

**Ministerial Advisory Panel  
on Ticket Lottery Controls**

**Report on:**

**Controls and Regulation of  
Atlantic Lottery Corporation  
Ticket Lotteries in Nova Scotia**

**To the**

**Minister of Environment and Labour**

**October 2007**

**CONTENTS**

Transmittal Letter .....	2
Summary .....	3
1. Introduction .....	6
2. Overview of Ticket Lotteries .....	10
Games Falling within the Scope of this Review .....	11
Statistical Analysis of Retailer Wins .....	12
3. Governance and Legislative Framework for Nova Scotia Gaming .....	13
Overview .....	13
Nova Scotia Gaming Corporation: Part I of the <i>Gaming Control Act</i> .....	17
The Alcohol and Gaming Division .....	18
Other Governance Mechanisms under the Current Legislative Framework .....	20
Protection of Players .....	21
Regulation of Ticket Lotteries .....	22
4. Recommended Regulatory Framework .....	25
Licensing .....	25
Existing and New Games .....	28
Regulatory Oversight of Systems of Controls .....	29
Investigative Authority .....	30
Maintaining Effective Regulation .....	31
5. Controls over Ticket Lotteries .....	34
Nova Scotia Gaming Corporation .....	35
Ticket Purchase .....	39
Prize Payout Procedures .....	42
Transferring Custody of Ticket for Validation .....	44
Customer Complaint and Incident Reporting .....	45
Statistical Monitoring of Activity .....	46
Security and Compliance Investigations by ALC.....	47
Retailer Management .....	51
Progress Reporting .....	55
Appendices	
A Panel Members .....	56
B Bibliography .....	57
C Summary of Recommendations .....	58

**TRANSMITTAL LETTER**

Minister of Environment and Labour  
Honourable Mark Parent

The Ministerial Advisory Panel on Ticket Lottery Controls herewith submits its report pursuant to the Terms of Reference issued May 3, 2007.

The Panel wishes to specifically acknowledge and thank Mr. S. MacDonald of the Nova Scotia Gaming Corporation, Mr. L. Doherty of the Atlantic Lottery Corporation, and Mr. D. Kerr of the Alcohol and Gaming Division of the Department of Environment and Labour for their assistance.

\_\_\_\_\_  
Dawn A. Russell, Q.C.

\_\_\_\_\_  
William Hogg, CA (Chair)

\_\_\_\_\_  
David G Wojcik, LL.B

## **SUMMARY**

Questions and concerns about “insider wins” in ticket lotteries were brought into public focus in October 2006. A national television program broadcast its report on the wrongful payment of a lottery prize by the Ontario Lottery Corporation to a retailer on a ticket belonging to a customer, Mr. Bob Edmonds. In addition to Mr. Edmonds’ case, other issues were raised about the frequency of insider wins and the integrity of some ticket lottery games. The highlighting of these risks resulted in investigations by the Ombudsman in Ontario, the Ombudsman in British Columbia and in forensic reviews being conducted in many provinces across Canada. In Nova Scotia, the Minister of Environment and Labour formed a Ministerial Advisory Panel on Ticket Lottery Controls in May 2007.

The Panel’s report focuses on the need for independent, effective regulation of ticket lotteries and makes recommendations on the features of such a regulatory framework. The legislation governing ticket lotteries in Nova Scotia sets out to ensure, along with other purposes that “... *lottery schemes are undertaken for the public good and in the best interests of the public...*”. The Panel believes the achievement of these purposes can be enhanced by the addition of the specific objective of protecting the interests of lottery players and by providing the Alcohol and Gaming Division of the Department of Environment and Labour with the powers, authority and regulations necessary to enable it to effectively regulate ticket lotteries. The Panel recommends that the Nova Scotia Gaming Corporation (NSGC) take a more active role in overseeing the Atlantic Lottery Corporation’s (ALC) operations in Nova Scotia.

The recommended regulatory framework includes: registration and licensing of sellers of lottery tickets and of suppliers of lottery materials and equipment; review and approval of game rules and control systems over key lottery activities; and the power and authority to investigate suspected instances of non-compliance with the legislation. Recommendations are also offered to sustain the effective regulation of ticket lotteries by maintaining the regulator’s independence, and providing a base amount of funding for regulatory oversight.

The Panel acknowledges the improvements that have been made to the control systems over ticket validation and prize payout processes in response to KPMG’s Retail Winners Forensic Review of the Atlantic Lottery Corporation. The Panel offers its own additional recommendations for improvements in the systems of control.

The information the Panel reviewed indicated a concentrated level of management focus on most, but not all, aspects of the ticket lottery process. Advertising, controls over game design, testing of lottery products, information technology controls and audits, financial management reporting, and frequent external reviews of these activities demonstrate that some but not all areas of ticket lotteries were receiving management attention.

However, the Panel was struck by the absence of attention to protection of players and to the key processes and controls affecting players - those related to ticket validation and prize payout. The risks to players at the ticket validation and prize payout stages were not identified or addressed by internal auditors, by senior management, or by the Boards or the Audit Committees of either ALC or NSGC. This lack of attention to protecting players was a failure not only of ALC and NSGC, but also of other lottery operators across Canada. Similarly, legislation in Nova Scotia and elsewhere in Canada is silent on specific mention of protection of ticket lottery players.

The risk of inappropriate behaviour by retailers and their employees should have been apparent when the games were designed and during any risk assessment process. Even if the risk escaped attention at those stages, there was sufficient information available from customer complaints and investigations carried out by ALC to demonstrate that real problems existed. Yet no corrective action was planned or implemented.

The Panel was perplexed by the failure of ticket lottery operators to identify the risk and to respond to the trends apparent in customer complaints and security investigations. Agencies in Nova Scotia, Atlantic Canada and elsewhere in Canada appear to be well resourced with personnel, access to expertise, and technology. During our interviews and review of material we attempted to determine why this issue received scant attention. There was no single or simple answer. Some felt that lotteries had become so commonplace and accepted that they went unquestioned. Others suggested that the primary objective of lottery operators is to generate revenues and they ignored the risks and evidence of prize payouts to persons not entitled to winnings. Another view was that when lotteries were introduced, determining if you had a winning ticket was a manual process carried out by the ticket holders. Changes to the control systems were not adequately considered as lotteries grew in popularity and technology was introduced.

The Panel could not determine why the issue was not recognized and addressed but we do conclude that the risks were present and that evidence existed indicating that there was a problem long before it was raised publicly in October 2006. The problems have now been acknowledged and some corrective action has been taken and more is planned. Nevertheless, more remains to be done and with the advent of new games and different technologies, protection of players should be enhanced through an independent regulatory process.

Throughout its work, the Panel was mindful of the interprovincial nature of the Atlantic Lottery Corporation. Nova Scotia is but one of four partners or shareholders in ALC. The Panel examined the issues first from Nova Scotia's perspective, but we were aware that implementation challenges might be encountered due to the fact that the other provinces have their own processes and concerns, and may have different approaches to resolving them. The Panel noted that the Agency Agreement between ALC and the Nova Scotia Gaming Corporation provides sufficient authority to address the recommendations. The Panel does not believe that there are any significant impediments to implementing the recommendations even though ALC is jointly controlled by the Atlantic Provinces. There may be an opportunity to apply some of the recommendations in a manner that benefits all of the provinces, depending on their assessment of the recommendations.

## **1. INTRODUCTION**

On May 3, 2007, the Minister of Environment and Labour announced an independent review of ticket lotteries. He established a Ministerial Advisory Panel made up of three members - W. D. Hogg, (Chair), Ms. Dawn Russell, and Mr. David Wojcik. The review was commissioned after media reports of weaknesses in the control systems over the validation of lottery tickets and pay out of prizes.

The announcement of the formation of the Panel and the review stated that the Panel “*will analyze the ticket-lottery system and identify steps that can be taken to ensure that Nova Scotians have confidence in its integrity*”. In addition to the announced objective of the Panel, the Minister provided detailed Terms of Reference that directed the Panel’s work.

The Terms of Reference require an examination of the various internal control systems over ticket lotteries. During the course of the Panel’s deliberations, we examined a number of audits and other reviews of lottery operations elsewhere in Canada as well as reviews specifically on the operations of the Atlantic Lottery Corporation (ALC). It was the opinion of the Panel that an additional audit by the Panel or external consultants to the Panel was unnecessary and would not provide any additional benefit. This approach was discussed with the Department and it concurred with the Panel’s view.

This review encompassed only ticket lottery schemes in Nova Scotia, including both draw type (e.g. Lotto 6/49, etc) and instant win or “scratch’n win” (e.g. Crossword, etc.) lotteries. The scope of the Panel’s review did not include any other forms of gaming in Nova Scotia such as casinos, video lottery terminals, licensed and charitable lotteries, bingos or linked bingos.

In conducting its review, the Panel researched the legislation and regulatory environment governing ticket lotteries across Canada. We reviewed documentation from the Atlantic Lottery Corporation and the Nova Scotia Gaming Corporation including investigation files. We interviewed persons and organizations with knowledge of and interest in ticket lotteries, and conducted our own analysis of the control systems in place, those planned, and those required for proper control.

The Panel met with the following groups and individuals:

- Ombudsman of Nova Scotia;
- CEO and senior management of NSGC;
- CEO and senior management of ALC;
- Chair of ALC Board of Directors;
- representative of KPMG;
- representatives of the Independent Food Stores Association; and
- CEO and staff of the Alcohol and Gaming Division of the Department of Environment and Labour.

In addition to meetings held by the full Panel, individual members of the Panel met with, corresponded, or teleconferenced with a former ALC investigator, and persons in regulatory roles in all provinces of Canada.

In reviews of this issue in other jurisdictions, the resulting reports chronicled tales of the diversion of prizes from legitimate prize winners and other stories of possible theft, fraud and unethical conduct. Similar instances have occurred in Nova Scotia and those instances that have been identified have been referred to law enforcement authorities by ALC and the NSGC. The Panel's review was not designed to investigate or uncover individual instances of improper activity. Instead the Panel concentrated on the regulation and oversight of ALC ticket lotteries and on identifying weaknesses in the control systems and how those weaknesses could be corrected.

The Nova Scotia Gaming Corporation (NSGC) and Atlantic Lottery Corporation (ALC) both contracted for statistical analyses of the incidence of lottery wins by retailers. Both analyses showed that retailers had collected ticket lottery prizes more often than was statistically probable. While such analyses are an important detective control and investigative tool, the Panel believes that prior to January 2007, weaknesses in the controls were such that theft and fraud could occur. Whether illegal activities did occur or the extent of their occurrence does not reduce the urgency and importance of ensuring that the controls over ticket lotteries are designed, implemented and operate consistently to ensure prizes are paid to legitimate prize winners.

The Panel took a forward-looking view to the controls that should be in place. Lottery corporations across Canada, including ALC, have made and continue to make changes to their controls in response to audits and other reports on this issue. We were interested in recommending the control systems that should be in place now and those that should be considered for future implementation, as well as in examining how controls can continue to be effective into the future in anticipation of new and different lottery schemes.



**Approved Terms of Reference  
Review of Atlantic Lottery Corporation  
Ticket Lottery Controls**

*Whereas the Province wants to ensure the integrity of the ticket lottery system in Nova Scotia, and to ensure best practices are reflected in the regulatory management regime;*

*Whereas the Province wants to ensure that controls and monitoring are appropriate and adequate to ensure public confidence in the retail lottery system; and*

*Whereas the Province wants to ensure reporting on the system is open, transparent and accountable to Nova Scotian consumers.*

*The Minister hereby establishes a Ministerial Advisory Panel on Ticket Lottery Controls whose mandate is to provide advice through a report addressing the following objectives:*

**1. Objectives**

*The overarching goal of the Government review is to ensure that ticket lottery consumers have the highest standard of protection associated with ticket lottery wins.*

- *The objective is to assess the adequacy of and recommend options for improvements to the current preventative and detective measures in place to ensure that the ticket lottery system is fair, safe and secure and that players receive the prizes they are entitled to.*
- *The assessment will identify any deficiencies and gaps in these measures and make recommendations for improvement.*
- *The processes involved in the assessment consist of ticket distribution to retailers, physical controls surrounding tickets at retail sites, ticket prize redemptions, investigative and review processes for prize claims.*
- *The objective is also to assess the appropriateness of the regulatory framework and make recommendations to the Government related to the ticket lottery wins.*

**2. Scope**

*The scope of review will include all aspects of Atlantic Lottery Corporation's Ticket Lottery Program, including but not necessarily limited to an examination of:*

- *internal control systems including security and audit policies and procedures;*
- *awardance of ticket lottery prizes and procedures applied to insider/retailer winners;*
- *safeguards to prevent theft and fraud;*
- *procedures to ensure prizes are only awarded to claimants legally entitled to a prize;*
- *mechanisms to handle complaints of unfair practices, including investigation and remediation procedures;*
- *ALC's accountability procedures around financial and data record keeping, statistical analysis, and reporting.*

## Ministerial Advisory Panel on Ticket Lottery Controls

---

The Panel examined and considered the results of the various reviews in Canada along with information from ALC in reaching our conclusions on the appropriateness and adequacy of the control systems. A chronology of significant events, reviews and reports is shown as a separate table.

