Office of the Auditor General of Ontario

Value-for-Money Audit:

Ontario Lottery and Gaming Corporation: Casinos, Lotteries and Internet Gaming

November 2022

Ministry of Finance

Ontario Lottery and Gaming Corporation: Casinos, Lotteries and Internet Gaming

1.0 Summary

The Ontario Lottery and Gaming Corporation (OLG) is responsible for conducting and managing casinos, charitable gaming, Internet gaming and lotteries, and supporting the horse-racing industry. In 2021/22, OLG generated $4.5 billion (before deductions of casino operator fees) in revenues from its various lines of business and provided about $1.5 billion in net profit to the Province.

In 2012, OLG began implementing its Modernization Plan with a key focus on increasing casino revenues by privatizing the operations of its casinos and using private-sector capital investments. OLG used a lengthy procurement process to select casino operators for eight gaming regions that resulted in 20-year contracts for the winning bidders.

The final evaluation of the bids was mainly based on the present value of guaranteed minimum revenue commitments over the first 10 years and the present value of one-half of OLG's 30% share of revenues projected above the guaranteed commitments. According to OLG, only one-half of the revenue projections above the minimum revenue commitments was used to ensure a higher weighting to the minimum revenue commitments in the evaluation of the bids.

Bidders' capital investment plans were not considered in the scoring for any of the eight regions even though OLG acknowledged that capital investments were the main driver of long-term revenue and cash flow growth for both OLG and the casino operator.

As a result of the privatization of casinos, in 2019/20 (the last complete fiscal year revenues were not significantly impacted by COVID-19 as Ontario Casinos were closed for only two weeks), the net profit to the Province from casino gaming revenues decreased for five of the eight regions and increased for three regions, resulting in an overall decrease of $54 million.

Our audit found that after winning the bids based on revenue projections and guaranteed revenue commitments to OLG, casino operators in three regions reduced their long-term revenue projections and guaranteed revenue commitments in renegotiated agreements with OLG. OLG undermined the credibility of its own procurement process by failing to hold casino operators accountable for their financial commitments made in their winning bids. As one example, OLG renegotiated the contract for the West Greater Toronto Area (GTA) region that lowers OLG's projected revenue share over the first 10 years of the contract (from 2018/19 to 2027/28) by $1.8 billion based on a projected reduction in overall gaming revenue for the region of $4.5 billion over the same period. If the adjusted revenue projections had been used to evaluate the casino operator's bid submission instead of its original projections, then a competing bid would have been selected under the terms of the procurement evaluation process assuming that this bidder had not requested similar relief.

Based on updated revenue projections for the eight gaming regions as of March 2022, total casino gaming revenue projections for the first 10 years of operations were reduced by $9.1 billion from the projections included in the winning bids, from $58.3 billion to $49.2 billion, before accounting for any COVID-19-related reductions. As a result, over the same 10-year period, OLG's share of these projected revenues was reduced by $3.3 billion, reducing the projected net profit to the Province by $320 million annually, on average, from 2024/25 to 2028/29. Even though OLG's revenue projections were originally based on the expectation that capital investments would be made, as proposed in the original winning bids, to achieve the projected profits, these capital commitments were not included in any contracts with the casino operators.

OLG's Internet gaming revenues (excluding its Internet lottery) increased by 7% from $101 million over the three-month period from April to June 2022, to $108 million in the three-month period ending September 2022 following the launch of the new market for Internet gaming in Ontario, where private-sector gaming companies operate Internet gaming sites under a newly created provincial agency, iGaming Ontario. iGaming Ontario's private-sector operators, which compete directly with OLG Internet gaming, reported an increase in gaming revenue of 65% from $162 million from April 4, 2022 to June 30, 2022, to $267 million for the three-month period ending September 2022. Although a part of this growth could be attributed to iGaming Ontario adding six new operators, average monthly spending per active player on iGaming Ontario websites also increased by 25% over the same period.

We also noted that although OLG's internal performance measures track customer satisfaction, relationships with casino operators and players' mental health, OLG does not measure or report on its progress on responsible gambling, job growth, capital investments, integrity of gaming and anti-money laundering activities.

Our more significant audit findings include the following:

- **OLG renegotiated significantly reduced revenue commitments from certain casino operators despite signed contracts already in place.** As part of the original Casino Operating and Service Agreement (contract), only three things qualify a casino operator for financial relief: an external event ("force majeure") that prevents, delays or substantially hinders either party from performing all or part of its obligations; a labour disruption; and landlord constraints. By June 2019, casino operators in the Ottawa (Hard Rock International), North (Gateway Casinos) and West GTA (Great Canadian) regions had asked OLG for reductions to their guaranteed revenue commitments for reasons not included in the contracts. While OLG had no obligation to accept these reductions, they provided the requested relief to Great Canadian and Hard Rock because OLG told us that not doing so could have led these casino operators to enter bankruptcy protection, resulting in a lengthy and complicated court process. However, OLG assessed the financial viability of these operators based solely on the regional operations without considering the overall financial health of the casino operator and their parent companies.
- **Hard Rock Ottawa requested and was granted a 25% reduction in revenue projections to take effect January 2023.** In August 2022, five years after accepting Hard Rock's original bid for the Ottawa region, OLG informed its Board that Hard Rock's bid had been ambitious, projecting 103% growth in gaming revenue in the first three years backed by capital improvements totalling $334 million. Hard Rock had projected annual gaming revenue of $330 million by 2026/27 after completing renovations outlined in its winning bid, but now only expected revenue to reach $250 million annually (a 25% reduction) after renovations by 2026/27.

- **Great Canadian won the contract for the West GTA region with unrealistic financial projections.** Great Canadian's bid had the highest gaming revenue and capital investment projections—gaming revenues were 177% higher than OLG's own estimates for revenues for the region at the time the bids were evaluated. In fact, OLG was expecting West GTA revenues to decrease by 5% due to cannibalization (competition) from other gaming regions. Great Canadian's successful bid included a plan to hire 1,282 full-time employees, 83% higher than OLG's internal expectations. Although the bid contradicted its own reasonable expectations, OLG relied on Great Canadian's unrealistic projections, and bidders whose projections were closer to OLG's were not selected. If Great Canadian's reduced revenue projections had been used by OLG to evaluate the bid instead of the original projections submitted in its winning bid, a competing bid would have been selected assuming that this bidder had not requested similar relief.
- **Financial relief for West GTA region reduced OLG's revenue share projections by $1.8 billion over 10 years.** In November 2019, OLG and Great Canadian acknowledged that the revenue projections in Great Canadian's original bid were overly optimistic and did not adequately consider market size and competition from nearby gaming regions. OLG agreed to reduced revenue projections and financial relief resulted in a $1.8 billion reduction in the Province's projected share of revenues from 2018/19 to 2027/28. In addition, the capital investment commitments will likely be reduced by $850 million (77%) from Great Canadian's bid projections of $1.1 billion. With the financial relief granted to Great Canadian, OLG's revenue share projections associated with the next highest bid (Gateway) would have been higher by about $640 million over the first 10 years.
- **OLG renegotiated guaranteed revenue commitments with the North region after delays in construction due to municipal approvals and legal challenges from First Nations.** Bidders were not required to obtain municipalities' approval in their proposals, and the denial of an approval for a site by a municipality is not included in casino operator contracts as a reason for negotiating adjustments. Since 2013, OLG has experienced problems obtaining municipal approvals for gaming sites, such as the City of Toronto's rejection of a downtown Toronto casino.
- **OLG selected the casino operator for Niagara region that proposed the least amount of capital investment.** OLG selected Mohegan Gaming & Entertainment Inc. (Mohegan) as the winning bidder for the Niagara region, even though OLG's independent analyst concluded that Mohegan's bid brought less economic and financial benefit to the province than if OLG had continued to operate the region. Along with projections of significantly higher gaming revenues, the other two bidders (Hard Rock and Caesars) proposed significantly more direct capital investment. Hard Rock's bid included about $857 million more than Mohegan, primarily focused on rebranding both casinos and adding a hotel to Casino Niagara. Caesars proposed approximately $140 million more than Mohegan for rebranding. OLG selected Mohegan as the casino operator for the region based on OLG's evaluation criteria that is mainly focused on selecting the operator offering the highest present value of cash flow through guaranteed minimum commitments and revenue share to OLG over the first 10 years. Mohegan offered the highest guaranteed minimum revenue commitments to OLG over this period.
- **OLG provided all rights for non-gaming revenue to the new casino operators despite a contract with Ontario First Nations (2008) Limited Partnership to pay a share of OLG's non-gaming revenues.** OLG failed to fulfill this commitment to First Nations to pay them a share of non-gaming revenue. OLG and Ontario First Nations (2008) Limited Partnership (First Nations) entered into a Gaming

Revenue Sharing and Financial Agreement in 2008 under which OLG must pay First Nations 1.7% of its "aggregate gross revenues for agents of the province." These revenues include gaming and non-gaming revenue from all casinos and non-gaming activities that OLG conducts and manages, such as food and beverage, hotels, etc. OLG failed to make payments related to non-gaming to First Nations from January 2016 to March 2021. Upon discovering this, Ontario First Nations (2008) Limited Partnership sued OLG for breach of the 2008 Agreement by filing a Notice of Dispute under the Agreement in 2016 and initiating arbitration. The courts ruled in favour of First Nations on March 31, 2020 and ordered OLG to pay First Nations, on an ongoing basis, 1.7% of total gross non-gaming revenue. In our discussion with Ontario First Nations (2008) Limited Partnership, we were informed that First Nations has almost no trust in OLG, and that OLG does not treat First Nations like a stakeholder.

