

Western Canada Lottery Corporation

Review of Consumer/Retailer Prize Claim Processes

October 2007

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Western Canada Lottery Corporation

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1. Executive Summary

1.1 Background

Western Canada Lottery Corporation (“WCLC”) works with Provincial and Territorial Marketing Organizations (PMOs) to conduct, manage and operate lotteries in Alberta, Manitoba, Saskatchewan, Northwest Territories and Nunavut, and Yukon Territory. WCLC and the PMOs work together on a collaborative and co-operative basis and will be collectively referred to as “the Lottery” throughout this document.

WCLC enters into an agreement with a PMO and an entity representing the Lottery retailer to operate a lottery. This agreement is with the entity, not with individual employees of the entity. Individual employees are hired by the Lottery retailer (the entity). These individual employees who sell lottery tickets to the public and cash lottery tickets as part of their work duties are referred to as “retailer employees” in this document.

1.2 A Proactive Review

Lotteries in Canada have recently been under scrutiny regarding the processes in place to ensure that players receive the correct prize and that there are appropriate consumer protective measures. Reviews have been undertaken and published in Atlantic Canada, Ontario and British Columbia. These reviews identified weaknesses in consumer/retailer processes. These jurisdictions are addressing these gaps and are implementing improvements to enhance consumer protection. WCLC and the PMOs have taken steps to strengthen consumer protection here and are also monitoring developments in other jurisdictions and considering them in terms of the incremental impact they would have on consumer protection in this jurisdiction.

WCLC engaged Ernst & Young, in February 2007, to conduct an independent review of WCLC’s internal prize payout processes. Subsequently, WCLC’s Board of Directors and management decided to continue the proactive review and engaged Ernst & Young to conduct a more in-depth and broader review of consumer/retailer prize claim processes, leveraging work products from the February 2007 review.

Ernst & Young was engaged to conduct a review of complaints and major winners over the past 4.5 years, to map current processes to understand how the organization has evolved and identify its present strengths and weaknesses, to consider the extent of controls in place to mitigate risks, and to assist the Lottery as it considers what further improvements should be made to enhance consumer protection and to preserve the integrity of the Lottery. Ernst & Young received excellent cooperation and assistance from the Lottery during the course of the review.

1.3 The Present: Strengthening Consumer Protection

The Lottery remains committed to strengthening consumer protection. Prior to and during the process of our review, the Lottery was making changes to enhance the existing level of consumer protection. In selecting initiatives to strengthen the consumer protection foundation, the Lottery

considered a wide variety of options. The Lottery performed an analysis of the experience and undertakings of other jurisdictions in Canada and evaluated which options would be most appropriate for this jurisdiction.

Initiatives of the Lottery that focus on preventative measures include:

- Installing new ticket terminals, anticipated to be fully installed by the end of March 2008 – The new terminals will make a ‘sound’ to alert the player that their ticket is a winning ticket.
- Installing customer display units (CDUs), anticipated to be fully installed by the end of March 2008 – The CDUs will display information indicating whether a ticket being validated by the terminal is a winner and any prize amount won.
- Full self-serve ticket checker coverage – The Lottery is increasing its current coverage of self serve ticket checkers to 100% of retail locations to allow players to self check their own tickets and be equipped with knowledge regarding whether their ticket is a winner prior to retailer validation and redemption.
 - The self serve ticket checkers currently allow players to identify whether their on-line tickets are winners, as well as the amount of the win. WCLC is in the process of identifying the technological changes required to allow this verification for future instant tickets and it is expected that the capability to check future instant tickets will be added to self serve ticket checkers in the spring of 2008.
- Validation policies – Lottery policies have made it mandatory that players sign their tickets before lottery retailers can validate them, and have also made it mandatory that lottery retailers provide the validation slips to players.
- Consumer awareness and education – Programs have been implemented to enhance communications to consumers and raise awareness on ways they can protect their tickets (e.g., print name on back, check their own tickets against published winning numbers, receiving the validation slip, use of self serve ticket checkers, etc.). As well, the Lottery has used a variety of channels to provide consumers with information on how to file a complaint (e.g. WCLC and PMO websites, point of sale display materials, Luck Magazine, and messaging on ticket stock).

The Lottery also recently enhanced a number of its detection procedures, such as:

- Adding procedures to identify and scrutinize retailer winners over \$1,000.
- Increasing messaging to consumers regarding what they should expect when a retailer validates their ticket (e.g. provide consumer with validation slip) and where to call if they have a concern.
- Enhancing complaint investigation processes.

Each of these prevention and detection initiatives is described more fully in the body of this report. These WCLC core protection initiatives will provide additional protection to consumers by:

- Making consumers aware of the measures available to them to protect ownership of their ticket.

- Providing consumers with additional tools to check and verify whether their ticket is a winner prior to or at the same time the lottery retailer receives this information.
- Providing additional scrutiny to retailer winners over \$1,000.

1.4 The Future: Supporting Recommendations

The challenge is to find the right balance between public protection and the cost to the public of this protection. The Lottery has strengthened the foundation for consumer protection by implementing core preventative controls and enhancing its detection procedures. Ernst & Young’s review resulted in the development of a number of recommendations that should be pursued to further enhance consumer protection and the operations of the Lottery, and that are incremental to the core protection initiatives described in the preceding paragraphs. Ernst & Young’s recommendations are summarized in the paragraphs that follow and each recommendation is described in detail in the body of this report.

Consumer Awareness and Education

Consumer awareness and education can be a powerful preventative control by making consumers aware of the measures available to them to protect ownership of their ticket and to ensure they receive the prize to which they are entitled. Consumer awareness and education can also be a detective control by making avenues available to report complaints.

The Lottery has implemented or initiated a number of communication initiatives with the intention of improving consumer awareness. Additional improvement opportunities that should be considered by the Lottery to further enhance consumer protection include:

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
•					4.4.1 Assess Awareness and Set Targets	•	•	
					Establish targets for consumer awareness related to protection measures. Make periodic assessments against this target to ensure campaigns are effective.			
•					4.4.2 Improve Instant Ticket Messaging	•		
					Develop examples and determine the cost and other requirements to improve protective messaging on instant tickets (e.g. "Print name after purchase," include 1-800 number to call if concern about the processing of a prize). Implement where feasible.			
•	•		•		4.4.3 Develop Consumer Friendly Validation Slip	•		
					Continue with the addition of date and time to non-winning validation slips. Consider larger font and adding the 1-800 number to call if concerned about the processing of a prize.			
•					4.4.4 Communicate Retailer Prize Claim Standards/Procedures			•
					Increase transparency by making this detailed process information more accessible to consumers through a vehicle such as the WCLC and PMO websites.			

Consumer Complaint Receipt, Recording, Response and Resolution

The complaint process is an important component of the detection measures in place to protect consumers. The majority of complaints are received by WCLC, but complaints are also received by the PMOs directly. The PMOs are responsible for review and resolution of complaints.

The Lottery has been exploring ways to improve the complaint process and has recently implemented or initiated changes to complaint tracking, recording, and reporting which are described in detail in Section 5.3 of this report. Additional improvement opportunities that should be considered by the Lottery to further enhance the complaint process include:

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
	•	•			5.4.1 WCLC to Coordinate Complaint Process		•	
					WCLC to establish and maintain a centralized repository of all the regional complaints and coordinate the complaint process across regions by acting as a repository, providing gaming system reports, tracking status of complaints and recommending investigative capabilities and documentation standards.			
	•				5.4.2 All Complaints Assigned to Investigators		•	
					Have PMO investigators review and follow up all complaints to provide a better segregation of duties should integrity issues arise while an investigation proceeds.			
	•				5.4.3 Investigator Training and Procedures		•	
					Training for all regions to reflect leading practices for documentation and to consider industry developments.			
	•				5.4.4 Regular Review of Completed Files		•	
					Conduct regular reviews of completed complaint files to determine whether process and controls are operating as intended.			

Retailer Management

The retailer management process grouping includes: retailer definition, selection, agreements, training and support, monitoring and termination. There are over 4,000 lottery retailer locations within the WCLC region.

Historically the Lottery has communicated retailer management processes, policies and expectations to retailers through a number of communication vehicles including: a retailer agreement, a Ticket Terminal Operator's Guide, retailer directives, a bi-monthly retailer newsletter, ticket terminal messaging and account representatives. Formal operational training has been provided in classroom settings and on occasion occurs on-site at the retailer location.

The Lottery has initiated a number of improvements to enhance the retailer management processes recently. Policies have made it mandatory that retailer employees can only validate signed lottery tickets and that retailer employees provide the validation slip to the consumer. In conjunction with its legal counsel, the Lottery is currently reviewing the retailer agreement and the Lottery Rules

and Regulations. A Retailer Code of Conduct is in development, and both training and retailer communication materials have increased emphasis on proper validation procedures.

Additional improvement opportunities that should be considered by the Lottery to further enhance the retailer management process are summarized in the following table.

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
		•	•		6.4.1 Clarify Retailer Definition		•	
					Continue to work nationally and with the ILC to arrive at a common definition of retailer. Consider expanding the current definition to include employees who sell and cash lottery tickets as well as directors and officers of retail lottery locations.			
		•			6.4.2 Code of Conduct/Conduct Expectations	•		
					Expand expectation of retailers and their employees who sell and cash lottery tickets for the region. Consolidate documentation of these expectations into one source and communicate these expectations.			
		•	•		6.4.3 Increase Training Accessibility	•		
					Continue to explore alternative training methods such as web based programs.			
		•	•		6.4.4 Enhance Retailer Database		•	
					Work towards the development of a retailer database. Assess privacy legislation in each region, and if allowed, identify methods to collect and update retailer employee names.			
		•	•		6.4.5 Facilitate and Implement Compliance Monitoring	•	•	
					Conduct compliance monitoring on a regular basis at the PMO level. Increase frequency of reviews based on previous results and related complaints.			
		•			6.4.6 Develop Progressive Discipline Program	•		•
					Develop a progressive discipline program for retailers who are not compliant with the retailer agreement, the code of conduct, and Lottery policies.			
		•			6.4.7 Formalize Issue Reporting Expectations		•	
					Formalize expectation that PMO account representatives who identify an integrity related issue at a retailer report the matter to a Supervisor.			
	•	•			6.4.8 Inform Account Representatives of Retailer Issues		•	
					Inform Account Representatives of a complaint or investigation related to a Lottery retailer within their territory at an appropriate level of detail given the status of the investigation.			
		•			6.4.9 Conduct Criminal Background Checks on New Applicants	•		
					Conduct criminal background checks on all signatories who are applying to receive a retailer agreement.			
		•			6.4.10 Develop a Policy Handbook for Lottery Retailers	•		
					Develop a policy handbook that can be used to communicate policies and expectations to retailers and their employees.			

Winner Validation and Prize Payment

Processes to verify winning tickets and pay prizes are a key component of this review. There are several ways for players to independently verify if their ticket is a winning ticket. Players can also present tickets to retailer employees for validation. Retailers are required to pay prizes under \$200 and prizes between \$200 and \$1,000 can be paid by retailers to players, if the retailer has cash

available. Prizes can also be claimed in person at several Lottery prize payout offices or through the mail. Prizes over \$10,000 are defined by the Lottery as “major prizes.”

The Lottery has initiated a number of improvements to the winner validation and prize payment processes recently, including: planned installation of new ticket terminals with sound alert for winning tickets, planned installation of customer display units, moving toward full self serve ticket checker coverage, expanding the functionality of self serve ticket checkers to enable players to check instant tickets in Spring 2008, and providing additional scrutiny for retailer wins over \$1,000.

Additional improvement opportunities that should be considered by the Lottery to further enhance the winner validation and prize payment processes are summarized in the following table.

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
		•	•	7.4.1	Enhance Retailer Database Work towards the development of a retailer database. Assess privacy legislation in each region, and if allowed, identify methods to collect and update retailer employee names.		•	
			•	7.4.2	Additional Involvement in Retailer Claimant Interviews Involve senior management or PMO investigators in the prize payout interview process once claimant is identified as a retailer.		•	
•		•	•	7.4.3	Explore Alternatives to "Cash & Trash" Procedure Explore ways to return winning tickets to players after payment has been made.	•	•	
			•	7.4.4	Regular Review of Completed Files Conduct regular reviews of completed major win files to determine whether process and controls are operating as intended.		•	
•			•	7.4.5	Encourage Customers to watch CDUs If the ticket terminal is not in full view from the retail aisle the customer is at, encourage customer to take their lottery ticket to the ticket terminal so they can witness the ticket being validated, hear the audio indicator and see the visual indicators directly.	•		
			•	7.4.6	Investigate the Retailer Redemption Threshold Gather further information to assess the impact of reducing the retailer redemption limit to \$500 from \$1,000.	•		

Future Considerations - Environmental Scan

In addition, WCLC is continuing to collaborate with the other Canadian lottery jurisdictions, whose operations are also evolving, so that WCLC practices reflect consideration of ongoing industry developments.

1.5 The Past – A Retrospective Review

Ernst & Young conducted a review of complaint files and major win files. The purpose of this review was to see if there was evidence that a retailer was paid a major prize they should not have been paid.

Ernst & Young’s review of complaints and major winners over the last 4.5 years included:

- Testing complaint flow between WCLC and the PMOs.
- Walkthrough of a sample of complaint files to review documentation.
- Testing completeness of major win file population identified by WCLC.
- Testing completeness of major win files identified as retailer winners.
- Walkthrough of all identified retailer major winner files to review file contents.
- Comparison of complaints to retailer locations with retailer employees who won major prizes.
- Walkthrough of a random sample of 308 major winner files (not identified as retailers).
- Review of winners with 10 or more wins in excess of \$1,000.
- An examination of the retailer win rate calculation and its limitations based on available information.

Review of Complaints and Retailer Winners

Highlights of the tests Ernst & Young performed on complaint files, major winner files (i.e. prize wins in excess of \$10,000) and major retailer winner files are summarized in the tables that follow. The test procedures, results and limitations are detailed in Section 9 of this report for these and other tests performed.

<p>Reviewed retail complaints</p> <ul style="list-style-type: none"> • WCLC provided Ernst & Young the 849 complaints for the period from November 2002 to June 2007. • This list included a broad variety of complaint categories including customer service, prize issue, validation and other complaints. 	
<p>Procedures</p> <ul style="list-style-type: none"> • Ernst & Young sorted all retail complaints listed in order to identify complaints that were categorized as prize issue or validation related. This sub-grouping was further sorted to identify complaints of this nature that did not have their status documented as closed and did not have documentation of the action taken once the complaint was received. 	<p>Results</p> <ul style="list-style-type: none"> • This process identified 94 complaints categorized as prize issue or validation issue that did not have their status documented as closed and did not have documentation of the action taken. These 94 complaints were provided to WCLC for follow-up. • Ernst & Young’s review of WCLC’s follow-up indicates the player may not have been paid the proper prize in six instances over the 4.5 year period. Prizes in question ranged from \$2 to \$162. Five of the complaints were made by consumers and one instance was reported by a retailer who had a cash overage at the end of the business day of \$162.

Reviewed all complaints listed against retailer locations where employees won a major prize during the period of November 2003 to June 2007	
<ul style="list-style-type: none"> Complaints reviewed covered the period of November 2002 to June 2007. 	
Procedures	Results
<ul style="list-style-type: none"> Cross-referenced complaint listings to retailer locations where a retailer employee won a major prize. 	<ul style="list-style-type: none"> No evidence was found of a consumer complaint against a retailer location that corresponded to a prize or validation issue consistent with the retailer employee major prize win.

Reviewed the content of retailer major winner files	
Procedures	Results
<ul style="list-style-type: none"> File contents were reviewed for the 67 major retailer winners identified to see if they contained the interview sheet and documentation of responses to the interview questions. 	<ul style="list-style-type: none"> Of the 67, there was no documentation of prize winner interview answers to questions related to: employer in one file; and self-identification in one file. There was nothing noted in the files, subject to the limitations described in Section 9, that would indicate that WCLC was not following the prize payment procedures in place at the time of the win.

Review of Repeat Winners of prizes in excess of \$1,000	
<ul style="list-style-type: none"> Testing focused on identifying individuals with ten or more wins in excess of \$1,000 each during the period of November 2003 to June 2007. 	
Procedures	Results
<ul style="list-style-type: none"> Sorted an electronic extraction of cheque listing data for the period by winner. Cross-referenced all individuals with ten or more wins in excess of \$1,000 against WCLC's Retailer Master File Contact and Training databases. Cross-referenced complaint listings to individuals identified as retailers with more than ten wins in excess of \$1,000. 	<ul style="list-style-type: none"> Testing identified 64 individuals with ten or more wins in excess of \$1,000. Seven of these individuals were identified as potential retailers. The majority of these repeat wins were on daily games such as Sport Select and Pick 3, games the Lottery indicates have better odds of winning, greater frequency of play and higher wagering amounts. No evidence was found of a consumer complaint against a retailer location that corresponded to a prize or validation issue consistent with the potential retailer employee wins.

There were certain differences in the major win file contents noted in the review of the major win files (e.g. whether the major win file included a copy of the winning ticket, a copy of the cheque, etc.). However, past prize payout procedures were shaped by the lottery ticket having attributes of a bearer instrument. Unless there was evidence or indication of a competing interest in the ticket, or an irregularity discovered during the prize claim process, the standard proof for a prize claimant to obtain a prize was possession of a winning ticket. Past file documentation reflected this standard of proof.

Section 9 sets out the limitations of the work Ernst & Young was able to perform, the procedures performed, and the results of those tests. In summary, Ernst & Young found no consumer complaints against retailer locations that corresponded to a major prize paid to a retailer employee and there was nothing noted in the review of retailer major win files, that would indicate WCLC was not following the prize payment procedures in place at the time of the win.

Win Rate Calculation

Using the occupations from past winners' interview sheets, WCLC calculated the retailer win rate at 3.45% earlier this year. This was within WCLC's anticipated range of 2.4% to 3.6%. The assumptions used for the WCLC calculations included the number of staff who work at lottery retail in a given year, retailer participation and spend rates and the participation rate for the general public.