### Chronology of Significant Events

October 25, 2006	CBC Television airs Fifth Estate program " <i>Luck of the Draw</i> "
October 26, 2006	NSGC announced it would be reviewing all of ALC's internal polices and procedures
November 03, 2006	OLG releases KPMG report entitled: " <i>Phase 1 Report – Lottery Review</i> "
December 2006	NSGC formally engages J.S. Rosenthal (Dept. of Statistics – University of Toronto) to investigate major retailer lottery wins in Nova Scotia
March 01, 2007	NSGC releases J.S. Rosenthal's report: " <i>Independent Statistical Analysis of Nova Scotia Lottery Data</i> "
March 12, 2007	ALC releases J. Allard's statistical analysis report of retail-owner and retail employee major lottery wins
March 26, 2007	Ontario Ombudsman releases report: " <i>A Game of Trust</i> " [Ombudsman's investigation into OLG and allegations of retailer ticket lottery fraud and theft]
March 26, 2007	NS Dept. of Environment and Labour announces that it would be launching an independent review of regulation and oversight of ticket lotteries in NS
April 2, 2007	ALC Board of Directors engage KPMG to conduct forensic examination of retailer related winnings
May 3, 2007	Nova Scotia Minister of Environment and Labour announces formation of a Ministerial Advisory Panel on Ticket Lottery Controls
May 8, 2007	NSGC announces it will be leading a "broad-scope" review into all aspects of ALC gaming operations in Atlantic Canada (all 4 Atlantic Provinces participating)
May 9, 2007	ALC Board of Directors receives KPMG report: " <i>Atlantic Lottery Corporation – Retailer Winners Forensic Review</i> "
May 11, 2007	Canadian Press reports that the RCMP will investigate a number of suspicious ALC lottery ticket wins involving millions of dollars in prize payouts
May 29, 2007	British Columbia Ombudsman releases report: " <i>Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process</i> "
August 17, 2007	BCLC releases report from Blair Mackay Mynett Valuations Inc. reviewing BCLC retailer prize payout

**2. OVERVIEW OF TICKET LOTTERIES**

Studies show that 71% of Nova Scotia's adult population purchase lottery tickets and play, on average, 3.8 times per month. Players spend on average \$395 per year on lottery tickets. Lotteries have been in existence in various forms for centuries. Nova Scotia participated with the other Atlantic Provinces in forming the Atlantic Lottery Corporation in September 1976 to operate ticket lotteries on their behalf.

The Alcohol and Gaming Division identifies five categories of gaming in Nova Scotia: Video Lottery Terminals (VLT's), casinos, ALC lotteries, charitable lotteries and bingos. The Division reports annually on the amounts wagered and on net revenue returned to government from each category. In 2006-07, wagers and net Provincial revenues were:

**Total Wager (1) and Net Provincial Revenue by Gaming Activity  
Year ended March 31, 2007 (2)**

<b>Gaming Activity</b>	<b>Wager (1) (\$000's)</b>	<b>Wager (1) as % of Total</b>	<b>Net Provincial Revenue (\$000's)</b>	<b>Net Provincial Revenue as % of Total</b>	<b>Net Provincial Revenue as % of Wager</b>
VLT's	\$ 717,153	47.2%	\$ 95,703	54.3%	13.3%
Casinos	489,109	32.2%	31,528	17.9%	6.4%
<b>ALC lotteries</b>	<b>215,124</b>	<b>14.1%</b>	<b>47,643</b>	<b>27.0%</b>	<b>22.1%</b>
Bingo	67,359	4.4%	1,074	0.6%	1.6%
Charitable lotteries	<u>32,204</u>	<u>2.1%</u>	<u>316</u>	<u>0.2%</u>	1.0%
<b>Total</b>	<b><u>\$1,520,949</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 176,264</u></b>	<b><u>100.0%</u></b>	

(1) The Alcohol and Gaming Division uses "wager" as a base unit. This is the amount wagered and does not reflect prize payouts or other expenses. These figures may not agree with published amounts by the Nova Scotia Gaming Corporation who report net revenue, which is total wagers less prize payouts.  
Net Provincial revenue is wagers less prizes, operating and commercial revenue and does not include charitable revenues.

(2) Nova Scotia Annual Gaming Report, 2006-07, Department of Environment and Labour, Alcohol and Gaming Division

Wagers on ALC lotteries are the third largest (14%) gaming activity but, provide the second largest net return to the Province compared to net revenue from other

forms of gaming. The net revenue provided to the Province, expressed as a percentage of the amount wagered, is the highest of all gaming activities.

### **Games Falling within the Scope of this Review**

The lottery schemes reviewed by the Panel were those operated by ALC under Section 207(1)(a) of the *Criminal Code of Canada*, excluding video lottery terminals. The Panel's review did not include lottery schemes under Sections 207(1)(b), (c), (d) or (f) of the *Criminal Code of Canada* which are lottery schemes licensed by the Alcohol and Gaming Division. Those lottery schemes include those operated by charitable or religious organizations, the boards of fairs or exhibitions, and bingos. Casinos and video lottery terminals were also not reviewed.

There are basically two categories of ticket lotteries that have been the subject of the Panel's review – on-line, draw lotteries (e.g. 6/49, Super 7, etc.) and instant win or scratch'n win (e.g. Crossword, etc.). On-line tickets derive their name from the process of validating tickets to determine if they are winners via an "on-line" connection between the retailers terminal and ALC's computers. These tickets are also referred to as draw lotteries. These games allow players to make their own selection of numbers to play or opt for a random selection of numbers made by a central system. In this category of lottery, the winning number is selected by a draw after the tickets have been sold.

"Instant" or "scratch'n win" tickets are described as instant win tickets because the result of play can usually be determined immediately, based upon a matching of numbers or symbols appearing on the ticket itself. Many of these types of tickets can also be validated through a retailer's terminal. Some instant tickets also have a draw lottery feature (e.g. Set for Life).

There are more than 1,200 retailers in Nova Scotia. Just over half are independent operators, the majority of which are independently operated convenience stores. The other half are affiliated with larger corporations such as grocery stores, gas stations, or pharmacies. There are approximately 8,000 employees selling lottery tickets. Retailers are paid a commission on tickets sold, a fee for the validation of winning tickets, and 1% of the prize value of winning tickets (greater than \$10,000) sold at their location.

On average, each retail location receives annual commissions of \$10,000. In our meeting with representatives of the Independent Food Stores Association, they indicated they would like to be receiving greater commissions but acknowledged that their ability to offer lottery tickets for sale is helpful in drawing customers who make other purchases.

### **Statistical Analysis of Retailer Wins**

There have been two statistical analyses of the frequency of major lottery wins by retail owners and retail employees involved in selling ALC lottery tickets in Nova Scotia. The first analysis was commissioned by NSGC for Nova Scotia retail sellers only. A second analysis was commissioned by ALC for all Atlantic Provinces, but with results for each province. Both studies assumed, based on a 2006 survey by Corporate Research Associates, that retail-owners spend 1.76 times as much as the average adult.

The study commissioned by NSGC concluded that retail owners had won major prizes (greater than \$25,000) 14 times more often than statistically probable. The ALC study confirmed this finding. The NSGC study also concluded that lottery retail employees were “*winning somewhat FEWER of the major lottery prizes than expected*”. The study suggested that it was probable that the majority of major retail employee wins were going undetected. The study found that the incidence of major wins by retail-owners was greater in draw games compared to instant win or scratch tickets.

Both studies were completed in March 2007. These studies were based on 69 retail owners and retail employee winner files identified by ALC. In May, KPMG completed their Retail Winners Forensic Review, which identified 16 more retailer owner and retail employee winners than had been identified by ALC. The NSGC analysis was revised based on the new information and the author’s conclusions were that retail owners won major prizes (\$25,000 and greater) 19 times more than statistically expected. The report stated, “... *this suggests that they won about 20 major prizes that did not actually belong to them*”.

### **3. GOVERNANCE AND LEGISLATIVE FRAMEWORK FOR NOVA SCOTIA GAMING**

#### **Overview**

The various systems that have been put in place to govern ticket lotteries and other forms of gaming through legislation and gaming organizations are complex. However, an understanding of who is responsible for which aspects of ticket lotteries is essential to ensure that there are adequate controls, oversight, and accountability mechanisms in place, and to ensure that the governance systems are actually working the way they should.

Gambling in Canada is “*prima facie*” illegal under the *Criminal Code (Canada)*. However, section 207(1) of the *Criminal Code (Canada)* provides the authority for each provincial government to enact its own legislation to establish and operate certain “*Permitted lotteries*” within its jurisdiction. Section 207(1) of the *Criminal Code (Canada)* essentially permits provincial governments to conduct and manage lottery schemes in two ways. Section 207(1) provides, in part:

- 207. (1) Notwithstanding any of the provisions of this Part relating to gaming and betting, it is lawful*
- (a) for the government of a province, either alone or in conjunction with the government of another province, to conduct and manage a lottery scheme in that province, or in that and the other province, in accordance with any law enacted by the legislature of that province;*
  - (b) for a charitable or religious organization, pursuant to a licence issued by the Lieutenant Governor in Council of a province or by such other person or authority in the province as may be specified by the Lieutenant Governor in Council thereof, to conduct and manage a lottery scheme in that province if the proceeds from the lottery scheme are used for a charitable or religious object or purpose;*
  - (c) for the board of a fair or of an exhibition, or an operator of a concession leased by that board, to conduct and manage a lottery scheme in a province where the Lieutenant Governor in Council of the province or such other person or authority in the province as may be specified by the Lieutenant Governor in Council thereof has
    - (i) designated that fair or exhibition as a fair or exhibition where a lottery scheme may be conducted and managed, and*
    - (ii) issued a licence for the conduct and management of a lottery scheme to that board or operator;**

- (d) *for any person, pursuant to a licence issued by the Lieutenant Governor in Council of a province or by such other person or authority in the province as may be specified by the Lieutenant Governor in Council thereof, to conduct and manage a lottery scheme at a public place of amusement in that province if*
  - (i) *the amount or value of each prize awarded does not exceed five hundred dollars, and*
  - (ii) *the money or other valuable consideration paid to secure a chance to win a prize does not exceed two dollars;*
- (e) *for the government of a province to agree with the government of another province that lots, cards or tickets in relation to a lottery scheme that is by any of paragraphs (a) to (d) authorized to be conducted and managed in that other province may be sold in the province;*
- (f) *for any person, pursuant to a licence issued by the Lieutenant Governor in Council of a province or such other person or authority in the province as may be designated by the Lieutenant Governor in Council thereof, to conduct and manage in the province a lottery scheme that is authorized to be conducted and managed in one or more other provinces where the authority by which the lottery scheme was first authorized to be conducted and managed consents thereto;*

Under Section 207(1) the two methods of conducting and managing lottery schemes in Canada are: 1) for a province, under its own legislation, to conduct and manage a lottery scheme, either alone or in conjunction with another province; and 2) for provincial licensing authorities to license charitable or religious organizations, fairs and exhibitions, and small-scale commercial operators to conduct and manage lottery schemes.

Under the first method, Nova Scotia participates with the other Atlantic Provinces in conducting and managing ticket lottery schemes operated on its behalf by the Atlantic Lottery Corporation. Using the second method, the Alcohol and Gaming Division of the Nova Scotia Department of Environment and Labour carries out this licensing function under provincial legislation.

For both methods, Nova Scotia has enacted the required provincial legislation in accordance with section 207(1) of the *Criminal Code (Canada)*. That legislation is the *Gaming Control Act 1994-95, c. 4, s. 1. as amended in Bill 80 – Justice and Reform (2000) Act, 3<sup>d</sup> Reading November 30, 2000.*

The purpose of the *Gaming Control Act* (the Act) is set out in section 2:

**2** *The purpose of this Act is to*

*(a) establish a framework for conducting, managing, controlling and regulating casinos and other lottery schemes so as to increase the level of sustainable economic activity within the Province and increase the net revenue of the Province;*

*(b) ensure that casinos and other lottery schemes are conducted in a socially responsible manner; and*

*(c) ensure that any measures taken with respect to casinos and other lottery schemes are undertaken for the public good and in the best interests of the public and, without limiting the generality of the foregoing, to minimize the opportunities that give rise to problem gambling and other illnesses, crime and social disruption. 1994-95, c. 4, s. 2.*

Section 2 makes specific mention of the objectives of increasing “sustainable economic activity and net revenue of the Province”, of conducting lottery schemes “in a socially responsible manner” and of measures being undertaken with respect to lotteries “for the public good and in the best interests of the public”. In elaborating on “the public good” and “the best interests of the public” subsection 2(c) specifically mentions minimizing “problem gambling and other illnesses, crime and social disruption”. There is no specific mention of protection of players.

