



Ontario Lottery and Gaming Corporation

**Summary Report
to the Ombudsman
September 2008**

It's not just a game to us.





André Marin
Ombudsman of Ontario
Bell Trinity Square
483 Bay Street, 10th Floor, South Tower
Toronto, ON
M5G 2C9

Dear Mr. Marin,

We are pleased to submit this summary of the quarterly reports that chronicle the activities and changes that were implemented by the Ontario Lottery and Gaming Corporation (OLG) in response to your report of March 2007.

This document highlights the most significant developments and accomplishments as a result of the work we have done to complete all 60 of the recommendations made by you and independent consulting firm, KPMG. We are pleased to report that the final action item that will signify the implementation of all recommendations will be completed by September of this year.

This document marks the end of a specific process – but not of OLG’s commitment to remain vigilant and our ongoing efforts to improve. We will continue to pursue every opportunity to enhance the honesty and integrity of our lottery systems. We are committed to put the customer first, and have begun the cultural transformation to entrench this fundamental philosophy into what is now our new way of doing business. Doing so is central to our responsibility to protect the public trust.

To that end, it has recently come to our attention that the status of our records is not at a level sufficient to meet public confidence in conduct from our past. Per my letter to you of August 8, 2008, we have retained Deloitte & Touche to conduct a forensic audit of OLG’s data going back to 1995. A first level report is due in September. Any findings that suggest criminal behaviour will be immediately turned over to the authorities – and, if necessary, further changes will be made to our already much-improved systems. We look forward to working with you and your office as we enhance the scrutiny on our part to build confidence in our future.

Guided by your report and recommendations, meaningful and widespread changes have been implemented at OLG. A culture devoted to player protection has been fostered. Our collective commitment to fairness and integrity has been renewed.

Yours truly,

A handwritten signature in black ink that reads "Kelly McDougald". The signature is written in a cursive, flowing style.

Kelly McDougald
Chief Executive Officer

A handwritten signature in black ink that reads "George Sweny". The signature is written in a cursive, flowing style.

George Sweny
Senior Vice President, Lottery

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Introduction

In November 2006, the Ombudsman of Ontario launched an investigation into how the Ontario Lottery and Gaming Corporation (OLG) protects the public from fraud and theft. The investigation dealt with individual incidents regarding lottery prize payouts as well as broader systemic issues of customer service in the context of the overall corporate culture. At the same time, concurrent reviews were conducted by the independent consulting firm, KPMG.

In all, the Ombudsman and KPMG made 60 individual recommendations. OLG accepted and committed to complete all of them.

Each quarter for the 12 months following the release of the Ombudsman's report in March 2007, OLG reported back to the Ombudsman on its progress. That reporting process concluded with OLG's fourth and final quarterly progress report in March 2008.

This document provides a summary of the activities and changes that were implemented at OLG from November 2006 to the end of March 2008. It is designed to highlight the most significant developments and accomplishments.

The Ombudsman and KPMG were clear that OLG must become a more accountable and customer-focused public enterprise. As demonstrated in this summary report, the recommendations have had a far-reaching and very positive impact in terms of player protection. They will also continue to shape program design and organizational culture in the years ahead and, in doing so, yield significant benefits for OLG customers and the citizens of Ontario.



OLG's Quarterly Reports to the Ombudsman.

Project oversight and management

Establishing the appropriate structure and process for effective project oversight and management was important for us to ensure success in delivering on the Ombudsman's recommendations.

OLG's Board of Directors provided the required leadership and oversight of the process and took a number of significant actions:

- The Board moved immediately to appoint an experienced, senior Government of Ontario Deputy Minister as interim CEO and recruited a permanent CEO in the fall of 2007.
- To ensure it was able to provide leadership on a day-to-day basis, a special purpose, ad hoc committee of the Board was struck. The sole focus of this committee was to provide direction to the senior management team, monitor the organization's progress, and hold the CEO accountable for delivering all the recommendations of the Ombudsman and KPMG.
- An executive steering committee was struck, comprising the CEO and other key OLG senior executives from across the organization, including the Chief Operating Officer and those responsible for lottery, legal and compliance, corporate security and surveillance, and information technology. This steering committee became the central clearing house for new initiatives and met biweekly with the ad hoc committee of the Board.
- The role of Internal Audit as a critical evaluator and independent advisor to the Board was considerably strengthened. Internal Audit was assigned to independently evaluate the strategies and initiatives that were developed in response to the Ombudsman's recommendations and to provide an ongoing assessment of any residual risks that would remain once individual recommendations were implemented. Internal Audit was also asked to recommend additional measures that would enable us to go beyond specific recommendations.

With this senior level structure in place, and recognizing that a significant amount of work across the organization would be required, we implemented a robust, resource-intensive, and cross-functional project management structure to implement the Ombudsman's recommendations.

Under the executive sponsorship of the Senior Vice President of the Lottery Business Unit:

- A dedicated program management office was established under the direction of a senior OLG director;
- A team of project management resources was struck that included internal staff resources and external experts in the program management specialties of communications, quality assurance, process expertise, facilitation, documentation and research, as well as the technical areas of risk management and compliance; and
- Lead executives and teams were dedicated to each of the eight themes around which our actions to address the Ombudsman's recommendations were organized:
 - Ensuring a safe retailer environment for customers
 - Public awareness
 - Retailer monitoring and investigations
 - INSTANT ticket quality assurance
 - Inside win and prize payment processes
 - Lottery culture, accountability, and structure
 - Customer complaints management
 - OLG culture change.