Ernst & Young examined the calculations and assumptions used by WCLC and also compared past winners to retailer training and contact database records. Ernst & Young calculated a retailer win rate of 4.16% based on data for the period from November 1, 2003 to October 31, 2006. This calculation reflects the percentage for this period and will fluctuate over time given the number of retailer winners. In regions with a small number of major winners, one less or more retailer win during a period can have a large impact on the calculation. Ernst & Young reviewed the data on retailer wins over time and over games and failed to see a consistent pattern of retail win rates exceeding the expected win rate.

Unless more certainty can be provided to the assumptions used in the calculations, the win rates are simply one indicator and should not be viewed as a sole or best indicator to measure the extent of wins for retailers compared with the general public. Until a means to capture data to calculate win rates is implemented, this calculation will have limited value.

2. Background

2.1 Western Canada Lottery Corporation

Western Canada Lottery Corporation (WCLC) is officially authorized by and acts as agents for the governments of Alberta, Manitoba, Saskatchewan, Northwest Territories and Nunavut, and Yukon Territory to conduct, manage and operate lottery schemes and is a Regional Marketing Organization of Interprovincial Lottery Corporation (ILC), a corporation incorporated to conduct and manage lottery schemes on behalf of Her Majesty the Queen in right of all provinces.¹

WCLC is a Regional Marketing Organization of the ILC. Other ILC members are: British Columbia Lottery Corporation, Ontario Lottery & Gaming Corporation, Loto-Quebec, and Atlantic Lottery Corporation Inc.

The ILC was established by the provinces to operate joint lottery games across Canada such as Lotto 6/49 and Lotto Super 7. Regional Marketing Organizations are individually responsible for marketing the national games within their own jurisdiction. Revenues are returned to each province as per agreements. WCLC is bound by the Rules and Regulations of the ILC for these games.

WCLC works with Provincial and Territorial Marketing Organizations (PMOs) to conduct, manage and operate lotteries in the provinces and territories within the WCLC's region. The PMOs and the provinces and territories they represent are:

- Alberta Gaming and Liquor Commission (AGLC) – Alberta.
- Manitoba Lotteries Corporation (MLC) – Manitoba.
- Saskatchewan Lotteries – Saskatchewan.
- Sport North Lottery Authority – Northwest Territories and Nunavut.
- Lotteries Yukon – Yukon Territory.

Each PMO is a separate entity with different roles. With regard to lotteries, the PMOs handle primarily or exclusively:

- Activities related to retailer management such as: retailer selection; retailer training, retailer policies; and retailer compliance and enforcement programs.
- Investigations of retail complaints.
- Selection and operation of remote prize payout offices.
- Development/customization of consumer awareness and education materials.

¹ Western Canada Lottery Corporation, "Rules and Regulations Respecting Lotteries and Gaming," March 25, 1998.

Key responsibilities of WCLC include operating the gaming system; game design; providing gaming system and related support to the PMOs and lottery retailers; and marketing for the region.

WCLC and the PMOs work together on a collaborative and co-operative basis.

2.2 A Changing Environment

Lotteries in Canada have recently been under scrutiny regarding the processes in place to ensure that players receive the correct prize and that there are appropriate consumer protective measures. Reviews have been undertaken and published in Atlantic Canada, Ontario and British Columbia. These reviews identified weaknesses in consumer/retailer processes. These jurisdictions are addressing these gaps and are implementing improvements to enhance consumer protection.

2.3 A Proactive Approach

Ernst & Young was engaged in February 2007 to conduct an independent review of WCLC's internal prize payout processes. Subsequently, WCLC's Board of Directors and management decided to continue the proactive review and engaged Ernst & Young to conduct a more in-depth and broader review of consumer/retailer prize claim processes, leveraging work products from the February 2007 review. The objectives of this current engagement are to:

- Develop, with the Lottery, improvements for the consumer/retailer processes that address weaknesses and gaps, and that are practical and can be implemented.
- Conduct a review of major win files in order to gain information on whether improprieties might have occurred in the past. This included a review of a sample of winner files, review of retailer win claims, and a cross reference against consumer complaints.

Ernst & Young was engaged to conduct a retrospective walkthrough, to map current processes to understand how the organization has evolved and to identify its present strengths and weaknesses, and to assist the Lottery as it considers what improvements should be made to enhance consumer protection and to preserve the integrity of the Lottery. Ernst & Young received excellent cooperation and assistance from the Lottery during the course of the review.

2.4 The Broader Picture

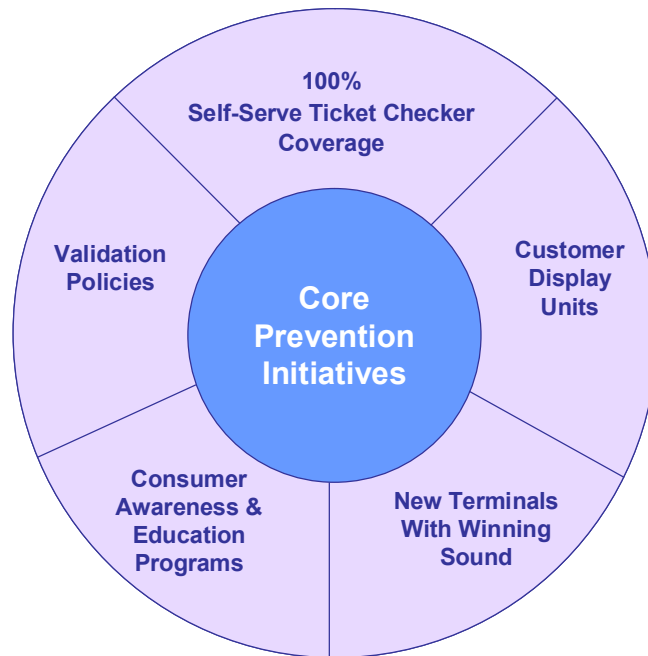
Lottery tickets, based on WCLC/ILC rules and regulations, have attributes of a bearer instrument. This is consistent with other lottery jurisdictions and means that the owner of a ticket is not registered in any official records and therefore any prize payable on that ticket is payable to the possessor of the ticket, unless there is evidence of a competing interest in the ticket, or an irregularity is discovered during the prize claim process. This can pose a barrier to the Lottery when the Lottery challenges a prize claim. Despite the challenges posed by lottery tickets having attributes of a bearer instrument, the Lottery remains committed to enhancing consumer protection and is taking the steps to do so.

2.5 Strengthening the Consumer Protection Foundation – Enhancing Prevention

The Lottery remains committed to enhancing consumer protection. Prior to and during our review, the Lottery was actively making changes to enhance the existing level of consumer protection. These initiatives include:

- **New Ticket Terminals with Winning Sound** – When a winning ticket is validated by the new terminal, the terminal will make a ‘sound’ to alert the player that their ticket is a winning ticket. The sound will be set at the terminal’s maximum volume level and the retailer will not be able to adjust the volume. This will provide the consumer with full knowledge regarding whether their ticket is a winner at the point of validation, at the same time as the retailer. It is anticipated that the new ticket terminals will be fully installed by the end of March 2008.
- **Customer Display Units (CDUs)** – Customer display screens will be installed at all retailer locations. The CDUs will display information indicating whether a ticket being validated by the terminal is a winner or non-winner, and any prize amount won. It is anticipated that the CDUs will be fully installed by the end of March 2008.
- **Full Self Serve Ticket Checker Coverage** – The Lottery is increasing its current coverage of self serve ticket checkers to 100% of retail locations to allow players to check their own tickets and be equipped with knowledge regarding whether their ticket is a winner prior to retailer validation and redemption. Self serve ticket checkers can currently check on-line tickets and are expected to have the capability to check future instant tickets by spring 2008.
- **Validation Policies** – Policies have made it mandatory that a player write their name on the ticket before lottery retailers can validate the ticket through the terminal, and have made it mandatory that lottery retailers provide validation slips to players whenever a ticket is checked (an expected but not mandatory procedure historically). Signing the ticket enhances consumer protection by providing a means to identify one’s ticket, and for prizes in excess of \$1,000, it prevents another person from cashing the ticket as identification is checked by prize payout staff. The Lottery has physical prize payout offices located in each province where prizes in excess of \$1,000 are paid. The validation slip is the official record of the transaction and as such is an important record of reference should a dispute over a prize arise.
- **Consumer Awareness and Education** – Programs have been implemented by the Lottery with the intent of enhancing communications to consumers and raising awareness on ways they can protect their tickets (e.g., print name on back, check their own tickets against winning numbers, receiving the validation slip, etc.).

These core prevention initiatives are illustrated in the following diagram:

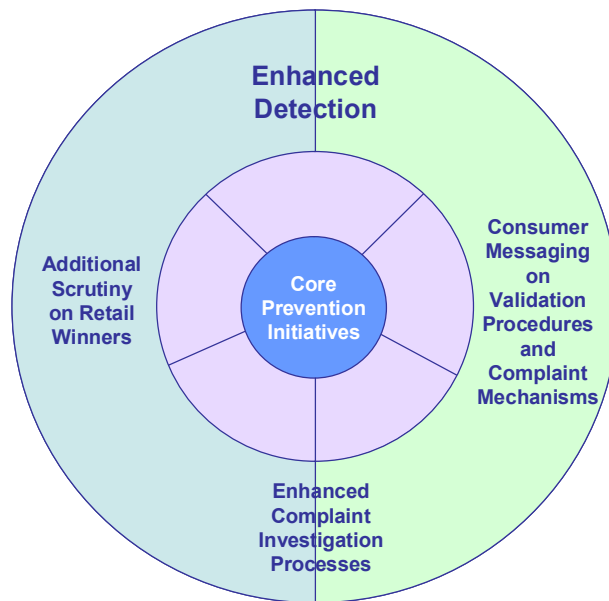


Consumers can take steps to protect their tickets by signing their tickets, checking their own tickets, and reviewing their validation slips as instructed through a variety of messaging campaigns. The risk to the consumer will be further reduced with the installation of the new ticket terminals with winning sound and customer display units (audio and visual information to consumers, as to whether they have won and the amount of the prize, at the same time the retailer is notified).

2.6 Strengthening the Consumer Protection Foundation - Enhancing Detection

During the process of our review, the Lottery was making changes with the intention of enhancing its detection procedures should a retailer attempt to take advantage of a customer. These detection procedures supplement the core prevention initiatives, and include:

- Additional procedures to identify and scrutinize retailer winners over \$1,000. These are discussed more fully in Section 7.
- Increased messaging to consumers regarding what they should expect when the retailer validates their tickets (e.g. provide consumer with validation slip) and where to call if they have a concern.
- Enhanced complaint investigation processes as discussed more fully in Section 5.



These detection initiatives, along with the core prevention initiatives, add to the protection of lottery consumers.

2.7 Supporting Recommendations

In addition to the core prevention and enhanced detection initiatives, there are a number of supporting initiatives that were discussed in workshops facilitated by Ernst & Young. Initiatives that were deemed by the workshop participants to enhance consumer protection, and that in the Lottery's view were realistic and feasible, are discussed in the sections for each process grouping in this report.

Some other initiatives are being considered or implemented in other jurisdictions. The Lottery is monitoring these developments in other jurisdictions and considering them in terms of the incremental impact they would have on consumer protection and detection measures. These initiatives are discussed in the Environmental Scan section of this report, Section 8.

3. Scope and Workplan/Methodology

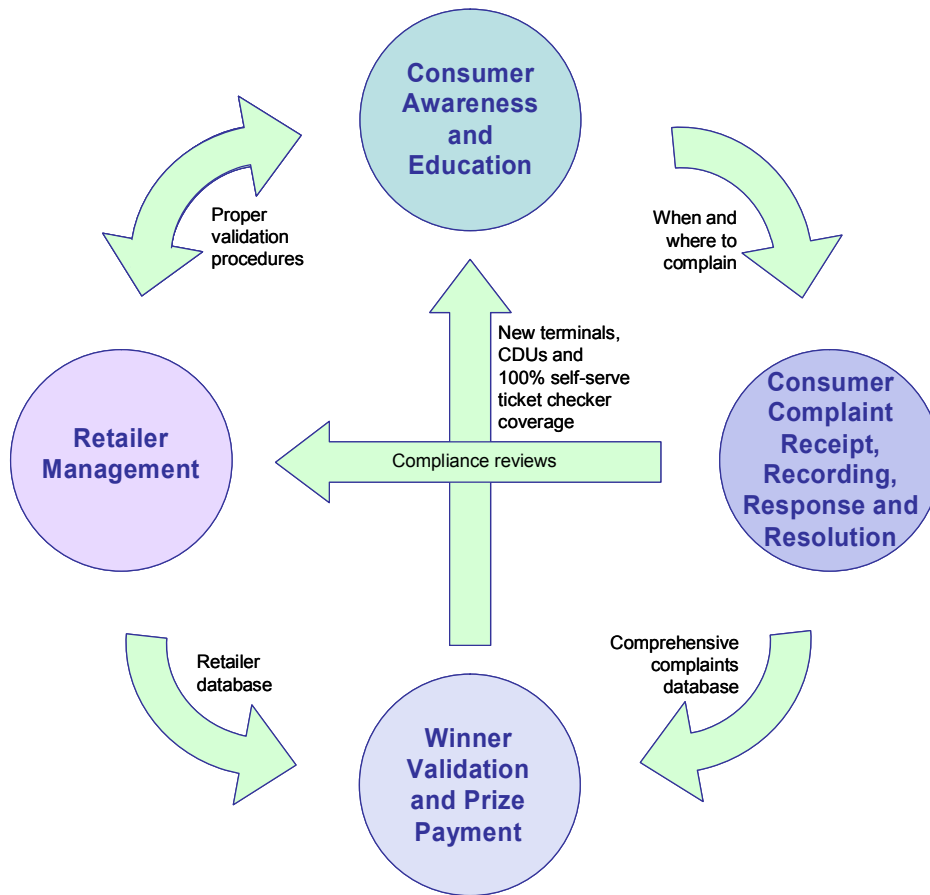
3.1 Scope

Ernst & Young performed the procedures described within this report. Ernst & Young's services for this engagement do not constitute an audit, review or examination of financial statements in accordance with generally accepted auditing standards nor an examination of prospective financial statements in accordance with applicable professional standards. None of Ernst & Young's services or reports constitutes any legal opinion or advice.

The scope of Ernst & Young's engagement included review of the following processes between lottery consumers and lottery retailers/retailer employees who sell and cash lottery tickets. These process groupings included:

- **Consumer Awareness and Education** – including both protective and detective messaging.
- **Consumer Complaint Receipt, Recording, Response and Resolution** – focusing on complaints related to prize claims, and including investigatory processes and capabilities.
- **Retailer Management** – including retailer definition, selection, retailer agreements, training and support, monitoring and termination.
- **Winner Validation and Prize Payment** – including both on-line and instant games, investigatory processes and capabilities, etc.
- **Consumer Protection Measures** – addressed in each of the above process groupings.

These process groupings will be discussed in separate sections of this report, but it should be noted that many of the improvement opportunities are inter-related among the process groupings. A sample of these relationships is shown in the diagram that follows:



The following were outside the scope of our review:

- Physical ticket security for instant games.
- The focus of our review was on lottery retailers and their employees who sell and cash lottery tickets. As such, the scope of our review did not include lottery suppliers or WCLC or PMO employees.
- The activities and responsibilities of provincial gaming regulators.

3.2 Workplan/Methodology

Ernst & Young’s work on this review was undertaken primarily between June and the end of September 2007 as illustrated in the following diagram.

ID	Task No.	Task Name	Start	Finish	June		July			August			September			October				
					0/0	7/0	3/0	0/0	7/0	4/0	1/0	8/0	5/0	2/0	9/0	5/0	2/0	9/0	6/0	2/0
1		Review of Consumer/Retail Processes	Mon 28/05/07	Fri 08/06/07																
2																				
3	1.0	Project Initiation Meeting	Mon 28/05/07	Mon 28/05/07																
8																				
9	2.0	Project Planning	Mon 28/05/07	Fri 08/06/07																
16																				
17	3.0	Map Existing Consumer/Retail Processes	Mon 28/05/07	Fri 13/07/07																
18																				
19	3.1	Map Winner Validation and Prize Payment Processes	Mon 28/05/07	Fri 13/07/07																
55																				
56	3.2	Map Consumer Complaint Receipt, Recording, Response and Resolution processes	Mon 28/05/07	Fri 13/07/07																
85																				
86	3.3	Map Consumer Awareness and Education processes (focus on protective measures, winner validation, prize payment)	Mon 28/05/07	Fri 13/07/07																
110																				
111	3.4	Retailer Management Processes	Mon 28/05/07	Fri 13/07/07																
142																				
143	3.5	Map other Consumer Protection Processes and Measures not already included in other process maps	Tue 29/05/07	Fri 13/07/07																
157																				
158	4.0	Review Process Maps Against Actual Practice on Key Controls - test key controls to determine if operating as intended	Mon 16/07/07	Fri 17/08/07																
167																				
168	5.0	Conduct Retrospective Walkthrough	Mon 16/07/07	Fri 17/08/07																
185																				
186	6.0	Review Win Rates	Mon 28/05/07	Fri 17/08/07																
192																				
193	7.0	Review and Select Improvement Options	Mon 16/07/07	Fri 31/08/07																
203																				
204	8.0	Reporting	Wed 13/06/07	Fri 05/10/07																

Project: WCLC
Version: v1

Task		Milestone		External Tasks	
Split		Summary		External Milestone	
Progress		Project Summary		Deadline	

Ernst & Young conducted discussions with representatives of the Lottery familiar with the consumer/retailer processes. Ernst & Young gathered documents and information and conducted additional interviews with management as required to seek clarification.

Ernst & Young reviewed various documents and reports provided by the Lottery including:

- Existing definitions and policies related to retailer management and customer protection processes.
- Win files.
- Customer complaint records.
- Process overviews.
- WCLC and ILC Rules and Regulations.
- Retailer agreement and policies.
- Consumer education and awareness materials including websites, point of sale (POS) displays, media campaign scripts and samples, etc.

- Organization structure charts and selected job descriptions.
- Retailer training and reference materials.
- Retailer compliance reports.
- WCLC claim form.
- Major prize winner interview forms.
- Various prize payout procedure documents.
- Representation, indemnity and release forms for retailers and non-retailers.
- Data extracts from the Retailer Contact and Training databases.
- Other reports and analyses requested by Ernst & Young.