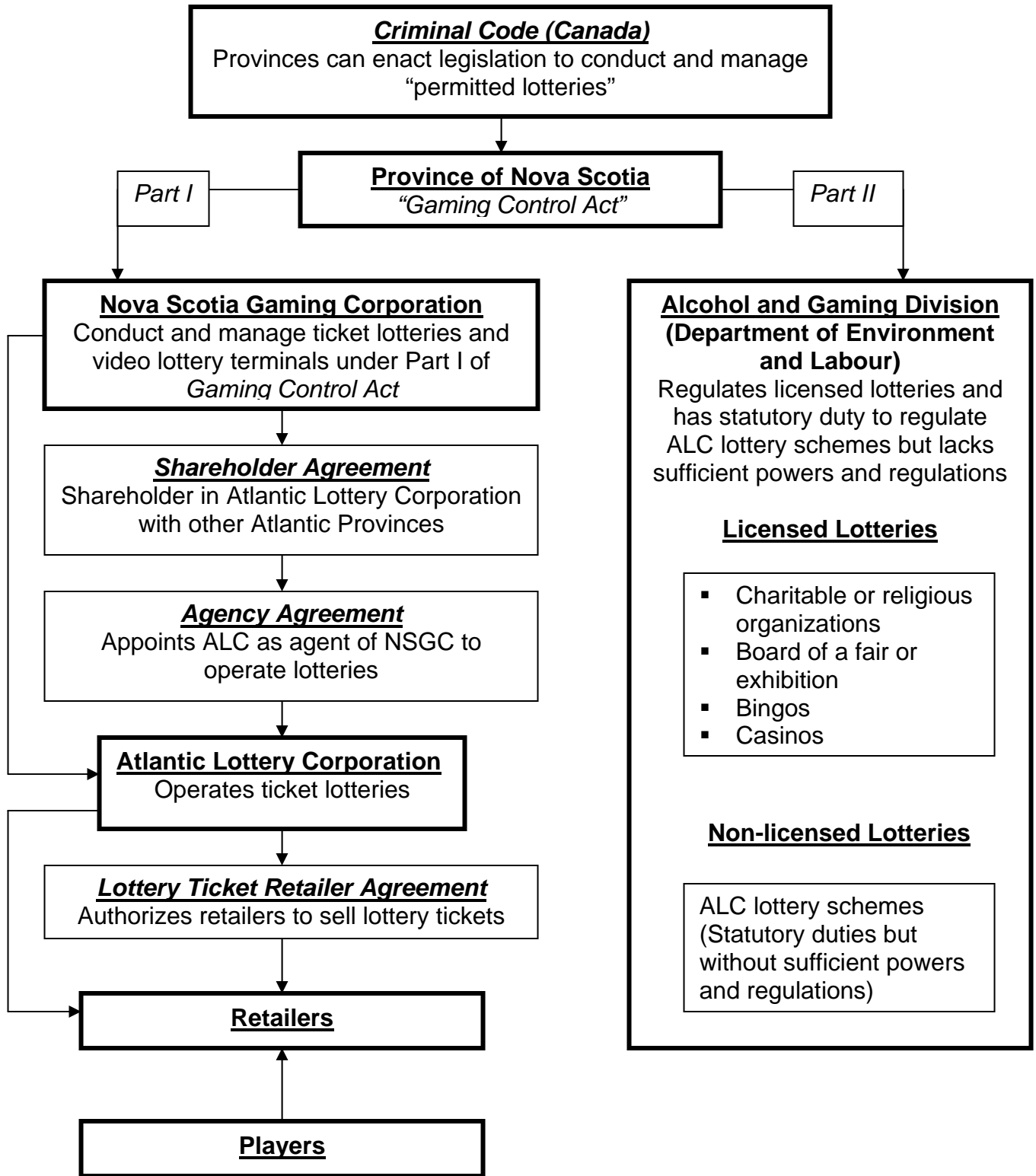
Section 67 of the Act deals with the licensing of lotteries operated by charitable and religious organizations, and fairs and exhibitions. Under section 67 the Alcohol and Gaming Division has responsibility for the licensing of these lottery schemes.

**67 (1)** *Upon application in accordance with the regulations, the Commission [now the Alcohol and Gaming Division] may, where authorized by the Governor in Council, issue a license for a lottery scheme pursuant to paragraph 207(1)(b), (c), (d) or (f) of the Criminal Code (Canada).*

With respect to non-licensed ticket lottery schemes permitted under section 207(1)(a) of the *Criminal Code*, Part I of the *Gaming Control Act* establishes the Nova Scotia Gaming Corporation to develop, conduct and manage ticket lottery schemes operated in Nova Scotia by the Atlantic Lottery Corporation, as well as casinos. Part II of the Act gives the Alcohol and Gaming Division the duty to ensure that lotteries operated by the Atlantic Lottery Corporation in Nova Scotia and conducted and managed by the Nova Scotia Gaming Corporation are conducted and managed in accordance with the Act and regulations.



**“Roadmap” of Governance of Gaming in Nova Scotia**



It is important to understand that two separate and distinct statutory entities, reporting to two different cabinet ministers have been created and given separate and distinct gaming oversight responsibilities in relation to ALC ticket lotteries: the Nova Scotia Gaming Corporation, reporting to the Minister of Finance and having operational and management oversight responsibilities; and the Alcohol and Gaming Division, reporting to the Minister of Environment and Labour and having regulatory oversight responsibilities.

### **Nova Scotia Gaming Corporation: Part I of the Gaming Control Act**

The Nova Scotia Gaming Corporation was established when the Province became involved in casinos, but it was also given management oversight responsibilities in relation to ticket lotteries which had been operated in Nova Scotia since 1976 by the Atlantic Lottery Corporation. The objects of the Nova Scotia Gaming Corporation are set out in section 10 of the Act.

*10 The objects of the Corporation are to*

*(a) develop, undertake, organize, conduct and manage casinos and other lottery schemes on behalf of the Province or on behalf of the Province and another province of Canada;*

*(b) provide for the operation of casinos and any business that the Corporation considers reasonably related to operating a casino, including any business that offers goods or services to persons playing games of chance in a casino;*

*(c) ensure that lottery schemes conducted and managed by the Corporation are conducted and managed in accordance with the Criminal Code (Canada) and this Act and the regulations; and*

*(d) do such other things in respect of lottery schemes, as the Minister or the Governor in Council may from time to time require. 1994-95, c. 4, s. 10.*

The Nova Scotia Gaming Corporation has responsibility under s. 10 (a) to “conduct and manage lottery schemes on behalf of the Province” (i.e. Lotteries operated in Nova Scotia by the Atlantic Lottery Corporation), and under s. 10 (c) to “ensure that lottery schemes it conducts and manages are conducted and managed in accordance with the *Criminal Code (Canada)* and [the] Act and the regulations”.

The duties of the Nova Scotia Gaming Corporation in relation to Atlantic Lottery Corporation ticket lotteries in Nova Scotia are set forth in section 24(1), subsections (a), (b), (e) and (f):

**24 (1) The Corporation shall**

*(a) subject to this Act and the regulations, comply with any direction given to it by the Governor in Council;*

*(b) conduct and manage casinos and other lottery schemes in accordance with this Act and the regulations and the Criminal Code (Canada); ...*

*(e) report forthwith to the Minister and the Commission [now Alcohol and Gaming Division] any defect, abuse, illegality or criminal activity in relation to casinos and other lottery schemes; and*

*(f) submit annually to the Minister a report respecting the administration, operation and management by or on behalf of the Corporation of casinos or other lottery schemes in the Province, including the matters referred to in clause (e).*

In attempting to understand the relationship between the Nova Scotia Gaming Corporation and the Alcohol and Gaming Division under the Act, it is important to note that subsection 24(1) (e) requires the Corporation to report “forthwith” to both the Minister of Finance and to the Alcohol and Gaming Division “any defect, abuse, illegality or criminal activity in relation to ...lottery schemes”. This reporting requirement is an indication of the regulatory oversight role that the Alcohol and Gaming Division is given under Part II of the Act in relation to the Nova Scotia Gaming Corporation.

### **The Alcohol and Gaming Division**

Section 42 of Part II of the *Gaming Control Act* establishes the purpose of the Nova Scotia Gaming Control Commission (now the Alcohol and Gaming Division of the Department of Environment and Labour):

**42** *The purpose of the Commission [now Alcohol and Gaming Division] is to regulate and control casinos and other lottery schemes and to administer this Part in the public interest and in accordance with the principles of honesty and integrity (emphasis added).*

Section 2 of the Act, recited above, includes “other lottery schemes” within the scope of the overall purpose of the Act. The Panel’s reading and interpretation of Sections 2 and 42 is that non-licensed ticket lotteries operated in Nova Scotia by the Atlantic Lottery Corporation, and managed and conducted by the Nova Scotia

Gaming Corporation pursuant to Part I of the Act, would be subject to “regulation and control” by the Alcohol and Gaming Division.

Section 56 of the *Gaming Control Act* sets out the specific duties that have been assigned to the Alcohol and Gaming Division:

**56 (1)** *The Commission [now Alcohol and Gaming Division] shall*

*(a) perform such duties as are imposed upon it by this Act or the regulations;*

*(b) ensure that casinos and other lottery schemes conducted and managed by the Corporation are conducted and managed in accordance with this Act and the regulations and the Criminal Code (Canada);*

*(c) carry on a continuous study of the operation and administration of casinos, other lottery schemes and gaming control laws in effect in other jurisdictions, including the Criminal Code (Canada), that may affect the operation and administration of casinos or other lottery schemes in the Province;*

*(d) carry on a continuous study of the public interest and reaction of residents of the Province to existing and potential features of casinos, other lottery schemes and games of chance;*

*(e) carry on a continuous study of the social, health, justice, economic and environmental impact of casinos and other lottery schemes;*

*(f) make recommendations to the Minister for changes to this Act and the regulations to correct any defect, abuse, illegality or criminal activity in relation to casinos and other lottery schemes; and*

*(g) submit annually to the Minister a report respecting the matters referred to in clauses (b) to (f).*

Note that, like section 24(1)(e) which was discussed above, section 56(1)(b) is an indication of the regulatory oversight role that the Alcohol and Gaming Division is given in relation to the Nova Scotia Gaming Corporation. It requires the Alcohol and Gaming Division “to ensure that ...lottery schemes conducted and managed by the Corporation are conducted and managed in accordance with [the] Act and the regulations and the *Criminal code (Canada)*”. However, the Division has not been provided with sufficient powers and regulations to fulfill their purpose and duties under the Act.

**Other Governance Mechanisms under the Current Legislative Framework**

In order for the Nova Scotia Gaming Corporation to carry out its responsibility under Part I of the Act to conduct and manage non-licensed ticket lottery schemes (i.e. 6/49, Super 7, Keno etc., along with a wide variety of Scratch N' Win tickets) on behalf of Nova Scotia, it has entered into an agency agreement with the Atlantic Lottery Corporation. The agency agreement authorizes the Atlantic Lottery Corporation to run the actual day-to-day operations of the ticket lottery schemes (including marketing and advertising ticket games, ticket distribution, oversight of retail ticket sales and retailer agreements, awarding of prizes, and auditing responsibilities). These functions are carried out by the Atlantic Lottery Corporation on behalf of the Nova Scotia Gaming Corporation and, by extension, on behalf of the Province of Nova Scotia. In order to support this business arrangement, the following governance mechanisms have been put in place so that Nova Scotians can participate in these popular ticket lotteries:

i) The *Atlantic Lottery Regulations* (made under section 127 of the *Gaming Control Act*) assign the Atlantic Lottery Corporation various responsibilities, including promotion of lottery schemes and sale of tickets, selection of winning tickets and payment of prizes.

ii) The *Unanimous Shareholders Agreement* is dated April 01, 2000 and signed by representatives of the four Atlantic Provinces, including the Nova Scotia Gaming Corporation on behalf of Nova Scotia. This agreement sets out the terms, conditions, and business arrangements under which the Atlantic Lottery Corporation operates lotteries on behalf of the four Atlantic Provinces. The Unanimous Shareholders Agreement allows for a party representing a member province to also sign a separate but concurrent agency agreement with the Atlantic Lottery Corporation. At this time, the Nova Scotia Gaming Corporation (on behalf of NS) is the only party to the Unanimous Shareholders Agreement to have exercised this agency agreement option.

iii) The *Agency Agreement*, signed by the Nova Scotia Gaming Corporation and the Atlantic Lottery Corporation and dated April 01, 2000, contains additional terms and conditions which give the Nova Scotia Gaming Corporation more oversight and control over Atlantic Lottery Corporation operations in Nova Scotia.

iv) The *Lottery Ticket Retailer Agreement* is the final piece of the governance structure for ticket lottery schemes that must be in place before any retailer can sell Atlantic Lottery Corporation gaming products in Nova Scotia. This agreement sets out the terms and conditions that must be followed by all retailers dealing in Atlantic Lottery Corporation ticket lottery products. Since the ALC sells lottery tickets primarily through retailers, these retailer agreements constitute a vital link between the Atlantic Lottery Corporation and the ticket-buying public. The parties to the *Lottery Ticket Retailer Agreement* are the Atlantic Lottery Corporation (as agent for NSGC) and the individual retailer.

Retailer agreements may be awarded or terminated at the discretion of the Atlantic Lottery Corporation. Unlike charitable lotteries (i.e. QEII or CNIB ticket lotteries), there are currently no provisions in the *Gaming Control Act* that require retailers engaged in selling Atlantic Lottery Corporation ticket lottery products to be licensed in Nova Scotia.

### **Protection of Players**

The Ombudsman of British Columbia in her report noted “*While the Ombudsman agrees that it is important for players to understand the actions they can take to protect themselves, the onus is on BCLC [British Columbia Lottery Corporation], not the player, to ensure that the processes put in place by BCLC are fair and work for everyone*”. This statement emphasizes the responsibility of lottery corporations to protect players.

Until recently the Atlantic Lottery Corporation and the Nova Scotia Gaming Corporation regarded the ticket lottery retailers, rather than the players, as the customers. During our interviews with senior management representatives of ALC, they indicated that they had changed their understanding of “customer” from “retailer” to “players” about two years ago.

The Panel found that the Nova Scotia Gaming Corporation and the Atlantic Lottery Corporation have been actively involved in initiatives related to the purposes specifically identified in section 2 of the Act, such as increasing revenues and minimizing problem gaming. As noted earlier, this section contains no reference to player protection. The Panel believes that the lack of a specific reference to player protection in section 2 of the *Gaming Control Act*, likely contributed to the almost exclusive focus of ALC and NSGC on the retailer as the customer rather than on the player.

One part of the Atlantic Lottery Corporation’s Strategy, provided to the Panel in June 2007, includes “*Focus on the Customer - Attract new players; Retain loyal players*”. We note that this strategy still does not include the protection of players as a specific objective, even in relation to the payment of prizes. Consistent with the emphasis in section 2 of the Act, the focus remains on increasing revenues.