Assigning accountability and authority to the Project Management Office (PMO) was a key success factor in this approach. The PMO ensured its project managers had the appropriate support services at all times and also provided accurate reporting to the Executive Sponsor, who was responsible for making recommendations to the Executive Committee.

What's changed

The central theme of the Ombudsman's report was putting customers first. We responded to this theme by creating the Player Protection Program. The initiatives that make up this program have fundamentally changed how we interact with and protect our customers as well as how we relate to lottery retailers. The Player Protection Program was the catalyst for a number of significant internal changes to products, policies, procedures, structures and operating culture. Our challenge ahead is to embed these changes into what is now our new, "normal" way of operating. It is a challenge we welcome.

One of the most significant changes to lottery in Ontario was the introduction of regulatory oversight by the Alcohol and Gaming Commission of Ontario (AGCO), already the regulator of casino-style gaming in the province. Part of that regulation was the registration of all lottery retailers and key OLG lottery suppliers, as well as the approval of key OLG employee positions.

Since the fall of 2006, we have worked diligently to strengthen the assurance of honesty and integrity for our customers and the people of Ontario. Many of the changes are obvious to customers when they buy our products or see and hear our advertisements. But some of the changes – particularly those most significant in terms of the level of protection they provide for customers and retailers – are not as visible.

In the following three sections, we highlight the changes we have made to date, and also look ahead to those planned for the future as part of the Player Protection Program. These changes fall into three categories:

- Changes that focus on lottery customers – empowering them to take action to protect their purchases.
- Changes that focus on retailers and other related parties and insiders – ensuring honesty and integrity through a rigorous prize redemption process and significantly reducing the potential for fraud and dishonesty.
- Changes to the lottery system and organizational changes within OLG – through a dedicated team reporting directly to the Office of Player Protection, strengthening the organization's ability to protect players and to provide them with the highest levels of assurance of the honesty and integrity of our lottery products and services.

OLG was able to move as quickly as it did on these initiatives because of a strong and positive relationship with the new regulator. The AGCO was aware of and provided initial consent to the many fundamental changes introduced by OLG and outlined throughout this summary report, including the creation of the new Office of Player Protection within OLG. However, all changes to the lottery systems – policies, processes, procedures, structures and supporting documentation – are still subject to final and formal approval from the AGCO.



This Sign Your Lotto Ticket logo appears in all OLG Lottery advertising.



An advertisement used to educate customers about how to play and check their INSTANT tickets.

Changes for customers

In response to the Ombudsman, we were able to quickly implement an extensive array of customer-focused changes that were extremely simple and effective. Other changes proved to be much more complex, and research and resource intensive. These will require a longer period of time to develop.

The changes reflect a three-pronged strategy to design, develop and implement major improvements in player protection. In simple terms, we want to know who plays, reduce retailer handling of customers' tickets, and help our customers help themselves.

The *first strategy* – knowing who plays – is a concerted effort to move away from anonymous play.

What do we mean by “anonymous play”? The very nature of lottery ticket sales makes it very difficult – in any consistent and reliable manner – to determine that a particular ticket belongs to a particular individual. Lottery tickets are, in effect, “bearer documents”, which makes it very difficult to prove that a ticket does or does not belong to the person who is trying to redeem it.

In our view, anonymous play, combined with customers being unaware of their ticket's winning status, is a very significant integrity-related risk for those who buy and those who sell lottery products. Many of the changes made since the fall of 2006 and many of the changes to come in the future are directed at significantly reducing that risk. We believe this will represent an important future direction for lottery programs around the world.

Customer signatures on tickets are a significant first step that greatly reduces the risk of anonymous play. This simple measure is one of the most important actions we took to enable customers to better protect their lottery purchases.

In November 2006 we initiated a program to encourage customers to sign their tickets at the time of purchase. We evolved this program until January 2008 at which time it became mandatory for customers to sign their tickets prior to validation and prize payment at retail. We reinforced this by also prohibiting our retailers from validating lottery tickets that were without a customer signature.

What's different?

- Customers must sign their lottery tickets before a retailer will process them.
- Customers can scan their own tickets through Ticket Checkers to determine whether they are winners or non-winners. These devices are available at all lottery terminal retail locations.
- All processed tickets whether winning or non-winning are returned to customers along with a ticket receipt indicating the prize amount.
- Upon ticket processing, the lottery terminal plays a sound unique to whether the ticket is a winner or non-winner. A voice-over message also tells the customer the status of the ticket. The customer display screen shows the amount won.
- Should a ticket worth \$5,000 or more be validated at retail, the terminal shuts down and an OLG representative immediately telephones the location to speak directly with the customer. If the customer is not at the location, the ticket is put on hold.
- Intensive customer awareness and education programs are ongoing to ensure individuals know what they need to do to protect their lottery purchases.
- A more effective response to customer complaints, especially as they pertain to retailer dishonesty and concerns about the integrity of lottery processes.

Moving forward, we know that player protection is greatly enhanced when information about the lottery purchase and the player can be electronically linked. Today, this occurs only through our LOTTO ADVANCE service whereby customers purchase LOTTO 6/49 tickets by subscription directly from OLG. We have committed to rebuilding this service over the next 18 months to increase the number of games currently offered. We have also explored other means of electronically linking the purchase with the purchaser, such as the use of Personal Identification Numbers (PIN) and unique Player Identification Cards. It is our intention to pilot a Player Identification Card system by the end of the 2009 fiscal year.