- **Neither OLG nor the Alcohol and Gaming Commission of Ontario (AGCO) is monitoring to ensure slot machines are connected to OLG's central monitoring system, and that slot machines actually pay out 85% in winnings over the life of each machine as per AGCO standards.** According to OLG, casino operators are required to follow AGCO standards of ensuring that a slot payout is set at 85% or above, and the AGCO should have controls to monitor adherence to the standard. However, in our 2020 audit of the Alcohol and Gaming Commission of Ontario, we noted that the AGCO does not monitor slot payouts because it considers this a low risk, and OLG and the AGCO are currently relying on casino operators to monitor and self-report any issues with slot machine payouts. Based on our review of January 2017 to August 2022 payout data for 27,732 slot machines, 639 (2.3%) of slot machines were paying under 85% and 83 were paying under 80%. Two hundred fifty slot machines were still paying under 85% after more than 100,000 games played. We also noted that OLG's Gaming Management System has not been implemented at the Windsor casino. Therefore, neither the AGCO or OLG is able to remotely monitor slot payouts at this location, relying instead on reports submitted by the casino operator.
- **A mass slot machine reset by casino operators may have impacted slot payouts.** Generally, slot machines are reset only when software is updated, hardware is replaced, or when technical trouble shooting is needed. However, we noted that casino operators performed an unprecedented mass slot machine reset unrelated to any software or hardware change between October 2021 and April 2022. OLG noted that "specifically changing the payback percentages on those games" was the casinos' main reason for resetting the slot machines. However, OLG is not tracking these changes to assess whether they had any direct impact on slot payouts and whether those changes would be fair to patrons playing on those machines.
- **The growth of OLG's Internet gaming revenues have slowed with the introduction of private-sector gaming operators.** OLG's Internet gaming revenue grew from $139 million in 2019/20 to $511 million in 2021/22, but OLG now faces significant competition from private gaming operators that signed an agreement with iGaming Ontario on April 4, 2022 allowing them to legally offer their games to players in Ontario. OLG's Internet gaming revenues (excluding its Internet lottery) increased by 7% from $101 million from April to June 2022 to $108 million from July to September 2022. In contrast, OLG reported Internet gaming revenues (excluding its Internet lottery) of $83 million in the three-month period from April to June 2021 and $77 million in the three-month period ending September 2021. In direct competition, iGaming Ontario reported an increase of 65% from $162 million in private operators' gaming revenues from April 4, 2022 to June 30,

2022 to $267 million for the three-month period ending September 2022. Although a part of this growth could be attributed to iGaming Ontario adding six new operators, average monthly spending per active player on iGaming Ontario websites also increased by 25% over the same period. The Province receives approximately 45% of OLG's Internet gaming revenue as profit, compared to only 5.7% of gaming revenue from play on private Internet platforms registered with iGaming Ontario.

- **OLG's responsible gambling tools are not being used by online players.** OLG's Internet gaming customers have grown from 31,000 average monthly players in 2017/18 to almost 257,000 in 2021/22. Despite this significant growth in Internet players, new players are generally not using responsible gaming tools. For example, the use of the player casino loss limits tool dropped from 33% of active players in June 2017 to only 11% of active players in June 2022 despite internal OLG surveys that indicate the risk has increased from 11.5% of players at risk of problem gambling in 2019/20 to 13.4% in 2021/22. We also noted that players who exclude themselves from OLG's website can still access iGaming Ontario's private operator sites.
- **Ontario casinos do not verify the source of funds from patrons using large amounts of cash which risks undetected money laundering activities.** Effective June 2021, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), a federal agency responsible for facilitating the detection, prevention and deterrence of money laundering activities, required all financial entities, security dealers and casinos to reasonably establish the source of funds for single transactions over $100,000 involving persons at risk for financial or political influence or corruption. In May 2021, OLG began requiring casinos to take reasonable measures to assess the source of funds for all patrons for single transactions of $100,000 or more, but proof of the source of funds is not required. In contrast to Ontario, in British Columbia casinos are still required to ask for proof of source of funds for casino transactions in cash and cash equivalents of $10,000 or more.
- **Reporting of suspicious transactions is low and varies among casinos.** Our audit found that the value of suspicious transactions reported was less than 1% of revenues in 19 of 27 casinos, including Casino Niagara. OLG has not conducted any analysis of why these sites have few or no suspicious reports filed. According to OLG's anti-money laundering policies, patron's play must be verified prior to the issuance of any cheque of $3,000 or more and confirmation that the cheque being issued is for winnings. During our audit, we engaged a firm to conduct mystery shopping assignments at four Ontario casinos to assess the anti-money laundering controls in place. At two casinos, mystery shoppers were able to obtain four casino cheques for between $4,900 and $10,750 with limited play and no casino winnings.
- **OLG does not assess employee utilization and efficiency.** While OLG has performance plans in place for employees, it does not track employee efficiency or utilization measures outside of its core operational areas of its call centre (average time per call), distribution centre (packages per hour) and prize centre (cases closed per hour). In 2021/22, the Ministry of Finance requested OLG to identify efficiencies within its workplace. As of March 2022, OLG had approximately 1,340 employees (of which only 400 work in the core operational areas). OLG also does not have a process in place to allocate staffing costs to its various lines of business. Without knowledge of employee workload, it is difficult for management to identify efficiencies or inefficiencies within its workplace.

This report contains 25 recommendations, with 53 action items, to address our audit findings.

Overall Conclusion

OLG has undermined the credibility of its own procurement process by failing to hold casino operators accountable for their financial commitments in the contracts they signed after winning the rights to operate casinos in a competitive bid process. OLG renegotiated the contracts for three regions (Ottawa, North and West GTA) which lowered OLG's projected minimum revenue share over the first 10 years and the committed capital investments. By agreeing to lower financial projections that negatively impacts OLG's revenue share, OLG weakened its ability to achieve the government's objectives of maximizing provincial profits and private-sector capital investments. It also failed to hold casino operators to the contracts they signed and in one case, another casino operator would have won the contract if the unreasonableness of the successful casino operator's bid had been seriously considered during the competitive bid process.

We also noted that OLG and casino operators do not have effective processes to prevent money laundering in casinos and both the OLG and the Alcohol and Gaming Commission of Ontario, the provincial regulator, do not ensure the integrity of slot machines by inspecting for the standard of 85% payout over the lifetime of the machine, and that only slot machines hooked up to OLG's central system are operating in Ontario. This is left to the private-sector casino operators to monitor and self-report.

Lack of transparency and transparent communication led to a relationship-damaging legal dispute after OLG failed to consult a key stakeholder, Ontario First Nations (2008) Limited Partnership (First Nations), around contractual conditions established with casino operators for non-gaming revenues. This resulted in OLG stopping payment to First Nations of First Nations' share of non-gaming revenues committed to under an existing agreement between OLG and First Nations.

OLG has not been sufficiently focusing on its responsible gaming mandate to proactively address players with indicators of problem gambling. In addition, OLG could improve its performance measures by focusing on its core objectives.

OLG'S OVERALL RESPONSE

The Ontario Lottery and Gaming Corporation (OLG) thanks the Auditor General and her team for this comprehensive value-for-money audit report. OLG will continue to work with service providers, vendors and the Alcohol and Gaming Commission of Ontario to implement the Auditor General's recommendations as we continue to drive the growth of our business, supported by our three-year strategic plan.

To combat the risk of illegal activity across all lines of business, we will expand our efforts to ensure compliance with our anti-money laundering framework.

With a continued focus on fiscal management and building value through partnerships, OLG will strengthen its relationships at the local level by striving to increase the profits it returns to gaming host communities, Ontario First Nations, lottery retailers and local charities across Ontario.

Building a sustainable player base is critical to OLG's long-term success. And through continual advancement of our Responsible Gambling programming, OLG will provide more access than ever before to its educational platform, PlaySmart, which supports customers with information, tools, and referrals to community-based services.

OLG welcomes independent review of our business, which help contribute to continuous improvement of our overall operations and performance. As one of the largest non-tax revenue generators for Ontario, OLG welcomes opportunities to further maximize returns in partnership with our many stakeholders, while serving the broader public interest. We appreciate the Auditor General's feedback on how to improve outcomes for land-based gaming modernization. To date, the initiative has resulted in $1.7 billion in capital infrastructure investments made by the private sector. We look forward to further leveraging gaming to create jobs and contribute to prosperous communities province-wide.

2.0 Background

2.1 Overview

The Ontario Lottery and Gaming Corporation (OLG), a Crown agency of the government of Ontario, was created by the *Ontario Lottery and Gaming Corporation Act, 1999*.