The Panel believes that if the legislation had explicitly identified the protection of players as a purpose in section 2, then management focus might have been directed to matters of protecting players, including such things as controls over prize validation and prize payout.

### **Recommendation**

**3.1 The *Gaming Control Act* should be amended to include the protection of the interests of players as a specific objective.**

### **Regulation of Ticket Lotteries**

The cover page of the Atlantic Lottery Corporation's 2005-06 Annual Report leads with the title "*Relevant, Ready, Responsible and Regulated*". Throughout the report, lotteries are frequently described as "regulated". Similarly, the Nova Scotia Gaming Corporation's annual reports refer to "regulated gambling" and to the gaming industry as being regulated by the Alcohol and Gaming Division. Technically speaking there are regulations for ALC lotteries. However, they do not provide the Alcohol and Gaming Division with an adequate basis for truly effective regulation. Advertising ticket lotteries as "regulated" may give ticket lottery participants a false sense of comfort.

The use of the term "regulated" by the Atlantic Lottery Corporation and the Nova Scotia Gaming Corporation, in the context of ticket lotteries, seems to refer to the fact that the *Criminal Code (Canada)* delegates the conduct and management of ticket lotteries to the authority of Provincial governments.

As discussed earlier in the report, the Alcohol and Gaming Division of the Department of Environment and Labour regulates casinos, bingos and licensed lotteries. Furthermore, the legislation anticipates that the regulation of ALC lotteries would also be the responsibility of the Alcohol and Gaming Division. The Division is currently the locus of regulatory gaming expertise in Nova Scotia.

Although sections 2, 24(1) (e), 42, and 56(1) of the *Gaming Control Act*, as discussed earlier, give the Alcohol and Gaming Division responsibility for regulatory oversight of the Nova Scotia Gaming Corporation, and through the NSGC, over the Atlantic Lottery Corporation, the Act and regulations do not provide the Alcohol and Gaming Division with the powers and regulatory foundation necessary to carry out its intended responsibilities effectively. Indeed, we had been informed by representatives of the Division that the Atlantic Lottery Corporation lotteries were not subject to any enforceable oversight by the Alcohol and Gaming Division.

The Panel sought an explanation from the Division as to why sections 42 and 56, which are apparently applicable to ALC's ticket lotteries, had not been used to regulate those lotteries. The Alcohol and Gaming Division's opinion was that there was insufficient authority for it to effectively regulate Atlantic Lottery Corporation ticket lottery schemes in Nova Scotia. Division staff pointed out that the Act discusses the purposes of the Division in a general sense but does not assign specific regulatory responsibilities. They also referenced Section 56, *Duties of the Commission*, which requires them to *perform such duties as are imposed upon it by this Act or regulations* (Alcohol and Gaming Division emphasis). The Division elaborated: "*The Atlantic Lottery regulations are sufficiently vague as to effectively allow ALC to introduce virtually any type of gambling and classify that as a 'ticket lottery' without effective controls or checks and balances in place.*"

## Ministerial Advisory Panel on Ticket Lottery Controls

---

The Alcohol and Gaming Division acknowledges that on occasion it has raised concerns with the Nova Scotia Gaming Corporation and the Atlantic Lottery Corporation regarding both ticket lotteries and video lottery terminals. They have offered suggestions for improvement or identified areas for correction. However, any action taken by NSGC or ALC was done at its own discretion and the Alcohol and Gaming Division did not believe it had the capacity to require action to be taken, as “non-action would not have equated to non-compliance with the *Atlantic Lottery Regulations*.”

The Panel agrees that although the Act gives the Alcohol and Gaming Division the duty to regulate the NSGC and ALC ticket lotteries in Nova Scotia, it does not provide an adequate basis for effective regulation.

The regulatory regimes for casinos, bingos and charitable lotteries are extensive. The applicable regulations provide for background checks on suppliers and employees; review and approval of equipment and new games by the Alcohol and Gaming Division; inspections; reporting requirements; and in the case of casinos, on site observation of activities by Division employees. Admittedly a crude measure, comparing the number of regulatory sections governing the different gaming activities does provide a very rough gauge of the intensity of regulation by the Alcohol and Gaming Division in each gaming area.

### Number of Regulatory Sections by Gaming Activity (1)

Gaming Activity	Total Wager 2006-07 (\$000's)	Regulations	# of Sections
Casinos	\$ 489,109	Casino Regulations	256
Bingo	67,359	Bingo Regulations	30
Charitable Ticket Lotteries	32,204	Ticket Lottery Regulations	23
Video Lottery	717,153	Video Lottery Regulations	21
Atlantic Lottery Ticket Lotteries	215,124	Atlantic Lottery Regulations	14

(1) Source: Letter from Alcohol and Gaming Division, July 3, 2007

The Alcohol and Gaming Division contrasted the more detailed regulations governing casinos, bingos and charitable lotteries with the sparse regulations governing Atlantic Lottery Corporation ticket lotteries. With respect to ALC ticket lotteries there are:

- no licensing requirements for games, retailers, or equipment suppliers;
- no sanctions for non-compliance, by ALC or its retailers, including suspension, revocation or conditioning of licenses; and



- no requirements to develop and implement internal control systems, reviews of those systems, changes to correct deficiencies as directed, or prior approval before altering the systems.

It is obvious that ALC ticket lotteries have not attracted the regulatory attention that bingos and licensed lotteries have attracted, notwithstanding that ALC ticket lotteries have provided the second largest source of net revenue among the five types of gaming activities in Nova Scotia.

The conduct and management of gaming activities is an important responsibility that only governments can assume under the *Criminal Code (Canada)*. The inherent nature of gaming, as well as the experiences in other jurisdictions, the statistical analyses carried out on Nova Scotia ticket lotteries, and the control deficiencies identified in ALC ticket lotteries and in other jurisdictions, increase the public's already high expectation that there be strict monitoring and regulation of ticket lotteries to ensure a high level of integrity and fairness.

Until recently, the sparse nature of independent regulation of non-licensed ticket lotteries was not unique to Nova Scotia or to the other Atlantic Provinces; it was a common feature of gaming control legislation across Canada. It was in 2002 that British Columbia established the Gaming Policy and Enforcement Branch within the Ministry of Public Safety and Solicitor General to regulate ticket lotteries in British Columbia. It was only earlier this year that the Government of Ontario, in response to the retailer win stories in Ontario, assigned the responsibility to regulate lotteries to the Alcohol and Gaming Commission of Ontario.

ALC is moving rapidly to implement recommendations from its own audits and review, as well as the recommendations applicable from other provinces. At least one other review is currently underway on ALC operations. However, even if ALC implements all of the recommendations, and even if they were able to demonstrate that the controls are working as designed, new games and new technologies are quickly entering the market and will require their own unique controls to ensure the integrity of the games.

In the view of the Panel, all of these factors demand effective, independent regulation of ticket lottery schemes.

### **Recommendation:**

#### **3.2 Atlantic Lottery Corporation's non-licensed ticket lotteries should be subject to effective regulation, independent from the operators.**

**The *Gaming Control Act* and regulations should specifically provide the Alcohol and Gaming Division with the power, authority, and regulatory foundation necessary to effectively regulate ALC ticket lotteries.**

#### **4. RECOMMENDED REGULATORY FRAMEWORK**

The Panel has reviewed the regulatory regime in place for licensed ticket lotteries in Nova Scotia as well as the regimes in place and proposed in other provinces. We have also considered additional regulatory measures that we believe will help ensure public confidence in ALC lottery schemes into the future.

The Panel is providing a framework for consideration by the Minister. In addition to the areas identified by the Panel, there are likely other measures the Minister may want to include in a final framework.

The Panel wants to emphasize that the establishment or presence of a regulatory framework does not lessen the ALC's and NSGC's responsibility for meeting their legislative obligations, including the protection of players. Similar to virtually all other forms of government regulation, the body carrying out the regulated activity is primarily responsible for complying with the terms of legislation. The regulator carries out approval and inspection functions to monitor compliance with the regulations. The regulator, in this case the Alcohol and Gaming Division, does not assume any of the responsibilities of the bodies operating ticket lotteries. The entities responsible for the activity, in this case ALC and NSGC, must exercise their own due diligence in ensuring compliance with regulations.

##### **Licensing**

Licensing confers the authority to engage in a regulated activity and provides a means to enforce the regulations. The regulator, through licenses, can stop inappropriate activity or apply sanctions or penalties to ensure compliance. Charitable lotteries, bingos, and fairs and exhibitions are licensed now. Retailers of ALC ticket lotteries are not licensed.

The authority to sell and operate the retail portion of ticket lotteries is granted by ALC to retailers by means of a Lottery Ticket Retailer Agreement. This is a contract that establishes, among other things, compensation to retailers, a requirement to abide by ALC procedures, and conditions under which the agreement may be terminated.

The Retailer Agreement is a necessary business tool but is not a regulatory instrument. The Panel believes that the Agreement is not sufficient by itself to monitor persons permitted to become or to continue as retailers. The agreement is controlled and designed by ALC for commercial purposes to support their business objectives. Termination of the Retailer Agreement or other sanctions is at ALC's discretion.

## Recommendation

### **4.1 In order to be a lottery ticket retailer and eligible to be a signatory to an ALC lottery ticket retailer agreement, retailers should be registered and licensed by the Alcohol and Gaming Division.**

The integrity of the equipment used in the lottery business is crucial to the public's confidence in games of chance. Suppliers of equipment and materials to casinos and licensed lotteries are required to be licensed now.

ALC carries out its own set of procedures, either on its own, using outside expertise, or the services of other lottery corporations to assess lottery equipment and supplies. These procedures should be continued but player confidence in the integrity of the game would be enhanced if a regulatory body reviewed, registered, and licensed manufacturers and suppliers.

## Recommendation

### **4.2 Suppliers of equipment and materials used in the ALC ticket lottery process should be registered and licensed by the Alcohol and Gaming Division.**

Background criminal checks are a common practice for persons engaged in sensitive regulated activities. Casino staff and persons engaged in licensed lotteries are required to undergo background checks.

In the summer of 2007, the governments of Ontario and British Columbia established new regulations governing ticket lotteries that, among other measures, included registration and licensing of lottery retailers. These registration and licensing processes includes a background check including criminal record, credit history, and notification of certain civil proceedings.

In the Panel's meetings with ALC, we were informed that it was now requiring criminal background checks on new retailers.

The Panel is aware that background checks are not necessarily determinates of future behaviour. Those with past problems may not offend again and there is no guarantee that individuals with no past problems would not act on an opportunity. However, the process may disclose important information and may deter some who are not suitable to be retailers from applying for a license to sell ALC lottery products

## Recommendation

**4.3 Retailers and suppliers of lottery equipment and materials should be required to undergo background criminal checks monitored by the Alcohol and Gaming Division. There should be an appeal process for those who believe they have been unfairly excluded from registration or licensing.**

Once retailers and equipment suppliers are licensed, there should be a means of regularly ensuring they continue to meet the conditions necessary to maintain their registration. When the regulator is aware of situations that warrant suspension or revocation of registration, the regulations need to provide them with the authority to take action. Similar powers, including an appeal process for registrants, are provided for in the regulations governing licensed lotteries regulated by the Alcohol and Gaming Division now.

The regulator may not always be in a position to be aware of events that would put a registrant's license into question. ALC would have more frequent contact with retailers and suppliers and would be aware of situations resulting from its management of their agreements with retailers and suppliers. ALC should provide an annual statement to the Alcohol and Gaming Division of known instances of non-compliance with key sections of the Retailer Agreement.

## Recommendation

**4.4 The regulations should specify the conditions for maintaining a retailer's registration and license, and the grounds for suspension, revocation, and penalties. Conditions for retaining a retailer license should include:**

- **compliance with contractual obligations to ALC;**
- **an annual statement from ALC to the Alcohol and Gaming Division of compliance by the retailer with the agreement;**
- **keeping Alcohol and Gaming Division informed of significant changes in a retailer's or supplier's situation that would impact on registration or licensing; and**
- **no acts or omissions that Alcohol and Gaming Division believes are contrary to the protection of the public.**

The regulations should establish some form of appeal process for those whose registration and licenses have been suspended or revoked.

### **Existing and New Games**

ALC establishes game rules that govern the conduct and management of the various lottery schemes they operate. In the case of some draw or on-line lotteries, the Interprovincial Lottery Corporation determines the rules of play.

From a regulatory perspective, there is no independent, arm's length review of the game rules to ensure the public interest is protected. In addition to the rules of play, each game requires a host of policies, procedures, and internal controls related to the lottery scheme, integrity of the products used in the games, handling of complaints, and governance of the conduct of retailers. The regulatory framework should require that the regulator examine the controls and other procedures for existing and new games. ALC and NSGC should not be allowed to conduct, manage, or operate lottery schemes unless the rules of play and the policies, procedures and integrity of the products and technology have been approved by the regulator.

### **Recommendation**

**4.5 The regulations governing ALC ticket lotteries should prohibit the operation of a lottery scheme in Nova Scotia unless the Alcohol and Gaming Division has approved, in writing, the following:**

- **game rules;**
- **a procedure of internal controls for the lottery scheme, including the policies, processes and procedures related to ticket validation and determination of rightful prize winners;**
- **a procedure for handling complaints from the public with respect to the lottery scheme;**
- **a procedure governing the conduct of retailers;**
- **the technical integrity of the scheme; and**
- **the technical integrity of the gaming supplies and products used in the scheme.**

**The regulator must be advised of any alteration, upgrade, or repair to gaming supplies that have been found defective in manufacture or design, and the altered, upgraded or repaired gaming supplies shall not be used in the lottery scheme unless approved by the regulator.**

### **Regulatory Oversight of Systems of Controls**

The Panel believes that the lottery schemes operated by ALC in Nova Scotia should be regulated to a similar extent as bingos, licensed lotteries and casinos. The Alcohol and Gaming Division, in addition to the regulation of individual lottery schemes, requires the authority to investigate situations, conduct reviews or audits or require that they be carried out, give directives, and impose sanctions. This type of authority is common in most regulatory environments and is present in the current regulations governing bingos, licensed lotteries and casino operations.

