 996-7895 Facsimile/télécopieur (613) 943-7931

---

To	Mr. Michael Graydon, President and CEO	Fax #	
A:	British Columbia Lottery Corporation		(604) 276-6441
<hr/>			
From		Date:	October 1, 2010
De:	Julie Ethier (Review and Appeals Unit)		
<hr/>			
Subject	Notice of Decision in RAU1011-00003 / Notice of Violation AMP1011-00001		
Objet:			
<hr/>			
		Pages:	Cover note + 3

---

<input type="checkbox"/> Urgent / Urgent	<input type="checkbox"/> For Review / Pour révision	<input type="checkbox"/> Please Comment / S.V.P. commenter	<input type="checkbox"/> Please Reply / S.V.P. donner suite	<input type="checkbox"/> As Requested / Tel que demandé
---	--	---	--	--

---

Please find attached the Notice of Decision issued by the Director of FINTRAC in relation to the above-referenced file.

If you have any questions regarding this Notice of Decision, please contact the Review and Appeals Unit by telephone at (613) 995-3127.

**Julie Ethier**  
Senior Review and Appeals Officer /  
Agent principal, Révisions et appels  
Telephone / Téléphone 613-995-3127

THIS COMMUNICATION IS INTENDED ONLY FOR THE PERSON OR ENTITY TO WHICH IT IS ADDRESSED AND MAY CONTAIN CONFIDENTIAL AND/OR PRIVILEGED INFORMATION. ANY USE OF THIS INFORMATION BY PERSONS OR ENTITIES OTHER THAN THE INTENDED RECIPIENT IS PROHIBITED. IF YOU RECEIVED THIS IN ERROR, PLEASE CONTACT THE SENDER AND DELETE THE EMAIL AND ALL COPIES (ELECTRONIC OR OTHERWISE) IMMEDIATELY.

CETTE COMMUNICATION EST DESTINÉE UNIQUEMENT À LA PERSONNE OU À L'ENTITÉ À LAQUELLE ELLE EST ENVOYÉE ET PEUT CONTENIR DE L'INFORMATION CONFIDENTIELLE OU PRIVILÉGIÉE. TOUTE UTILISATION DE L'INFORMATION PAR UNE PERSONNE OU UNE ENTITÉ AUTRE QUE CELLE À LAQUELLE ELLE EST DESTINÉE EST INTERDITE. SI VOUS RECEVEZ CETTE COMMUNICATION PAR ERREUR, VEUILLÉZ COMMUNIQUER AVEC SON EXPÉDITEUR ET SUPPRIMER CETTE COMMUNICATION ET TOUTE COPIE (ÉLECTRONIQUE OU AUTRE) IMMÉDIATEMENT.

**Canada**

Received Time Oct. 1. 2010 11:11AM No. 0908



Financial Transactions and  
Reports Analysis  
Centre of Canada

Centre d'analyse des  
opérations et déclarations  
financières du Canada

Ottawa, Canada K1P 1H7

October 1<sup>st</sup>, 2010

**BY FACSIMILE (604) 276-6441  
ORIGINAL SENT BY COURRIER**

British Columbia Lottery Corporation  
C/O Mr. Michael Graydon  
President and Chief Executive Officer  
10760 Shellbridge Way  
Richmond, British Columbia  
V6X 3H1

Dear Sir:

**Decision – File Number RAU1011-00003 / AMP1011-00001**

Further to your letters dated June 30, 2010 and August 3, 2010 concerning the above-mentioned Notice of Violation (the Notice), I am hereby providing you with my decision.

I have completed the review of the Notice and its supporting documentation, as well as the documentation you submitted on behalf of the British Columbia Lottery Corporation (BCLC). After full consideration, I have determined on a balance of probabilities that BCLC has committed the violations set out in the Notice and am therefore imposing the proposed penalty.

As you are aware, under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the Act), representations made to the Director should be with respect to the violations and the proposed penalty.

With one exception, there is no indication, in the documents you submitted, that measures were implemented prior to FINTRAC's examination. As a result, they played no part in my decision.

You made representations on the following violations which I have reviewed.