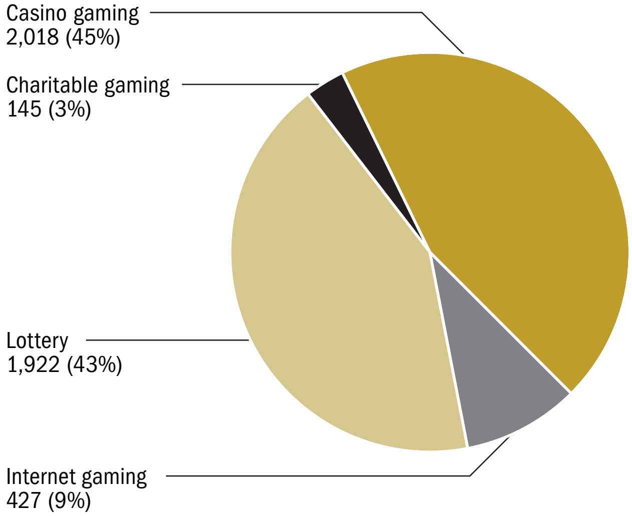
OLG is responsible for conducting and managing casinos, charitable gaming, Internet gaming and lotteries. OLG is also responsible for supporting the horse-racing industry through direct annual funding of about $120 million. OLG's mission is to generate revenue for the Province, stimulate and enhance economic development, and promote high standards of responsible gambling, all in the best interests of the province of Ontario. In addition to its mission, OLG states that its purpose is to contribute to a better Ontario by delivering great entertainment experiences for its customers.

In 2012, OLG began implementing its Modernization Plan with a key focus on increasing casino revenues through expansion of gaming using private-sector capital investments, and by privatizing operations of its casinos. Ontario's casinos' day-to-day operations are now managed by the following casino operators from the private sector, while OLG is still responsible for ensuring that they conduct and manage their operations in accordance with the *Criminal Code of Canada*: Great Canadian Entertainment; Gateway Casinos and Entertainment; Hard Rock International; and Mohegan Gaming and Entertainment). The exception is the Windsor casino, which is currently operated by Caesars but still owned by OLG. The Windsor casino is expected to be privatized by 2026. **Appendix 1** lists all nine gaming regions and their operators.

As seen in **Figure 1**, for 2021/22 OLG's revenues by line of business were as follows: casinos—$2,018 million (45% of total); lottery—$1,922 million (43%); Internet gaming—$427 million (9%); and charitable gaming—$145 million (3%). OLG provided $1,562 million in net profit to the Province for 2021/22. The revenues presented in **Figure 1** are before any deductions of fees paid to private sector operators for operating casinos and charitable gaming.

Figure 1: OLG Revenues by Line of Business, 2021/22 ($ million)

Source of data: Ontario Lottery and Gaming Corporation



Note: OLG does not receive any revenue from supporting the horse-racing industry. All revenues are reported before any service provider fees. Lottery products sold on the Internet are included in Internet gaming.

2.2 Lines of Business

OLG has three main lines of business, each of which is a distinct revenue-generating division: land-based gaming, Internet gaming and lotteries. **Appendix 2** shows OLG's 10-year financial trend for each line of business. From 2012/13 to 2019/20 (last full year before COVID-related closures), casino gaming revenues increased by 21% and net profits increased by 31%. From 2012/13 to 2021/22, lottery revenues increased by 29% and profits increased by 24%.

Revenues from Internet gaming have grown exponentially since its introduction in January 2015. From 2015/16 to 2021/22, Internet gaming revenues increased almost nine-fold to $427 million, while profits increased almost 15 times over this period.

2.2.1 Land-Based Gaming

Casinos

As of March 2022, OLG's land-based gaming included 29 casinos. Two casinos were under construction. The *Criminal Code of Canada* (Criminal Code) prohibits all commercial gaming unless it is conducted and managed by a province. To meet this “conduct and manage” requirement, provincial governments many years ago created Crown corporations such as OLG to offer gaming products to consumers. OLG is required under the Criminal Code and the *Ontario Lottery and Gaming Corporation Act* (Act) to conduct and manage casinos in Ontario. Refer to **Appendix 1** for a map of Ontario’s nine gaming regions and the casinos in each region.

In 2012, when OLG launched its Modernization Plan (“privatization”) for its casinos, its goal was to increase profits via private-sector capital investment, and in turn create new jobs by opening new casinos and expanding existing ones, and benefit communities and OLG stakeholders with increased funding. OLG expected that the private-sector capital investment would be used for new casinos, site expansions, renovations, and additional gaming and non-gaming amenities such as live entertainment, retail and hospitality.

In selecting its private casino operators, OLG grouped its casino sites into nine regions and followed the procurement process outlined in **Appendix 3**, giving successful bidders the right to operate casinos in specific geographic areas for a minimum of 20 years. **Appendix 4** outlines the timelines of the procurement process.

As of September 2022, casinos were being operated by private casino operators in eight out of the nine gaming regions. Procurement of a private casino operator under a new agreement for the final gaming region, Windsor, is expected to be completed by 2026. OLG still owns the Windsor casino and its gaming assets, which have been operated by Caesars Entertainment since the casino’s opening in 1994.

Under the new privatization model, OLG became responsible for overseeing the casino operators who are responsible for day-to-day operations. In addition, casino operators acquired OLG’s gaming assets, properties and premises leases at fair market value when they assumed operations of the gaming sites. At the end of each regional agreement (typically 20 years in length), if OLG chooses not to renew the agreement with the casino operator, OLG has the right to choose to purchase the gaming assets at fair market value. In exchange for exclusive land-based gambling rights within their specific geographic region, these casino operators committed to an annual revenue amount that is guaranteed to OLG as well as 30% of any revenues above the guaranteed amount. In contrast to this new revenue-sharing agreement, the Caesars agreement for the Windsor casino requires payment of a management fee of 2% of gross revenue up to $480 million, and 4% above $480 million, plus 5% of profits up to $200 million and 10% above $200 million ($9.4 million in 2019/20) to Caesars without any revenue sharing. OLG retains all revenues aside from the management fee payments.

Charitable Gaming

OLG is required under the Criminal Code and the Act to conduct and manage 37 charitable gaming centres (bingo halls) that use either electronic bingo machines or paper bingo games. Like casinos, bingo hall operations are outsourced to private operators.

Horse Racing

OLG supports the horse-racing industry by administering the 2019 Long-term Funding Agreement for Live Horse Racing. As part of the agreement established between OLG, Horse Racing Ontario, Ontario Racing Management Inc. and Woodbine Entertainment Group, OLG provides Ontario Racing (a non-profit horse-racing industry association) up to approximately $117 million annually for 19 years. OLG also is required to advise and support the horse-racing industry in areas including responsible gambling, marketing and performance management.

2.2.2 OLG Internet Gaming

The Criminal Code prohibits all commercial gaming unless it is conducted and managed by a province. To meet the “conduct and manage” requirement of the Criminal Code, provincial governments many years ago created Crown corporations such as OLG to offer gaming products to consumers. OLG is permitted under the Criminal Code and the Act to conduct and manage Internet gaming in Ontario.

OLG launched its first Internet gaming site, PlayOLG.ca, in 2015, offering Ontarians various versions of draw-based lottery games and casino games. In October 2020, OLG launched its current Internet gaming website OLG.ca, which replaced PlayOLG.ca and combined all Internet gaming and lottery offerings into one website. OLG directly operates OLG.ca, which offers online slots and table games as well as online sales of select lottery games. In 2021, OLG added the Internet sports betting site PROLINE+.

Beginning in April 2022, OLG's Internet gaming has been required to directly compete with Canadian and non-Canadian private-sector iGaming operators following the Province's establishment and opening of Ontario's new Internet gaming market.

OLG will continue to provide its own direct Internet gaming offerings. The new provincial agency, iGaming Ontario, entered into operating agreements with private gaming operators that permit these operators to offer their games to players in Ontario. A significant number of private gaming operators were previously operating in the Province without regulatory oversight. As of April 4, 2022, all private-sector gaming operators that have registered with the Alcohol and Gaming Commission of Ontario (AGCO) and have an operating agreement with iGaming Ontario, are allowed by the Province to offer both online casino and sports betting in Ontario.

2.2.3 Lottery

OLG's Lottery Division is responsible for terminal-based lottery and sports games and offers INSTANT lottery products to be sold through approximately 10,000 private-sector retailers across the province. OLG offers four main lottery product categories: National Lotto (operated by Interprovincial Lottery Corporation for all provinces), Regional Lotto (Ontario-only lotteries, such as Lottario and Ontario 49), instant Ontario games (e.g., scratch tickets) and retail sports betting (PROLINE). The Lottery Division is also responsible for delivering, managing and optimizing customer experiences for OLG Internet players and lottery customers, and for providing technical support to all OLG lottery retailers.

2.3 OLG's Organizational Structure and Operations

OLG's operations are organized under its three main lines of business (land-based gaming, Internet gaming, lottery), with support from OLG's corporate services divisions. As of March 31, 2022, OLG had 1,340 full-time-equivalent employees (FTEs). OLG's organizational structure and FTEs by division are shown in **Appendix 5**.

OLG is governed by a Board of Directors responsible for setting OLG's strategic direction, identifying, managing and monitoring key risks, and overseeing operations. OLG's Board consists of a Chair and eight other members. All Board members are appointed by the Lieutenant Governor in Council following Cabinet approval, and the Lieutenant Governor in Council may also select the Chair and Vice-Chair for the Board. Board appointment terms are generally two or three years. The OLG Chair, acting on behalf of the Board of Directors, is accountable to the Minister of Finance.

A Memorandum of Understanding (MOU) between the Minister of Finance and OLG sets out the roles and responsibilities of the Minister of Finance, Board of Directors, Board Chair, Deputy Minister and OLG's CEO. The MOU also notes annual reporting requirements for OLG, which is to submit an annual report and a business plan to the Minister of Finance. The Chair, through the CEO, is required to ensure that both the business plan and the annual report are made public within 30 days of Minister's approval.