Well designed and adhered to governance practices and management controls are essential to ensuring that lottery schemes are conducted with integrity and that players are protected. The *Casino Regulations* under the *Gaming Control Act* require the operator to implement an internal control system meeting the requirements set out in the regulations, including, among other requirements, providing reasonable assurance that the potential for error and fraud is minimized. Recently released regulations under the *Ontario Gaming Control Act* require registered lottery equipment suppliers to put in place internal control systems to ensure the integrity of the lottery equipment.

In addition to general internal control systems, the Alcohol and Gaming Division should have the authority to conduct, or require ALC or NSGC to conduct, periodic or regular reviews of key processes. Those key processes would include, but not be limited to:

- customer complaint handling processes;
- incident investigation procedures; and
- monitoring and recording of retailer compliance with ALC policies and procedures.

### **Recommendation**

**4.6 The regulations should provide the Alcohol and Gaming Division with adequate and appropriate authority to require internal and management control systems be in place and operating effectively to ensure the integrity of the lottery schemes and protect players.**

**The regulations should provide the Alcohol and Gaming Division with adequate and appropriate authority to conduct a review or require ALC or NSGC to conduct a review of key lottery processes, including but not limited to:**

- **customer complaint handling processes;**
- **incident investigation procedures; and**
- **monitoring and recording of retailer compliance with ALC policies and procedures.**

### **Investigative Authority**

In addition to the authority to take steps to determine and ensure that appropriate and adequate control systems exist, situations will arise where the regulator will need to carry out its own investigation. These investigations are required to either determine whether control systems are functioning properly or to investigate a specific incident. The regulator requires sufficient authority to obtain the information necessary to conduct its examination.

The *Gaming Control Act* contains investigative powers and authority. Similarly, regulations under the Act related to licensed lotteries contain specific investigative powers. The investigative authority of the *Gaming Control Act* has not been applied to lotteries operated by ALC. The regulations that do exist covering ALC ticket lotteries do not include investigative powers.

### **Recommendation**

**4.7 The investigative authority described in the *Gaming Control Act* should be extended to ensure they are applicable to ticket lotteries conducted and managed by NSGC and operated by ALC.**

In order to ensure effective investigations, the regulator needs to have access to information on a timely basis. For example, the *Gaming Control Act* requires the NSGC to report “forthwith” defects, abuses, illegalities and criminal activity. When ALC identifies and determines that an incident or issue is reportable to NSGC, it makes a report to NSGC, which in turn reports to the Minister. However, there may be situations that do not meet the criteria, as determined by ALC, which would result in a report to NSGC. There may also be a series of seemingly trivial issues that viewed individually do not raise serious concern, but which taken together may indicate a trend or problem warranting further investigation or preventative measures.

ALC has a customer complaint system as well as systems that track incidents and investigations. These are key areas for the early identification of issues or trends. The regulator should be able to access these systems as it determines necessary to ensure all matters are being reported and to identify issues that may not have yet reached a reportable stage but are nevertheless of concern. This data should be available for access by the Alcohol and Gaming Division on a regular basis and ideally in real-time or as close to real-time as practical. For example, one component of the regulation of casino operations includes the on-site presence and monitoring by Alcohol and Gaming Division staff or contractors.

## Recommendation

**4.8 The Alcohol and Gaming Division should have access to customer complaints, investigation files, security notifications and other material necessary for effective regulation in real-time or as close to real-time as practical.**

## Maintaining Effective Regulation

An essential feature of regulation is the authority to impose sanctions for non-compliance. The sanctions are necessary to halt activity contrary to the regulations and to deter the persons being sanctioned and others from repeating the same or similar infractions. The authority to impose sanctions must be explicitly set out in legislation as in the case of licensed lotteries and casino operations. There is currently no sanctioning authority prescribed for non-compliance by NSGC, ALC, retailers, or equipment suppliers.

## Recommendation

**4.9 Regulations governing ALC's ticket lotteries should describe offences under the legislation and related regulatory powers including penalties, conditions and sanctions.**

Once a regulatory function has been established, it is important that its independence and effectiveness be sustained.

One constraint to effectiveness is lack of resources to meet regulatory responsibility. Ticket lottery regulation will have costs for such activities as background checks, compliance personnel, registration and licensing systems, etc. Government expenses are usually funded through an allocation of funds from the Consolidated Fund determined through the annual budgeting process. From time to time, the budget process may limit or reduce funds available for ticket lottery regulation due to other government priorities. The Panel would like to ensure that ticket lottery regulation remains effective by providing some measure for assuring that funds will be available to carry out the regulatory activity.

If the public's confidence in the integrity of ticket lotteries is in question, ticket purchases will likely decline and government revenues will be impacted. There is no easy method to determine whether this is occurring because of the multiple factors that affect lottery ticket spending, such as the economy, size of jackpots, and other gaming or entertainment opportunities, to mention a few. While regulation has associated costs, reports of abuse and an absence of effective regulation can reasonably be expected to reduce government revenues.



The Panel believes that a necessary cost of the ticket lottery business is effective independent regulation. The ticket lottery business should bear a portion of the regulatory costs. A fee charged to retailers or an annual amount paid by NSGC from ALC net revenues to the regulatory body are a means of ensuring that a base amount of funding is available. It is a government decision whether this funding is provided from a new source of revenue, such as a fee charged to retailers or purchasers, or from an allocation of the current net revenues. The base amount of funding should be reviewed on a periodic basis.

### **Recommendation**

**4.10 A minimum amount of base funding should be provided for the regulation of ticket lotteries from a source other than the Consolidated Fund. Funding could come from either a predetermined annual amount paid by NSGC or a fee-based amount collected from retailers or both.**

Effective regulation requires that regulatory decisions be made without undue influence. The main decision maker, in this case, the Executive Director of the Alcohol and Gaming Division, should have the ability and freedom to act without undue influence and in an independent manner.

*The Gaming Control Act* recognizes this principle in other forms of gaming. The Act separates regulation from the operation of gaming. Ministerial responsibility for operations and regulation is in separate departments. Ultimate responsibility for regulatory decisions now rests with a single person, the Executive Director, now that the Commission has been disbanded. The Executive Director should be protected from undue influence while still permitting oversight of the Division's overall effectiveness and management.

### **Recommendation**

**4.11 The legislation and regulations should ensure that ticket lotteries can be regulated without undue outside influence and that the regulatory body has the ability and freedom to act in an independent manner.**

The regulator of ticket lotteries must have the ability to implement controls for ALC lotteries in Nova Scotia. In many areas, implementation of the regulator's decisions can only be carried out by ALC. The regulations must allow the regulator to direct ALC and NSGC to implement decisions relevant to Nova Scotia lotteries.

### **Recommendation**

**4.12 The ticket lottery regulations should provide the Alcohol and Gaming Division with the authority to direct ALC and NSGC to do certain things within the provisions of the Act and regulations.**

## **5. CONTROLS OVER TICKET LOTTERIES**

The Terms of Reference require an assessment of the adequacy “*of the current preventative and detective measures in place to ensure that the ticket lottery is fair, safe and secure and that players receive the prizes that they are entitled to*”. There have been numerous reviews and examinations of the ALC and NSGC ticket lottery control systems conducted internally and by external experts. Some have specifically focussed on ticket lottery controls in Atlantic Canada and in Nova Scotia. There have also been numerous reviews and examinations in other Canadian jurisdictions. Ticket lotteries are similar in most jurisdictions and some are coordinated nationally. Many of the findings and recommendations of the reviews conducted in other Canadian jurisdictions will be relevant to the ticket lotteries conducted by ALC. In total, there are 171 recommendations flowing from the various reviews. These reviews are continuing with projects underway in British Columbia, the Western provinces, and a comprehensive review of ALC products.

The Panel did not believe it would be efficient or cost effective to conduct an audit or contract for another forensic audit or external review to be carried out. The Panel believes that, after reviewing the relevant reports, most of the appropriate controls have been identified in forensic audits done for ALC lotteries and for lottery operators in other jurisdictions. Nevertheless, the Panel has made additional recommendations that have not been previously identified.

The Panel wants to make very clear that the presence of a regulatory framework over ticket lotteries does not lessen ALC’s or NSGC’s responsibility for ensuring that appropriate and adequate internal and management controls are in place and are operating effectively, especially those controls directed at protecting players. The regulator inspects and approves the control systems and their operation, in accordance with the regulations. The Alcohol and Gaming Division does not assume any of the primary responsibilities of ALC and NSGC for the design and implementation of adequate control systems or the management processes designed to monitor compliance with the control systems.

The Panel’s review of controls focused on protection of players, including retailers. Retailers should be held to a higher standard of scrutiny due to their key role in ticket lottery transactions. However, if the control systems are sound and function as designed, the public should be assured that wins by retailers are valid.

ALC has moved at a rapid pace to implement many corrective measures. The Panel's description of the ticket lottery system mostly relates to conditions existing before January 2007. Where changes have been made, are in progress, or are planned, they are acknowledged. However, given the rapid pace of change, there may be some changes, between the completion of the Panel's interviews and analysis, which are not acknowledged.

The Panel's discussion of controls over ticket lotteries begins with the role of the Nova Scotia Gaming Corporation. NSGC is an important component of establishing and maintaining effective controls over ticket lotteries. The Panel's views on the specific controls are categorized under the major steps in the ticket lottery process. We discuss the risks that are inherent and apparent at each of these points. The recommendations relevant to each category made by KPMG in its May 9, 2007 Forensic Review are presented along with the Panel's report on the status of implementation of the recommendations. Finally, the Panel's own recommendations are presented.

### **Nova Scotia Gaming Corporation**

The NSGC is managed by a Board of Directors, appointed pursuant to the *Gaming Control Act* (no fewer than 3 and no more than 5 members). The Governor in Council makes these director appointments. The Chief Executive Officer is appointed by the Governor in Council on the recommendation of the Board of Directors. As well, the NSGC Board of Directors appoints the two Nova Scotia directors to sit on the Atlantic Lottery Corporation's Board of Directors.

There is also the Interprovincial Lottery Corporation (ILC) which is an organization incorporated in 1976 under the *Canada Business Corporations Act*. The primary purpose of the Corporation is to operate nation-wide lottery games, such as 6/49 and Super 7. NSGC holds one of the ten shares of ILC, and, as such, appoints 1 of 21 directors to the ILC's Board of Directors. The ILC shareholder's agreement governing the ILC stipulates that votes are cast by region; therefore, the NSGC representative votes as part of the Atlantic Canada region. There are five regions that make up the ILC, each of which has a weighted vote.

Although NSGC is neither the operator nor the regulator of ticket lotteries, it is responsible for conducting and managing ticket lotteries in Nova Scotia. The legislation contemplates and permits NSGC to contract with ALC to act as an agent of Nova Scotia and to operate ticket lotteries. Regardless of the arrangements that have been made with ALC, NSGC still has the responsibility to oversee, challenge, and assure itself that ALC has appropriate and adequate policies, standards, controls and management systems in place and functioning

properly. Performance of these responsibilities through good corporate governance practices should provide an additional level of protection.

On April 20, 2007, NSGC wrote to ALC requesting material related to the retailer wins issue. The material and information requested was:

- all investigative files related to complaints against Nova Scotia retailers;
- information on each retailer named in the complaints;
- documentation related to ALC verifying retailer wins
- list of Nova Scotia retailers terminated, suspended or provided with warning letters;
- internal audit reports related to ALC's security and investigative procedures;
- instant ticket printing and security controls;
- documented procedures for customer complaints;
- material provided to retailers on how to comply with ALC's Retailer Agreement; and
- requirements for becoming a ticket lottery retailer and procedures followed to determine if someone should be selected as a retailer.

ALC provided the material and information that existed but with respect to some items requested, there was no documentation or information was available.

This appears to be the first time that NSGC requested this type of information. The Panel believes that, given NSGC's management oversight responsibility, this is the type of basic information that NSGC should be requesting and reviewing on a regular basis and communicating to its Board.

The Panel noted instances where NSGC assumed an active role in influencing ALC's operations in Nova Scotia. For example, NSGC wrote to ALC in March 2007 requesting that self-checkers be installed in all Nova Scotia retail locations, rather than in a limited number of sites. They also took an early decision to commission a statistical analysis of lottery wins by retailers in Nova Scotia. The Panel believes that these are examples of the kind of leadership and oversight role the legislation contemplates for NSGC.

### **Recommendation**

**5.1 The Nova Scotia Gaming Corporation should take a more active role in overseeing ALC's compliance with the Act and regulations including obtaining and reviewing on a regular basis, key information necessary for NSGC to carry out its responsibilities to conduct and manage ALC ticket lotteries.**

Section 24(1) of the *Gaming Control Act* includes the following duties of the Nova Scotia Gaming Corporation:

- (e) *report forthwith to the Minister and the Commission any defect, abuse, illegality or criminal activity in relation to casinos and other lottery schemes; and*
- (f) *submit annually to the Minister a report respecting the administration, operation and management by or on behalf of the Corporation of casinos or other lottery schemes in the Province, including the matters referred to in clause (e).*

ALC operates ticket lotteries. It has the systems, networks, and relationships with retailers and direct contact with customers that would generate information about matters to be reported under section 24(1)(e). NSGC relies on ALC to inform it of any defects, abuse, illegality or criminal activity in relation to ticket lotteries. The Agency Agreement between NSGC and ALC requires ALC, under clause 3.03, to “*report verbally forthwith and in writing within 48 hours any defect, abuse, illegality or criminal activity known or suspected by ALC in relation to or that may affect the NS lotteries...*”

NSGC reviewed the investigative files requested in its April 20, 2007 letter. These files, in most but not all cases, included notations as to whether the matter being investigated was reportable to NSGC. In a number of cases where ALC determined that the incident was not reportable, the NSGC review questioned or disagreed with ALC’s assessment. The Panel’s review of the files confirmed the questions raised by NSGC about ALC’s assessment of whether an incident was reportable.

