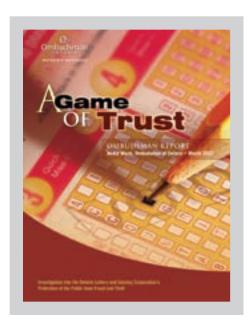
OFFICE OF THE OMBUDSM.

A Game of Trust - Ontario Lottery and Gaming Corporation



The Ombudsman's March 2007 report A Game of Trust resulted in sweeping changes to the provincial lottery system to protect the public from theft and fraud. At that time, the Ombudsman noted that at least \$100 million in prizes had been paid out to so-called "insiders" (i.e., lottery ticket retailers and staff of the Ontario Lottery and Gaming Corporation, or OLG) some of it to "fraudsters." He estimated that the real number was probably much higher, but the sparse records kept by the OLG made it impossible to determine the exact rate of "insider" play and therefore the extent of dishonest behaviour by ticket-sellers.

The government and OLG have implemented the Ombudsman's recommendations, including regulating lotteries under the Alcohol and Gaming Commission, registering retailers, requiring players to sign their tickets, and conducting background checks and integrity tests on "insiders." In its March 2008 report to the Ombudsman, the OLG declared its commitment to fairness and integrity, as well as to a corporate culture shift, emphasizing public service rather than profit. The Ombudsman noted that he was pleased with the OLG's response and the extensive measures taken to better protect the public.

As a follow-up to the Ombudsman's investigation, the OLG engaged Deloitte & Touche to do a more detailed analysis of past "insider wins" dating back to 1995. The troubling results of Deloitte's \$750,000 review were announced in February 2009: It found the rate of "insider wins" was 3.4% of total winnings – **twice** the OLG's original estimate of 1.7%. Insider wins over the past 13 years totalled **\$198 million** – almost double the OLG's initial estimate of \$100 million.

The OLG said the Deloitte audit also identified six types of "atypical behaviours" engaged in by retailers and/or employees "where the potential for fraudulent activity may have taken place," including cashing customers' tickets for a lower amount than the winning value, and switching players' tickets with known "losing" tickets, then claiming prizes for themselves. Because of measures introduced in the wake of the Ombudsman's report – including making players sign their tickets and introducing ticket-checking machines – Deloitte noted that five of these six "behaviours" had decreased. However, the report made it clear that retailers were winning vast sums, with little evidence to support that fraud was not a factor.

In response to the Deloitte audit, the Ombudsman expressed his concerns about the troubling extent of "insider wins," particularly in light of all the effort and public money that had been expended by OLG so far to end fraud. Noting that the OLG and the vast majority of government lotteries around the world do not prevent "insiders" from playing, he gave the OLG **six months** (until August 2009) to establish that it has lottery fraud under control before determining whether any further follow-up or recommendations are necessary. If it cannot do so, he said he would consider recommending that OLG insiders – i.e., retailers, employees and their families – be banned from playing its games.

- Ombudsman André Marin at press conference following release of OLG audit, February 5, 2009

"The Ombudsman has played a critical role in initiating the many needed changes at OLG. His ongoing review of our progress provides a valuable milestone in our aligned vision for a better OLG."

– OLG CEO Kelly McDougald, responding to Ombudsman, February 6, 2009

OLG CEO Kelly McDougald advised the Ombudsman of the corporation's full co-operation with this request and also announced that as of April 1, 2009, all OLG employees and board members would be banned from playing lotteries.

The Ombudsman's lottery investigation continues to receive attention across Canada and around the world, and similar issues continue to arise with other government lotteries. Earlier reviews by the B.C. Ombudsman and the Atlantic Lottery Corporation raised the same concerns about insider wins in those regions in 2007, as did media reports about the Western Canadian Lottery Corporation in early 2009. In the U.S., the lowa Ombudsman investigated that state's lottery and found insider win problems very similar to those in Ontario. Lottery retailers have been caught cheating customers in Minnesota, New York, New Jersey and California, and the new Arkansas lottery is making retailer fraud a focus of its new security operation, according to news reports.

California State Lottery officials have consulted with SORT about the Ontario experience. Noting that they now conduct hundreds of "undercover sting" operations per year to test retailers' honesty – a test that 18% of them fail – Bill Hertoghe, director of security and enforcement of the California State Lottery, told the Ombudsman's Office that the Ontario investigation served as a wakeup call to government lotteries everywhere. He said: "You deserve full credit for bringing this issue out in the open. Some lottery agencies have had their head in the sand. Ontario comes forward – now everyone is paying attention."



FEBRUARY 5, 2009: The Ombudsman responds to the Ontario Lottery and Gaming Corporation's release of an audit showing lottery "insiders" won nearly \$200 million in the past 13 years.