OLG has experienced executive turnover in recent years, with the hiring of a new CEO and Board Chair. The current CEO took charge in October 2020, while the current Board Chair was appointed in December 2021. Both the prior CEO and Board Chair left under controversial circumstances. The former Chair resigned "for personal reasons" in March 2021 after an OPP investigation into allegations of conflict of interest with his private business. OPP's investigation concluded that allegations against the Chair were not substantiated and no charges were filed. The former CEO resigned in March 2020 after media reports of expensive office renovations, excessive spending and creating a divisive culture. Internal investigation into the CEO's conduct concluded that the CEO's actions and spending were reasonable.

2.4 Responsible Gambling

OLG's mandate includes having responsible gambling programs to mitigate the possible social damage caused by gambling. OLG has 19 PlaySmart Centres staffed and operated by the Responsible Gambling Council, a non-profit organization contracted by OLG, and 10 kiosks in casinos that provide literature and other resources to problem gamblers. All casino, charitable gaming centre and Responsible Gambling Council employees take training on how to recognize, respond to and report signs of problem gambling. Patrons can also enrol in various programs to limit their own gambling (e.g., a self-exclusion program, self-imposed limits on gaming machines). Starting February 2011, casinos began using facial recognition software to prevent individuals on the self-exclusion list from remaining in casinos they have entered.

Facial Recognition Data Access, Storage and Destruction

According to OLG, only OLG and casino staff who require access to photos and personal information of self-excluded individuals to manually detect breaches and verify detected individuals have access to facial recognition data. Facial images of patrons are sent from casino facial recognition cameras to OLG's central identification servers, where they are compared to the self-exclusion database. If there is no match between the facial image and the self-exclusion database, the images are deleted from the servers immediately. If there is a potential match (score of 65% or higher), an alert is generated. Images are deleted after 45 days if a match is found to be invalid. When a self-excluded individual is reinstated after the self-exclusion term expires, or after seven years without an incident for an individual found to be trespassing on a casino site, all incidents and facial recognition photos are deleted. No data is retained on-site, and the transmission and storage of data are encrypted.

2.5 Money Laundering

2.5.1 *Proceeds of Crime (Money Laundering) and Terrorist Financing Act, 2000*

The federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act, 2000* (Act) addresses money laundering in Canada. Its objective is to implement measures to detect and deter money laundering and financing of terrorist activities, and facilitate investigation or prosecution of these offences. Money laundering is the process that transforms "dirty" money (proceeds of criminal activity) into "clean" money that has no direct association with the criminal activity.

The Act's regulations prescribe requirements for customer identification, record keeping and reporting, and a compliance regime, among other things. Under the Act, each provincial compliance program must appoint a Chief Compliance Officer, and follow up-to-date anti-money laundering policies and procedures; assess money laundering risks; develop and maintain anti-money laundering training and training plans; and conduct anti-money laundering compliance program effectiveness testing at least every two years.

Before Ontario privatized its casino operations, OLG directly reported all relevant transactions under the Act for the slot facilities and casinos it operated; operators of resort casinos were responsible for submitting reports for their sites. Since privatization, OLG has continued to report directly to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) for all casinos, except for resort casinos which report directly to FINTRAC.

Since 2019, the Act has undergone a series of amendments. The latest, effective June 1, 2021, included the requirement for casinos to screen for "politically exposed persons," "heads of international organizations," and certain family members and close associates of both groups. This information is tracked by casino operators and sent to OLG to be forwarded to FINTRAC.

2.5.2 The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is Canada's financial intelligence unit. As an agency of the government of Canada, FINTRAC is required to administer and enforce the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act, 2000* and associated regulations. FINTRAC is also required to operate at arm's length from police services and law enforcement agencies and other entities to which it discloses financial intelligence.

Because both OLG and iGaming Ontario are required under the *Criminal Code of Canada* to conduct and manage casinos and Internet gaming (only Internet gaming for iGaming Ontario), they are considered reporting entities subject to FINTRAC regulations. The casinos and iGaming operators are not considered reporting entities under the Act. FINTRAC has issued guidelines, interpretation notices, risk assessment workbooks, and operational briefs and alerts that set out its expectations on how reporting entities, including OLG, are to implement the requirements of the Act.

2.5.3 Alcohol and Gaming Commission of Ontario (AGCO) Regulation of OLG and Its Anti-Money Laundering Standards

OLG is regulated by the AGCO, the provincial agency responsible for regulating gaming in Ontario. The AGCO is required to regulate and oversee all of OLG's gaming operations—casinos, charitable gaming, lotteries and Internet gaming. The AGCO told us they intended to be less prescriptive to offer greater flexibility for OLG and now, private-sector casino operators, to determine the most efficient and effective ways to achieve the desired regulatory outcomes. These outcomes include minimizing unlawful activity related to gaming, and the prevention of suspected money laundering activities. The AGCO established standards and requirements for the conduct, management and operation of lottery schemes, gaming sites and related businesses, to minimize unlawful activity. OLG's Anti-Money Laundering Program includes all obligations under the AGCO Registrar's Standards for Gaming and Internet Gaming. The AGCO's Standard 6.0 includes:

- Having mechanisms in place to reasonably identify and prevent unlawful activities and conducting periodic risk assessments to determine the potential for unlawful activities, including money laundering, fraud, theft and cheating. The periodic risk assessment requires casinos to identify and assess inherent and residual risks of money laundering. Where the risk is determined to be high, the casino must take measures to mitigate the risks, identify clients, keep records and conduct ongoing monitoring (6.1).
- Implementing and enforcing anti-money laundering policies and procedures to support obligations under the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act, 2000*; maintaining copies of all reports filed with FINTRAC; and making supporting records available to the AGCO (6.2).
- Having reasonable measures in place to identify and prevent suspected money laundering activities, including policies, procedures and controls that specify times and situations, based on risk assessment, where the operator will ascertain and corroborate a patron's source of funds (6.3).

2.5.4 OLG's Anti-Money Laundering Activities

Prior to 2017, OLG's anti-money laundering activities consisted mainly of meeting reporting requirements to FINTRAC, and reporting suspicious transactions to the Ontario Provincial Police (OPP) through the AGCO. In 2017, OLG created an escalation process to issue the highest-risk patrons with trespass notices. In 2019, OLG, the AGCO and the OPP developed a Memorandum of Understanding to create an anti-money laundering patron analysis team with regular meetings to exchange patron information, discuss mitigation efforts, and identify and prioritize higher-risk patrons. Since 2019, OLG consults with the OPP officers housed at the AGCO to discuss patrons that are being considered for trespass notices, and to ensure that OLG's actions do not interfere with any ongoing OPP investigations.

OLG's anti-money laundering unit is responsible for ensuring private-sector casino operators' compliance with FINTRAC reporting requirements. OLG's unit currently consists of 28 FTEs spread between four teams: advisory, reporting, analysis and intelligence. The advisory team supports policies, training and interactions with the private-sector casino operators.

3.0 Audit Objective and Scope

The objective of our audit was to assess whether the Ontario Lottery and Gaming Corporation (OLG) has effective oversight and operational procedures in place to:

- conduct and manage lottery games, Internet gaming and casinos fairly (ensuring game integrity), in a socially responsible manner, and in compliance with legislation and corporate policy;
- deploy its resources efficiently and effectively; and
- measure and publicly report on the effectiveness of its operations.

In planning for our work, we identified the audit criteria (see **Appendix 6**) we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, internal and external studies, and best practices. Senior management at OLG reviewed and agreed with the suitability of our objectives and associated criteria.

We conducted our audit between January 2022 and September 2022. We obtained written representation from OLG's management that, effective November 24, 2022, they had provided us with all the information they were aware of that could significantly affect the findings or the conclusion of this report.

We conducted audit work primarily at OLG's head office located in Toronto. We also visited gaming sites and met with private-sector casino operators to obtain their views on OLG's oversight and OLG's input on key operational decisions. We met with stakeholder groups on responsible gambling (the Centre for Addiction and Mental Health and the Responsible Gambling Council) and discussed the impacts of COVID-19 and privatization on problem gambling and mental health. In our meetings with key stakeholders that receive a portion of OLG's revenues—namely, host municipalities (Niagara and Pickering) and the Ontario First Nations (2008) Limited Partnership—we heard their views on the private operation of casinos and the impact OLG's contracting with private casino operators has had on their communities. We also met with the Ontario Internal Audit division to discuss their 2020 audit of OLG.

We visited Casino Woodbine and met with supervisors and staff for various casino operations (tables, slots and cashiers) to discuss Casino Woodbine's processes with respect to anti-money laundering and responsible gambling. We also a hired a mystery shopping firm to test anti-money laundering controls at four Ontario casinos.

Our audit did not review OLG's oversight of charitable gaming centres and OLG's support of the horse-racing industry. Provincial funding to the horse-racing industry was the subject of a 2019 audit completed by our Office, Provincial Support to Sustain the Horse-Racing Industry.

We conducted our work and reported on the results of our examination in accordance with the applicable Canadian Standards on Assurance Engagements—Direct Engagements issued by the Auditing and Assurance Standards Board of the Chartered Professional Accountants of Canada. This included obtaining a reasonable level of assurance.