Without some type of procedure for regular review of such things as customer complaints and investigative files, NSGC would not be in a position to know whether its reports to the Minister under 24(1)(e) were complete or accurate.

### **Recommendation**

#### **5.2 NSGC should establish procedures and take measures to satisfy itself that the items reported to it by ALC under 24(1)(e) are complete and accurate.**

In addition to the normal types of activity that are included in annual reports of government bodies, section 24(1)(f) requires the annual reporting by NSGC of matters relating to defects, abuses, illegalities or criminal activities in relation to ticket lotteries. Therefore, the Panel expected to find in NSGC’s Annual Report, at least in summary form, some information on defects, abuses, illegalities or criminal activity. However, there was little of this type of information included in either the ALC or NSGC Annual Reports.

A summary of customer complaints and investigations undertaken, at least by type or nature of the issue, should also be considered for inclusion in NSGC's annual reports.

### Recommendation

**5.3 NSGC's annual report should contain information, at least at a summary level, on ticket lottery defects, abuses, illegalities or criminal activities. NSGC should also consider reporting on the number, type and nature of complaints from Nova Scotia customers.**

One method for NSGC to assure itself as to the presence and operation of essential standards and controls is through an external independent verification process, similar to the annual audit of ALC's financial records and reporting performed by an independent external auditor.

The Interprovincial Lottery Corporation has established "*Minimum Control Standards*". The ILC points out that "*The continued success of ILC on-line games depends on the integrity, security and internal controls of the system(s) used to conduct the game. As partners in any ILC on-line game, each jurisdiction relies on the integrity, security and internal controls of its own system(s) and on each of its partners. Conforming to minimum control standards provides each jurisdiction with assurances that their partners are protecting the integrity of any ILC on-line game*".

The Minimum Control Standards of ILC require an annual audit to ensure compliance with the minimum control standards. The last audit of ALC against these standards is dated March 2, 2007 and includes the auditor's opinion that "*ALC is in compliance in all material respects, with the specified sections*" of the minimum control standards.

The current ILC Minimum Control Standards are quite extensive. They cover such areas as integrity of gaming data, disaster recovery plans, audits of draws, age control, usage of test ticket stock, and disclosure of winning ticket purchase location. However, there are no minimum control standards for retail processes or prize payouts. We have been informed by NSGC that control standards in these areas are currently being considered.

The World Lottery Association (WLA) has established a Security Control Standard, (WLASCS2006 – updated November 2006) described as "*the security and risk management baseline for the lottery sector worldwide*". Third-party certifying bodies may review WLA members who wish to certify their operations against the Standard. Certification does not guarantee there will not be an incident but it is intended to decrease the likelihood of an occurrence. The WLA

standards are comprehensive and include standards covering instant tickets, retailer operations, and validation and payout of prizes.

ALC is not yet certified under WLASCS 2006. We were informed that ALC has been preparing and expects to be certified within 18 months.

The Panel believes that certification under WLASCS 2006 and audits under the expanded ILC minimum control standards would be an important source of assurance for NSGC about the integrity of ALC's operations.

### **Recommendation**

**5.4 NSGC should require ALC to be certified under WLASCS 2006 and encourage the ILC to expand its minimum control standards to include retail processes and prize payouts.**

Improvements to specific controls over ticket lotteries are presented in the following sections. Many of the recommendations are to be implemented at the operational level. NSGC does not operate ticket lotteries; ALC does. However, NSGC has the responsibility under *the Gaming Control Act* to ensure ticket lotteries are conducted and managed in an appropriate manner. In order for the recommendations to be addressed, NSGC has a primary role in ensuring that ALC has considered the recommendations and made plans for implementation. Many recommendations are directed at ALC, but NSGC should ensure they are addressed.

### **Improvements to Specific Controls**

#### **Ticket Purchase**

The majority of purchases of ALC lottery tickets are done anonymously. At the time of purchase, there is no record kept of who the purchaser is. The exception is online purchases from ALC's web site.

The ticket remains anonymous until the purchaser signs and writes their address on the ticket. Even then, there is no central record at ALC to associate the ticket with the purchaser. The Panel believes that this feature of ticket lotteries presents the greatest risk to the integrity of ticket lottery prize payouts. It is also a risk that ALC, NSGC and lottery operators across Canada could have and should have identified and designed controls to address. However, they failed to do so.

In the case of winning tickets, the methods ALC has used to establish ownership have been the best available given the current design of the games, but could



still be improved. Currently, the best evidence of ownership is the signature or address that the purchaser records on the ticket. But even this is no assurance that the person bearing the ticket is the rightful owner. The signature or address could have been added by anyone gaining custody of an unsigned ticket after purchase.

Prior to January 2007, a space was provided on the back of lottery tickets for the purchaser to sign and write their address. However, the area was small, even minuscule, and it was on the reverse side of the ticket. In addition, there was no policy requiring that the signature be present prior to validation by a retailer.

In June 2007, ALC announced its new policy on accepting tickets for validation. Before validating tickets, retailers are now required to ensure that customers have signed their tickets. The signature area has been enlarged and moved to the front of the ticket.

KPMG's recommendation regarding ticket signature as a means of establishing ownership was:

<b>KPMG Forensic Review, May 9, 2007</b>	<b>ALC Status</b>
All tickets must be signed by the ticket holder prior to validation	<ul style="list-style-type: none"><li>▪ Signature line enlarged and moved to front of ticket</li><li>▪ Notice to customers through advertising at retail locations and on website</li><li>▪ New policy communicated to retailers. ALC monitoring compliance</li><li>▪ Notice displayed on customer facing terminal screens</li></ul>

Even with this new and welcome policy there is still the opportunity between the time of purchase and validation for customers to lose custody of their ticket and for someone else to sign and present the ticket as their own. In addition, this new policy relies on the retailer and customer for compliance.

In some other licensed ticket lotteries, such as local hospital lotteries, the purchaser's name and address are recorded at the time of purchase and associated with a lottery ticket number. When a winning number or ticket is drawn, the name of the owner is known immediately. Obviously, given the volume of ALC ticket lottery sales, the manual recording of that level of detail would be a major initiative. However, technology could be developed to incorporate a player swipe card system that would provide very good evidence of lottery ticket ownership for players, including retailers. The Ombudsman of British Columbia recommended such a system in her report. Admittedly

developing and introducing such a system would have considerable challenges and issues. These would include development of the technology, cost of implementation, and policy considerations such as protection of the privacy of personal information. Nonetheless, applying the concept in Nova Scotia warrants serious consideration. Monitoring progress in British Columbia would provide helpful information.

The Panel considered at length the question of prohibiting retailers from purchasing lottery tickets or collecting prizes. All jurisdictions in Canada permit retailers to participate in ticket lotteries. British Columbia restricts retailers and their employees from purchasing tickets at their workplace during their work shift.

It is often suggested that banning retailers from purchasing tickets or collecting prizes will eliminate the risk of retailers collecting prizes to which they are not entitled. None of the reviews conducted in Canada, other than a recent forensic review of the British Columbia Lottery Corporation, have recommended such a prohibition.

The Panel was not convinced that prohibiting retailers from purchasing lottery tickets would be effective. A prohibition on retailer ticket purchases would be difficult to police and enforce. A recent forensic review conducted in British Columbia of retailer lottery wins identified many cases where retailers and their employees purchased tickets even though the Gaming and Enforcement Branch has a policy banning ticket purchases by them when they are working. Restrictions on retailer participation in ticket lotteries would not prevent their participation nor eliminate instances of fraud or theft by retailers. Given the right opportunity, a prohibition would only encourage collusion with others to evade the policy.

The Panel believes that one of the most effective controls, in the long term, is requiring retailers and their employees to register their lottery tickets at the time of purchase.

### Recommendation

**5.5 ALC should investigate the use of swipe cards for use by retailers and their employees to register their purchases. No prize may be claimed unless the purchase was registered at the time of ticket purchase.**

The Panel asked ALC for its policy on tickets presented for collection of winnings where the presenter claims to have found the ticket. ALC could not recall such an instance and no policy exists. The Ontario Ombudsman's report on ticket lotteries detailed an instance where a retailer presented a winning ticket that had

been found. Similar cases are likely where persons who are not retailers find winning tickets.

The Panel was more interested in whether ALC had considered the risks inherent in ticket lotteries and in whether a policy on found tickets existed rather than in the specifics of the policy. The options for a “found ticket” policy could vary from denial of a prize payout to a cooling off period before payment to the holder of the ticket. The Panel believes that ALC should develop a policy for cases of “found” tickets.

### **Recommendation**

**5.6 ALC should establish a policy for the review and settlement options for tickets presented for prize payout where the holder claims to have found the ticket.**

### **Prize Payout Procedures**

The general controls ALC uses to establish the ownership of the ticket prior to award of a major prize are:

- Possession of the winning ticket - Lottery tickets have been described as bearer instruments. These types of instruments are described as payable on demand to the holder, regardless of who originally purchased the ticket. One lottery organization in the United States cautions players: “ *It is important to sign the back of your ticket to establish your ownership of the ticket. Without a signature on the back, a lottery ticket is considered a “bearer instrument” and can be claimed by anyone presenting the ticket*”. Presentation of a signed ticket provides some evidence of ownership but with the limitations described earlier.
- Knowledge of where and when the ticket was purchased – ALC’s computer database tracks the time and place of ticket purchase for draw type lotteries and codes on instant-win tickets link the ticket to the place of purchase. Knowledge of when and where the ticket was purchased is further evidence of ownership.
- History of playing same numbers – It is not uncommon for players to regularly play draw lotteries using the same series of numbers. ALC’s database can confirm whether the same series of numbers has been played in the past and the locations where the tickets have been played. This information could establish a past habit, usually unique to that player, which might support a prize claim.

## Ministerial Advisory Panel on Ticket Lottery Controls

---

ALC has developed a *Prize Validation Standard*, which details the procedures to be followed in determining whether prizes should be paid. The Standard also describes several levels of investigation and the circumstance in which each level is to be applied. The Standard was in trial form when the Panel met with ALC in June of 2007. The Standard addresses a number of KPMG's recommendations. Of particular note is the elimination of the "cash and trash" policy and implementation of a 30 day cooling off period for paying major wins by retailers to allow sufficient time for verification of the prize claim.

KPMG made the following recommendations to improve the prize payout procedures:

<b>KPMG Forensic Review, May 9, 2007</b>	<b>ALC Status</b>
Develop a more appropriate set of prize claim rules (e.g. include an investigative element to conditions of prize payment)	Under review
Pay prizes to a court of competent jurisdiction in cases of disputed claim	ALC aware of this option
Establish a claims review period for all major (\$25,000 or greater) Retailer Group wins	All Retailer wins of \$10,000 or greater will be held for 30 days, the Prize Claim Review Period, to ensure a comprehensive investigation can be completed.
Enhance the BANKLINE process to ensure a full name/address review is completed for all winners. If winner is from the retailer group, payment must be made by ALC main or regional office.	BANKLINE processes have been changed to ensure all winning tickets will follow the same process as if presented directly to ALC.
Enhance the training program for BANKLINE providers	Training materials have been provided to BANKLINE partners and training sessions planned.

ALC's new Prize Validation Standard incorporates the changes necessary to implement KPMG's recommendations. ALC needs to ensure that it fully implements the Standard and provides the necessary training to its staff and to its BANKLINE partners.

### **Transferring Custody of Ticket for Validation**

Ticket holders have a number of options to validate their tickets to determine if their ticket wins a prize and the amount of the prize. Some methods are more convenient than others and provide greater protection for players.

Lottery tickets purchased over the internet using ALC's website are validated electronically and winners notified. Players who purchase tickets other than on-line can check their tickets manually, using a self-checker or by comparison to the published winning numbers

In order to collect a prize or to confirm whether the ticket is or is not a winner, the player must present the ticket to a retailer for validation using ALC's computer on-line terminal. Alternatively, the player can mail the ticket to ALC for validation and payment of the prize if it is a winning ticket.

Until recently, when a retailer validated a ticket, the customer was informed as to the prize status of their ticket by:

- verbal information from the retailer;
- audible tones from the computer terminal; and
- inspection of the "validation slip" by the customer.

The Panel identified the ticket validation process, particularly at retail locations, as an inherent risk in the lottery process, which until recently lacked necessary controls. The risk was greater before ALC introduced its policy of prohibiting retailers from validating unsigned tickets. Risks to the player arise where:

- players are dependent on someone else to determine whether they have won or not;
- players have to surrender custody of their ticket;
- when the ALC terminal is behind a counter and the customer loses sight of the ticket while it is being validated. There is an opportunity for a customer's ticket to be switched with a non-winning ticket and scanned in its place;
- unsigned tickets are validated;
- the player does not receive a hard copy of the validation slip and the return of their ticket.