In addition, Ernst & Young attended a classroom terminal training session and a demonstration of the new ticket terminal system.

After interviewing management, Ernst & Young mapped existing consumer/retailer processes included in the scope of the review and assessed the strengths and weaknesses of the processes and considered the extent of controls in place to mitigate risks. Variations to the processes based on province/territory, game type, prize level, nature of complaint, etc. were considered. In preparation for the retrospective walkthrough, Ernst & Young also identified the processes and procedures in effect at that time so that an appropriate comparison could be made with the policies of the day. The procedures of the retrospective walkthroughs are contained in Section 9.

Ernst & Young reviewed publicly available reports related to recent reviews of lottery operations in other jurisdictions.

In addition, representatives of the Lottery participated in workshop sessions facilitated by Ernst & Young to discuss the merits of a broad range of improvement opportunities.

3.3 This Report

The remainder of this report provides:

- An overview of the current state of each process grouping, recent changes, and improvement opportunities recommended for consideration going forward.
- An environmental scan of additional improvement opportunities being considered or implemented in other Canadian lottery jurisdictions, if not already adopted or being considered for implementation by the Lottery.
- The results of file reviews of past practices related in particular to complaint management, prize claims, and retail winners.
- A summary of Ernst & Young's observations and recommendations.

4. Consumer Awareness and Education

4.1 Process Overview

The Lottery has many tools it uses to communicate with consumers, ranging from purchased advertisements in mass media channels to point of sale (POS) display materials to the messages on the stock on which on-line tickets are printed.

Consumer awareness and education can be a powerful preventative control by making consumers aware of the measures available to them to protect ownership of their ticket and to ensure they receive the prize to which they are entitled. Consumer awareness and education can also be a detective control by making avenues available to report complaints.

During our review, Ernst & Young interviewed representatives from the Lottery, and collected and reviewed a variety of communication materials including: provincial/territorial LUCK magazines, POS materials and giveaways, media campaign scripts and samples, websites, etc. Consumer protection related messaging, availability and variety was reviewed.

WCLC supports the PMOs by providing communication materials (e.g. LUCK magazine) which the PMOs can customize for their local markets and by bulk purchasing of media slots. Each PMO determines the appropriate type and amount of messaging for their jurisdiction. While the intent of consumer protection messaging is the same across provinces/territories, there are variations in the details, intensity and channels used.

4.2 Key Observations

The Lottery's integrated consumer awareness and education campaign focused on:

- Encouraging players to sign their ticket.
- Encouraging players to check their own tickets.
- Reminding players that they should receive a validation slip after a retailer employee validates their ticket.

The following matrix summarizes the key preventative messages for consumers above, as well as other key messages for consumers, and distribution channels used within the Lottery:

Consumer Awareness and Education

Message / Medium	Website					POS Materials at Lottery Ticket Center					Newspaper Advertising					Lotto Facts	Luck Magazine					Winning Numbers Telephone Line					Television					Radio Advertising					Billboards/Outdoor					Ticket	Other		
	W	A	M	S	Y	N	A	M	S	Y	N	W	A	M	S	Y	N		A	M	S	Y	N	W	A	M	S	Y	N	A	M	S	Y	N	A	M	S	Y	N	A	M	S	Y	N	W
Print Name/Sign the Back of Ticket after Purchase	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Receive Validation Slip from Retailer	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Receive Non-winning tickets from the Retailer	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Check Own Numbers/Sources for Winning Numbers	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Source for Winning Numbers	√	L	√	√	L	L	√	√	√	√	√	√	√	√	√	√	n/a	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Use Self-Serve Ticket Checker to Validate	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
How to Make a Complaint	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Prize Claim Process	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
New Validation Process (i.e. only validate signed ticket)	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Retailer winner claim process has changed (additional steps)	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				
Features of New Terminals/CDUs	√	√	√	√	√	L	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	A	Complaint Response Letter				

W - Western Canada Lottery Corporation
 A - Alberta Gaming and Liquor Commission
 M - Manitoba Lotteries Corporation
 S - Saskatchewan Lotteries
 Y - Lotteries Yukon
 N - Sport North Lottery Authority
 L - Link to WCLC website

Based on the preceding analysis, there are opportunities to:

- Increase communications to consumers with the message that non-winning tickets should be returned to them after validation by a retailer.
- Consistently describe the prize claim process on the websites.
- Review whether messaging to incorporate consumer protective tips (such as sign your ticket) should be included on selection slips.

4.3 Recent Changes

This area has been evolving in recent months. Recent changes include:

- Describing the enhancements made and planned to the prize payment process to further protect players on the WCLC and PMO websites.
- A variety of communications on consumer protection initiatives including the Lottery’s plans to implement:
 - CDUs at retail lottery locations to display validation information. Installation will begin in November 2007 and is anticipated to be complete by the end of March 2008.

- New ticket terminals at retail lottery locations (a sound will indicate to player whether they have won). Installation will begin in November 2007 and is anticipated to be complete by the end of March 2008.
- Self serve ticket checkers, which allow players to self check their own on-line tickets, will soon have coverage increased to 100% of retail lottery locations.
- Communications regarding current mandatory validation requirements (customers required to sign ticket prior to validation by a retailer and retailers are required to provide the validation slip to customers).
- Existing ticket stock has player protection messages printed at the bottom of the front of the on-line ticket.
- New on-line ticket stock has been ordered. The front incorporates player protection tips and the back includes the phrase “Print Name After Purchase” and provides the 1-800 number to call if there is concern about the processing of a prize.
- Player protection tips being advertised in a variety of media including TV, radio, print and websites.
- WCLC is researching and surveying consumer awareness levels and the adoption of player protection processes.
 - Ipsos Reid surveyed 500 players in each province at the end of July to establish benchmark results. WCLC intends to conduct follow up research to measure the effectiveness of the awareness campaign.
- Retail giveaways with player protection messaging including pens and ticket sleeves.
- Additional point of sale materials with consumer protection messaging are being displayed at retail locations, including LED shrouds.

4.4 Improvement Opportunities/Recommendations

The Lottery has implemented or initiated a number of communication initiatives with the intention of improving consumer awareness of how to protect their tickets and ensure they receive the correct prize. In addition, during the workshops, a number of additional improvement opportunities were discussed and the remainder of this section outlines those that should be considered by the Lottery to further enhance consumer protection.

4.4.1 Periodically Assess Consumer Awareness Levels And Establish Targets

WCLC has initiated preliminary research to measure consumer awareness levels at three points in time in 2007. The Lottery should review this research as it becomes available and establish targets for consumer awareness related to protection measures such as validation procedures, signing tickets, etc. Periodic assessments should continue to be made against this target to ensure campaigns are effective, or allow redesign of programs if required. Once the target awareness level has been reached, WCLC should continue to assess on a regular basis to identify if awareness levels are maintained.

In addition to assessing consumer awareness about player protection methods, WCLC should also consider assessing whether players are able to find an avenue to communicate concerns. WCLC should instruct its Corporate Communications group to ask those who file complaints how easy or difficult it was to find the contact information to do so.

4.4.2 Improve Messaging For Instant Tickets

WCLC has ordered new on-line ticket stock that will incorporate player protection tips on the front of the ticket. The back of the ticket will include the phrase “Print Name After Purchase” as well as provide the 1-800 number to call if there is a concern about the processing of a prize.

WCLC should explore the possibility of including similar messaging on instant tickets. WCLC should develop examples and determine the cost and other requirements to improve the messaging on its instant tickets and where feasible, implement.

4.4.3 Develop A Consumer Friendly Validation Slip

The current validation slip was not originally intended to be a consumer communication tool. WCLC is already making changes to ensure the date and time of validation is printed on the validation slip for non-winning tickets. It should consider a large font and the complaint line phone number.

4.4.4 Communication Of Additional Standards/Procedures For Retailer Prize Claims

Anyone who sells and cashes lottery tickets as part of their work duties is subject to a greater degree of scrutiny when claiming a prize in excess of \$1,000, as described in Section 7 of this report. To increase its transparency, the Lottery should consider making this detailed process information more accessible to consumers through a vehicle such as its websites.

5. Consumer Complaint Receipt, Recording, Response and Resolution

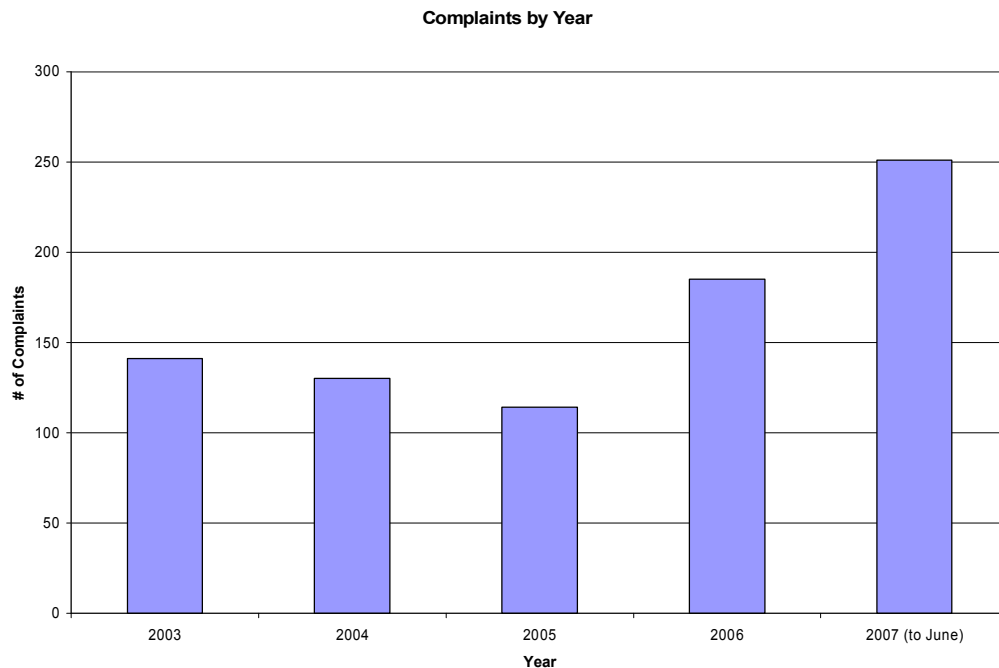
5.1 Process Overview

While complaints from consumers include a broad range of issues, this review was primarily focused on prize and validation related complaints.

Complaint Data

WCLC provided Ernst & Young a summary of complaints between November 1, 2002 and June 30, 2007. This listing contained 849 complaints for the 4.5 year period. This listing is not a comprehensive one as some PMOs receive complaints directly and it is not required that they report this information to WCLC. The retrospective walkthrough of complaint files is described in Section 9 of this report. Some relevant complaint statistics are provided below to provide context for the complaint process grouping.

From the listing provided by WCLC, the volume of complaints received had been decreasing from 2003 to 2005 as illustrated in the graph below. An increase in the volume of complaints is observed in 2006 and in the first six months of 2007. Management has suggested that the increase could be attributed to the recent media attention lotteries in Canada have received, as well as increased sales volume.



The WCLC listing did not have any complaints recorded for the Territories. Further, no complaint listing is currently maintained at these locations. Management of the Territories' lotteries

indicated each of Sport North Lottery Authority and Lotteries Yukon has received less than 8 complaints during the period covered by the WCLC listing. The chart below illustrates the percentage of complaints in the WCLC listing by province along with the number of on-line retailers in each province.

	Number of On-Line Retailers*	Percentage of Complaints**
Alberta	2,319	67%
Manitoba	840	25%
Saskatchewan	827	8%

* as of December 31, 2006

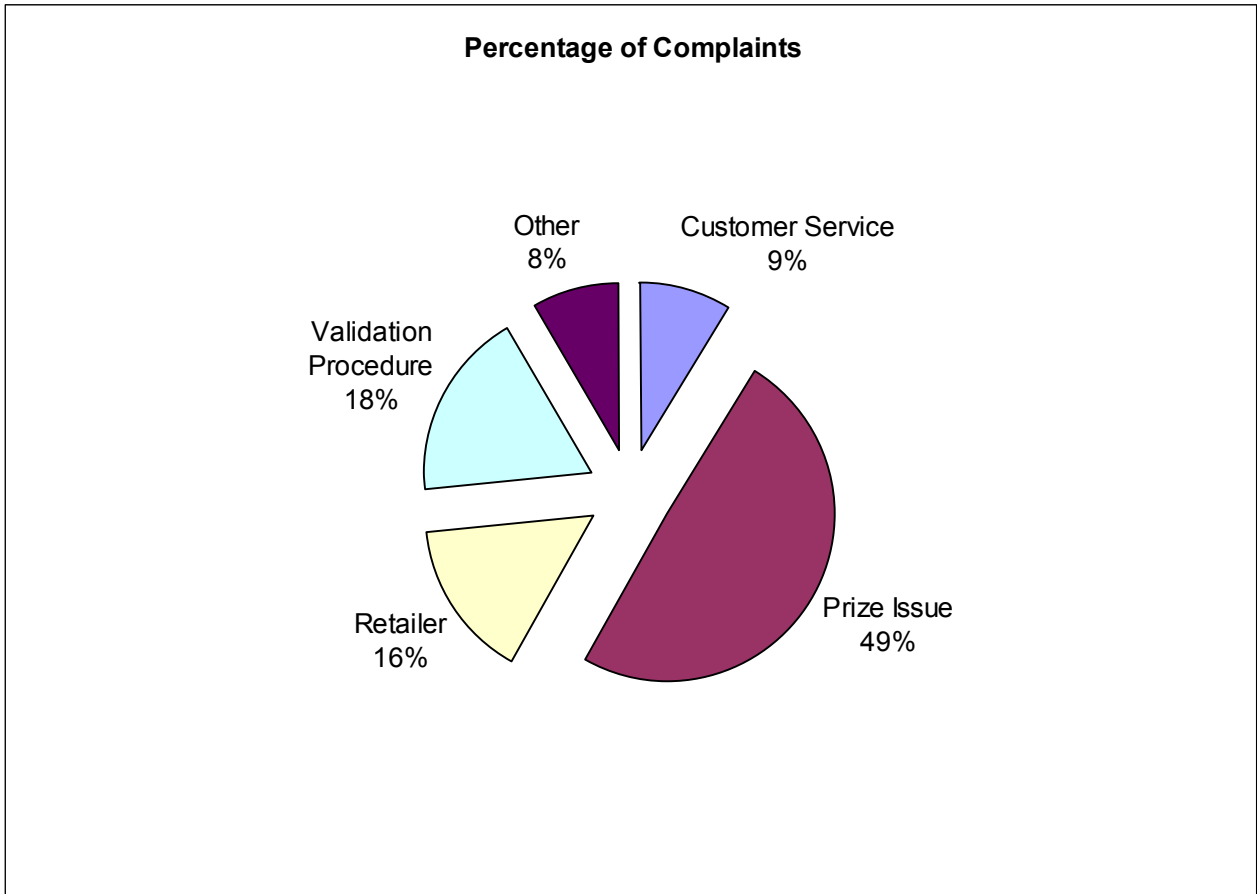
** for the period Nov 1/02 to June 30/07

Complaints by Category

WCLC grouped the complaints in its listing by category. These categories are not well defined and an argument could be made that some complaints could be categorized in different categories (e.g. customer service rather than retailer). The majority of these complaints, using the categorization made by WCLC, were related to the following categories:

- Prize Issue – e.g. customer believes they won, or may have won, more money than the retailer employee told them.
- Validation Procedure – e.g. customer did not receive validation slip.
- Retailer – e.g. retailer employee would not check customer’s tickets.
- Customer Service – e.g. retailer employee was rude to the customer.

Complaint files categorized as validation procedure and prize issue are considered by the Lottery to be integrity related and are most relevant to this review. The breakdown of complaints by category is shown in the chart below.



Number of prize or validation issue complaints per retailer

Ernst & Young sorted WCLC’s complaint file to identify the number of complaints categorized as “prize issue” and “validation procedure”. This complaint sub-grouping was sorted to identify the number of retailers with multiple complaints of this nature. Forty-one retailers were identified as having multiple complaints related to a prize or validation issue listed against them over 4.5 years, as shown in the table that follows.

Complaints Related to a Prize or Validation Issue

	# of Retailers	# of Complaints
One Complaint*	483	483
Two Complaints	34	68
Three Complaints	6	18
Four Complaints	1	4
		573

* includes six complaints which we are uncertain if they are against individual retailers. These six complaints may represent three to six retailers.

Due to changes and reuse of retail location identifiers, it could not be determined if there were multiple complaints against retailers for six complaints. These six complaints may represent three to six retailers.

The Complaint Receipt, Recording, Response And Resolution Process

WCLC receives the majority of complaints which it documents in a complaint form summarizing key facts of each complaint. These complaint forms, along with TM reports (computer generated reports tracking each on-line ticket sale and each on-line and instant ticket validation) where appropriate, are forwarded to the respective PMO for review and resolution.

Key steps in the consumer complaint process have been evolving. Outlined below are the key process steps, identified at the time of this review:

1. Receive and summarize complaint.
 - The majority of complaints are received by WCLC’s Corporate Communications Group. This group summarizes the complaint using the WCLC complaint form. If the complaint can be checked against information in the gaming system (e.g. to see if an on-line or instant ticket was validated during a specified time period, on a certain date, at a certain retail location; if the ticket was a winner; and if so, the amount of the prize), WCLC will run a TM report and provide a summary of these results to the PMO.
 - Complaints may be received by the PMO directly. If a TM report would help resolve the complaint, the PMO would request one from WCLC.
2. Confirm that the intended PMO received the complaint form from WCLC.
3. At the PMO, an investigator, Corporate Security or Lottery Supervisor reviews each complaint form and opens a complaint file. If applicable, the TM report is reviewed to determine the validity of the complaint.
 - In order to segregate duties from account representatives who work closely with and support retailers, the provinces and territories do not use account representatives to review and resolve integrity related complaints.
4. Complaint is reviewed to determine whether the complaint is customer service related or whether it is an integrity related complaint (i.e. pertaining to a prize issue or validation concern).
5. Investigator assigned to the complaint determines the best course of action to gather facts and investigate the complaint.
6. Investigator contacts the complainant and retailer to gather factual information related to the complaint and to validate the information recorded on the complaint form received from WCLC.
7. The results and findings of the above steps are documented.
8. The PMO contacts the complainant regarding the results of the investigation by the PMO.
9. The file is reviewed by the PMO and the WCLC checklist is signed off by two WCLC Managers to verify all documentation is complete.