The Office of the Auditor General of Ontario applies the Canadian Standards of Quality Control and, as a result, maintains a comprehensive quality control system that includes documented policies and procedures with respect to compliance with rules of professional conduct, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

4.0 Detailed Audit Observations—Operations

4.1 Casinos

4.1.1 OLG Renegotiated Significantly Reduced Revenue Commitments from Casino Operators Despite Signed Contracts Already in Place

In 2012, the government stated that its objectives for privatizing Ontario casinos were increased profits to the Province, private-sector capital investments and job creation. Without privatization, OLG expected its annual revenues to remain flat at approximately $3.4 billion, with minimal capital investment, resulting in a failure to access growth potential in the Ontario gaming market.

By June 2019, OLG had selected private-sector casino operators for eight of its nine gaming regions. At the time of our audit, only a new operator for the Windsor region under the new private operator model had yet not been selected. As seen in **Figure 2**, casino revenues increased for five of the eight gaming regions from the region's last full year under OLG operations (year varies depending on region) to 2019/20 (the last complete year with limited COVID-19 impacts). Casino revenues decreased for the Central, Niagara and North regions. However, as seen in **Figure 3**, the net profit to the Province decreased for five of the eight regions from the last full year under OLG operations to 2019/20, including three regions where revenues increased—East, Southwest and West GTA.

Our audit found that OLG's willingness to compromise on holding casino operators accountable for their financial commitments undermined its privatization objectives and could appear to unfairly favour some bidders or operators. Its actions reduced its opportunity to maximize revenue from the casino sector for the benefit of taxpayers.

Based on the updated revenue projections for the eight gaming regions as of March 2022, total casino gaming revenue projections for the first 10 years of operations were reduced by $9.1 billion from the projections included in the winning bids, from $58.3 billion to $49.2 billion, before accounting for any COVID-19 related reductions. As a result, over the same 10 years, OLG's share of these projected revenues was reduced by $3.3 billion, and $5.8 billion was absorbed

Figure 2: OLG Casino Gaming Revenue, Pre-privatization and 2019/20 ($ million)

Source of data: Ontario Lottery and Gaming Corporation

Gaming Region	Casino Gaming Revenue – Pre-privatization[1]	Casino Gaming Revenue – 2019/20[2]	OLG's Casino Gaming Revenue Share – 2019/20[2]	Increase (Decrease) in Casino Gaming Revenue
East	124	186	90	62
North	117	114	46	(3)
Southwest	227	259	123	32
Ottawa	117	156	95	39
GTA	1,041	1,365	809	324
West GTA	458	501	299	43
Central	527	400	245	(127)
Niagara	655	609	473	(46)
Total	**3,266**	**3,590**	**2,180**	**324**

1. Last full fiscal year operated by OLG.
2. Last complete fiscal year revenues were not significantly impacted by COVID-19 as casinos were closed for two weeks at the end of March 2020.

Figure 3: OLG Net Profit to the Province Pre-privatization and 2019/20 ($ million)

Source of data: Ontario Lottery and Gaming Corporation

Gaming Region	Net Profit to the Province – Pre-privatization[1]	Net Profit to the Province – 2019/20[2]	Increase (Decrease) in Net Profit to the Province
East	71	56	(15)
North	54	32	(22)
Southwest	135	78	(57)
Ottawa	72	101	29
GTA	761	718	(43)
West GTA	303	259	(44)
Central	167	212	45
Niagara	153	206	53
Total	**1,716**	**1,662**	**(54)**

1. Last full fiscal year operated by OLG.
2. Last complete year in which net profit to the Province was not significantly impacted by COVID-19 as casinos were closed for two weeks at the end of March 2020.

by casino operators. The projected net profit to the Province was reduced by $320 million annually on average from 2024/25 to 2028/29.

Bid Evaluation Process and Casino Operator Payment Model Were Originally Designed to Guarantee Minimum Revenues to OLG

The winning bidders for each gaming region were selected in an evaluation process OLG designed in 2012 with the assistance of an external consultant. OLG staff evaluated all bids. Supplementary evaluators were hired to assist in the process, and OLG hired a fairness monitor to oversee the entire procurement process for all eight regions. **Appendix 3** outlines the key steps of the bid evaluation process.

Each bidder had to commit to an annual revenue amount that would be guaranteed to OLG based on the bidder's revenue projections as well as 30% of any revenues earned above the guaranteed amount. OLG used external consultants to assist it in assessing the market potential and revenue projections for each gaming region, and it compared these revenue projections to the revenues projected by each bidder. According to OLG, the compensation model was designed to grow gaming revenues and to incentivize capital investment by the successful bidders, while guaranteeing the portion of the revenues to be retained by OLG.

Under the model, OLG was to retain 100% of gaming revenues in the guaranteed commitment for the term of the contract. If the operator failed to earn the guaranteed revenue amount for the year (OLG calls this the "threshold"), the operator would still be required to pay OLG its minimum guaranteed commitment. The guaranteed amounts in the bids varied year over year, based on each bidder's gaming revenue projections; they typically increased over the course of the contract as revenue was expected to grow as a result of the operator's capital investments. If gaming revenues exceeded the guaranteed amount, 70% of the gaming revenue above the guaranteed amount was to be kept by the casino operator and 30% was to be paid to OLG.

In addition to the revenue that would be shared above the guaranteed commitment, each casino operator was also to be paid an annual fixed fee (approximately 12% of gaming revenue) to support its basic operating expenses. They would be responsible for all gaming and non-gaming operating and capital costs above the annual fixed fee. Casino operators would receive an annual capital allowance (about 2% of actual gaming revenue) to reimburse them for maintenance of properties and gaming equipment. They could also retain all revenue from non-gaming operations, such as food, accommodations and drink concessions.

The final evaluation of the bids was based on a calculation of the present value of guaranteed revenue commitments over the first 10 years and the present value of one-half of OLG's 30% share of revenues projected above the guaranteed commitments. According to OLG, only one-half of the revenue projections above the guaranteed commitments was used in the evaluation, to ensure realistic bids and to ensure a higher allocation of projected revenues to the guaranteed revenue commitments in the submitted bids.

Contracts with Operators Allowed Reductions in the Guaranteed Minimum Revenue, but Only in Limited Circumstances Related to Events Outside of the Operator's Control

The casino operators were mainly selected based on the revenue projections in their bid submissions, and OLG reviewed each bidder's annual financial projections in the procurement process to assess whether they were reasonably supported. However, as of September 2022, casino operators in three (Ottawa, North and West GTA) of the eight regions had renegotiated with OLG to reduce their initial revenue commitments and lowered their capital investment projections, meaning that less revenue would go to OLG than what they guaranteed in their bids, and actual capital expenditures on their casino operations would be lower.

During the procurement process, OLG noted that revenue commitments could be reduced only under very limited circumstances (described below), because these commitments were based on casino operators' forecast gaming revenue, and each operator had to bear the risk of fluctuations in its gaming revenue.

In OLG's Casino Operating and Service Agreement (contract) with casino operators, only a few things qualify an operator for financial relief: a force majeure event that prevents, delays or substantially hinders either party from performing all or part of its obligations; a labour disruption; landlord constraint that prevents, interrupts or ends the operation of the casino at the location; and qualifying restraints on table or electronic games.

For COVID-19-impacted years (2020/21 to 2023/24), OLG has agreed to relief from minimum guaranteed revenue payments for all casino operators until casino revenues return to pre-COVID levels (expected in 2023/24). During this interim period, OLG will receive about 50% of actual gaming revenues. This amount varies by region.

In addition, OLG is able to terminate the contract at its sole discretion in case of default with a material impact on operations, including a casino operator's failure to perform or comply with any obligations, covenants or agreements; inaccuracy or misrepresentation in any representation or warranty; labour disruption beyond 365 days; operator insolvency; and an operator's conviction on a criminal offence. One of the covenants specified that the casino operator must realize gaming revenue in each operating year that is equal to or greater than the guaranteed minimum commitment for that year, or the operator is to pay for the difference as a "threshold top-up" within seven business days.

Three Operators Requested Contract Renegotiation and Amendments to Minimum Revenue Commitments in 2019

By June 2019, casino operators in the Ottawa (Hard Rock International), North (Gateway Casinos) and West GTA (Great Canadian) regions had asked for amendments to their guaranteed minimum revenue commitments.

The Ottawa and North regions were facing delays due to casino construction issues such as the need for municipal approvals (Ottawa and North), and legal challenges from First Nations to proposed gaming sites (North). Although the West GTA region also faced delays due to municipal approvals, the majority of the West GTA region contract amendments were requested because the operator had overestimated the market potential in its winning bid (detailed in **Section 4.1.3**). OLG expected the North region's contract amendments to guaranteed minimum revenue commitments to be temporary. The amendments include conditions to ensure the casino operator builds sites in a timely fashion in accordance with OLG's approved development plan and timeline.

For the Ottawa and West GTA regions, OLG decided that the contracted minimum revenue commitments were unsustainable and felt they would jeopardize the financial viability of these casino operators, due to potential negative cash flows and their potential breaches of loan covenants. OLG management recommended to the Board that it was in OLG's best interest to review each request for revenue commitment adjustments on a case-by-case basis and renegotiate to secure the casino operators' ability to carry through on their planned capital projects and to protect OLG's long-term revenues and profits over the remaining term of the 20-year contracts.