## Ministerial Advisory Panel on Ticket Lottery Controls

<b>KPMG Forensic Review, May 9, 2007</b>	<b>ALC Status</b>
Amend the physical ticket to include a perforated component	Double validation slips printed with one copy for the customer with linkage to the ticket validated.
Discontinue the Cash and Trash policy	Policy discontinued.
Reviewing alternate approach with use of a double validation slip to emulate credit card model	Customer receives copy of validation slip and ticket is returned

ALC has implemented a number of KPMG's recommendations that help address these risks:

- new policy requiring retailer to validate only signed tickets;
- continued installation of "self-checkers";
- recently, the terminal screens have been modified to be customer facing, so the customer can see when a ticket is scanned whether it is a prize winner and, if it is, the amount of the prize. These customer-facing screens are planned for all retail locations but have not been fully implemented to date.
- printing of two validation slips containing information linking them to the ticket being validated.

The ultimate control is allowing the player to control the validation process without surrendering the ticket.

### **Recommendation**

**5.7 ALC should investigate the use of technology that would permit players to validate their own tickets with a printout of the amount of winnings, if any.**

### **Customer Complaint and Incident Reporting**

An important indicator of whether the controls are operating properly is feedback from customers. Customer feedback can be provided by a customer complaint system.

An effective customer complaint system requires:

- customers to be informed about the complaint process;
- the customer complaint number to be accessible and advertised;
- call receivers who are trained and have established procedures to guide them;

## Ministerial Advisory Panel on Ticket Lottery Controls

---

- calls that are monitored;
- calls that are recorded and the recordings retained;
- calls of a serious nature requiring investigations to be forwarded immediately to investigators;
- the nature and location of complaints to be analyzed to identify areas for correction.

ALC informed us that in early 2007, changes were made to its customer complaint handling process. There is now a dedicated 1-800 line for customers to call with complaints. The number has been advertised so it should be accessible to all customers. The new procedures require the immediate transfer of complaint calls that are related in any way to security concerns to the Security and Compliance Department. Calls are now recorded digitally and retained. ALC has changed its system to allow supervisors to monitor calls anonymously. The Panel saw recent evidence that information from the customer complaint process was being used in assessing retailers presenting tickets for collection of prize winnings.

We also noted that NSGC had implemented a process to review the type and nature of complaints for reporting to its Board.

<b>KPMG Forensic Review, May 9, 2007</b>	<b>ALC Status</b>
All customer complaints must be directed and processed through the Security and Compliance department.	<ul style="list-style-type: none"><li>• Launched dedicated customer complaint 1-800 line</li><li>• Call centre process developed requiring calls received on the dedicated line to be logged and transferred directly to Security and Compliance Department</li></ul>

### **Statistical Monitoring and Reporting of Activity**

Tracking key activities and subsequent monitoring and analysis provides a means of detecting problems and assessing compliance with policies and procedures. Until recently, ALC had not been taking maximum advantage of the data it collects by analyzing it to aid in prize payout investigations or to identify trends or areas for investigation. For example, the KPMG Forensic Review noted that there was no single, central repository of winner information. This type of file would be key to the various types of analysis that could identify suspicious behaviour.

## Ministerial Advisory Panel on Ticket Lottery Controls

---

KPMG made the following recommendations on reporting winnings over \$10,000:

<b>KPMG Forensic Review, May 9, 2007</b>	<b>ALC Status</b>
Develop an Exec Team / Board reporting process for all winners of \$10,000 or greater	All wins \$10,000 and greater will be summarized and reported monthly.

Examples of other types of information that should be tracked and the types of analysis that should be conducted on a regular basis include:

- multiple winnings by the same individual or family;
- multiple winnings from the same retail location;
- any other unusual pattern of wins;
- repeated complaints by customers related to the same retailer or the same game; and
- repeated attempts at validation of the same ticket.

ALC informed us that they currently monitor repeated validation attempts for the same ticket, cancellation of tickets, and specific analyses of sports games. We also saw recent evidence of linking customer complaint history to the verification of retailer wins.

NSGC and ALC should consider commissioning a periodic analysis of retailer wins, similar to the Allard and Rosenthal studies.

These types of analyses could identify areas for investigation before a more significant problem arises. The results of such analyses need to be reported regularly to Senior Management of ALC and in summary form to its Board.

### **Recommendation**

**5.8 ALC should determine the appropriate type of analyses to be conducted on a regular basis to pre-emptively identify potential areas for further investigation. The results of these analyses should be reported to ALC senior management and its Board as well as to NSGC.**

### **Security and Compliance Investigations by ALC**

Reviews of lottery corporations operating ticket lotteries in various jurisdictions in Canada found there were consistently poor and/or incomplete investigations.



These findings included the handling of customer complaints in the areas of alleged retailer and retailer employee improprieties, and both retailer and lottery operator prize payouts that lacked sufficient scrutiny and verification.

The Panel held interviews with senior staff of ALC, with executives of the Nova Scotia Gaming Corporation and with the representative of KPMG responsible for conducting a forensic review in Atlantic Canada of ALC lotteries. The Panel reviewed the investigation files resulting from customer complaints in Nova Scotia.

It became obvious to the Panel that the investigation component of ALC's operations had been very weak and that for periods of time the investigation function was either under-resourced or working without clear direction. Security and Compliance focused on such things as the integrity of the actual draws, ticket testing, ticket distribution, and physical and information security. However, ALC's Security and Compliance section only had a rudimentary focus on customer complaints and investigations. Complaint investigations were sporadic and prize claim investigations were limited to ticket authenticity checks. The department had no formalized processes in the areas of complaint and incident management, investigations and prize claims. The quality of investigative files was significantly below standard.

Furthermore, until April 2007, it appears that NSGC did not actively oversee this key component of ALC's lottery operations in Nova Scotia, notwithstanding that NSGC is responsible for the control and management of these operations. It does not appear that NSGC was aware of ALC's weak and ineffective investigative processes or that it was aware that ALC's investigation unit was under-resourced. The ticket-buying public in Nova Scotia were left in a very vulnerable position. It appears that it was not until April 20, 2007 that NSGC became fully aware of serious deficiencies in ALC's internal investigation capabilities.

NSGC should insist that ALC maintain a well-directed and adequately staffed team of trained investigators to oversee its ticket lottery operations in Nova Scotia. The primary objective of ALC's investigators should be to monitor compliance, to enforce ALC's processes and procedures, and to investigate complaints. They should be separate and independent from ALC's sales and business agents. Investigators must be encouraged to be proactive in order to identify and prevent potentially fraudulent activity.

The Panel acknowledges the work done by KPMG in Atlantic Canada and in Ontario, along with the reports from the Ontario Ombudsman and the Ombudsman of British Columbia, all of which have made a number of useful recommendations aimed at improving and enhancing ticket lottery investigation procedures. The Panel recommends that ALC's Security and Compliance

section should incorporate the following features necessary to carry out its compliance, complaint handling, and investigative functions:

- ALC should establish written standard procedures and guidelines for main categories of investigations (customer complaints, compromises relating to technology and gaming supplies or suppliers, prize payouts, etc.);
- The primary objective of ALC's investigators should be to monitor compliance, to enforce ALC's processes and procedures, and to investigate complaints. They should be separate and independent from ALC's sales and business agents;
- All customer complaints, no matter how the matter is initially classified, should be reviewed by Security and Compliance investigators to determine if any investigation is required and, if no investigation is necessary, to ensure investigators are aware of any trends highlighted by the complaints;
- ALC should establish written procedures for recording, tracking, monitoring, documenting and managing files for all customer complaints and investigations;
- ALC should establish written procedures as to when and by whom potential violations of the *Criminal Code* or violations of applicable provincial statutes should be referred to the police;
- The ALC website should spell out the internal complaint process and explain how customers can make a complaint and what to expect once a formal complaint is lodged;
- ALC's Security and Compliance needs an effective file classification system and an up-to-date log of the status of all complaints and investigations. It should retain records of complaints and investigation files for a reasonable period of time;
- ALC's Security and Compliance should ensure that complaints characterized as "unintentional error", "oversight", "inconclusive", or "clerical error", be flagged and available for future reference should there be a repeat incident at the same retail outlet or involving the same retailer/retail employee;
- ALC should maintain a complaint and irregular occurrence history file for:  
i) retail locations, ii) individual retailers, and iii) individual retailer employees;

- ALC must ensure that events which come to its attention, such as multiple checks of the same ticket, multiple attempts to validate a scratch'n win ticket and any other suspicious activity, be immediately reported to Security and Compliance to open an appropriate file, to investigate, and to track for trends;
- ALC should be required by NSGC to run periodic "mystery shopper" compliance programs in Nova Scotia to determine if ALC ticket lottery procedures are being followed, including using apparent underage shoppers to determine whether proof of age is requested, in accordance with ALC's policies;
- ALC should staff investigator positions with experienced personnel;
- ALC investigators should receive specialized training, with periodic and mandatory refreshers, in investigative techniques and skills training in note taking, interviewing, and file documentation and management. Investigators should be completely familiar with on-line and instant ticket gaming, prize payout procedures, applicable technology systems and procedures used to produce, control and validate tickets;
- ALC investigators should also be knowledgeable and conversant with applicable provincial and federal legislation relating to gaming;
- ALC must ensure that its investigators have a thorough understanding of their powers, limitations, and authorities to carry out investigations;

### Recommendation

**5.8 The Panel recommends that ALC's Security and Compliance section should function and investigations should be carried out in accordance with established guiding principles. Policies and procedures should be in place ensuring the Security and Compliance section has the necessary training and experience.**

The Panel acknowledges that since the release of the KPMG Forensic Review, ALC has taken its investigative responsibilities more seriously. In response to the retailer win issues in the lottery industry and various reviews of ALC and Security and Compliance operations, Security and Compliance management have undertaken a rigorous revision of operational policies and procedures and the implementation of formalized processes in the areas of complaint and prize claim investigations and compliance monitoring. Early on, the services of two external investigative firms were retained to address retailer win investigations.

**Ministerial Advisory Panel on Ticket Lottery Controls**

---

An investigative group was created and augmented with contractual resources to meet the requirements for prize claim and complaint investigations.

KPMG's recommendations in this area were:

<b><u>KPMG Forensic Review, May 9, 2007</u></b>	<b><u>ALC Status</u></b>
Standard Investigative process for all winners \$10,000 or greater	Policy established with four levels of investigation.
Develop a formal standard on the retention of relevant investigative data	Plan to follow normal corporate standard of seven years.
Determine the level of investigative rights that are available to ALC	Incorporated in policies.
ALC must develop a consistent level of investigative reviews on all larger files, using their own resources	Policy established with four levels of investigation.
Security and Compliance to develop a review and reporting process for the Board with regards to the its investigative process	Reporting process, key measure parameters, and a data collection process are being developed.
Enhance the investigative resources within Security and Compliance and develop a process for reporting all customer complaints to the Board.	Resources being recruited.
Develop a customer complaint process within Security and Compliance where all relevant information can be collected (TMIR, sync files, etc.)	Information sources have been identified
All wins (regardless of complaints) of \$10,000 or greater must be appropriately investigated by Security and Compliance	Policy established with four levels of investigation

**Retailer Management**

Lottery ticket retailers are not only an important part of ALC's business process but are an essential part of the internal control system, especially at the point of validation of tickets.

The Panel's review of investigation files indicated a number of retailer actions that raised questions as to whether sanctions or termination of the agreement with the retailer should have been considered. The files did not document whether such action was recommended or taken. The KPMG Retail Winners Forensic Review of May 9, 2007 pointed out that ALC staff could recall or documentation existed for only eight cases where retailer agreements were terminated for cause. The KPMG report notes that several of these eight retailers regained their status as retailers for ALC.

The Panel reviewed the sanction and termination provisions of the ALC Lottery Ticket Retailer Agreement. The agreement sets out a number of events that permit ALC to terminate the agreement. The Panel believes that ALC should review the agreement to ensure it has adequate contractual authority to promptly sanction or terminate an agreement. KPMG raised similar concerns. In our discussions with ALC senior management, they indicated that the agreement was undergoing a review.

ALC has revised and updated its Lottery Ticket Retailer Policies. It sets out in greater detail than existed previously what is expected of retailers as part of their Retailer Agreement.

### **Recommendation**

**5.10 ALC's review of the retailer agreement should ensure it has adequate contractual authority to promptly sanction a retailer and terminate an agreement.**

**If the investigation process determines non-compliance with ALC's policies or other activities which are not in the interests of protecting players, the investigation process should include an evaluation of whether sanctions or termination of the agreement are warranted.**

Sanctions, although essential and sometimes necessary, should not be the sole basis on which to build or sustain a relationship with retailers. ALC has an opportunity to use the knowledge and experience of retailers to the advantage of the Corporation and players. The Panel met with representatives of the Independent Food Stores Association. Their members operate independently owned convenience stores, one of a number of the various categories of retailers. Following is a summary of the concerns they expressed to us:

- the training of retailers on existing and new games has been infrequent at best;
- ALC representatives rarely meet with owners. Contact has been primarily by phone;

- they have made suggestions from time to time for improvements in controls; and
- their relationship with their customers has been negatively affected by the actions of a few and by the lack of controls over ticket validation.