The *second strategy* – reducing retailer intervention in the ticket validation process – involves giving customers the tools to check their tickets themselves. The goal is to minimize or eliminate the need for customers to hand their

tickets to a retailer for processing before they themselves know the prize values. This can be achieved through new technologies, introducing new processes and redesigning the retail environment.

Ticket Checkers are now located at all lottery terminal locations. These electronic devices allow customers to scan their own tickets and identify them as winning or non-winning. While they currently work for LOTTO tickets only – tickets that are generated through the lottery terminal, like LOTTO 6/49 and LOTTO SUPER 7 – it is our intention to introduce the capability for customers to check their own INSTANT tickets starting in September 2008. Full implementation should be completed in 12 months.



Customers can check their LOTTO tickets themselves using a Ticket Checker.

We continue to research new technologies and review processes that will allow customers to do more than just check their tickets. Looking ahead, we plan to introduce new self-service technologies and methods that will allow players to purchase, check and validate their own tickets, thereby eliminating any need for retailer intervention.

The *third strategy* – helping customers help themselves – involves informing our customers about these new tools and our new policies so they can better protect their lottery purchases.

As part of our Player Protection Program, we conducted an intensive public outreach and education campaign in all markets across the province. This campaign included:

- Television, newspaper, radio and transit advertising, retail media posters, and internet advertising through our website, OLG.ca;
- Point-of-Sale (POS) materials in lottery retail locations; and
- A direct-to-consumer ambassador program that intercepted over 666,000 consumers in high traffic areas like malls and major events to educate them about measures they can take to protect their lottery purchases.

We adopted a three-step approach to rebuilding consumer confidence.

- Step one emphasized increased awareness and educated customers about how they can protect themselves and their lottery purchases. For customers, this meant knowing where they could get winning number information, and that they must sign their tickets and check them prior to validation at retail. The “Sign your ticket and make it yours” advertising campaign was a major element as was the promotion of Ticket Checkers.
- Step two focused on changing customer behaviours. This meant signing their tickets and checking their tickets themselves by using the Ticket Checkers, consulting newspaper ads, calling our 24-hour toll-free telephone line, or viewing the OLG website, OLG.ca.
- Step three represents a shift in how customers view their responsibility and their role in transactions with lottery retailers. This ongoing process works to promote both confidence in new OLG player protection measures and trust in OLG as a public institution.

Other important customer-focused initiatives include:

More and better information for customers at the point of sale

For many years, OLG lottery terminals played a jingle only when a winning ticket was validated. In January 2008, we introduced new winning and non-winning musical tones with voice-over messages that tell customers whether they have a winning ticket or not. The customer display screen was also improved to display the amount won (up to \$999.99), in larger text and for a longer period of time.



Customer display screen shows a “Big Winner” message.

Immediate contact with major prize winners

In April 2006, we instituted the practice of “freezing” lottery terminals (in effect, rendering them inoperable) when a lottery ticket winning \$50,000 or more was processed. In November 2006, as an immediate and practical response to the launch of the Ombudsman’s investigation, we reduced the “freeze” threshold to \$10,000.

When this freeze occurs, an OLG representative immediately telephones the retail location to speak directly with the customer. If the customer is not at the location, the ticket is put on hold. This proactive measure recognizes that players who have not checked their own tickets are typically most vulnerable to theft or fraud when they are attempting to validate their tickets. By directly and immediately involving an OLG representative in the ticket transaction process, we have significantly reduced this risk. “Terminal Freeze” has also proven to be a positive customer service opportunity given that the OLG staff person has an opportunity to provide the winning customer with useful information about how to claim larger prizes. By the end of March 2008, OLG staff was able to directly engage winners of major prizes and collect the appropriate personal information in nearly all “Terminal Freeze” situations.

Given the success of this measure, the “Terminal Freeze” threshold was further reduced to \$5,000 on March 31, 2008.

A more effective response to customer complaints

The Ombudsman told us to be more responsive to customer complaints, particularly those that involved allegations of retailer fraud and dishonesty. In response, we introduced a number of changes to allow us to more effectively manage



An advertisement used to educate customers about where they could get winning number information.

customer complaints and, most importantly, to ensure honesty and integrity-related complaints are dealt with appropriately. These changes include:

- Automatically routing all calls regarding retailer theft, fraud, and dishonesty to a newly-created Office of Player Protection;
- Using our existing customer relationship management system to track complaints and log all responses and to monitor complaints by retailer site;
- Extending – to 24 hours a day, seven days a week – the public’s access to customer services through our toll-free telephone line, e-mail, and the internet; and
- Implementing fully automatic monitoring tools of all customer complaints made to the Customer Excellence Centre and the Retail Complaints Investigations department, and conducting ongoing continuous improvement/quality control reviews of the system and its processes.

Public trust

Since the fall of 2006, we have worked diligently to regain the public’s trust as we quickly brought substantial and fundamental changes to how we conduct our lottery business. We have redefined the relationship with our customers, making them our priority. We have introduced new initiatives and policy changes to provide our customers with the tools and information they need to protect themselves and their purchases, and, layered on that foundation, we have concentrated significant efforts to increase public confidence in our products and services, as well as confidence in OLG as a public institution.