10. Complaint is retained and filed and status of complaint is changed to closed by the PMO.

The following summarizes key variations related to the complaints process amongst the provinces and territories:

- Volume of complaints varied by province/territory.
- Responsibility for investigating integrity related complaints rests with various individuals with different skill sets. Investigators at some PMOs are sworn peace officers, and in others they are experienced senior lottery managers.
- Types of complaints documented and level of communication varied historically. Some regions did not document customer service related complaints.
- The majority of complaints are received by WCLC and forwarded to the respective PMO for investigation. Most PMOs confirm by e-mail they have received the complaint.
- Most PMOs used an automated system to track each complaint and its status.
- Results of investigations are communicated verbally or in writing to the complainant, depending on the PMO.
- Internal audit has conducted reviews of complaint files in some provinces.

5.2 Key Observations

Key observations include:

- There is not a single comprehensive list of complaints. WCLC maintains a list of complaints that they have either received directly and forwarded to the PMOs, or that they were made aware of by the PMOs. Each PMO maintains their own separate list of complaints either received directly or forwarded by WCLC.
 - As discussed later in Section 9.1, Ernst & Young could not reconcile complaints between WCLC and the PMOs. This is recognized by the Lottery and one of the key improvement opportunities addresses this.
- No one organization takes overall responsibility for the complaint receipt, recording and resolution process.
 - This is recognized by the Lottery and there are plans in place to address it.
- Variations in documentation of complaints exist. Documentation of complaint files has recently improved.
- There is a lack of formal policies regarding the complaint processes. WCLC has documented policies and procedures for their organization but other than general, higher level mention, no formal policies exist for the provinces/territories.
- Statistics are not readily available on the number of complaints by category, as this has not been formally tracked and recorded.

Management is implementing ways to improve the complaint process and advised of recent changes as set out below.

5.3 Recent Changes

Prior to and during the review, the Lottery has been exploring improvement opportunities for the complaint process. Some of the recent changes implemented or initiated include:

- WCLC is implementing a computerized consumer complaint tracking system to replace the current manual system.
- WCLC is implementing an interactive voice recording system for calls received by Corporate Communications to enable appropriate call routing and the recording of calls to supplement the complaint tracking system.
- WCLC is formalizing liaison procedures with the PMOs for sharing information related to consumer complaints and prize claims.
- For the provinces with large complaint volume, separate investigation departments review and resolve integrity related complaints, that is, complaints of a validation or prize payment nature.
- TM reports are automatically run by WCLC and forwarded to PMOs with the complaint forms where applicable.
- WCLC has developed a checklist to support proper documentation is retained in each complaint file.
 - The checklist requires signoffs by two WCLC managers as evidence of review.
- WCLC has committed to reporting integrity related complaints to WCLC's board.
- Some PMO internal audit departments have begun reviewing closed complaint files.

5.4 Supporting Recommendations

The Lottery has implemented or initiated a number of initiatives intended to enhance the complaint process. During the workshops, a number of additional improvement opportunities were discussed. Set out below are areas of improvement that should be considered by the Lottery.

5.4.1 WCLC To Coordinate The Complaint Process For The Lottery

The complaint process is an important component of the detection measures in place to protect consumers. A complaint is one of the sources where a breach in integrity would be highlighted. As such, having one organization coordinate the administration of the complaints will provide a centralized process for the Lottery.

The WCLC should take on a role that includes:

- Maintaining one centralized repository of all the regional complaints.
 - As is outlined in Section 9, Ernst & Young identified that some complaints found on WCLC's listing could not be matched to the respective PMO listings and vice versa.

Having one repository will help facilitate performance measurements that will further identify areas for improvement. Having one centralized repository of complaints will also provide efficiencies for WCLC for comparing retailer wins to complaint files before a major win payout is awarded to a retailer employee.

- Establishing categories for complaints; tracking and reporting complaints by type, region, etc.
 - Guidelines to categorize complaints should be developed for consistent handling of complaints across the Lottery. Sub categories of integrity related complaints may include categories such as no prize paid, wrong prize paid, validation slip not returned, not asked to print name on ticket, disabled self serve ticket checker, CDU blocked, etc. The use of subcategories would facilitate tracking and reporting and facilitate identification of areas where corrective action is required. If privacy laws allow, capturing and tracking complaints by retailer employee would be beneficial.
- Recommending minimum investigative capabilities required within the region to investigate and resolve complaints.
- Recommending standards and policies with respect to consumer complaints.
 - Policies and guidelines need to be developed to describe the treatment for integrity and non-integrity complaints for the Lottery. These guidelines should include the policies, procedures, and guidelines for when a complaint should be escalated including escalation to the appropriate law enforcement group. These policies need to be distributed and communicated to the personnel involved with the complaint process to ensure compliance.
- Supporting the complaints process by continuing to act as a repository for the receipt of complaints.
- Reviewing a retailer's complaint history. WCLC has already developed a Retailer Complaint Checklist outlining what types of information should be kept in the files. It should amend this checklist to include a check of the retailer's complaint history. This will help the PMO to determine appropriate disciplinary action.
- Providing TM reports where applicable.
- Developing a checklist outlining what documentation is required in each complaint file at the PMO level. A checklist should be developed to provide proper documentation for each complaint and document retention across the Lottery. The checklist can also be used to manage complaints at the PMO level.
 - For example, the checklist should require written correspondence, in addition to verbal contact with the complainant, as it provides a clear record of resolution and closure.
- Providing overall tracking of the complaints, including following up with the PMOs to facilitate closure, reviewing documentation for completeness, etc.

The PMOs will continue to be responsible for:

- Conducting the investigations.
 - There should be segregation of duties between the investigators and the account representatives. In addition, complaint investigation needs to be carried out by individuals who have the experience and skills to do so. Several PMOs have hired investigators with

law enforcement backgrounds. These types of skills, whether they are provided by individuals with law enforcement backgrounds, sworn peace officers, or experienced personnel, will enhance the process and limit the possibility of failing to identify potential fraud situations.

- Resolving complaints.
- Determining, in accordance with policy, what, if any, action may be required with respect to the retail location subject to the complaint.

WCLC should, in the near term, develop the overall process, recommend the standards and vet the draft policies with the PMOs and then implement. In addition to documenting the improved complaint process and more clearly defining roles and responsibilities, liaison procedures should be drafted and agreed to by each PMO and WCLC to adopt leading practices for handling complaints and to support the maintenance of one complete repository of complaints for the Lottery. These liaison procedures will need to be in accordance with privacy laws. These procedures will be the framework outlining how WCLC will monitor the complaint process given their new coordination role.

WCLC will likely require additional investigative skills to take on this role as its responsibilities include recommending standards and policies, recommending investigative capabilities required for the PMO, and providing overall tracking and review. As discussed in Section 7 of this report, the same investigative skills can be utilized to support the winner validation interview process.

5.4.2 Have All Complaints Assigned To Investigators

The assignment of all integrity related complaints to PMO investigators provides segregation of duties, as compared to having account representatives who provide support to retailers handle these complaints. For PMOs with lower volumes of integrity related complaints, it may be difficult to justify a full time investigator to review and resolve such complaints. However segregation of duty in these circumstances should be addressed by having individuals, separate from the account representatives, with the appropriate training and skills conduct investigations. Where required, complaints may need to be escalated to higher authorities (including police) or to external sources (such as private investigators). Policies to determine when complaints need to be escalated to the appropriate authorities should be developed.

Currently non-integrity related complaints at some PMOs are reviewed and followed up with account representatives. Having an investigator rather than an account representative review and follow up these complaints provides a better segregation of duties should integrity related issues appear while the investigation proceeds.

5.4.3 Training And Investigative Recording Recommendations For Investigators

Although most investigators who review and resolve customer complaints have investigative experience and training, refresher courses should be implemented to assist those charged with the responsibility of reviewing complaints to remind them of leading practices for documenting each

complaint including keeping contemporaneous notes, not altering entries and not destroying investigative notes. Training should also consider industry developments.

5.4.4 Regular Review Of Completed Integrity Complaint Files

Regular review of a sample of completed complaint files during a jurisdiction's audit process will determine if the process and controls are operating as intended.

6. Retailer Management

6.1 Process Overview

The retailer management process grouping includes: retailer definition, selection, agreements, training and support, monitoring and termination. Retailer management is primarily the responsibility of the PMOs and the process in each PMO reflects the uniqueness of its province/territory.

There are over 4,000 lottery retailer locations within the scope of the WCLC region. Almost all are on-line lottery retailers, who have an on-line terminal at the location. These retailers vary in terms of the type of business as shown in the following table.

On-line Retail Locations Defined by Type of Business (As of December 31, 2006)

Type of Business	Total Number of Retailers	%
C-Store/gas	1,440	36%
Convenience stores	1,052	26%
Drug stores	512	13%
Grocery/food stores	264	7%
Miscellaneous	260	6%
Newstands/smoke	176	4%
Kiosks	144	4%
Restaurant/bar	112	3%
Service businesses	27	1%
Merchandise store	15	0%
Total	4,002	100%

In addition to the on-line retailers listed above, there are approximately 50 lottery retailer locations (“lottery retailers”) who only sell instant tickets (off-line lottery retailers). The off-line lottery retailers are in Saskatchewan and the Territories.

These lottery retailers include a mix of urban and rural locations, small and large retailers, national chains and independents, and include a number of geographically remote locations in the Yukon, Nunavut and Northwest Territories. Approximately 58% of lottery retailers are in Alberta, with another 21% in Manitoba and 20% in Saskatchewan.

Retailer Application and Selection

The retailer application and selection process is a PMO responsibility. Factors influencing the selection of applicants include: financial strength of the applicant, expected sales performance and geographic coverage. Each PMO uses similar information to assess applicants but varies in terms

of the process used to introduce applicants with lower expected sales performance into the system. Manitoba is currently the only PMO that has criminal background checks conducted on applicants (through the Manitoba Gaming Control Commission).

Once a lottery retailer is successful in its application, it enters into an agreement with WCLC and the PMO. Through the agreement, WCLC agrees to provide the lottery retailer with a ticket terminal along with certain specified fixtures, signs, merchandise and advertising materials. The agreement outlines covenants for the lottery retailer, the PMO and the WCLC and also provides provisions for termination of the agreement. This agreement is with the entity representing the lottery retailer and not with individual employees hired by the lottery retailer to cash and sell lottery tickets at the retail location (“retailer employees”) and as a result the Lottery is limited in its ability to impose obligations on retailer employees individually.

Retailer Training

The retailer agreement requires that trained staff be available during all hours that the location is open for the sale and redemption of all on-line and instant lottery tickets. Training is primarily a PMO responsibility. Each PMO has the ability to provide formal operational training to lottery retailers and their employees who sell and cash lottery tickets. Most PMOs have training sessions conducted by their account representatives, while Alberta utilizes full-time dedicated trainers. All PMOs offer training in a classroom at the PMO office, however the frequency of the sessions varies. Due to the remoteness of some locations, training may also be conducted at a satellite location or on-site at the lottery retailer location.

At many lottery retailers, retailer employees who attend formal training will provide on-site training to other retailer employees at their location. In Alberta, trainers also provide “Train the Trainer” sessions to corporate accounts who in turn can train retailer employees for their retail locations.

While the PMOs do not charge a fee for participating in training, lottery retailers generally pay their staff for the time they spend attending a training session (approximately 3 hours), travel time, and other out of pocket costs.

Lottery Retailer Support

A variety of sources are available to provide support to lottery retailers. WCLC prepares a ticket terminal operator’s guide and operates a hotline that lottery retailers can call for assistance with lottery procedures or ticket terminal operation. WCLC also prepares a Lotto-Line magazine for lottery retailers which PMOs can customize for their area. Terminal sign on and news messages are also used to communicate with lottery retailers.

Alberta has a Lottery Ticket Centre Policy Handbook. They provide it to lottery retailers and make it publicly available via the internet. The handbook includes information such as:

- General information (legislation, definitions, contacts, etc.).

- Retail Networks (types of retailers, performance standards, compensation, training, site requirements).
- Applications (new applications, change of ownership).
- Administration (retailer master file info, financial obligations, multiple terminal retailers, violation of the rules).
- Operations (includes no sales to minors, renovations, signage, etc).
- Sample forms.

Account representatives, employed by each PMO, are a significant source of support for lottery retailers. In general, the account representative role includes: ensuring accounts have sufficient product inventory; discussing sales and commissions; discussing in store promotions and incentive programs; and informing and educating lottery retailers.

Historically, account representatives were involved in the investigation of complaints. As discussed in Section 5 of this report, all regions have removed investigation of integrity related complaints from the account representative's role. However, some use account representatives to review customer service and other non-integrity related complaints.

Site visits by account representatives are generally scheduled based on the number of lottery retailers within an account representative's territory, the sales performance of the retailer, and geographical location. Most locations within Alberta, Saskatchewan, and Manitoba are visited on a one to six week schedule. In Saskatchewan, off-line lottery retailers do not have account representatives assigned to them and are not scheduled for visitation. In the Territories, some remote locations are serviced primarily by telephone, fax, and mail.

Retailer Monitoring, Discipline And Termination

Historically, the focus of monitoring lottery retailers was on sales performance and merchandising. The Lottery's focus has more recently turned to compliance. Mystery Shopper programs have been used in Manitoba and Alberta to check if lottery retailers are complying with proper validation procedures and Saskatchewan has implemented a consumer care phone line where consumers can report any concerns they have. In other provinces and territories, players with concerns are advised, through consumer messaging, to call the WCLC Complaint Line.

The historical focus of disciplinary action against or termination of agreements with lottery retailers has been focused on poor sales performance or not meeting financial obligations to the Lottery. While there has been some disciplinary action taken against lottery retailers as a result of investigations into consumer complaints, the instances have been few and statistics have not been formally tracked. Written guidelines for progressive discipline against lottery retailers for integrity related violations are lacking.

The existing Lottery Ticket Centre Retailer Agreement contains provisions for termination of the agreement. For example, the agreement can be terminated for cause, without notice for breach of

any of the rules or regulations and if the lottery retailer or any employee of the lottery retailer has been convicted of a crime involving fraud, theft, misrepresentation, moral turpitude or any gambling related offence. In addition, termination without cause can be made with 7 days notice to the lottery retailer.

6.2 Key Observations

Key observations include:

- There is no one source that provides an up-to-date listing of retailer employees who sell and cash lottery tickets.
- A variety of reference and support materials are available to lottery retailers.
- Communication materials and training sessions emphasize proper validation procedures.
- The focus on retailer monitoring has increased as discussed in recent changes below.
- While the retailer agreement has provisions for termination, no formal progressive disciplinary policy for lottery retailers exists.

6.3 Recent Changes

WCLC has initiated a number of improvement opportunities for the retailer management processes recently, including:

- Policies – Policies have been established making it mandatory for lottery retailers to:
 - Have consumers sign their tickets prior to validation by a retailer employee.
 - Have the retail employee provide the validation slip to the consumer.
- Lottery Retailer Agreement and Rules and Regulations Review – In conjunction with its legal counsel, the Lottery is currently reviewing the retailer agreement and Rules and Regulations. It is expected that revisions will include the requirement of retailer employees to self-declare when claiming a prize; a provision to provide the Lottery the authority to investigate a prize claim and withhold payment if required; provision to do criminal background checks on signatories while the agreement is in place; and a provision for unilateral amendment of the agreement by the Lottery.
- Development of a Retailer Code of Conduct – A first draft of this document is being circulated to the PMOs for feedback with the intention that when finalized, it will be used by all the PMOs to reinforce the responsibilities of lottery retailers, including training new staff and making them aware of their obligations. It is intended that lottery retailers will use the document to reinforce responsibilities with their staff who sell and cash lottery tickets. The Lottery has indicated the document will communicate requirements to:
 - Position CDUs to face the customer at all times.
 - Keep the terminal area clear of clutter.
 - Train new staff and make them aware of their obligations.

- Enhanced Retailer Training and Communication – Materials have increased emphasis on proper validation procedures.
- Compliance and Monitoring Programs – Implementation of Mystery Shopper programs in Manitoba and Alberta, and a customer complaint line in Saskatchewan.

6.4 Supporting Recommendations

The Lottery has implemented or initiated a number of retailer management improvements with the intent of making lottery retailers and their employees aware of their obligations, monitoring compliance, and supporting enforcement where required. During the workshops, a number of additional improvement opportunities were discussed. The improvement opportunities discussed in the remainder of this section should be considered by the Lottery to further enhance the retailer management processes.

6.4.1 Clarify Retailer Definition

The current WCLC Rules and Regulations define “retailer” as meaning a person authorized by the Corporation and a PMO to sell tickets to the public or authorized by the Corporation to assist in the operation of a lottery. WCLC should continue to work nationally and with the ILC to arrive at a consistent definition of retailer. The Lottery should consider expanding the current definition of retailer that includes employees of lottery retail locations that sell or cash lottery tickets as part of their work duties; as well as directors and officers of retail lottery locations.

In addition, individuals who are claiming prizes in excess of \$1,000 and who were captured in the above descriptions during the period from sale or activation to expiration of the ticket for which a prize is being claimed, should be subject to the additional scrutiny provided to retailers and their employees during the prize claim process. The Lottery should have the ability to delay payment of the prize to allow time to conduct any investigation or other due diligence if deemed appropriate.

6.4.2 Code Of Conduct/Conduct Expectations

As mentioned, a Retailer Code of Conduct is being developed to consolidate and expand upon existing expectations and the intention is that it will be adopted by all of the provinces and territories. Because the retailer agreement is not legally binding on individual employees hired by the retail location, this will be a useful tool to reinforce expectations to lottery retailers and their employees who sell and cash lottery tickets. Lottery retailers will be expected to share this document with their employees who sell and cash lottery tickets.

The code of conduct should include expectations to:

- Act in a manner that contributes to the integrity of the lottery and not engage in dishonest or fraudulent behaviour.
- Not claim prizes on behalf of others.
- Not have others claim a prize on their behalf.