In their July 18, 2007 letter to the Panel, the Association provided recommendations, based on their experience and perspective, which they believe would go a long way in restoring players' confidence in the integrity of the process. Their recommendations, many of which have been adopted by ALC, or are in progress, were:

- Mandatory self-checkers (ALC announced on June 8, 2007, the installation of self-checkers to be expanded to all locations). Self check terminals could be fitted with a printer to produce validation slips for presentation to the retailer for prize collection.
- Change policy to permit return of winning tickets to customers after validation. (Policy change announced by ALC on June 8, 2007).
- Create a set of "How to's" for posting at all retail locations and written in plain English. Areas covered would include how to play on-line and instant win games, how to self-check tickets, ALC gaming policies.
- Print out all validation slips in duplicate, one for retailer and one for player. (Announced by ALC, August 8, 2007).
- Create a more visible bar code enabling easier use of self-checkers by customers, or educate players on how to use existing bar codes, especially on instant-win tickets.
- Create a retailer committee to meet bi-annually with ALC. (ALC is considering sessions with retailers).
- Create a Board or oversight committee to meet annually.
- Increase the volume on ALC terminals to allow customers to hear more clearly whether they have won or not.
- Require all retailers to have customer facing readout screens. (ALC announced the beginning of installation of these screens on June 8, 2007).
- Redesign instant-win tickets so the area for customer signature and address is larger and more visible.

- Customer education on ways to protect their tickets.
- ALC representatives should visit retailers more often, especially to provide training on new games.

The Panel believes retailers could be a valuable resource to ALC for indications of problem areas and ideas for improvements.

**Recommendation**

**5.11 ALC should initiate regular forums with retailers for the exchange of ideas and information on new initiatives, concerns of both parties, and suggestions for improvements.**

**ALC should consider the suggestions raised by retailers, especially, but not limited to:**

- more identifiable bar code on instant-win tickets for use on self-checkers;
- increase the volume on terminals so customers can more easily determine if their ticket is a winner or not;
- larger area for customer signature on instant-win tickets;
- more frequent training of retailers on existing and new games; and
- regular visits by ALC representatives, especially for training on new games.

KPMG's recommendations relating to the area of retailer management were:

<b>KPMG Forensic Review, May 9, 2007</b>	<b>ALC Status</b>
Refine list of retailers and ensure it is updated on a regular basis	Additional retailer information now included and new Non-arm's Length policy established.
Establish clear criteria for retailer non compliance and associated sanctions	Process for management of retailers is under review.

### **Progress reporting**

Since the issue of retailer wins and lack of controls over prize payouts arose, there have been a number of reviews, audits and investigations undertaken and some remain in progress. At last count, there were 171 recommendations, some overlapping, from ALC's KPMG audit, Ombudsman investigations in British Columbia and Ontario, and audits at the Ontario Lottery Corporation. Progress has been made in some areas while others will require some time to consider legal, policy and technological issues.

ALC has created a project management office under an umbrella program called the Customer Confidence Program to manage, prioritize and resource efforts to improve their practices for investigations, customer complaint handling and prize claim verifications. While ALC and NSGC have been implementing changes and improvements, there is a risk that some concerns may remain unaddressed or that recommendations from studies and reviews currently underway may not be taken into consideration.

There has been a high level of public interest in this issue. The public should be informed about the progress that has been and is being made in restoring the integrity of ticket lotteries. A monitoring process outside of ALC and NSGC would provide assurance that the issue is being addressed.

### **Recommendation**

**5.12 The Nova Scotia Gaming Corporation should provide quarterly progress reports to the Alcohol and Gaming Division regarding the status of implementation of the recommendations from reviews conducted on ALC's operations, this Panel's report, and those from other jurisdictions that are relevant to Nova Scotia ticket lotteries.**



**APPENDIX A**

**Panel Members**

William Hogg, CA (Chair) – Chartered Accountant, retired from the Nova Scotia civil service after 25 years of service. He served nine years at the Office of the Auditor General and ten years as a Deputy Minister of various government departments. The last three years of public service were as Deputy Minister of the Department of Finance. In 2003, the Nova Scotia members of the Institute of Public Administration of Canada awarded him the 2003 Lieutenant Governor's Medal for Excellence in Public Administration.

Dawn A. Russell, Q.C. - holds the Purdy Crawford Chair in Business Law at Dalhousie Law School, where she has taught since 1987. Professor Russell served as Acting Dean of Dalhousie Law School from 1995-1996 and as Dean from 1996-2005. She was a member and President of the Law Reform Commission of Nova Scotia from 1994-2002. Professor Russell has served as a consultant to the Federal Government of Canada and to the Provincial Governments of Nova Scotia and Ontario, and has provided international technical legal assistance to countries in Asia, the South Pacific and South America. She served on the Board of Directors of the Canadian Investor Protection Fund from 2000-2006 and chaired the Audit committee of the Fund from 2003-2006. She continues to serve as a director on the boards of two companies.

David Wojcik, LL.B. (Member) – originally from Nova Scotia and recently retired from the RCMP after completing 36 years of service as a police officer serving in Saskatchewan, Manitoba, Ontario, Québec, and Nova Scotia. Holds a Bachelor's degree from St. F.X.U. and law degree from the University of Ottawa. In 2007, received the Order of Merit for the Police Forces medal from the Governor General of Canada.

## **APPENDIX B**

### **Bibliography**

KPMG LLP. Ontario Lottery and Gaming Corporation – Phase I Report – Lottery Review. November 3, 2006.

KPMG LLP. Ontario Lottery and Gaming Corporation – Phase II Report – Lottery Review. November 23, 2006.

KPMG LLP. Ontario Lottery and Gaming Corporation – Phase III Report – Instant Ticket Gaming Review. February 26, 2007.

Ontario, Ombudsman of Ontario. Investigation into the Ontario Lottery and Gaming Corporation’s Protection of the Public from Fraud and Theft – “A Game of Trust”. March 2007.

<<http://www.ombudsman.on.ca>>

Rosenthal, Jeffrey S. Independent Statistical Analysis of Nova Scotia Lottery Data – A report submitted to the Nova Scotia Gaming Corporation. March 1, 2007.

Allard, Jacques, Maritime Statistical Analysis Inc. Analysis of retail-owner and retail-employee major lottery wins – Prepared for Atlantic Lottery Corporation. March 12, 2007.

KPMG LLP. Atlantic Lottery Corporation – Retail Winners Forensic Review. May 9, 2007.

British Columbia, Office of the Ombudsman. Winning Fair and Square: a report on the British Columbia Lottery Corporation prize payout process (Special Report no. 31, May 2007, to the Legislative Assembly of British Columbia). May 2007.

<<http://www.ombudsman.bc.ca>>

Rosenthal, Jeffrey S. Independent Statistical Analysis of Nova Scotia Lottery Data – A report submitted to the Nova Scotia Gaming Corporation. July 18, 2007.

Blair Mackay Mynett Valuations Inc. British Columbia Lottery Corporation: Retailer Prize Payout Review. August 17, 2007.

## **APPENDIX C**

### **Summary of Recommendations**

#### **3. Governance And Legislative Framework For Nova Scotia Gaming**

##### **Protection Of Players**

***3.1 The Gaming Control Act should be amended to include the protection of the interests of players as a specific objective.***

##### **Regulation of Ticket Lotteries**

***3.2 The Gaming Control Act and regulations should specifically provide the Alcohol and Gaming Division with the power, authority, and regulatory foundation necessary to effectively regulate ALC ticket lotteries.***

***Atlantic Lottery Corporation's non-licensed ticket lotteries should be subject to effective regulation, independent from the operators.***

#### **4. Recommended Regulatory Framework**

##### **Licensing**

***4.1 In order to be a lottery ticket retailer and eligible to be a signatory to an ALC lottery ticket retailer agreement, retailers should be registered and licensed by the Alcohol and Gaming Division.***

***4.2 Suppliers of equipment and materials used in the ALC ticket lottery process should be registered and licensed by the Alcohol and Gaming Division.***

***4.3 Retailers and suppliers of lottery equipment and materials should be required to undergo background criminal checks monitored by the Alcohol and Gaming Division. There should be an appeal process for those who believe they have been unfairly excluded from registration or licensing.***

**4.4 The regulations should specify the conditions for maintaining a retailer's registration and license, and the grounds for suspension, revocation, and penalties. Conditions for retaining a retailer license should include:**

- **compliance with contractual obligations to ALC;**
- **an annual statement from ALC to the Alcohol and Gaming Division of compliance by the retailer with the agreement;**
- **keeping Alcohol and Gaming Division informed of significant changes in a retailer's or supplier's situation that would impact on registration or licensing; and**
- **no acts or omissions that Alcohol and Gaming Division believes are contrary to the protection of the public.**

**The regulations should establish some form of appeal process for those whose registration and licenses have been suspended or revoked.**

#### **Existing and New Games**

**4.5 The regulations governing ALC ticket lotteries should prohibit the operation of a lottery scheme in Nova Scotia unless the Alcohol and Gaming Division has approved, in writing, the following:**

- **game rules;**
- **a procedure of internal controls for the lottery scheme, including the policies, processes and procedures related to ticket validation and determination of rightful prize winners;**
- **a procedure for handling complaints from the public with respect to the lottery scheme;**
- **a procedure governing the conduct of retailers;**
- **the technical integrity of the scheme; and**
- **the technical integrity of the gaming supplies and products used in the scheme.**

**The regulator must be advised of any alteration, upgrade, or repair to gaming supplies that have been found defective in manufacture or design, and the altered, upgraded or repaired gaming supplies shall not be used in the lottery scheme unless approved by the regulator.**

## Regulatory Oversight of Systems of Controls

**4.6** *The regulations should provide the Alcohol and Gaming Division with adequate and appropriate authority to require internal and management control systems be in place and operating effectively to ensure the integrity of the lottery schemes and protect players.*

*The regulations should provide the Alcohol and Gaming Division with adequate and appropriate authority to conduct a review or require ALC or NSGC to conduct a review of key lottery processes, including but not limited to:*

- *customer complaint handling processes;*
- *incident investigation procedures; and*
- *monitoring and recording of retailer compliance with ALC policies and procedures.*

## Investigative Authority

**4.7** *The investigative authority described in the Gaming Control Act should be extended to ensure they are applicable to ticket lotteries conducted and managed by NSGC and operated by ALC.*

**4.8** *The Alcohol and Gaming Division should have access to customer complaints, investigation files, security notifications and other material necessary for effective regulation in real-time or as close to real-time as practical.*

## Maintaining Effective Regulation

**4.9** *Regulations governing ALC's ticket lotteries should describe offences under the legislation and related regulatory powers including penalties, conditions and sanctions.*

**4.10** *A minimum amount of base funding should be provided for the regulation of ticket lotteries from a source other than the Consolidated Fund. Funding could come from either a predetermined annual amount paid by NSGC or a fee-based amount collected from retailers or both.*

**4.11** *The legislation and regulations should ensure that ticket lotteries can be regulated without undue outside influence and that the regulatory body has the ability and freedom to act in an independent manner.*

**4.12** *The ticket lottery regulations should provide the Alcohol and Gaming Division with the authority to direct ALC and NSGC to do certain things within the provisions of the Act and regulations.*

## **5. Controls Over Ticket Lotteries**

### **Nova Scotia Gaming Corporation**

**5.1** *The Nova Scotia Gaming Corporation should take a more active role in overseeing ALC's compliance with the Act and regulations including obtaining and reviewing on a regular basis, key information necessary for NSGC to carry out its responsibilities to conduct and manage ALC ticket lotteries.*

**5.2** *NSGC should establish procedures and take measures to satisfy itself that the items reported to it by ALC under 24(1)(e) are complete and accurate.*

**5.3** *NSGC's annual report should contain information, at least at a summary level, on ticket lottery defects, abuses, illegalities or criminal activities. NSGC should also consider reporting on the number, type and nature of complaints from Nova Scotia customers.*

**5.4** *NSGC should require ALC to be certified under WLASCS 2006 and encourage the ILC to expand its minimum control standards to include retail processes and prize payouts.*

### **Improvements to Specific Controls**

#### **Ticket Purchase**

**5.5** *ALC should investigate the use of swipe cards for use by retailers and their employees to register their purchases. No prize may be claimed unless the purchase was registered at the time of ticket purchase.*

**5.6 ALC should establish a policy for the review and settlement options for tickets presented for prize payout where the holder claims to have found the ticket.**

#### **Transferring Custody of Ticket for Validation**

**5.7 ALC should investigate the use of technology that would permit players to validate their own tickets with a printout of the amount of winnings, if any.**

#### **Statistical Monitoring and Reporting of Activity**

**5.8 ALC should determine the appropriate type of analyses to be conducted on a regular basis to pre-emptively identify potential areas for further investigation. The results of these analyses should be reported to ALC senior management and its Board as well as to NSGC.**

#### **Security and Compliance Investigations by ALC**

**5.9 The Panel recommends that ALC's Security and Compliance section should function and investigations should be carried out in accordance with established guiding principles. Policies and procedures should be in place ensuring the Security and Compliance section has the necessary training and experience.**

#### **Retailer Management**

**5.10 ALC's review of the retailer agreement should ensure it has adequate contractual authority to promptly sanction a retailer and terminate an agreement.**

**If the investigation process determines non-compliance with ALC's policies or other activities which are not in the interests of protecting players, the investigation process should include an evaluation of whether sanctions or termination of the agreement are warranted.**

**5.11 ALC should initiate regular forums with retailers for the exchange of ideas and information on new initiatives, concerns of both parties, and suggestions for improvements.**

**ALC should consider the suggestions raised by retailers, especially, but not limited to:**

- **more identifiable bar code on instant-win tickets for use on self-checkers;**
- **increase the volume on terminals so customers can more easily determine if their ticket is a winner or not;**
- **larger area for customer signature on instant-win tickets;**
- **more frequent training of retailers on existing and new games; and**
- **regular visits by ALC representatives, especially for training on new games.**

#### **Progress reporting**

**5.12 The Nova Scotia Gaming Corporation should provide quarterly progress reports to the Alcohol and Gaming Division regarding the status of implementation of the recommendations from reviews conducted on ALC's operations, this Panel's report, and those from other jurisdictions that are relevant to Nova Scotia ticket lotteries.**