4.1.2 Ottawa Region Operator Requested and Was Granted a 25% Reduction in Revenue Projections

In its bid submission for the Ottawa region, Hard Rock projected significant and immediate gaming revenue increases after taking over operations on September 12, 2017: $43 million for 2017/18, and another $35 million for 2018/19. Actual increases were only $11 million in 2017/18 and $18.5 million in 2018/19—collectively $48.5 million lower than Hard Rock expected. As a result, its guaranteed minimum revenue commitment to OLG reached 75% of gaming revenue—a significant percentage of its revenue—instead of the intended 40% to 50% sharing of overall gaming revenue.

For 2018/19, Hard Rock's Ottawa region operations showed a net loss of $16 million before interest and amortization. In April 2019, Hard Rock was also projecting losses in operations until 2020/21 and that it would turn profitable only by 2021/22. The parent company, Hard Rock International, is a globally recognized company with venues in 75 countries that likely would have had the ability to absorb the short-term losses.

Casino operators are required to provide OLG with annual financial statements of their regional operations within 45 days after the close of an operating year, but are not required to provide financial statements of their parent companies. OLG assessed the financial viability of Hard Rock's regional operations in Ottawa and noted that it lost money on its regional operations and cash flows from regional operations were also negative. OLG provided financial relief on the financial performance of Hard Rock Ottawa without consideration of the financial support its parent company could provide.

As of August 2022, five years after accepting Hard Rock's bid for the Ottawa region, OLG presented to its Board that Hard Rock's bid, which projected 103% growth in gaming revenue in the first three years backed by capital improvements totalling $326 million, was ambitious. Hard Rock had projected annual gaming revenue of $330 million by 2026/27 after $334 million in renovations, but now expected the revenue to be only $250 million annually after the renovations, a 25% reduction. OLG recently agreed with Hard Rock that the potential market revenue for the region is around $250 million and agreed to the reduction. OLG also agreed to a reduction in capital investments, from $334 million to $307 million. Although this is not a reason to support the reduction, after the revenue reductions, Hard Rock would still have been the highest bidder when it was awarded the original 20-year contract.

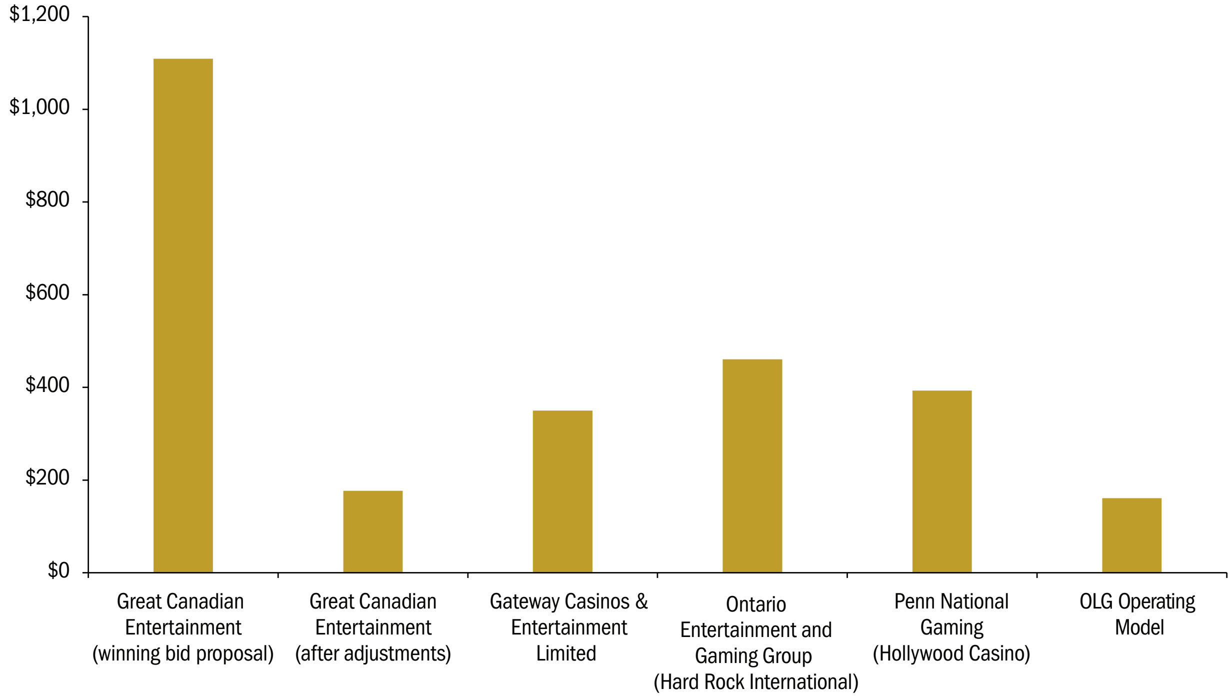
According to OLG, the lower revenues are a result of operating in a province experiencing significant gaming expansion in a relatively short period. However, we note that OLG was already aware of this when it planned to expand gaming across the province, and when it evaluated Hard Rock's bid in 2017.

4.1.3 West GTA Region Operator Selected Based on Unrealistic Financial Projections, and after Selection Reduced Its Capital and Revenue Projections

In July 2017, OLG received four bids for the West GTA gaming region. Two of the bids contained forecasts materially above OLG's own projections. After its

Figure 4: Projected 10-Year Capital Investments for the West GTA Gaming Region by Bidder ($ million)

Source of data: Ontario Lottery and Gaming Corporation



evaluation process, OLG selected Great Canadian Entertainment (Great Canadian) as the casino operator for the region. As seen in **Figures 4** and **5**, Great Canadian had the highest gaming revenue and capital investment projections—76% higher than OLG's internal projections for the region's guaranteed revenue commitments at the time of evaluation. Over the first 10 years of operations, capital investments proposed by Great Canadian would be $1.1 billion, or almost seven times OLG's internal projections of $161 million.

In May 2018, Great Canadian assumed operation of the West GTA region's four casino sites (Mohawk, Flamboro Downs, Grand River and Brantford). Its winning bid included proposed capital investments of $1.1 billion in the first 10 years across all four gaming sites and forecast annual gaming revenue of $1.2 billion by 2022/23, after full development of gaming and non-gaming facilities. At the time of the bid evaluation, Great Canadian's bid included a plan to hire 1,282 full-time employees, 83% higher than OLG's internal expectations. Its projected revenue of $1.2 billion by 2022/23 was 177% higher than OLG's projection. In fact, OLG was expecting West GTA revenues to decrease by 5% due to cannibalization (competition) from other gaming regions.

With Great Canadian being the landlord at the Flamboro site, OLG expected that Great Canadian would be able to move quickly on its capital investment plans without requiring landlord negotiations. However, Great Canadian was unable to obtain municipal approvals needed to add table games at two properties and faced restraints from the landlord at Mohawk in further developing the property. Flamboro Downs, Grand River and Mohawk planned developments were 97% of the proposed $1.1 billion four-year capital investment in the original bid.

In June 2019, within 14 months of taking over operations, Great Canadian significantly reduced its capital investment and gaming revenue projections after reassessing the region's market potential. It asked for and OLG granted it reductions in its annual guaranteed minimum commitment of $70 million per year for the next nine years to remain financially viable and to deploy the capital needed to reach the revised gaming revenues.