- Understand additional investigation may be undertaken if they win a prize over \$1,000.
- Self-identify as a retailer in the event of prize claim, if during the period from ticket sale or activation to expiration, the individual's work duties included selling or cashing lottery tickets or the individual was a director or officer of a lottery retailer.
- Follow proper validation procedures.
- Understand consequences for dishonest or fraudulent behaviour, violations of retailer agreement and code of conduct.
- Follow WCLC guidelines for equipment placement and operation so that equipment is not obstructed.
- Understand where to report an integrity issue within the lottery system.

6.4.3 Increase Training Accessibility

The Lottery should continue to explore alternative training methods, including web based training programs. This may increase the number of individuals who participate in formal training.

6.4.4 Enhance Retailer Database

A robust database of lottery retail directors, officers and employees who sell and cash lottery tickets does not currently exist. Saskatchewan has undertaken a pilot project to collect names of retailer employees in their jurisdiction in recent months. The Lottery should continue to work towards the development of a retailer database. Next steps should include:

- Conduct an assessment of privacy legislation in each province/territory, including the implications as to what information can be collected and how it can be collected.
- If privacy legislation allows:
 - Identify methods to collect retailer employee names and the effort associated with each method.
 - Identify methods to update retailer employee names on a timely basis and the effort associated with each method.
- Monitor the progress and results other regions experience as they move forward with implementation of their databases.
- Use the Saskatchewan database as another tool to identify potential retailer major winners.

6.4.5 Facilitate And Implement Compliance Monitoring

Compliance monitoring programs should be conducted by PMOs on a regular basis but may vary by province/territory depending on the accessibility of lottery retailer locations and the volume of compliance related complaints.

Mystery Shopper programs are a way to monitor retailer compliance but face a challenge in sourcing tickets to present to the lottery retailer for validation. WCLC will explore means to source tickets to address challenges.

Inspection of lottery retailers is another method of compliance monitoring that should be explored. WCLC should prepare a compliance checklist, which the PMOs could customize for their local requirements. This checklist could include items such as:

- Mandatory POS materials observed.
- Terminal and CDU not blocked or obstructed.
- Positioning of self serve ticket checkers.
- No clutter visible around the terminal.
- Proper validation procedures observed.

Inspections could be conducted by an external agency, by account representatives during their site visits, or by other Lottery employees.

The frequency of compliance reviews at a specific lottery retailer should increase based on:

- Poor results in previous compliance reviews.
- Compliance related complaints.

Disciplinary consequences should be taken against lottery retailers that are found non-compliant. This is discussed more fully below.

WCLC can also play a role in compliance monitoring. WCLC is exploring ways to develop and monitor indicators from the gaming system that will identify trends requiring further analysis or investigation. WCLC should continue to look for ways the gaming and other inter-related systems can identify suspicious transaction activity.

6.4.6 Develop Progressive Discipline Programs

In instances of proven fraud, the retailer agreement allows for immediate termination. However, policies are lacking with regard to other retailer infractions. A progressive discipline program needs to be developed for lottery retailers who are not compliant with the retailer agreement, the code of conduct, and policies. Given the nature of the agreement between WCLC, the PMOs and the lottery retailer, there are limitations in terms of the penalties that can be imposed.

A progressive disciplinary policy is being developed for the region. The program developed should set out the appropriate disciplinary measures yet still provide enough discretion in how retailer infractions are dealt with. The program for an integrity related issue, confirmed by compliance reviews/investigation, should include: personally delivered warning letter for the first infraction, with remedial action taken. A second infraction would prompt a personal visit from a Lottery supervisor, a second warning letter, and remedial action. Third and fourth infractions

could lead to varying periods of suspension or recovery of liquidated damages. And, a fifth violation would lead to termination of the retailer agreement.

Next steps should include:

- Circulation of a draft progressive disciplinary policy to the provinces and territories, and work with the provinces and territories to develop a policy that all can consistently adopt.
- WCLC to explore with legal counsel the ability to include liquidated damages as a penalty. Liquidated damages are fines tied to the costs incurred by the Lottery relative to the violation (e.g. investigation time, etc.).
- WCLC and PMOs to develop a program to communicate the policy to Lottery employees including account representatives and investigators, and lottery retailers along with their officers, directors, and employees who sell and cash lottery tickets.

Action taken under the progressive discipline program should be reported to the WCLC Board on a regular basis.

6.4.7 Formalize Expectation To Report Integrity Issues

Given that account representatives are on site at lottery retailers, they have opportunity to observe the retail operations. The expectation is that if an account representative identified an integrity related issue at a lottery retailer, the account representative would report the issue to a Supervisor who would refer the matter to an Investigator if appropriate. This expectation should be formalized through written communication to account representatives, and included in their job descriptions.

6.4.8 Keep Account Representatives Informed Of Issues At Retail Locations

Security/Investigations should inform account representatives of a complaint or investigation related to a lottery retailer within their territory. The level of detail provided to the account representative must not compromise any ongoing investigation.

6.4.9 Conduct Criminal Background Checks On New Retailer Applicants

Manitoba currently has criminal background checks conducted on all signatories who are applying to receive a retailer agreement. All provinces/territories should conduct criminal background checks on new lottery retailer applicants as part of their due diligence in investigating a new retailer. Those who have been convicted of a theft or fraud related offences are not suitable retailers.

6.4.10 Develop Policy Handbook For Retailers

Each province/territory should develop a retailer policy handbook similar to that used by Alberta, discussed previously in this section. The handbook is a good communication tool to make lottery retailers and their employees aware of policies and expectations. The handbook can also house the Retailer Code of Conduct and Progressive Discipline program discussed in this section of the report.

7. Winner Validation and Prize Payment

7.1 Process Overview

There are several ways for players to independently verify if their ticket is a winning ticket for a particular draw. Some of the most common means are:

- WCLC and PMO websites.
- Winning number line.
- Winning results postings in retail locations.
- LUCK magazine.
- Newspaper, newscasts, and other media reports not issued by the Lottery.
- Self serve ticket checkers.

Winning ticket information for instant tickets is contained on the ticket itself and visible once played.

7.1.1 Ticket Presentation At Lottery Retailer

If a player has not independently verified that a ticket is a winning ticket, the player can present the ticket to a lottery retailer to determine if the ticket is a winner.

A policy effective August 1, 2007, has made it mandatory that lottery retailers not validate a ticket until the player has written their name on their ticket.

When the retailer employee is presented with a ticket, the employee scans the ticket under the barcode-reader which is built into the terminal system and the system compares the unique ticket control number that is assigned to the ticket to a pre-defined set of criteria contained in the gaming system to verify whether or not the ticket is a winning ticket.

Validation of instant win tickets requires that the retailer employee also key in a four digit redemption code that is found underneath the ticket latex to determine if the ticket is a winner. This hidden redemption code is intended to combat the ability of retailer employees to simply scan multiple tickets to identify winning tickets prior to purchase.

7.1.2 Previously Validated Tickets

If a ticket has already been validated, the terminal system will not allow it to be validated again. Rather, the terminal system informs the retailer employee that the ticket has already been validated, with the implication that the player has already been paid, and instructs the retailer employee to return the ticket to the player.

If a player believes that their ticket is a winner for which they have not been paid, notwithstanding the terminal indication that the ticket has already been validated, they are instructed to send the ticket to WCLC for resolution.

7.1.3 Redemption Of Prize Amounts, If Any

If the ticket is not a winning ticket, the retailer employee returns the ticket to the player along with a validation slip, indicating that the ticket was not a winner.

If the ticket is a winning ticket, the prize amount dictates the method of payment of the prize. The process for payment of the prize depends on the amount of the prize won as discussed below:

Prizes of \$1,000 or Less

Prizes of \$1,000 or less may be redeemed and paid at any lottery retailer. Upon a retailer employee being presented with a winning ticket, and successful validation of that ticket, the retailer employee will provide the player with a validation slip indicating the amount of the win and may pay the corresponding cash amount. WCLC prize payout policy dictates that lottery retailers must pay any prize under \$200, however the lottery retailer may choose whether or not to pay prizes in excess of \$200 dependent on their available funds. When a prize is paid by a lottery retailer, the current policy calls for the lottery retailer to rip the ticket in half and discard the ticket. This is referred to as the “Cash and Trash” policy.

If the lottery retailer chooses not to pay the prize in excess of \$200, the ticket is returned to the player and the player is provided with the option to redeem the ticket at another lottery retailer, at a WCLC prize payout office or through the mail.

Prizes of \$1,000 or less may also be claimed at any prize payout office, either in person or through the mail. The Lottery indicates that the vast majority of the redemptions of \$1,000 or less occur at the retailer level.

Prizes Over \$1,000

Except as indicated below (*Redemptions by Bank Location*), prizes in excess of \$1,000 must be redeemed at a prize payout office, either in person or through the mail. If validation by a lottery retailer indicates that the winner’s prize is in excess of \$1,000, WCLC policy dictates that the lottery retailer must return the ticket to the player, along with a claim slip, and instruct the player to claim the prize through a prize payout office.

When presented with a winning ticket, the prize payout office performs a validation to determine the prize amount to which the claimant is entitled. Again, tickets will not be validated unless the player’s name is written on the ticket in the space provided.

All winners are then required to provide acceptable identification which is compared to the name recorded on the back of the ticket.

WCLC requires claimants of prizes in excess of \$1,000 to sign a Representation, Indemnity and Release before a Commissioner of Oaths or a Notary Public, to affirm, among other things, that the claimant does or does not, sell or cash lottery tickets on behalf of a lottery retailer as part of the lottery claimant's work duties. If the potential claimant sells or cashes lottery tickets on behalf of a lottery retailer, they will be subject to the additional security procedures performed on a retailer employee, as outlined below.

Prizes \$10,000 Or More

Prizes of \$10,000 or more are processed in the same manner as prizes in excess of \$1,000, with the addition of a major winner interview.

While the primary intent of this interview has historically been to obtain information to publicize the player's win, staff are instructed to listen for inconsistencies in players' responses or any indication that there may be other potential claimants that have an interest in the ticket. The overall response to indicators observed through the interview process is restricted due to the inherent limitations of the ticket having attributes of a bearer instrument as outlined earlier.

Redemptions By Bank Location

In Calgary, prizes up to \$9,999.99 can also currently be claimed either through RBC Village Square (bank) location. Redemption by the bank location is scheduled to cease early next year once a prize payout office is open and operational in southern Alberta.

When a winner redeems a ticket through this bank location, the bank validates the ticket similar to a lottery retailer / prize payout office. In addition, staff at the bank location review winner identification and forward cashed tickets to WCLC. They do not perform additional verification procedures such as having the claimant sign a legal release indicating that they are not a retailer employee.

7.1.4 Escalation Procedures

WCLC currently has in place escalation procedures whereby prize payout staff escalates any non-routine prize claim to senior management and/or PMO investigators as appropriate. Examples of non-routine prize claims include retailer employee claims, claimants who contradict themselves significantly throughout the interview process, tickets which have been mutilated, tickets with extraneous writing on them, etc.

7.1.5 Retailer Employees And WCLC/PMO Employees

WCLC classifies retailer employees and Lottery employees as "associated parties" and performs additional procedures with respect to scrutinizing the wins of these parties. This review is restricted to a review of policies and procedures of those involved in the scrutiny of the retailer employee winners.

Upon a retailer employee win in excess of \$1,000, the following additional procedures take place:

- TM Report for on-line ticket or ticket reconstruction for instant ticket is obtained and reviewed by prize payout staff.
- Previous wins and claims of retailer employee claimant (if any) are reviewed by prize payout staff.
- Any complaints filed against that particular lottery retailer are reviewed with the relevant PMO and with prize payout staff.
- Additional interview questions are asked of the prize claimant and answers are reviewed by the prize payout staff.
- WCLC senior management reviews the results of the above procedures for retail employee claimants with prizes in excess of \$1,000 for approval prior to payment.

7.2 Key Observations

Key observations include:

- Reliance is placed on self identification by retailer employee winners. An up-to-date database of retailer employees does not currently exist.
- Retailer employee winners are defined as those who in their work duties, sell or cash lottery tickets.
- WCLC prize payout staff indicated that, on occasion, certain lottery retailers may have paid prizes in excess of \$1,000 to customers from funds on hand and then claimed the prizes from WCLC in order to be reimbursed.
 - Through discussions with WCLC, this practice is contrary to WCLC policy and will be addressed through the development of a Retailer Code of Conduct along with a progressive disciplinary program.
- While limited to prizes under \$10,000, the RBC bank prize payout location is an operational risk given that it does not follow the same verification procedures that WCLC prize payout offices use. WCLC / AGLC have identified this risk and are in the process of closing this location and opening a Southern Alberta prize payout office. This prize payout office is currently expected to be opening in late 2007 with the withdrawal of prize payout procedures from the bank location in early 2008.

Additional observations are described in the retrospective review of files of this report.

7.3 Recent Changes

A number of changes are in process or have been implemented and are discussed in the remainder of this section.

7.3.1 Customer Facing Initiatives

Self Serve Ticket Checkers

WCLC has continued the roll-out of additional self serve ticket checkers and is planning on achieving 100% coverage in all lottery retailer locations. The self serve ticket checkers currently allows the player to identify whether their on-line tickets are winners as well as the amount of the win. Although the self serve ticket checkers are not currently capable of verifying the status of instant tickets, WCLC is in the process of identifying the technological changes required to allow for this verification. It is expected that the capability to check future instant tickets will be added to self serve ticket checkers by equipment suppliers in the spring of 2008.

The roll-out of the additional self serve ticket checkers, combined with an effective consumer education program, enables the player to retain possession of their ticket until they have confirmed whether or not it is a winner as well as the amount of the win, if any.

Policy Requiring Customer To Sign Ticket Prior To Validation

WCLC has mandated that all tickets must have the player's name written on them prior to a lottery retailer attempting validation. Any tickets without the player's name written on the ticket in the space provided must be returned to the player un-validated as per the WCLC policy.

This policy limits the opportunity for someone other than the player to claim a ticket after the player relinquishes control of the signed ticket.

Implementation Of New Ticket Terminal With Audio Indicator And Customer Display Unit (CDU)

WCLC is in the process of rolling out new ticket terminals and customer display units. Customer facing controls inherent in the ticket terminal include an audio indicator whenever a winning ticket is checked, for which the ability of the lottery retailer to lower the volume is prevented through programming controls. The ticket terminal will be accompanied by a visual indicator through a CDU which will display whether or not the ticket is a winner, along with the amount of the prize, if any. The current intent of WCLC is that the CDU will be locked into a customer facing position at the retail location and lottery retailers will not obstruct it from view.

7.3.2 Verification Procedures for Wins in Excess of \$1,000

Representation, Indemnity And Release

As described above, WCLC requires claimants of prizes in excess of \$1,000 to sign a Representation, Indemnity and Release before a Commissioner of Oaths or Notary Public to affirm, among other things, that the claimant does or does not, sell or cash lottery tickets on behalf of a lottery retailer as part of the claimant's work duties. If the potential claimant sells or cashes lottery tickets on behalf of a lottery retailer, they will be subject to the additional security procedures performed on a retailer employee as outlined above.

WCLC attempts to obtain further corroboration of the above self-declaration by reviewing the name and address of the claimant against a database of contact individuals whom have signed a Retailer Agreement with WCLC. If there is a potential match against one of these individuals, prize payout staff will escalate the matter to senior management for further investigation.

Additional Scrutiny Of Retailer Employee Wins

A claimant who has been identified as a retailer employee is subject to additional scrutiny and procedures as outlined previously.

7.4 Supporting Recommendations

Supporting recommendations are discussed in the remainder of this section, and should be implemented by the Lottery.

7.4.1 Enhancement Of Retailer Database

An effective source of retailer employee information will allow for the corroboration of a prize claimant's self-declaration as to whether or not they sell or cash lottery tickets as part of their work duties which would result in them being considered for additional scrutiny as part of WCLC's associated party win procedures.

As discussed in the Retailer Management section, Section 6 of this report, the Lottery should continue to work towards the development of a retailer database.

7.4.2 Involvement Of Senior Management / PMO Investigators In Retailer Claimant Interview

Senior WCLC management members review each retailer employee winner file for prizes in excess of \$1,000. WCLC should involve management or PMO investigators earlier in the process. For example, upon determining that a claimant is a retailer employee, prize payout staff should contact a member of investigations from WCLC or PMO management to have them participate in the retailer employee interview with the prize payout staff. Some PMOs currently do this for all retailer employee winner interviews.

This may require additional skill sets be added to, or developed at, WCLC and as discussed in Section 5, these same skills could be used to support the complaints coordination role. For example, some WCLC staff do not receive training in interview techniques while some PMO investigators do (e.g. to help them detect situations where the interviewee may be unclear, evasive, etc.)

7.4.3 Explore Alternatives To The "Cash And Trash" Procedure

The current WCLC validation procedure whereby the lottery retailer rips and then discards paid winning tickets with prize values \$1,000 or less results in the player losing possession of their

ticket and therefore impedes follow-up efforts should an investigation be required to determine whether the correct prize was paid.

Other jurisdictions are examining alternatives to eliminate the cash and trash procedure, such as returning winning tickets intact after stamping them as “Paid”, or ripping the winning tickets after making payment and returning them to players.

WCLC should monitor the experience of these other jurisdictions and explore alternatives to allow paid winning tickets to be returned to players. Any changes to the existing process need to include consumer education, retailer policy, as well as updates to training and other retailer support/reference materials in the implementation process.

7.4.4 Independent Spot Check On Adequacy Of Sample Of Major Win Procedures

WCLC internal audit should periodically review, on a sample basis, a selection of major win files to verify the process and controls continue to operate as intended.

7.4.5 Consumer Presence At Validation At A Lottery Retailer

In order to fully utilize the capabilities of the new ticket terminal and CDUs, communication should be made to lottery retailers to instruct their employees, if a customer wants to validate a ticket and is not in full view of the ticket terminal (e.g. a retail location with multiple cash register aisles and one terminal) to make sure customers are encouraged to take the ticket to the terminal to witness their ticket being validated and to hear the audio and see the visual indicators of the CDU directly.