The results of these efforts have been extremely positive. The public awareness survey results from February 2008 demonstrate the extent of change in public attitudes and behaviours with

respect to how players can protect themselves. For example:

- 92 per cent of customers indicated they felt it was important that tickets be signed, and 98 per cent know that signatures are now mandatory;
- 92 per cent of current players know they can get winning number printouts from lottery retailers who have a lottery terminal;
- 86 per cent of current players are aware of Ticket Checkers at lottery terminal locations;
- 78 per cent of customers sign their tickets; and
- 56 per cent of customers have used a Ticket Checker.

Public and customer confidence in OLG have showed steady improvement from the lows of October/November 2006. For example:

- 65 per cent either strongly agree or strongly tended to agree that lotteries in Ontario are “run openly and honestly”;
- 75 per cent expressed satisfaction that OLG is “adequately addressing/going to address the situation”;
- 72 per cent agreed OLG is “doing everything possible to make the system safe and secure for customers.”

Over the next year and beyond, we expect these numbers to continue to improve as more customers experience first-hand the reality of a safer, more reliable, transparent and accountable lottery system. It will also be important for us to continue to demonstrate that lottery systems in Ontario operate with the highest possible standards of honesty and integrity and that OLG is a well-managed and trustworthy public institution.

Sign your lottery ticket.
Make it yours.

Starting January 28, 2008, all lottery tickets must be signed before they can be checked by a retailer. Remember, signing your ticket when you purchase it identifies it as yours and helps protect you if you were ever to lose it.

If you have any questions, please call us at 1-800-387-0098.

OLG
OLG.ca

It's not just a game to us.

An advertisement used to encourage customers to sign their lottery tickets at the time of purchase.

Changes for retailers, insiders and others involved in the lottery business

Over the years, OLG had referred to both lottery players and lottery retailers as “customers”. In his report, the Ombudsman made it clear there really is only one customer – the person who buys the lottery product. This meant that our relationship with retailers needed to change. We needed to develop much clearer standards regarding honesty and integrity for retailers and their staff, and to monitor and enforce those standards.

In his report, the Ombudsman also indicated he was not prepared to recommend retailers and their staff be prohibited from purchasing lottery products. His view was the integrity of the Ontario lottery industry could be sufficiently strengthened to preserve public trust in a way that minimizes risks, without banning retailer play. We agree.

That retailers and their staff should be able to purchase OLG products openly and honestly is reflected in new policies and procedures. While no system is 100 per cent foolproof, we believe our new series of overlapping controls has significantly mitigated any inherent risk. The cumulative impact of the changes makes any retailer impropriety more difficult and riskier to undertake, especially with the involvement of the Alcohol and Gaming Commission of Ontario (AGCO) as regulator and the Ontario Provincial Police bureau assigned to the AGCO for conducting interviews and investigations, including criminal investigations into lottery impropriety.

Lottery retailers are valued business partners of OLG, but they are not our customers. Rather, they are contracted distributors and business associates that have very clear contractual responsibilities with respect to the manner in which they sell OLG products. It is our responsibility to ensure the stated requirements of the Player Protection Program are clear and to monitor and aggressively enforce the appropriate behaviours as stated in the contract.

Since October 2006, there have been a number of initiatives that have fundamentally changed the OLG/lottery retailer relationship:

The introduction of AGCO regulation

The introduction of regulation by the AGCO to certain aspects of the OLG lottery business was arguably the most significant change to the OLG/lottery retailer relationship. Effective January 2008, all lottery retailers in Ontario

What's different?

- The introduction of independent regulation by the Alcohol and Gaming Commission of Ontario (AGCO) under the *Gaming Control Act*, which includes:
 - The requirement that all retailers will have background checks – including criminal and financial – and be registered with the AGCO before they can sell lottery tickets.
 - Regular inspections by AGCO staff with penalties for non-compliance that include suspension of registration and revocation of registration (resulting in retailers no longer being able to sell OLG products).
 - Honesty and integrity related oversight of all key aspects of the lottery program design and delivery within OLG, including the approval of internal controls, product integrity, complaint handling, and the registration and conduct of key suppliers.
- A broader definition of “related party” and clearer definition of “insider” to ensure OLG is paying the right person. This is supported by more rigorous investigation policies and procedures and AGCO oversight.
- More rigorous collection and tracking of data that will allow OLG to know who is handling lottery products at the point of sale as well as the playing habits and win trends of these individuals.
- Zero tolerance for acts of deliberate fraud and dishonesty against OLG and its customers with very significant consequences.
- Intensive, ongoing retailer education and outreach to ensure retailers are aware of and understand their new responsibilities.
- An ongoing OLG retailer monitoring (“secret shopper”) program focused on integrity and honesty-related procedures and an enforcement protocol that includes escalating penalties.

were required to be registered with the AGCO in order to continue to sell OLG lottery products. Background checks – both criminal and financial – are required before registrations can be approved. The AGCO uses its highly professional and effective inspection program to monitor compliance with regulatory standards. The AGCO also acts on information regarding retailer-specific honesty and integrity issues as provided directly by OLG or by the public.

More effective definitions of “related party”, “insider”, and “suspicious claim” including stronger policies and investigative procedures

Another significant change affecting retailers and their staff was the adoption of a broad definition of “related party”, a concise definition of “insider” (both detailed on page 11), and a strengthening of our approach to investigating their lottery prize claims.