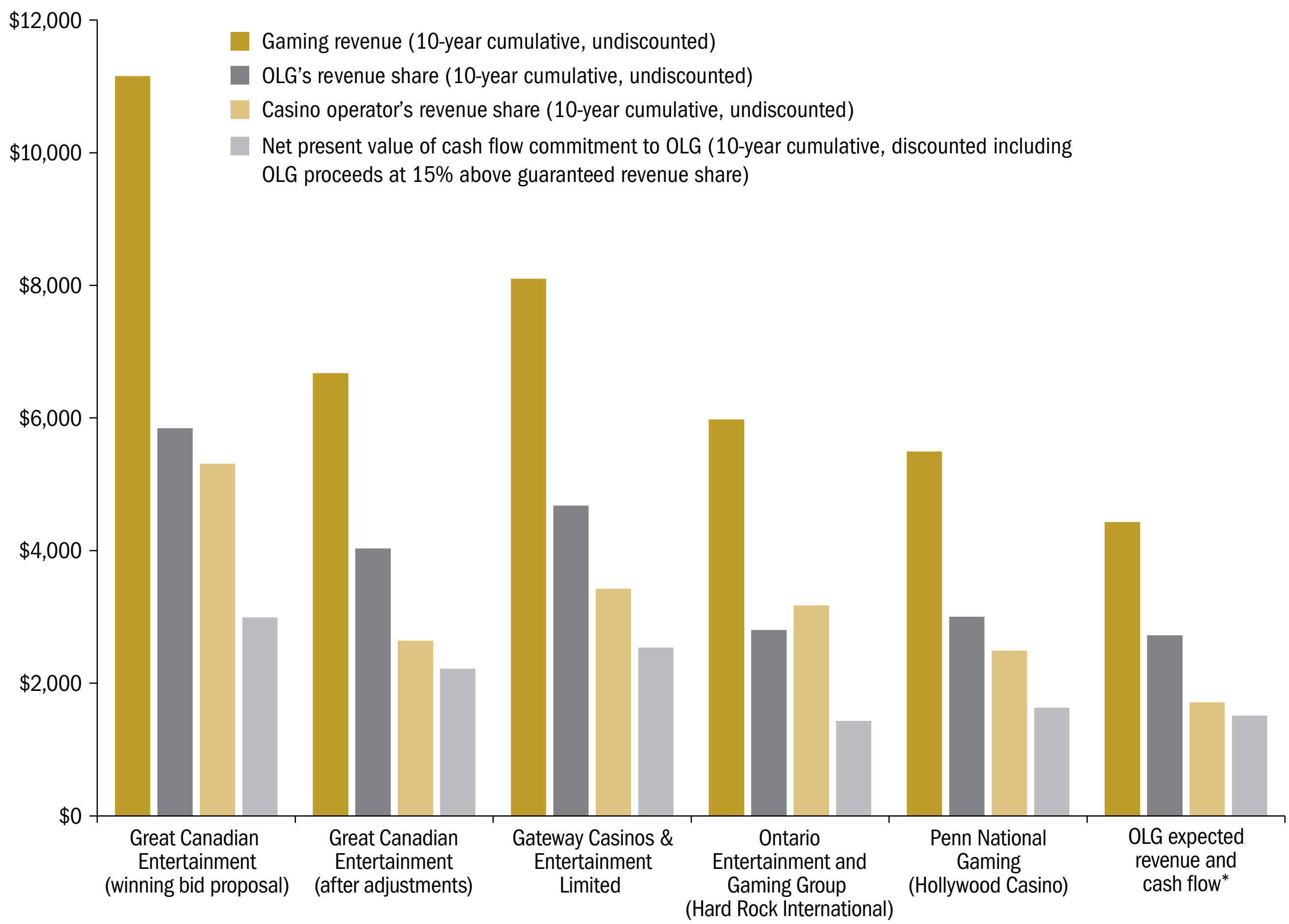
Great Canadian indicated in its bid that it had performed significant due diligence in municipal considerations and was confident in its bid projections. However, after receiving Great Canadian's financial relief request, OLG hired an advisory firm specializing in the gaming industry, and paid $80,000 in September 2019 for it to perform an independent reassessment of market potential in the West GTA region. The consultant's report confirmed that Great Canadian's financial projections in its original bid were optimistic. It also noted that the impact of new competition in the Ontario market had not been factored into Great Canadian's bid.

Financial Relief Provided to the Operator of the West GTA Region and Lower Revenue Projections Reduced OLG's Revenue Share Projections by $1.8 Billion over 10 Years

As seen in **Figure 5**, from 2018/19 to 2027/28, the impact of reductions in revenue projections granted to Great Canadian will be a $1.8 billion decrease in the projected share of revenues for OLG, or $1.5 billion in net profit that would likely have been paid to the Province by OLG. In addition, the capital investment commitments will likely be reduced by $850 million

Figure 5: 10-Year Cumulative Present Value of Revenue Commitments to OLG for the West GTA Region by Bidder ($ million)

Source of data: Ontario Lottery and Gaming Corporation



* Represents OLG's expected revenue and net present value of cash flow commitments from bids.

(77%) from Great Canadian's original bid projection of $1.1 billion (**Figure 4**). Of note, accounting for the financial relief granted to Great Canadian, OLG's revenue share projections associated with the next highest bid (Gateway) would have been higher by about $640 million, as seen in **Figure 5**.

OLG's Rationale for Renegotiating Minimum Revenue Commitments

OLG told us that the risk of not providing the requested relief to Great Canadian could have led this operator to enter bankruptcy protection, resulting in:

- a lengthy and complicated court process with uncertainty as to the outcome for OLG and other creditors;
- negative impact on casino assets, customer experience and revenue;
- significant impact on relationship with Great Canadian, which also operates the GTA (OLG's largest gaming region) and East regions; and
- negative impacts on OLG's key stakeholders (municipalities and First Nations).

We asked OLG for evidence to support this representation and OLG shared documents showing ongoing financial projections of the operator. According to OLG, its concern for the operator's financial viability was based on its losses to date for the regional operations and the operator's borrowing capacity in light of these losses, and outstanding debt at its West GTA locations contracted with OLG. According to documents shared with OLG, in June 2019, Great Canadian's financial projections for the West GTA region were showing negative earnings before deducting interest, taxes, depreciation, and amortization, ranging from $1.4 million to $11.5 million per year from 2019/20 to 2024/25.

However, Great Canadian as a company was not facing a financial viability concern. As of December 31, 2020, Great Canadian had assets of $3.1 billion with casinos in Ontario, British Columbia, New Brunswick and Nova Scotia. In 2019, Great Canadian generated $1.35 billion in revenues with a net income of $297 million. In our view, it could have sustained the negative impact from its Ontario operations, which could have further incentivized it to increase work to improve revenue generation as required under its original contract. In our discussion with Great Canadian, over the four years of experience in the West GTA region, the operator is challenged by increased competition and an inability to relocate a gaming facility which is causing challenges in hitting revenue projections.

OLG and Successful Bidder for West GTA Region Misjudged Impact of Having One Operator for Adjacent GTA and West GTA Regions

Although Great Canadian would eventually be selected as the winning bidder for both GTA and West GTA, two adjacent regions, it had not been notified of its selection as the operator for the GTA region when it submitted its bid for the West GTA region. However, in its original 2017 bid, Great Canadian stated that it had fully considered the impact of competition from the GTA region in its revenue projections for the West GTA region. In 2019/20, GTA and West GTA regions accounted for 48% of the $3.87 billion of casino gaming revenue in Ontario. Each region's bids were evaluated separately by OLG.

In evaluating bids, OLG had considered the risk that Great Canadian, if it had controlling interest in both GTA and West GTA regions, might not make decisions to optimize the outcome for each region, as it might maximize revenues in one region through greater capital investments and marketing. OLG senior management noted in its recommendation to the Board that the compensation model with revenue commitments was designed with this type of outcome in mind, and that this was its reason for including minimum revenue guaranteed commitments in all contracts.

We note that when Great Canadian was signing its contract with minimum revenue commitments in May 2018, it was fully aware of its own operations and financial commitment for the neighbouring GTA region. Great Canadian could have realistically expected competition from the GTA region it had operated since January 2018 and could have updated its revenue projections for West GTA before finalizing the West GTA contract. However, it did not raise any concerns when the contract was executed and it committed to the revenue commitments included in its bid. Yet only 14 months after it started operating, it asked for significant relief from its original commitment.

If Great Canadian's adjusted revenue projections had been used to evaluate the bid submissions instead of its original projections, then a competing bid would have been selected assuming that this bidder had not requested similar relief, as shown in **Figure 5**. According to OLG's internal evaluations at the time, Great Canadian's bid had the highest financial risk proposal for OLG. As mentioned earlier, the winning bid's projected revenues were almost three times higher than OLG's internal projections at the time.

4.1.4 OLG Plans to Address Future Risks Associated with Casino Operators' Projections

In June 2019, OLG management told the Board that it planned to secure commitments to capital investment and development on reasonable timelines as a condition for future deferral or relief of an operator's guaranteed minimum revenue commitments. From lessons learned after completing the procurement for eight regions, OLG stated that its internal market projections need improvement to mitigate similar risks in the future, and to increase its accuracy in forecasting revenue and net profit to the Province. It, therefore, planned to obtain updated market assessments from a third-party consultant. This seems unusual given the long-term contracts now in place, and that renegotiating even lower revenue commitments, if this is contemplated, would disadvantage OLG and ultimately the Province.

We note that each awarded contract is for a minimum of 20 years, and only the operator for the Windsor region is left to be procured. Also, the internal projections that OLG used at the time it was procuring casino operators were already more realistic than the bids it accepted. However, it did not rely on its own projections when awarding contracts, as the private sector operators would have a contractual responsibility to fulfill their bid commitments in the final agreements made with OLG.

RECOMMENDATION 1

To hold private-sector casino operators accountable for their contracted minimum revenue commitments, we recommend that the Ontario Lottery and Gaming Corporation:

- avoid further reducing contracted revenue and capital commitments made by operators; and
- in the future re-procure casino operators if the current operators are unable to deliver on the revenue and capital investment commitments included in their existing contracts.

OLG RESPONSE

OLG's objectives under modernization continue to be focused on private-sector capital investment, job growth and increased net profit to province.

OLG agrees with the Auditor General that operators should be held accountable for their contractual commitments. A value-for-money test will be required prior to approving any contractual amendment and thoroughly documented in its underlying business case. Further, OLG agrees that a re-procurement alternative to any contractual amendment should also be formally assessed as an alternative scenario. This will also be thoroughly documented in an underlying business case and recommendation, which must be approved by the Board.

4.1.5 OLG Selected the Casino Operator for Niagara Region that Proposed the Least Amount of Capital Investment

OLG selected Mohegan Gaming & Entertainment Inc. (Mohegan) as the winning bidder to be the casino operator for the Niagara region, even though OLG's independent analyst concluded that Mohegan's proposed capital expenditures were 50% lower than OLG's projections of what was needed to maximize revenues. The independent analyst estimated that during its capital expenditure phase, Mohegan's plan is expected to generate 1,525 fewer jobs (FTEs), $105.7 million lower annual GDP, and $83.4 million less in labour income for Ontario in its first 10 years than OLG continuing to directly operate the casinos. OLG selected Mohegan as the casino operator for the region because its bid offered the highest present value of cash flows to OLG by offering the highest amount of guaranteed revenue commitments.