7.4.6 Investigate Reduction Of The Retailer Redemption Amount

Based on discussions during the workshops, participants questioned whether reducing the lottery redemption limit at lottery retailers from \$1,000 to \$500 might have an impact on consumer protection. Further information on the costs and benefits should be obtained by the Lottery, which should include gathering information on:

- The number of prizes claimed at retail locations between \$501 and \$1,000, by type of game.
- The impact on lottery retailer commissions of changing the redemption threshold.
- The receptiveness of consumers to using a mail-in claim or a prize payout office for wins between \$501 and \$1,000.

8. Environmental Scan

The previous sections of this report focused on current changes and recommendations for the future. Through the course of this review, Ernst & Young identified a number of other initiatives that are being considered by other jurisdictions in Canada. A broad range of improvement opportunities were discussed during the two days of workshops with a large group of Lottery representatives (participants) facilitated by Ernst & Young. These additional improvement opportunities were not considered by the Lottery in isolation, but rather were considered in terms of the incremental impact they would have given the other preventative and detective measures introduced or planned.

This section provides an overview of these initiatives and the assessment provided by participants during the workshops as to why they are not being implemented by the Lottery at this time. While not for implementation at this time, the Lottery indicates that it will continue to monitor and evaluate these and other potential player protection measures.

8.1 Consumer Awareness and Education

8.1.1 Consideration: Include Customer Display Unit (CDU) Information About Winning Tickets In More Than One Language If The Demographics Of An Area Indicate This Would Be Useful.

Potential Benefits: Customers would see CDU information in the language they are most comfortable with.

Participants Assessment: Once the CDUs and new ticket terminals are in place, they will provide players with both visual and audio cues as to whether their ticket is a winner.

8.1.2 Consideration: Develop An Incentive Program For The Public To Promptly Report Deficiencies At Retail Outlet.

Potential Benefits: Individuals would be encouraged to report deficiencies at a retail outlet.

Participants View: The Lottery is communicating its 1-800 complaint line through a variety of mediums so that consumers wishing to report deficiencies have a channel to do so. Providing an incentive to report deficiencies may result in false claims by individuals against retailer employees motivated by the incentive.

8.2 Retailer Management

8.2.1 Consideration: Expansion Of Retailer Employee Definition

Potential Benefits: Apply additional scrutiny to a broad range of prize claimants who are associated with those who sell and cash lottery tickets.

Participants Assessment: Consideration has been given to expanding the definition of retailer employee to include:

- Retailer employees who do not sell or cash lottery tickets as part of their work duties.
- Retailer employee's spouse, children, parents and siblings (immediate family).

Retailer employees who do not sell or cash lottery tickets as part of their work duties are not part of the prize claim process, do not handle lottery tickets, and would not take possession of a player's ticket for validation or redemption. As such, there would be little benefit to including them in the definition.

Inclusion of immediate family members in the definition would be very difficult to monitor and enforce, and WCLC's legal counsel indicates there are privacy issues related to collecting and using this information. The Code of Conduct can provide some protection by including commitments that retailer employees will not ask others to claim prizes on their behalf.

8.2.2 Consideration: Require Signing Of The Retailer Code Of Conduct

Potential Benefits: Retailer employees would sign the code of conduct and acknowledge that they understand and will abide by the Code of Conduct.

Participants Assessment: Participants suggested a better option may be to require the lottery retailer (the entity) whom the Lottery enters into an agreement with, to require the entity's employees who sell and cash lottery tickets to be aware of the Code of Conduct and abide by it. This consideration remains under assessment however.

8.2.3 Consideration: Require All Relevant Retailer Employees To Be Certified

Potential Benefits: A consistent standard of training may reduce honest errors.

Participants Assessment: The current retailer agreement requires that employees who sell and cash lottery tickets be trained appropriately. Participants felt proper training was essential, but saw challenges in requiring 100% certification of all lottery retailer employees. There is significant turnover at lottery retail, which would make certification difficult to monitor and enforce. Participants felt the core preventative controls being implemented and the existing requirement for training was likely sufficient, however, they indicated the Lottery will continue to monitor and assess the results of other regions, and look into alternative methods of training.

8.2.4 Consideration: Prohibitions On Retailer Employee Play

Potential Benefits: Retailer employees would not be able to purchase or claim lottery tickets.

Participants Assessment: While one other Canadian lottery jurisdiction prohibits retailer employees from purchasing or validating lottery tickets at their location of employment, this prohibition would be difficult to monitor. This consideration will continue to be monitored however.

8.2.5 Consideration: Monitor Lottery Retail Location Employee Play

Potential Benefits: Be able to track how much retailer employees play and confirm winning tickets claimed by retailers.

Participants Assessment: Other lotteries are exploring ways to collect information on associated party (including retail employee) play. WCLC has indicated it will monitor the experience of other jurisdictions and revisit this in the future.

8.2.6 Consideration: Record Sale Of Individual Instant Tickets To Players

Potential Benefits: Be able to confirm date of purchase provided by claimant during prize winner interviews.

Participants Assessment: Lottery Retailers currently have to activate a book of instant tickets before the tickets in that book can be sold. Participants suggested that requiring each individual ticket within the book to also be activated would require significant additional time and effort by lottery retailers and prize office employees and there would be potential for error. This would have limited influence on the prize claim interview questions and whether a prize was paid, so the benefits may be minimal. In addition, once the self serve ticket checkers are upgraded to allow checking of instant tickets, the consumer will have an additional layer of protection relative to these tickets.

8.3 Winner Validation and Prize Payment

8.3.1 Consideration: Amend Physical Ticket To Include A Separate Perforated Validation Stub

Potential Benefits: Creation of a two-part ticket, complete with a validation stub that can be detached from the ticket which could be provided to the lottery retailer upon submission for validation, would allow the player to retain control of the actual ticket.

Participants Assessment: While currently the consumer relinquishes control of the ticket temporarily, policies have made it mandatory that the consumer sign the ticket before providing it to the lottery retailer for validation. As a result, the consumer can check the back of the ticket to make sure the returned ticket was the one they provided to the lottery retailer.

8.3.2 Consideration: Develop A Self-Validation Ticket Machine

Potential Benefits: Such a machine would essentially remove the lottery retailer from the validation process.

Participants Assessment: Participants indicated the technology for the self-validation machine does not currently exist. The Lottery is of the view that full self serve ticket checker implementation will accomplish the same goal (consumers who use the self serve ticket checker machine will know if they have a winning ticket and if so, for what prize amount prior to

presenting the ticket to the lottery retailer for redemption). WCLC has indicated it will continue to monitor the implementation of this technology elsewhere and assess whether it makes sense to adopt it at a future point.

8.3.3 Consideration: Terminal Freeze For Major Winners

Potential Benefits: The terminal is electronically locked and the lottery retailer is suspended from selling or validating tickets until the terminal is unlocked by the lottery corporation following the lottery corporation staff speaking with the winner and documenting certain particulars.

Participants Assessment: The Lottery indicates changes to the new ticket terminal technology and testing would be required to implement a terminal freeze. WCLC has indicated it will look to the experience of other jurisdictions who have implemented, or may implement, a terminal freeze to assess the costs, advantages, disadvantages and impact on consumer protection to evaluate this initiative further. It was also recognized that players will see the amount they have won on the CDU.

8.3.4 Consideration: Require All Winners (Including \$1,000 Or Less) To Produce Identification And For All Identification Information To Be Captured

Potential Benefits: Capture greater amounts of information from winners of prizes of amounts under the threshold that require redemption at the prize payout offices to allow for data manipulation and analysis to identify potentially irregular play activity.

Participants Assessment : Participants suggest there are two significant drawbacks to this requirement: there could be legal ramifications in allowing lottery retailers to collect private information about these winners; and the time to verify and record player identification and contact information could pose service difficulties for players and lottery retailers.

WCLC has indicated it will continue to monitor progress of other jurisdictions should they implement this requirement to identify whether the data manipulation and analysis conducted with this initiative has a meaningful impact on consumer protection.

8.3.5 Consideration: Paying Out Major Retailer Wins Only After The Expiry Of A Pre-Determined Cooling Off Period And Potentially Notifying The Public Of The Existence Of A Potential Retailer Major Win.

Potential Benefits: Provide a time period following a retailer win where any potential complaints against that retailer can be received. Perhaps also allow for some form of public notification of the potential retailer win to provide the public with the opportunity to make any complaints that they have had against that retailer known.

Participants Assessment: WCLC's policy is not to pay out a prize until it is satisfied that an appropriate investigation is complete and the investigation has concluded there is no evidence that a competing interest in a ticket exists. Therefore, an additional waiting period for a predetermined

amount of time beyond the investigation likely has limited benefits. Notification to the public of a potential retailer winner may have privacy implications. Depending on the information disclosed, the public may not recognize a retail location employee, minimizing the intended impact of this public notification. Posting the names of retailer winners prior to payment, may suggest that retail employees have an unfair advantage or are generally dishonest. In addition, this notification may lead to fraudulent claims against a retailer.

8.3.6 Consideration: Handle All Major Wins And Potentially Fraudulent Tickets With Evidentiary Procedures So As To Protect Evidence

Potential Benefits: Handling all major wins and potentially fraudulent tickets under proper evidentiary procedures could protect evidence such as fingerprints that could be preserved for future investigative activities.

Participants Assessment: The Lottery indicates when a ticket is identified by the Lottery as potentially fraudulent, care is taken to not handle it excessively and evidentiary procedures are followed.

9. Retrospective Walkthrough – File Review

Ernst & Young conducted a retrospective walkthrough of complaint files and major win files. The purpose of this review was to see if there was evidence that a retailer was paid a major prize they should not have been paid.

In preparation for the retrospective walkthrough, Ernst & Young identified the processes and procedures in effect at that time, conducted interviews with WCLC and PMO staff, and also reviewed internal documentation as described in this section. Information for the period from November 1, 2003 to October 31, 2006 was reviewed as part of the retrospective walkthrough (complaints information was extended back one year and included information up to when the review was initiated). This date range was selected to correspond to information on retailer winners provided by WCLC to the media earlier this year. Complaints for one year prior to November 1, 2003 were requested so that any date issues with tickets set to expire were addressed. The retrospective walkthrough included:

- Testing complaint flow between WCLC and the PMOs.
- Walkthrough of a sample of complaint files to review documentation.
- Testing completeness of major win file population identified by WCLC.
- Testing completeness of major win files identified as retailer winners.
- Walkthrough of all identified retailer major winner files to review file contents.
- Comparison of complaints to retailer employees who won major prizes.
- Walkthrough of a random sample of 308 major winner files (not identified as retailers).
- Review of winners with 10 or more wins in excess of \$1,000.
- An examination of the retailer win rate calculation and its limitations based on available information.

Each of the above areas and our procedures is described in the remainder of this section.

9.1 Complaint Files

Ernst & Young performed a retrospective walkthrough of complaint files to test the flow of complaints between WCLC and the PMOs and review documentation of complaints as follows:

9.1.1 Test Complaint Flow Between WCLC And PMOs.

Procedure:

- To begin the review, Ernst & Young requested a listing of complaints from WCLC and from each PMO between the period beginning November 1, 2002 to June 30, 2007. Ernst & Young received excel spreadsheet listings from WCLC as well as from Alberta, Manitoba, and Saskatchewan.

- Ernst & Young selected a sample of 27 files between the complaint listing provided by WCLC and traced them back to physical complaint files maintained by WCLC upon receipt of a complaint by WCLC.
- To test the flow of complaints, Ernst & Young selected 63 files from WCLC's list and checked for a matching complaint in the respective PMOs list. Ernst & Young also selected 55 complaints from the PMO listings that were documented as being received from WCLC and checked for a matching complaint on WCLC's list.

Limitations of Procedures:

- One single comprehensive listing of complaints for the region does not exist.
- The WCLC listing did not include complaints for the Yukon, Nunavut or Northwest Territories nor did those regions provide complaint listings.
 - Ernst & Young was advised by these regions that they have very few complaints related to lottery retailers. These regions have a very small number of lottery retailers.
- While the majority of complaints are received by WCLC Corporate Communications, some complaints are received directly by the PMOs. There is not currently a standard procedure to forward these complaints to WCLC, and WCLC does not have a record of every PMO complaint. As such, when the sample of complaints from the PMO listings were selected, consideration was given to select those the PMO had recorded were received by WCLC.
- Each PMO physically retains its own files. Ernst & Young chose the sample from the listings of complaints provided rather from the physical complaint files. The listings may not completely reflect the physical complaint files.
- While WCLC received the majority of the complaints, it did not have administrative oversight for complaints management. As a result, Corporate Communications staff was not instructed to track the status of complaints and document complaints as closed.

Results:

- Of the sample of 27 WCLC files, 2 physical files listed on the WCLC complaint list could not be located.
- Ernst & Young was unable to cross reference all complaints in the sample. There were instances of complaints recorded by WCLC that were not in the PMO listings and vice versa:
 - 22 of the 63 sample complaints from the WCLC list were not found on the PMO complaint lists.
 - 16 of the 55 sample complaints from the PMO lists were not found on the WCLC complaint list.
- Based on this result, Ernst & Young was asked by the Lottery to conduct a review of all complaints in the WCLC listing that were classified as prize issue and validation related. These complaints were sorted to identify complaints that did not have their status flagged as "closed" and that did not identify if action was taken. If the not "closed" complaint could not be found in the PMOs listing, these were flagged for further review. This resulted in a listing of 94 complaints over the 4.5 year period which was provided to WCLC for follow up. WCLC

followed up the 94 complaints and provided Ernst & Young with a summary and their results. Ernst & Young reviewed the follow-up information provided by WCLC and found the following:

- Thirty-one of these complaints were related to issues such as the retailer not having funds to pay the prize, retailer processing error, retailer refusing to check tickets, and the sale of expired tickets.
- The remainder of the complaints were related to prize disputes². Of these complaints:
 - TM reports were run for most prize dispute complaints.
 - For eleven prize dispute complaints, TM reports could not be run because there was not enough detail provided by the complainant regarding time, date, or location.
 - For an additional four complaints, players indicated they received a different prize after they challenged what the retailer employee originally told them they had won. TM reports were not run for these four complaints as the complainants just wanted a complaint on record.
 - Where TM reports could be run, the correct prize was paid to the player in the majority of cases. Out of 48 TM reports run by WCLC, information provided by WCLC indicated the player received the correct prize in 42 of those instances.
 - Information provided by WCLC indicates:
 - One player may not have been paid a \$20 prize
 - One player may not have received a \$2 prize.
 - One lottery retailer filed a complaint when they discovered a cash overage of \$162.20 at the end of the day, concerned that a correct prize payment may not have been made. A player related to this situation was never identified.
 - One player may not have been paid a \$2 prize.
 - One player may not have received a free play. The free play in question was checked against the gaming system and was verified that it was not a winner.
 - One player may not have received a free play. WCLC made a payment of \$2 to the player. The free play in question was checked against the gaming system and was verified that it was not a winner.

Improvement Opportunities being addressed by the Lottery:

- WCLC should take on overall administrative responsibility for the complaints process. Part of this responsibility should include the development and maintenance of one comprehensive complaints database which will track the flow of complaints between WCLC and the PMOs. WCLC's responsibilities will also include tracking the status of complaints. (Refer to section 5.4.1)

9.1.2 Walkthrough Complaints To Review Documentation

Procedure:

- A sample of 50 complaints was selected. The files were requested from the PMOs and reviewed to see if there were gaps identified on the WCLC complaint form (e.g. retailer and

² Lottery retailers can redeem prizes up to \$1,000.

system ID missing), evidence of investigation, documentation of closure, evidence of communication with complainant of resolution.

- 25 files were selected from the pool of major retailer winners where the retail location had a complaint(s).
- 25 files were selected based on their summary description which indicated a prize payout issue.

Limitations of Procedures:

- Some complainants provide limited information or could not be specific enough regarding time/date to enable a TM report to be run.
- Some complainants do not provide their contact information or do not wish to be contacted following the completion of the review by the PMO.

Results:

- Variations in documentation existed. For example, some PMOs included a copy of a letter sent to the complainant about the resolution and other PMOs documented that they had called the complainant about the resolution of the complaint.
- Eight files in the sample were excluded from analysis. Two were excluded because they related to theft of tickets from a retailer, 2 were excluded because no investigation was required (one customer wanted a complaint on record but was unable to provide details to allow investigation, another could not be investigated as the complaint was not made in a timely manner), and four files were excluded from analysis as they were still pending at the time of the review.
- Of the remaining 42 files in the sample, the majority of files had evidence of investigation (e.g. documentation regarding PMO call to complaint, TM report request, discussion with retailer), closure and communication with the complainant. However, documentation was not always complete as shown in the table below:

# of files in Sample*	# in Sample with <u>no</u> Gaps/Issues Identified from Review of WCLC Complaint Form	# in Sample with Evidence of Investigation	# in Sample with Evidence of Closure	# in Sample with Evidence of Communication with Complainant of Resolution **	# with Evidence in All Categories
42	38	38	33	33	26

Notes:

- * Initially selected a sample of 50 complaints. 2 files that were originally selected related to theft of tickets from retailers and have been excluded from the analysis above. Sample also excludes 4 pending files and 2 that did not require investigation.
- ** In one case, the complainant did not provide name or contact information to enable follow up.

Improvement Opportunities being addressed by the Lottery:

- As WCLC takes on overall administrative responsibility for the complaints process, it should recommend policies and standards for complaint management by the provinces/territories which should include documentation requirements and policies. (Refer to section 5.4.1)

9.2 Major Winner and Retailer Winner Files

Ernst & Young performed a retrospective walkthrough of major win files for the period November 1, 2003 to October 31, 2006. This date corresponded to the period for which WCLC provided information in response to media requests received in November of 2006 and January of 2007. In conducting the review, Ernst & Young obtained information as described in the following paragraphs to corroborate the number of major winners as well as the number of retailer winners that was provided by WCLC to the media.

During the period under review, procedures were influenced by the nature of the bearer ticket as discussed in the introduction section of this report. As such, there was not consistently sufficient data documented in each winner file to identify that individual as a retailer involved in the sale or cashing of lottery tickets as part of their work duties.