This approach includes:

- New definitions for the terms “related party” and “insider”;
- A classification called “suspicious claim”;
- More robust and well-documented procedures, including strengthened investigative guidelines and training of OLG staff to detect “related parties”, “insiders” and “suspicious claims”;
- Tracking of all claims of more than \$1,000 by “related parties” and “insiders”; and
- Enhanced and independent investigation of all prize claims of \$10,000 and more by lottery retailers, other AGCO registrants and the OPP Bureau assigned to the AGCO. Claims of \$10,000 or more by other “insiders” are investigated by an independent third-party registered with the AGCO.

The new definitions of “related party” and “insider” are applied broadly in the early stages of the prize claim screening process as a means of initially identifying potential individuals. This ensures an appropriate level of scrutiny for all parties who may have an association with OLG lottery.

We are now more rigorously collecting and tracking “related party” and “insider” data. We record all “related party” and “insider” wins of \$1,000 and more, looking for unusual win patterns or other circumstances that could warrant an investigation.

Although these changes did not formally go into effect until January 1, 2008, it is important to note that we have been conducting full investigations of all “insider” wins of \$10,000 and more since November 2006.

Since January 1, 2008, we have been issuing news releases for all major wins, including claims by “related parties” and “insider”

wins. Prize claims made by insiders are posted on our website, OLG.ca, for approximately 30 days before a prize is paid. This measure provides time for anyone with a concern regarding the prize award to come forward and contact us. As of the end of March 2008, all “insider” claims have been paid without issue following the 30-day wait period.



OLG posts all “insider” and major winner news releases on OLG.ca for approximately 30 days.

Retailer expectations

Consistent with the new Related Party/Insider Win Definition and Policy was the requirement to capture the names of all those individuals involved in the sale and redemption of our lottery products. The Retailer Identification program is separate from the AGCO registration process.

Retailers and their staff who handle lottery products are required to read the Retailer Code of Conduct via their lottery terminal and indicate their acceptance of it by entering their name through a special lottery terminal application. Retailers who sell only INSTANT tickets fulfilled this requirement through a paper process. The information is retained in our database of related parties and insiders. By the end of March 2008, all lottery retail locations were represented in the database and more than 60,000 individual staff members were identified. Through the monitoring and analysis of the data, we are in a much stronger position today to know who is handling our products at the point of sale, and the playing habits and win trends of those individuals.



A lottery ticket branded as retailer-purchased.

In November 2007, we introduced the ability to “brand” tickets and validation receipts to identify them as the personal transactions of retailers and their staff who sell and redeem lottery products. Retailers and their staff press a button on the lottery terminal when they purchase or validate their own tickets while at their place of employment. This results in their validation receipts and on-line tickets being printed with the word “RETAILER” at the top. Like the general public, retailers often make their personal lottery purchases from many places, but when they play at their own stores, we can monitor their sales and redemption activity and provide analysis over time.

We believe our lottery system is robust enough to allow retailers and their staff to play lottery games in Ontario. The overlapping measures of Retailer Identification and Retailer Ticket Branding allow us to track retailer play and win rates and analyse them for any unusual trends or patterns.

Retailer outreach and education audits

The Ombudsman told us it is very important that lottery retailers and their staff are aware of and understand all of their responsibilities, particularly those related to honesty and integrity. In response, we designed outreach and education audits to instruct lottery retailers about their responsibilities, including new items like checking for signed tickets and refusing to validate tickets that have not been signed. Typical outreach audits take the form of retail visits by third-party auditors who observe behaviour during lottery transactions, identify themselves to the retailer, review the audit findings, indicate the appropriate remedial steps to improve performance, and acknowledge and reinforce good results.

Nearly 25,000 outreach audits were conducted from the time the program began in December 2006 until the end of March 2008, and both awareness and execution rates of the new requirements have climbed dramatically. For example, in December 2006, only 23 per cent of retailers were checking to see if tickets were signed. By February 2008, that figure rose to 90 per cent. Retailer-focused point of sale materials integrated with an extensive public advertising campaign and the establishment of penalties for non-compliance supported retailers in their requirement to ensure customers complied.

Zero tolerance

In order for our retailer contract to be an effective tool, we realized the language describing our zero tolerance for acts of deliberate fraud and dishonesty by retailers against OLG and its customers needed to be clearer and stronger. Following consultations with key stakeholder groups including the AGCO, the Ontario Convenience Store Association, and the Ontario Korean Businessmen’s Association, we are in the final stages of development of a new retailer contract. Our plan is to deliver the new document to retail head offices and independent store locations starting in late summer 2008, following the required review and approval from the AGCO.

Secret shopper program

While strengthening the concept of “zero tolerance” in our contract with retailers, the secret shopper program enforces that concept. We take very seriously our obligation to ensure retailers and their staff are complying with all of the new expectations related to honesty and integrity in lottery sales. We established the secret shopper program in January 2008, and it is conducted on our behalf by an independent third-party retailer performance monitoring organization. The program includes the following components:

- Anonymous visits to retail locations by secret shoppers to assess retailer compliance with specific point-of-sale procedures that reduce the potential for fraudulent or dishonest behaviour; and
- Escalating penalties from warning letters through financial penalties to contract termination that are levied against individual retailers for failing to conform to OLG expectations.

By the end of March 2008, 2,000 secret shopper visits were conducted and warning letters were issued to more than 300 retailers who were not in full compliance with OLG expectations.

For more detailed information regarding Related Parties and Insider Wins, please contact OLG at 1-800-387-0098 or visit the Winners News Releases page in the Media Centre on OLG.ca.