- *Violation #1 pertaining to the failure, in respect of the activities that pose high risks, to take prescribed special measures*

You have outlined certain mitigation measures in relation to high risk situations that have been implemented with ongoing monitoring. With the exception of one, all of these measures were implemented at unspecified dates in your documents.

**Canada**

Received Time Oct. 1. 2010 11:11AM No. 0908

.../2

The only policy stated to have been implemented before the examination, is the policy on "cheque issuance and definition of verified win" which was implemented in August 2009. However, at the time of the examination, following verifications and interviews with key staff, the FINTRAC Compliance Officer concluded that such policy had not been applied. Measures implemented after the period covered by the examination do not alter the fact that BCLC had not at that time applied this mitigation measure.

Other than that policy, nothing in the submitted documents lead me to conclude that BCLC had, at the time of the examination, applied written policies and procedures mitigating the risks identified.

- *Violation #3 pertaining to the failure to report a large casino disbursement or a transaction for which a large cash transaction record must be kept and retained within 15 days after the disbursement or transaction*

In respect of violation #3, you attributed the delays in reporting, or the non-reporting, on technological problems.

You have submitted that BCLC has undertaken detailed investigations which have indicated that "the difficulties in the submissions of those reports are a consequence of technical issues in the transmission of the data". You have further indicated that some of these issues were only addressed in late 2009 and early 2010 and were resolved in the spring 2010. You also submitted that an internal review of corrections made in July 2010 concluded that corrections to systems are operating effectively and that the IT reporting is now "technically compliant".

While corrections may have been made to systems in late 2009 and early 2010, these measures do not change the fact that BCLC was in contravention at the time of the examination.

- *Violations #4, #5 and #6 pertaining to:*

*#4 the failure to report the receipt of an amount in cash of \$10,000 or more in the course of a single transaction, together with the prescribed information*

*#5 the failure to report the disbursement of \$10,000 or more in the course of prescribed transactions, together with the prescribed information*

*#6 the failure to keep a large cash disbursement record in respect of prescribed transactions in the course of which the total amount of cash disbursed is \$10,000 or more*

These violations relate to the same issue concerning the information about the client's occupation.

-3-

You indicated that the obtaining of occupations on a more specific basis for casino patrons is one of BCLC's focuses for improvement and that BCLC is "preparing, and will be issuing, a dropdown menu of selections for occupations, and will require that the occupation enquiry use one of the selected options". These steps do not address the fact that BCLC failed, in a large number of instances, to provide sufficient information on the nature of the client's occupation in relation to large cash transactions, large cash disbursements and large casino disbursements as set out in the Notice.

Finally, I wish to note that in your letters you requested the "withdrawal of the Notice, including therewith the imposition of monetary penalty."

The test I must apply when an entity makes representations pursuant to subsection 73.15(2) of the *Act*, is to decide on a balance of probabilities whether the entity has committed the violations set out in the Notice and if so, impose the proposed penalty, a lesser penalty or no penalty. As a result, I am not in a position to address your request to withdraw the Notice, including the proposed penalty.

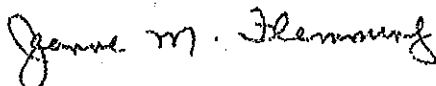
Upon review of the documentation you submitted on behalf of the BCLC, I find that BCLC has not put forward information that demonstrates that the violations set out in the Notice have not been committed and therefore, I conclude on a balance of probabilities that the six (6) violations identified in the Notice have been committed and I maintain the proposed penalty.

Pursuant to section 73.21 of the *Act*, you may file an appeal of this Decision to the Federal Court. If you choose to file an appeal, you must do so within 30 days of receiving this Notice of Decision.

If you choose to pay the penalty, you must do so within 30 days of receiving this Decision. Should you have any questions related to the payment of the penalty or the methods of payment, please contact the Finance Unit at (613) 943-3352.

If you have any questions regarding this Decision, please contact the Review and Appeals Unit by telephone at (613) 995-3127, or e-mail: [rev-app@fintrac-canafe.gc.ca](mailto:rev-app@fintrac-canafe.gc.ca).

Yours sincerely,



Jeanne M. Flemming  
Director

c.c. Chantal Jalbert, Assistant Director, Regional Operations and Compliance