WCLC indicated their initial assessment of major retailer winners was conducted using a manual process under tight time pressures, without the benefit of cross references of winner information to other data sources. Retailer winners were identified by WCLC solely based on the occupation listed on the interview form. Ernst & Young was asked as part of this review to review the information available and identify additional winners who may be retailers. Ernst & Young built upon WCLC's initial assessment by comparing major winner information with data from WCLC's retailer contact database, which contains a list of 19,000 contacts, and retailer training database which contains a list of 68,000 names. These databases have limitations as they are not updated and are not purged.

Ernst & Young undertook the procedures described in the remainder of this section on the major winner and retailer winner files during the period of our review. Limitations and results of each test are also summarized in the remainder of this section.

9.2.1 Test Completeness Of Major Win File Population Identified

Procedure:

- Ernst & Young corroborated the number of major winners by comparing a listing of major winners provided by WCLC to an electronic listing of cheque data extraction provided by WCLC. The cheque listing was sorted by Ernst & Young to correspond to the relevant period of this review (November 1/03 to October 31/06).
 - The number of total winners and the total amount of prizes won for the period above is not readily accessible from the independent gaming system due to the prize structure of variable-wager games such as Pick 3, Keno and the various sports games. As a result, the number and amount of major wins as a portion of total wins has not been calculated.

Limitations to Procedures:

- None identified.

Results:

- The number of major winners changed from WCLC's originally reported total of 1,622 to 1,610 due primarily to the exclusion of all individuals who were joint winners of a prize (i.e. if there were multiple winners of one prize, this was considered one major winner).

Improvement Opportunities being addressed by the Lottery:

- WCLC is continuing to review the capabilities of the independent gaming system to generate reports on a timely basis to allow for queries to be run with respect to the number of winners stratified by certain prize thresholds.

9.2.2 Tested Completeness Of Major Win Files Identified As Retailer

Procedure:

- Ernst & Young examined an electronic listing of major winners as prepared by WCLC at the time of the initial and follow up media requests (November 2006 and January 2007), focusing on the occupation field for evidence that the claimant's occupation may involve the "sale or cashing of lottery tickets".
- Ernst & Young reviewed a random sample of 308 physical interview sheets to determine if identification of the winner as retailer or non-retailer corresponded to WCLC's identification in the electronic listing.
- Ernst & Young then cross-referenced all major winners against WCLC's Retailer Master File Contact and Training Databases. Where there was a direct name match, Ernst & Young considered the geographical location of the winner to the location of the database match.

Limitations to Procedures:

- Some people choose not to answer or not to provide a detailed answer to the interview questions or the response was not fully documented.
 - 96 responses to the interview question of employment were incomplete or insufficient to allow a reasonable assessment as to whether or not the individual should be classified as a retailer as at the time of their win. As part of Ernst & Young's procedures described above, these names along with all major winners were compared to the retailer contact and training databases.

Results:

- The number of major winners identified as retailers in the region from November 1, 2003 to October 31, 2006 increased from 56 to 67 as a result of Ernst & Young's procedures, which were in addition to the work performed by WCLC to arrive at an initial number of retailer winners. In some cases, Ernst & Young also obtained clarification on certain winners from the applicable PMO.

Improvement Opportunities being addressed by the Lottery:

- WCLC is currently tracking on a real-time basis the number of retailer prize claimants (currently based on retailer self-declaration). This tracking includes the status of the retailer's prize claim (i.e. prize claim received by WCLC, prize claim on-hold pending investigation or prize claim paid out). Accordingly, WCLC will be able to report this information on an as required basis.

9.2.3 Walkthrough All Retailer Major Winner Files And Review File Contents

Procedure:

- Ernst & Young obtained physical major winner files from WCLC Corporate Communications for the period November 1, 2003 to October 31, 2006.
- Ernst & Young reviewed the content of retailer major winner files. Winner file contents were reviewed to see if they contained the interview sheet, and the documentation of responses to the interview questions.

Limitations to Procedures:

- The lottery ticket having attributes of a bearer instrument as outlined earlier.

Results:

- There were inconsistencies in the documentation of responses to the interview questions. In a few cases, there was no documentation of answers to questions related to employer and self-identification. Of the 67, there was no documentation of answers to questions related to: employer in one file; and self-identification in one file.
 - The inclusion of additional information (i.e. copy of cheque, copy of winning ticket, etc) was not tested in our review, as our procedures focused on the nature and documentation of the interview process.
- There was nothing noted in the files, subject to the limitations described in this section, that would indicate that WCLC was not following the prize payment procedures in place at the time of the win.

Improvement Opportunities being addressed by the Lottery:

- WCLC has increased the level of scrutiny provided to retailer winners through the implementation of numerous procedures that are performed prior to payment of a retailer prize as outlined in Section 7 of this report.
- WCLC has also implemented a standardized checklist to be used by all prize payout offices that formalizes the required contents of the major winner file. Requirements now include not only the major winner interview and photograph of the winner, but also copies of the cheque, copies of the legal release, copy of the ticket, etc.

9.2.4 Review Complaints Against Retailer Locations Where Retailer Employees Won A Major Prize During The Period November 1, 2003 To October 31, 2006.

Procedures:

- Ernst & Young cross-referenced the complaints listings provided by WCLC and the PMOs to retailer locations where retailer employees won a major prize. Retailer complaints were reviewed for the period from November 1, 2002 to June 2007, a period one year earlier than the first major win of November 1, 2003, as some tickets have one year expiries and as such it is possible if a complaint was made that related to a prize claim it may have occurred in the year prior to the claim.
 - Ernst & Young considered both retailer number and system ID (SYSID) as identifiers of retail locations, as these were not necessarily both available and recorded in the complaint listings.
 - Where complaints were found on retailer locations that had retailer employee winners and further description of the nature of the complaint, date of complaint, and game involved was needed than was provided on the complaints listings, Ernst & Young requested the complaint file from the PMO and reviewed it.
- In reviewing complaints against a lottery retailer major winner, Ernst & Young considered the following:
 - Nature of complaint (i.e. customer service vs. validation procedure or prize payout).
 - Date of complaint as compared to date of retailer employee win, keeping in mind the expiry period of a winning ticket.
 - Specific game of the complaint compared to the game that the retailer employee won.
 - Results of WCLC / PMO investigation of the complaint (i.e. if sufficient details were available to substantiate whether or not the correct prize was paid through the review of a TM report).

Results:

- Ernst & Young's review found no evidence of complaints against retailer locations where retailer employees had won a major prize during the period of November 1, 2003 to October 31, 2006 that related to a prize payout or validation issue, and that matched the specific game that the retailer had won, and that matched the dates of the complaint versus retailer win.

Improvement Opportunities being addressed by the Lottery:

- As discussed in Section 5, the Lottery will be working toward developing one comprehensive source of complaint data in order to assess any complaints against a retailer location prior to paying out a prize to a retailer employee.

9.2.5 Walkthrough A Sample Of Remaining 308 Major Winner Files And Review File Contents

Procedure:

- Ernst & Young obtained the physical major winner files from Corporate Communications for the period November 1, 2003 to October 31, 2006.

- As the sample of 308 files was reviewed for occupation to match to WCLC's identification in the electronic listing, the content of these same files was reviewed to see if they contained the interview sheet, and documentation of responses to the interview questions.

Limitations:

- The lottery ticket having attributes of a bearer instrument as outlined earlier.

Results:

- Some interview questions did not have answers documented. For example, in some cases there was no documentation of a claimant's response to questions regarding how numbers were selected, the number of tickets purchased at the time of the win, and whether the claimant usually plays the game. Of the 308, there was no documentation of answers to questions related to: occupation in two files; employer in five files; and self-identification in twelve files.

Improvement Opportunities being addressed by the Lottery:

- WCLC has implemented a standardized checklist to be used by all prize payout offices that formalizes the required contents of the major winner file. Requirements now include not only the major winner interview and photograph of the winner, but also copies of the cheque, copies of the legal release, copy of the ticket, etc.

9.2.6 Review Of Repeat Winners Of Prizes In Excess Of \$1,000 For The Period November 1, 2003 To June 21, 2007

Procedure:

- Ernst & Young obtained an electronic listing of cheques paid greater than \$1,000 from WCLC, sorted this listing to capture payments during the period of November 1, 2003 to June 21, 2007 and reviewed this listing for multiple winners.
- Ernst & Young then compared individuals with 10 or more wins in excess of \$1,000 each, to the listing of identified retailers (based on the review of major winner files) to identify the number of retailer employees who had 10 or more wins in excess of \$1,000 each.
- Ernst & Young also cross-referenced all individuals with 10 or more wins in excess of \$1,000 each, against WCLC's Retailer Master File Contact and Training Databases. Where there was a direct name match, Ernst & Young considered the geographical location of the winner to the location of the database match.
- Ernst & Young then cross-referenced the complaints listings to individuals identified as retailers with 10 or more wins in excess of \$1,000. In reviewing complaints against a lottery retailer, Ernst & Young considered the following:
 - Nature of complaint (i.e. customer service vs. validation procedure or prize payout).
 - Date of complaint as compared to date of retailer employee win, keeping in mind the expiry period of a winning ticket.
 - Specific game of the complaint compared to the game that the retailer employee won.

- Results of WCLC / PMO investigation of the complaint (i.e. if sufficient details were available to substantiate whether or not the correct prize was paid through the review of a TM report).

Results:

Based on the above procedures:

- 64 individuals were identified as winning in excess of \$1,000 ten or more times during the period November 1, 2003 to June 21, 2007.
- Of the 64 referred to above, 7 of these winners were identified as potential retailer employees based on the cross-references to Lottery databases.
 - Of these 7 winners, the largest prize was \$18,064 and the average prize was \$2,868.
- The majority of repeat wins were on daily games such as Sport Select and Pick 3 - games the Lottery indicates have better odds of winning, greater frequency of play and higher wagering amounts.
- Ernst & Young reviewed complaints against retailer locations where retailer employees had significant repeat winnings (i.e. ten or more wins in excess of \$1,000) and did not identify complaints against retailer employees that related to a prize payout or validation issue, and that matched the specific game(s) that the retailer had won, and that matched the dates of the complaint versus retailer wins.

Improvement Opportunities being addressed by the Lottery:

- As part of the increased scrutiny over retailers, WCLC now reviews a retailer employee winner's play history for evidence of any indication of any abnormal gaming patterns prior to payment.

Summary:

As a result of the lottery ticket having attributes of a bearer instrument, the Lottery's standard of proof for a prize claimant to obtain a prize, unless there was evidence of a competing interest or an irregularity discovered during the prize claim process, was possession of a winning ticket. No matches of prize issue or validation related complaints to identified retailer employee wins were found as a result of the procedures performed by Ernst & Young.

As discussed in Section 7, WCLC has recently instituted additional controls to enhance the prize claim process.

9.3 Win Rate Calculation

9.3.1 Methodology And Limitations

In an effort to measure the extent of lottery wins by retailer employees compared to the general public, lotteries across the country have calculated an expected retailer win rate and compared this to the number of wins by retailers (calculated win rate). This approach relies on assumptions and there is uncertainty of these assumptions used to calculate both the expected and calculated win rates. WCLC has indicated that information to support the calculation of win rates is not available because this information was not captured and tracked for this purpose historically. The uncertainty of these assumptions is an issue common to lotteries in Canada.

Ernst & Young reviewed the win rate calculation developed by WCLC for the period from November 1, 2003 to October 31, 2006 for major prizes of \$10,000 or more, to correspond to information provided to the media earlier this year. Ernst & Young's review included an examination of the calculation used by WCLC, the numbers used in the calculation, the assumptions used to develop the numbers, and the number of major and retailer major wins.

9.3.2 Findings

Calculated Retailer Win Rate

The calculated win rate is determined by dividing the number of major wins claimed by retailers (those who self-identify and which WCLC defined as any individual who sells or cashes lottery tickets at any of the more than 4,000 lottery retail locations in the region, including owner/operators, full-time lottery retail staff and part-time lottery retail staff) by the number of total major wins claimed during the same period.

Number of Major Retailer Wins

Prior to the introduction of new winner validation steps, major retailer wins were not specifically recorded and tracked. As such, the only source of information WCLC could rely on was the occupation documented in the major win file as a result of the winners' interviews which WCLC conducted on all major wins of \$10,000 or more.

As outlined in Section 9.2, Ernst & Young's procedures supplemented these efforts by cross referencing the first and last name and city/town of residence of all the major winners against the retailer contact and lottery retailer training databases. The retailer contact database contains a list of 19,000 contacts and the training database contains a list of 68,000 names. These databases have limitations as they are not updated and are not purged. Matches from this search were reviewed with Lottery personnel, including account representatives, to identify if some of the major wins were potentially claims made by retailers.

There are limitations to the procedures. In some instances a response was either not provided or documented to identify the claimant's occupation. In other instances the provided or documented

response did not provide sufficient detail in order to assess whether part of the claimant's work duties included the selling or cashing of lottery tickets.

Some of the retailer wins identified by WCLC had occupation descriptions that may or may not include the selling or cashing of lottery tickets as part of the claimant's duties (i.e. gas service attendant). A match of the claimant's name could not be found in either the retailer contact or employee training database and as such, it is not known whether the original number of major retailer wins developed by WCLC was possibly overstated.

As a result of these additional steps and given the limitations described, the number of retailer major winners changed from 56 to 67 during the period from November 1, 2003 to October 31, 2006.

Number of Total Major Wins

As outlined in Section 9.2, there were 1,610 total major wins for the period from November 1, 2003 to October 31, 2006. Some of these major wins included a claim by a group of individuals and some were the result of one claimant winning on the same selection as more than one ticket was purchased due to betting limits on certain games.

Calculated Retailer Win Rate

Dividing the number of retailer wins by the total major wins (67 divided by 1,610) provides a calculated retailer win rate of 4.16%.

Expected Retailer Win Rate

In an effort to measure the extent of wins by retailers, lotteries and others across the country have determined an expected retailer win rate and compared this to the number of wins by retailers. To calculate an expected retailer win rate, the proportion retailers play compared to the general public would need to be known, which it is not. As such assumptions and proxies are used. The expected retailer win rate therefore is subject to many more assumptions than the calculated retailer win rate and the uncertainty of the numbers is greater.

The ratio of population of retailer employees and the general public that participate in lotteries, adjusted for assumed differences in spend rate, is used as a proxy to estimate what the actual ratio of retailer play compared to the general public may be.

Population of Retailer Employees

The population of retailer employees is not known as a database listing all retailer employees does not exist. What is known is the number of lottery retail outlets across the region. Multiplying the number of lottery retail outlets by an average number of lottery employees per retail outlet can provide an estimate of the population of retailer employees.

WCLC estimated an average of 10 – 15 retailer employees per location. The Yukon Lotteries annual report suggests 450 lottery employees in 40 retail locations or an average of 11.25 lottery employees per location. Saskatchewan has initiated the collection of information to develop a database of retailer employees. Preliminary data, collected from Saskatchewan lottery retailers on a one-time basis, suggests an average of 8 retailer employees per location, however, additional data is still being gathered by the Saskatchewan PMO with data from some of the larger retail chains still outstanding. To support 10 retailer employees per location, one would need to assume: average hours of operation of 15 hours per day; operation of 6 days per week; at least 2 retailer employees would be on shift at any one time; and on average each employee would work the equivalent of half time. Given this information, the range of 10 – 15 retailer employees per location compares to the assumption used in WCLC's calculation, however, there is no means to verify the actual number as this information does not exist.

In the western Canadian region there are 4,050 retail outlets. Multiplying the number of outlets by the average number of employees per outlet provides an estimate of 40,500 to 60,750 retailer employees.

Adult Population that Plays Lottery Games

The adult population aged 18 years or older across the western region is provided by Stats Canada information. The participation of the adult population in lottery games – i.e. those that have bought at least one ticket in the last year - is assumed to be 75%. The source of the participation percent is from a survey commissioned by WCLC in December 2005, conducted by Ipsos Reid. This survey was conducted following the record build up and win of a Lotto 6/49 jackpot of \$54.2 million. The regional adult population of 4,314,000, times the participation rate of 75%, provides an estimate of the adult population that play lottery games during a given year to be 3,235,000.

Adjustment to Recognize Retailers Spend More on Lotteries than the Public

The retailer population is adjusted recognizing in general that retailer employees play with greater frequency and are assumed to spend more money on lottery games than the general public. WCLC used a retailer spend rate of 1.9 times that of the general public based on research conducted by Ontario Lottery and Gaming Corporation. A recent survey of Saskatchewan player and retailer play behaviour commissioned by Saskatchewan Lotteries and conducted by Ipsos Reid in August 2007 indicates a spend rate similar to the OLG survey. No other verifiable information is available.

Expected Retailer Win Rate

Applying the assumptions as set out above, the expected retailer win rate provided by WCLC was a range of 2.4 to 3.6% (40,500 to 60,750 retailer employees times the greater play rate of 1.9 divided by the estimated adult population that play lottery games of 3,235,000). The calculated win rate is therefore 1.16 times higher than the top end of the expected win rate range.

A recent survey of Saskatchewan player and retailer play behaviour was commissioned by Saskatchewan Lotteries and conducted by Ipsos Reid in August 2007. Both Saskatchewan retailer employees and the general public were questioned on the amount spent and participation in lottery games within the past year and within the past four weeks. Even though participation and spend rates for retailers (2.1 times versus 1.9 times) and the general public vary from the original assumptions used as outlined above, applying these recent results to the entire region would not impact the expected win rate calculation.

Randomness of Results

If retailers or the general public are winning at their expected win rates, there will still be fluctuations in the results. One would expect to see some variation for each group around their expected win rate. Sometimes the retailers will be above their expected rate and sometimes below. Thus it is not unusual in a single year for the retailers to win at a higher rate than expected. The odds are that 50% of the time the retailers will be expected to have a higher win rate and 50% of the time to have a lower win rate if they are actually averaging to their expected win rate overtime. However, the probability of the retailers' calculated win rate exceeding their expected win rate for two consecutive years is .25 ($.5 \times .5 = .25$). Three consecutive years of higher than expected win rates by retailers has a probability of .125 ($.5 \times .5 \times .5 = .125$). Five years of consecutive higher than expected win rates by the retailers has a probability of less than .05. This would indicate a statistically significant difference in the win rates. The extent of variation above or below the expected win rate can be significant where the population of major wins is small³. Ernst & Young reviewed the data on retailer wins over time and over games and failed to see a consistent pattern of retail win rates exceeding the expected win rate.