Related Party

A “related party” is someone with a connection to Ontario’s lottery industry. “Related parties” include any directors, officers, partners, owners, and employees of the organizations listed below, and their immediate family members, including spouse (whether married or common law relationship), children, parents, siblings and any other relatives who reside with them.

Organizations

- Retailers of OLG lottery products and all employees of the retailer or individuals who are involved in the sale and redemption of lottery products
- OLG
- Interprovincial Lottery Corporation
- Key lottery suppliers to OLG
- Regulator of Lottery (Alcohol and Gaming Commission of Ontario – AGCO)
- Suppliers of independent audit, advisory or security services
- Other Canadian lottery jurisdictions
- Ministry of Public Infrastructure Renewal (accountable for OLG)
- Ministry of Energy and Infrastructure.

Insider

“Insiders” are a subset of “related parties” and include, among others, lottery retailers, their employees who sell and redeem lottery products, and their immediate families, in addition to OLG employees, key lottery suppliers and their immediate families.

Individuals falling into either of these two classifications are subject to Insider Win Procedures as defined by OLG when claiming a prize. It is the responsibility of the related party/insider to advise OLG of their relationship to OLG upon claiming their prize.

Suspicious Claim

A suspicious claim is defined as a prize claim whereby OLG is not satisfied the claimant is a legitimate winner and there exists a perceived or apparent criminal activity. All suspicious claims are investigated by the OPP Bureau assigned to the AGCO.

Changes at OLG

The Ombudsman spoke very clearly about the need for a culture change within OLG. We heard the need for strong, proactive leadership to develop a culture focused on protecting not only the interest of our customers, but also the broader public interest. We already have made considerable progress on a number of fronts that has begun a major cultural shift within the organization.

Upon the release of the Ombudsman's report in March 2007, the OLG Board of Directors committed to making significant changes within the organization. The impact of the changes would be comprehensive and broad, ultimately affecting our products, policies and procedures, technology systems, people, culture, and organizational structures.

The following highlights demonstrate the broad spectrum of change that has begun and remains underway.

Senior Executive Team

Since April 2007, there has been a significant turnover and renewal in the senior executive ranks at OLG to ensure the leadership of the organization is effective, dynamic, and aligned with the core values of Accountability, Integrity and Respect.

In addition to the new CEO, whose appointment was effective in October 2007, other key senior executive changes included:

- Recruitment of a new Senior Vice President – General Counsel and Corporate Secretary, Senior Vice President – Human Resources, and Chief Information Officer; and
- Recruitment for two newly-created positions – Chief Security and Compliance Officer and Senior Vice President – Marketing, Communications and Stakeholder Relations.

The Balanced Framework

One of the most significant findings of the Ombudsman related to the manner in which OLG delivered on its mandate. He said that, over time, OLG became overly focused on the creation of revenues for the Government of Ontario at the expense of other important aspects of its mandate. This finding formed the basis of the Ombudsman's general criticism of the OLG's operating culture as one being solely focused on profit and also served to underline his call for the significant culture change required to protect the interest of customers.

What's different?

- Changes to Board policies, procedures, and expectations to ensure effective governance and oversight of the organization.
- Several significant changes/additions to the OLG senior management team, including a new CEO, to establish an effective, dynamic team of leaders.
- The establishment of the Balanced Framework as a redefinition and rebalancing of OLG's mandate to include – among other things, the concept of public stewardship that is consistent with the Ombudsman's findings.
- The creation of a new, more robust and stand-alone compliance assurance function, the Office of Player Protection, under the new position of Chief Security and Compliance Officer, that will oversee both the lottery and gaming businesses and that has as part of its mandate a responsibility for continuous improvement of player protection in all aspects of OLG's business.
- A stronger role for Internal Audit to independently review and evaluate existing and new policies, procedures and systems particularly related to player protection.
- A major overhaul of internal controls related to lottery products, services, policies, and procedures subject to AGCO oversight, direction, and approval.
- A renewed commitment to continuous improvement not only to exceed the expectations of the Ombudsman, but also to ensure the implemented changes are sustainable.

The Board of Directors and OLG's senior management team accepted this finding as honest and accurate and they committed to change the strategic focus and management culture of the organization accordingly.

Arising from this commitment, the Board, together with the senior management team, developed what is known formally in the organization as the Balanced Framework.

The Balanced Framework is what anchors us as we redefine and rebalance our mandate in order to address the Ombudsman's finding. It has four equally balanced priorities that are an expression of the full mandate of the organization. They are:

- Public Trust – being guardians of the public trust through integrity of operations and promotion of responsible gaming;

- Player Experience – providing great, entertaining gaming experiences;
- Partnerships – being great partners in the communities in which we operate, including helping our partner businesses and communities to thrive; and
- Profit – returning dividends to support public initiatives is a highly visible indicator of this understanding.

The strategic imperative is that each of these priorities needs to be achieved in balance with the others. When this balance is achieved, the business of OLG is successful in terms of fulfilling its entire mandate.

The Balanced Framework is an important development for OLG for two reasons:

- First, it crystallizes the various, long-standing public policy objectives of OLG into four priorities that can be consistently communicated and understood internally and externally; and
- Second, taking the step of defining and describing these priorities in a formal and public manner establishes a guidepost for the development of future strategies and the measurement of accomplishments. In doing so, it creates a highly visible benchmark against which the public and the Government of Ontario can hold OLG accountable.

The importance of the four priorities is now reflected in OLG’s executive performance measures and incentives. The performance management process now formally incorporates all four priorities of the organization mandate and it is clear the executive team has a collective accountability to the goals of each of these areas.

Office of Player Protection

We have nearly completed the design and will soon implement a more robust and significantly-strengthened enterprise-wide compliance structure.

This action clearly demonstrates our intentions to achieve the highest possible levels of honesty and integrity in our operations and to ensure the public and our customers have a high level of trust and confidence in all aspects of the organization – our people, policies, processes, systems, and products.

The new Office of Player Protection is led by the Chief Security and Compliance Officer. This office oversees regulatory compliance within both the Lottery and Gaming Business Units of OLG and is the primary liaison between our organization and the AGCO. Specifically, this office is responsible for:

- Managing OLG’s role in the new related party/insider identification and investigation process;
- Developing and managing programs regarding retailer performance and enforcement, including the Secret Shopper program;
- Working cooperatively by sharing information as required by the AGCO; and
- Contributing directly to the development of better systems and processes that protect customers – including age restrictions – and identify the rightful owners of lottery products.

The Chief Security and Compliance Officer is also responsible for developing an Analytics Unit, with full data analysis capabilities to detect system weaknesses and fraudulent activities.

The new lottery oversight structure and responsibilities of the Office of Player Protection are subject to final and formal approval from the AGCO.

A stronger role for internal audit

As we began to implement the Ombudsman’s recommendations, the Board of Directors recognized the need for a strong quality assurance function. Internal Audit was assigned to provide an independent evaluation of the strategies and initiatives to ensure the intent of the Ombudsman’s recommendations were addressed, the action items were completed, and the resulting new processes and measures were sustainable. Internal Audit now reports directly to the Board of Directors and will conduct periodic reviews to ensure the business remains compliant with these new processes and measures.

A more disciplined approach to documentation

The Lottery Business Unit (LBU) undertook a Documentation Project to ensure critical processes, procedures and policies were properly documented and an Internal Control Manual (ICM) was in place for all key operational areas.

The outcomes of this project were quite significant. Among them are:

- Comprehensive documentation standards were applied to existing procedure manuals as well as policies and processes in key operational areas; and
- Procedure manuals were created and processes were documented in key operational areas where documentation did not previously exist.

As a result of this project, we now have a solid foundation for the consistent application of all lottery processes, a structure for the effective management of related risk, and formal processes of quality assurance and continuous improvement. This is part of our foundation for future sustainability.

Continuous improvement reviews

Our commitment to the Ombudsman was not only to meet but also to exceed his expectations by responding to the letter of his recommendations and the spirit and intent embedded therein. This commitment is demonstrated by the emphasis we now place on continuous improvement within the organization. One example of continuous improvement in action is the number of major review projects we have conducted, each to ensure newly introduced changes and initiatives are sustainable and to identify gaps and address any residual risk. Among them are:

- A comprehensive review of customer-focused communications. The purpose of this project was to ensure that, on an ongoing basis, customer-facing communications are clear, easy to access, and meet the needs of our customers. The review focused on the following areas:
 - Retail environment, including point-of-sale materials and customer display screens
 - Websites – OLG.ca and Proline.ca
 - Paid advertising
 - Consumer promotions
 - Toronto Prize Centre
 - Customer Excellence Centre
- A technology strategy for the future. Many of the business applications used by the LBU are more than 10 years old and were built as components of a larger technology infrastructure project. As time goes on, it becomes more challenging and costly (in both people and financial resources) to introduce new products and

services, including those to support player protection. The purpose of this project was to create a Lottery Application Strategy and Roadmap to help OLG move towards a technology environment that more effectively supports the business. This roadmap will allow us to:

- Make more strategic decisions regarding future technology investments; and
 - Better align the capabilities of our IT department with the needs of the business.
- Prize integrity data collection, reporting and analytics. The purpose of this review was to ensure that existing data, new data being collected as a result of the Prize Integrity Program, and any future data that may be collected can cohabitate in a usable reporting system that supports strategic and operational decision-making. This will help us to monitor and scrutinize the data in an effort to detect and take appropriate action against possible abuses or inappropriate activity that could be fraudulent or be perceived as providing an unfair advantage. The Terms of Reference for this project included:
 - Identifying the key performance indicators of the Player Protection Program;
 - Identifying the appropriate owners of the data and making them accountable for the completeness and accuracy of the data; and
 - Ensuring the collection and analysis of personal information is in full compliance with the *Freedom of Information and Protection of Privacy Act*.

Leadership Council

The Leadership Council continues to be buoyed by high attendance and enthusiasm at its regular quarterly meetings. The Council was originally struck in the summer of 2006, and as at March 31, 2008 it comprised 98 individuals at the Director level and above. The new CEO and Senior Vice President, Human Resources have focused recent meetings on supporting the current culture change, developing leadership skills, asserting the corporate values and reinforcing the Balanced Framework. The CEO has been very open at these sessions, providing the Council with her personal insights about corporate strategy and what it means to support the new Balanced Framework environment in which we now operate.

The year ahead – the road to sustainability

We understand that the challenge of earning and maintaining the public trust is a never-ending one. The work we have done since November 2006 represents only the beginning.

The changes to OLG and the lottery program outlined in this document demonstrate distinct and measurable improvements compared to what was in place before. They also reflect an emerging culture of continuous improvement, a new understanding of our role in relation to that of the new lottery regulator and our assurance of honesty and integrity of lottery products and services to our customers.