Conclusion

A breakdown of the win rate by province and territory is provided in Appendix A. Care needs to be exercised in interpreting data by province or territory as those with a small number of major wins exhibit wider fluctuations than those with a larger number of major wins. One less, or more, retailer win each year can have a large impact on the calculation for regions with a small number of major winners.

There is uncertainty to the win rate calculations and therefore definitive conclusions cannot be drawn with respect to the extent of wins for retailers compared with the general public.

A review of data over time and over games does not indicate a consistent pattern of retail win rates exceeding the expected win rate over the years of data reviewed. Unless more certainty can be provided to the numbers used in the calculations, the win rates are simply one indicator and should not be viewed as a sole or best indicator to measure the extent of wins for retailers compared with the general public. Until a means to capture data to calculate win rates is implemented, this calculation will have limited value.

³ For example, if the number of major wins in one region was 5 in total, the only possible retailer win rates would be 0% (if no retailer won during the period) or increases in increments of 20% (if one or more retailers won). Over time, the average results over a longer period of time would start to become closer to the expected win rate but on a year to year basis will vary from 0% to 20% or more.

10. Summary

10.1 The Present: Strengthening Consumer Protection

The Lottery remains committed to strengthening consumer protection. Prior to and during the process of our review, the Lottery was making changes to enhance the existing level of consumer protection. In selecting initiatives to strengthen the consumer protection foundation, the Lottery considered a wide variety of options. The Lottery performed an analysis of the experience and undertakings of other jurisdictions in Canada and evaluated which options would be most appropriate for this jurisdiction.

Initiatives of the Lottery that focus on preventative measures include:

- Installing new ticket terminals, anticipated to be fully installed by the end of March 2008 – The new terminals will make a ‘sound’ to alert the player that their ticket is a winning ticket.
- Installing customer display units (CDUs), anticipated to be fully installed by the end of March 2008 – The CDUs will display information indicating whether a ticket being validated by the terminal is a winner and any prize amount won.
- Full self-serve ticket checker coverage – The Lottery is increasing its current coverage of self serve ticket checkers to 100% of retail locations to allow players to self check their own tickets and be equipped with knowledge regarding whether their ticket is a winner prior to retailer validation and redemption.
 - The self serve ticket checkers currently allow players to identify whether their on-line tickets are winners, as well as the amount of the win. WCLC is in the process of identifying the technological changes required to allow this verification for future instant tickets and it is expected that the capability to check instant tickets will be added to self serve ticket checkers in the spring of 2008.
- Validation policies – Lottery policies have made it mandatory that players sign their tickets before lottery retailers can validate them, and have also made it mandatory that lottery retailers provide the validation slips to players.
- Consumer awareness and education – Programs have been implemented to enhance communications to consumers and raise awareness on ways they can protect their tickets (e.g., print name on back, check their own tickets against published winning numbers, receiving the validation slip, use of self serve ticket checkers, etc.). As well, the Lottery has used a variety of channels to provide consumers with information on how to file a complaint (e.g. WCLC and PMO websites, point of sale display materials, Luck Magazine, and messaging on ticket stock).

The Lottery also recently enhanced a number of its detection procedures, such as:

- Adding procedures to identify and scrutinize retailer winners over \$1,000.
- Increasing messaging to consumers regarding what they should expect when a retailer validates their ticket (e.g. provide consumer with validation slip) and where to call if they have a concern.

- Enhancing complaint investigation processes.

Each of these prevention and detection initiatives is described more fully in the body of this report. These WCLC core protection initiatives will provide additional protection to consumers by:

- Making consumers aware of the measures available to them to protect ownership of their ticket.
- Providing consumers with additional tools to check and verify whether their ticket is a winner prior to or at the same time the lottery retailer receives this information.
- Providing additional scrutiny to retailer winners over \$1,000.

10.2 The Future: Supporting Recommendations

The challenge is to find the right balance between public protection and the cost to the public of this protection. The lottery has strengthened the foundation for consumer protection by implementing core preventative controls and enhancing its detection procedures. Ernst & Young’s review resulted in the development of a number of recommendations that should be pursued to further enhance consumer protection and the operations of the Lottery, and that are incremental to the core protection initiatives described in the preceding paragraphs. Ernst & Young’s recommendations are summarized in the tables that follow and each recommendation is described in detail in the body of this report.

Consumer Awareness and Education

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
•					4.4.1 Assess Awareness and Set Targets	•	•	
					Establish targets for consumer awareness related to protection measures. Make periodic assessments against this target to ensure campaigns are effective.			
•					4.4.2 Improve Instant Ticket Messaging	•		
					Develop examples and determine the cost and other requirements to improve protective messaging on instant tickets (e.g. "Print name after purchase," include 1-800 number to call if concern about the processing of a prize). Implement where feasible.			
•	•		•		4.4.3 Develop Consumer Friendly Validation Slip	•		
					Continue with the addition of date and time to non-winning validation slips. Consider larger font and adding the 1-800 number to call if concerned about the processing of a prize.			
•					4.4.4 Communicate Retailer Prize Claim Standards/Procedures			•
					Increase transparency by making this detailed process information more accessible to consumers through a vehicle such as the WCLC and PMO websites.			

Consumer Complaint Receipt, Recording, Response and Resolution

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
	•	•			5.4.1 WCLC to Coordinate Complaint Process		•	
					WCLC to establish and maintain a centralized repository of all the regional complaints and coordinate the complaint process across regions by acting as a repository, providing gaming system reports, tracking status of complaints and recommending investigative capabilities and documentation standards.			
	•				5.4.2 All Complaints Assigned to Investigators		•	
					Have PMO investigators review and follow up all complaints to provide a better segregation of duties should integrity issues arise while an investigation proceeds.			
	•				5.4.3 Investigator Training and Procedures		•	
					Training for all regions to reflect leading practices for documentation and to consider industry developments.			
	•				5.4.4 Regular Review of Completed Files		•	
					Conduct regular reviews of completed complaint files to determine whether process and controls are operating as intended.			

Retailer Management

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
		●	●	6.4.1	Clarify Retailer Definition Continue to work nationally and with the ILC to arrive at a common definition of retailer. Consider expanding the current definition to include employees who sell and cash lottery tickets as well as directors and officers of retail lottery locations.		●	
		●		6.4.2	Code of Conduct/Conduct Expectations Expand expectation of retailers and their employees who sell and cash lottery tickets for the region. Consolidate documentation of these expectations into one source and communicate these expectations.	●		
		●	●	6.4.3	Increase Training Accessibility Continue to explore alternative training methods such as web based programs.	●		
		●	●	6.4.4	Enhance Retailer Database Work towards the development of a retailer database. Assess privacy legislation in each region, and if allowed, identify methods to collect and update retailer employee names.		●	
		●	●	6.4.5	Facilitate and Implement Compliance Monitoring Conduct compliance monitoring on a regular basis at the PMO level. Increase frequency of reviews based on previous results and related complaints.	●	●	
		●		6.4.6	Develop Progressive Discipline Program Develop a progressive discipline program for retailers who are not compliant with the retailer agreement, the code of conduct, and Lottery policies.	●		●
		●		6.4.7	Formalize Issue Reporting Expectations Formalize expectation that PMO account representatives who identify an integrity related issue at a retailer report the matter to a Supervisor.		●	
	●	●		6.4.8	Inform Account Representatives of Retailer Issues Inform Account Representatives of a complaint or investigation related to a Lottery retailer within their territory at an appropriate level of detail given the status of the investigation.		●	
		●		6.4.9	Conduct Criminal Background Checks on New Applicants Conduct criminal background checks on all signatories who are applying to receive a retailer agreement.	●		
		●		6.4.10	Develop a Policy Handbook for Lottery Retailers Develop a policy handbook that can be used to communicate policies and expectations to retailers and their employees.	●		

Winner Validation and Prize Payment

Process Area					Supporting Recommendations	Type of Protective Measure		
Consumer Awareness and Education	Complaints	Retailer Management	Validation and Payout	Report Section		Prevention Impact	Detection Impact	Other
		•	•		7.4.1 Enhance Retailer Database		•	
					Work towards the development of a retailer database. Assess privacy legislation in each region, and if allowed, identify methods to collect and update retailer employee names.			
			•		7.4.2 Additional Involvement in Retailer Claimant Interviews		•	
					Involve senior management or PMO investigators in the prize payout interview process once claimant is identified as a retailer.			
•		•	•		7.4.3 Explore Alternatives to "Cash & Trash" Procedure	•	•	
					Explore ways to return winning tickets to players after payment has been made.			
			•		7.4.4 Regular Review of Completed Files		•	
					Conduct regular reviews of completed major win files to determine whether process and controls are operating as intended.			
•			•		7.4.5 Encourage Customers to watch CDUs	•		
					If the ticket terminal is not in full view from the retail aisle the customer is at, encourage customer to take their lottery ticket to the ticket terminal so they can witness the ticket being validated, hear the audio indicator and see the visual indicators directly.			
			•		7.4.6 Investigate the Retailer Redemption Threshold	•		
					Gather further information to assess the impact of reducing the retailer redemption limit to \$500 from \$1,000.			

Future Considerations - Environmental Scan

In addition, WCLC is continuing to collaborate with the other Canadian lottery jurisdictions, whose operations are also evolving, so that WCLC practices reflect consideration of ongoing industry developments.

10.3 The Past – A Retrospective Review

Detail on Ernst & Young’s review of complaints and major win files is provided in Section 9 of this report. As a result of the procedures and given the limitations outlined in Section 9, no evidence was found of a consumer complaint against a retailer location that corresponded to a prize or validation issue consistent with an identified or potential retailer employee major prize win.

There were certain differences in the major win file contents noted in the review of the major win files (e.g. whether the major win file included a copy of the winning ticket, a copy of the check, etc.). However, past prize payout procedures were shaped by the lottery ticket having attributes of a bearer instrument. Unless there was evidence or indication of a competing interest in the ticket, or an irregularity discovered during the prize claim process, the standard proof for a prize claimant to obtain a prize was possession of a winning ticket. Past file documentation reflected this standard of proof.

Section 9 sets out the limitations of the work Ernst & Young was able to perform, the procedures performed, and the results of those tests. In summary, Ernst & Young found no consumer complaints against retailer locations that corresponded to a major prize paid to a retailer employee and there was nothing noted in the review of retailer major win files, that would indicate WCLC was not following the prize payment procedures in place at the time of the win.

Win Rate Calculation

Using the occupations from past winners' interview sheets, WCLC calculated the retailer win rate at 3.45% earlier this year. This was within WCLC's anticipated range of 2.4% to 3.6%. The assumptions used for the WCLC calculations included the number of staff who work at lottery retail in a given year, retailer participation and spend rates and the participation rate for the general public.

Ernst & Young examined the calculations and assumptions used by WCLC and also compared past winners to retailer training and contact database records. Ernst & Young calculated a retailer win rate of 4.16% based on data for the period from November 1, 2003 to October 31, 2006. This calculation reflects the percentage for this period and will fluctuate over time given the number of retailer winners. In regions with a small number of major winners, one less or more retailer win during a period can have a large impact on the calculation. Ernst & Young reviewed the data on retailer wins over time and over games and failed to see a consistent pattern of retail win rates exceeding the expected win rate.

Unless more certainty can be provided to the assumptions used in the calculations, the win rates are simply one indicator and should not be viewed as a sole or best indicator to measure the extent of wins for retailers compared with the general public. Until a means to capture data to calculate win rates is implemented, this calculation will have limited value.

Win Rate by Province

	Major Winners - <i>note 1</i>	Retailer Major Winners - <i>note 2</i>	Retail Outlets - <i>note 3</i>	Avg Lottery Employee per Retailer - <i>note 4</i>		Lottery Employees		Additional Spend Rate for Retailers - <i>note 5</i>	Population 18 yrs and older - <i>note 6</i>	% Participate in Lottery Games - <i>note 7</i>	Adult Population Play Lottery Games	Calculated Retailer Win Rate	Expected Retailer Win Rate		Calculated Win Rate over Expected Win Rate	
				Low	High	Low	High						Low	High	Low	High
				d	e	f = c x d	g = c x e						h	i	j	k = i x j
a	b	c														
Alberta	915	33	2,319	10	15	23,190	34,785	1.9	2,595,000	0.75	1,946,250	3.61%	2.26%	3.40%	1.6	1.1
Manitoba	358	16	840	10	15	8,400	12,600	1.9	898,000	0.73	655,540	4.47%	2.43%	3.65%	1.8	1.2
Saskatchewan	275	15	826	10	15	8,260	12,390	1.9	749,000	0.77	576,730	5.45%	2.72%	4.08%	2.0	1.3
Yukon	16	3	40	10	15	400	600	1.9	24,000	0.75	18,000	18.75%	4.22%	6.33%	4.4	3.0
Northwest Territories/Nunavut	22	-	25	10	15	250	375	1.9	48,000	0.75	36,000	0.00%	1.32%	1.98%	0.0	0.0
Outside Region	24	-	n/a	n/a	n/a											
Total	1,610	67	4,050	10	15	40,500	60,750	1.9	4,314,000	0.75	3,235,500	4.16%	2.38%	3.57%	1.7	1.2

Notes

1 Period - Nov 1/03 to Oct 31/06; Major Wins of \$10,000 or more

2 Retailers identified from review of major win files by WCLC; based on self-identification during interview

3 Information on retail outlets from PMO's in SK & AB; SK includes Full Offline Retailers; YT and MB from annual report

4 SK is conducting a pilot project to identify total lottery employees - preliminary data suggests an avg of 8.1 employees per outlet; WCLC had estimated 10 - 15 employees per retail location; Other Canadian comparisons include - Yukon Lotteries annual report indicates 450 employees in 40 locations or an avg of 11.25 per retail outlet

5 Source of information: Research Dimensions survey October 26, 2006 conducted by OLG

6 Source of information: Statistics Canada, Table 051-0001, modified 2006-10-25

7 Source of information: Ipsos Reid - Western Canada Lottery Corporation General Population Segmentation survey, January 2006 - information for YT, NT and NU was not specifically provided and therefore is assumed to be the same as the overall participation rate

Win Rate by Province by Year

	Major	Retailer	Retail	Avg Lottery Employee		Lottery Employees		Additional	Population	% Participate	Adult	Calculated	Expected Retailer Win		Calculated Win		Comparison to
	Winners -	Major	Outlets -	per Retailer - note 4				Spend Rate	18 yrs and	in Lottery	Population	Retailer Win	Rate		Rate over		High end of
	note 1	Winners -	note 3					note 5	older - note 6	Games - note 7	Play Lottery	Rate	Low	High	Low	High	Range
	a	b	c	Low	High	Low	High	h	i	j	k = i x j	l = b/a	m =(fxh)/l	n =(gxh)/l			
Alberta	915	33	2,319	10	15	23,190	34,785	1.9	2,595,000	0.75	1,946,250	3.61%	2.26%	3.40%	1.6	1.1	
AB - Nov 1/03 - Oct 31/04	291	9										3.09%	2.26%	3.40%	1.4	0.9	below expected
AB - Nov 1/04 - Oct 31/05	299	10										3.34%	2.26%	3.40%	1.5	1.0	below expected
AB - Nov 1/05 - Oct 31/06	325	14										4.31%	2.26%	3.40%	1.9	1.3	above expected
Manitoba	358	16	840	10	15	8,400	12,600	1.9	898,000	0.73	655,540	4.47%	2.43%	3.65%	1.8	1.2	
MB - Nov 1/03 - Oct 31/04	122	7										5.74%	2.43%	3.65%	2.4	1.6	above expected
MB - Nov 1/04 - Oct 31/05	122	3										2.46%	2.43%	3.65%	1.0	0.7	below expected
MB - Nov 1/05 - Oct 31/06	114	6										5.26%	2.43%	3.65%	2.2	1.4	above expected
Saskatchewan	275	15	826	10	15	8,260	12,390	1.9	749,000	0.77	576,730	5.45%	2.72%	4.08%	2.0	1.3	
SK - Nov 1/03 - Oct 31/04	90	3										3.33%	2.72%	4.08%	1.2	0.8	below expected
SK - Nov 1/04 - Oct 31/05	92	8										8.70%	2.72%	4.08%	3.2	2.1	above expected
SK - Nov 1/05 - Oct 31/06	93	4										4.30%	2.72%	4.08%	1.6	1.1	above expected
Yukon	16	3	40	10	15	400	600	1.9	24,000	0.75	18,000	18.75%	4.22%	6.33%	4.4	3.0	
YT - Nov 1/03 - Oct 31/04	5	-										0.00%	4.22%	6.33%	0.0	0.0	below expected
YT - Nov 1/04 - Oct 31/05	6	1										16.67%	4.22%	6.33%	3.9	2.6	above expected
YT - Nov 1/05 - Oct 31/06	5	2										40.00%	4.22%	6.33%	9.5	6.3	above expected
Northwest Territories/Nunavut	22	-	25	10	15	250	375	1.9	48,000	0.75	36,000	0.00%	1.32%	1.98%	0.0	0.0	
NT/NU - Nov 1/03 - Oct 31/04	6	-										0.00%	1.32%	1.98%	0.0	0.0	below expected
NT/NU - Nov 1/04 - Oct 31/05	9	-										0.00%	1.32%	1.98%	0.0	0.0	below expected
NT/NU - Nov 1/05 - Oct 31/06	7	-										0.00%	1.32%	1.98%	0.0	0.0	below expected
Outside Region	24	-	n/a	n/a	n/a												
Other - Nov 1/03 - Oct 31/04	9	-															
Other - Nov 1/04 - Oct 31/05	10	-															
Other - Nov 1/05 - Oct 31/06	5	-															
Total	1,610	67	4,050	10	15	40,500	60,750	1.9	4,314,000	0.75	3,235,500	4.16%	2.38%	3.57%	1.7	1.2	
Total - Nov 1/03 - Oct 31/04	523	19										3.63%	2.38%	3.57%	1.5	1.0	above expected
Total - Nov 1/04 - Oct 31/05	539	22										4.08%	2.38%	3.57%	1.7	1.1	above expected
Total - Nov 1/05 - Oct 31/06	548	26										4.74%	2.38%	3.57%	2.0	1.3	above expected