This commitment sets the stage for the next 12 months. During this time, our efforts will continue to focus on embedding the spirit and intent of the Ombudsman's recommendations in the fabric of this organization. Living the values of Accountability, Integrity and Respect, and remaining steadfast to our Balanced Framework – Public Trust, Player Experience, Partnerships and Profit – will ensure we meet and exceed public expectations in the years ahead. Over the next 12 months, this Balanced Framework will continue to guide the Board's and the new senior executive team's decision-making and drive further organizational and cultural change across OLG.

In responding to the Ombudsman, we identified the challenge of sustainability – ensuring that in the months and years ahead, the change process we began in November 2006 is sustained and enhanced year after year. This change process is not restricted to policies and procedures, but also refers to the cultural transformation of the organization.

The next year will be one of integration. While we will continue to build on the various new initiatives implemented since the fall of 2006, our major focus will be on ensuring these new policies, procedures, databases and organizational units are fully integrated into our operational processes and, also that these new initiatives work as they were intended.

We recognize how quickly we acted last year to design, develop, and implement new initiatives. While we are satisfied overall with our accomplishments to date, we also know now that some of our solutions need to be reworked.

One example is the major prize claim process at our Toronto Prize Centre. As a result of the changes we have made to major prize claiming procedures, we are confident we are paying the right prize to the right person. But achieving that confidence level did not come without a cost – and our customers have told us. The “once-in-a-lifetime” Prize Centre experience for customers has changed from special, fun and exciting to one that is clinical, interrogative and time-consuming. The major prize claim process at the Toronto Prize Centre requires review and rework to maintain the integrity of the system yet return the fun and happiness to claiming a major lottery prize.

It is our intent to undertake a thorough evaluation of all key policies, procedures and processes that were introduced over the past year. We have begun an in-depth risk assessment to identify inadvertent or emerging gaps, areas where new measures are not as effective as they were intended to be, and opportunities for enhancements. The evaluation will encompass lottery control objectives, internal control manuals, policies, procedures, service levels, technologies, and matters related to the collection of personal information and the ensuing privacy implications.

Responding to the Ombudsman's recommendations taught us the importance of professional and objective evaluations that are compared against benchmarks from leading organizations and validated by reviews and analyses conducted by independent third parties. Regular evaluation is a key best practice that is crucial to building and maintaining a culture of continuous improvement, thereby holding ourselves to only the highest standards.



About OLG

Created on April 1, 2000 under the *Ontario Lottery and Gaming Corporation Act, 1999*, the Ontario Lottery and Gaming Corporation (OLG) is a provincial agency operating and managing province-wide lotteries, casinos and slots facilities at horse racing tracks.

OLG provides jobs to more than 20,000 Ontarians through its casino, lottery, and racetrack slots lines of business. OLG also supports countless businesses through partnerships with its vendors. Those jobs represent investments in communities all across Ontario by purchasing homes, vehicles and other goods and services, which result in expanding community recreation and cultural centres to serve the population, and increasing school capacities as more students enroll.

Since 1975, OLG has generated more than \$28 billion for the benefit of the Province of Ontario. All revenue obtained from OLG by the government is used to support Ontario's hospitals, amateur sport, recreational and cultural activities, communities, provincial priority programs such as health care and education, and local and provincial charities and non-profit organizations through the Ontario Trillium Foundation (OTF). OTF is an agency of the Government of Ontario. Its mission is to help build healthy and vibrant communities across Ontario by increasing the capacity of the voluntary sector through investments in community-based initiatives. It is fully funded by OLG revenues. In 2007-2008, OLG made \$105 million available for distribution by the Foundation.

OLG has more than 10,000 lottery retailers in Ontario, from convenience store chains and mall kiosks to independent grocery and convenience store operators, offering LOTTO tickets (tickets that are generated through the lottery terminal, like LOTTO 6/49) and INSTANT tickets.

Total lottery sales in 2007-2008 were \$2.77 billion. Of this amount, \$1.57 billion were awarded in cash prizes. A total of \$203 million was returned to the economy through commissions and bonuses to lottery retailers and bingo hall operators participating in OLG's Bingo Revitalization Program pilot project. The Government of Canada received two per cent of gross sales, or \$56.9 million for GST and for remittances under an agreement which stipulates that the Government of Canada will not participate in the sale of lottery tickets. All other remaining OLG operating expenses (less interest and other income) amounted to \$258.6 million or 9.3 per cent of total revenues. A total of \$687 million in net lottery revenues was generated for the Province of Ontario.

Ontario has one of the best-funded problem gambling programs in North America. Under the Ontario Problem Gambling Strategy, the Government allocates annually two per cent of gross slot revenues from OLG Slots and Casinos to the treatment, research and prevention of problem gambling. The provincial program is administered through the Ministry of Health and Long-Term Care for treatment and research initiatives, and the Ministry of Health Promotion for prevention initiatives. Since the program began in 1999, approximately \$243 million has been allocated to the Province.

In 2007-2008, OLG shared more than \$73 million in gross slot machine revenue with the 23 municipalities that host OLG-operated casinos and slot facilities. The municipalities use these non-tax funds at their sole discretion. To date, more than \$541 million has been shared with these communities.

In addition, a further 20 per cent of gross slot revenue from the slot facilities is equally shared between the horse race track and its horse people. Since the launch of this program, the horse racing industry in Ontario has received more than \$2.4 billion.



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