OLG's evaluation process was designed to select the bidder that offered the highest net present value of cash flows to OLG over the first 10 years. For the Niagara gaming region, "understanding the uniqueness of the region" accounted for only 10% of proposals' scores, while the remaining 90% was based on the present value of the cash flows over the first 10 years. Proponents' capital investment plans were not considered in the scoring for any of the eight regions even though OLG acknowledged that capital investments were the main driver of long-term revenue and cash flow growth for both OLG and the casino operator.

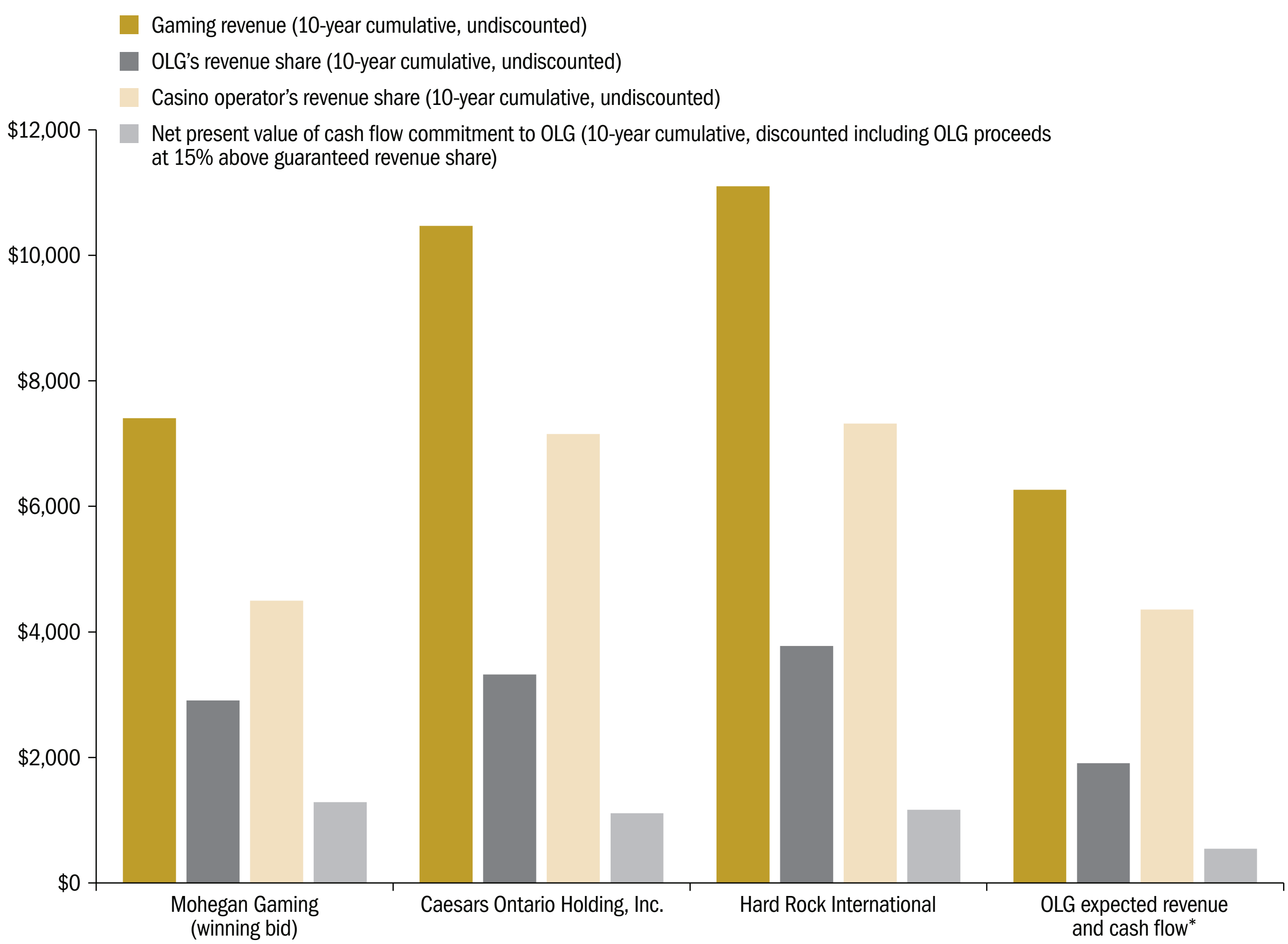
As seen in **Figure 6**, the net present value of Mohegan's cash flows to OLG was higher than that of other bidders. Part of the reason for this was that Mohegan's minimum revenue commitment to OLG was the highest over the entire 10-year evaluation period.

As seen in **Figure 7**, Hard Rock proposed significantly more direct capital investment, $857 million more than Mohegan, primarily focused on rebranding both casinos and adding a new hotel to Casino Niagara. Caesars also proposed approximately $140 million more capital than Mohegan.

Mohegan had also projected generating greater losses from non-gaming operations by $27 million annually than OLG's estimates. The other bidders did

Figure 6: Projected 10-Year Cumulative Gaming Revenue for the Niagara Region by Bidder ($ million)

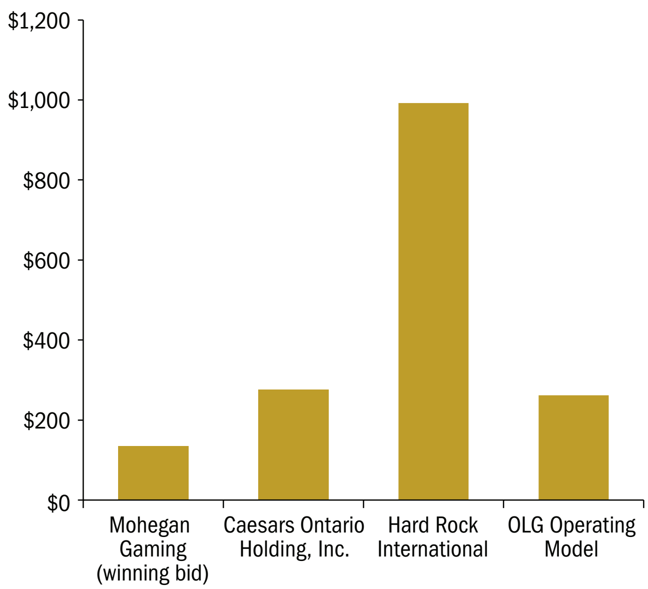
Source of data: Ontario Lottery and Gaming Corporation



* Represents OLG's expected revenue and net present value of cash flow commitments from bids.

Figure 7: Projected 10-Year Capital Investments for the Niagara Gaming Region by Bidder ($ million)

Source of data: Ontario Lottery and Gaming Corporation



not plan similar losses. OLG nevertheless concluded that Mohegan's bid had the optimal financial value most closely aligned with OLG's internal estimates. OLG also noted the City of Niagara Falls would benefit from Mohegan's selection because of Mohegan's alignment with the city's vision to increase economic development and maximize profits for its region through maintaining Fallsview Casino Resort (Fallsview) and Casino Niagara over the long term. However, in our discussion with the City of Niagara Falls, we were told that the city was not involved in the selection process and would prefer an operator willing to make the greatest non-gaming capital investments to increase tourism to the region.

4.1.6 OLG Casino Contracts Do Not Require Casino Operators to Make the Capital Investments They Proposed

We noted that the contracts with casino operators did not require the operators to make the capital investments that they had committed to making in their bids. The 2020 internal audit report prepared for the Treasury Board also noted this as a concern.

According to OLG senior management, contractual obligations for capital investments are not necessary because the operators themselves need these investments to achieve their projected revenue commitments to OLG. However, OLG, as we noted in prior sections, renegotiated for lower minimum revenues even when capital investments were not made.

We compared the amount of capital investments proposed by the winning bidders, expected to have been invested as at March 31, 2022, to the actual amounts invested. As seen in **Figure 8**, seven of eight regions were behind schedule by a net total of about $3.326 billion.

As of March 31, 2022, the casino operator for the GTA region (Great Canadian) had reduced its capital investment projections by 48% from a maximum of $3.68 billion in its original bid down to $1.92 billion, to be spent by 2026/27 as projected by OLG.

Job Growth Lower than Expected after Privatization

In 2012, when the privatization plan was approved, OLG had expected casino privatization to add even more gaming jobs—about 2,300 net new gaming jobs—and an additional 4,000 net new jobs in the hospitality, entertainment and retail sectors. OLG does not track the results of non-gaming jobs.

In September 2016, OLG estimated that as a result of contracting out the management and operation of casinos to private-sector casino operators, there would be approximately 1,700 new gaming jobs in the industry by March 2022.

OLG has monitored the number of new jobs created in each gaming region since privatization started, receiving this data from casino operators on a quarterly basis. Casino jobs increased by only 610 by December 2019 before the COVID-19 pandemic was declared. However, as seen in **Figure 9**, as of March 31, 2022, even after staff were rehired once the casinos reopened, casino jobs were down by over 60%. It is unknown when and if casino operators will re-employ staff to the pre-COVID-19 levels or achieve the additional 1,700 new gaming jobs projected, as ongoing staffing levels are not stipulated in the contracts with private-sector casino operators. The contracts stipulate that casino

Figure 8: Initial Casino Operator Capital Investment Projections and Actual Operator Capital Investments by Gaming Region

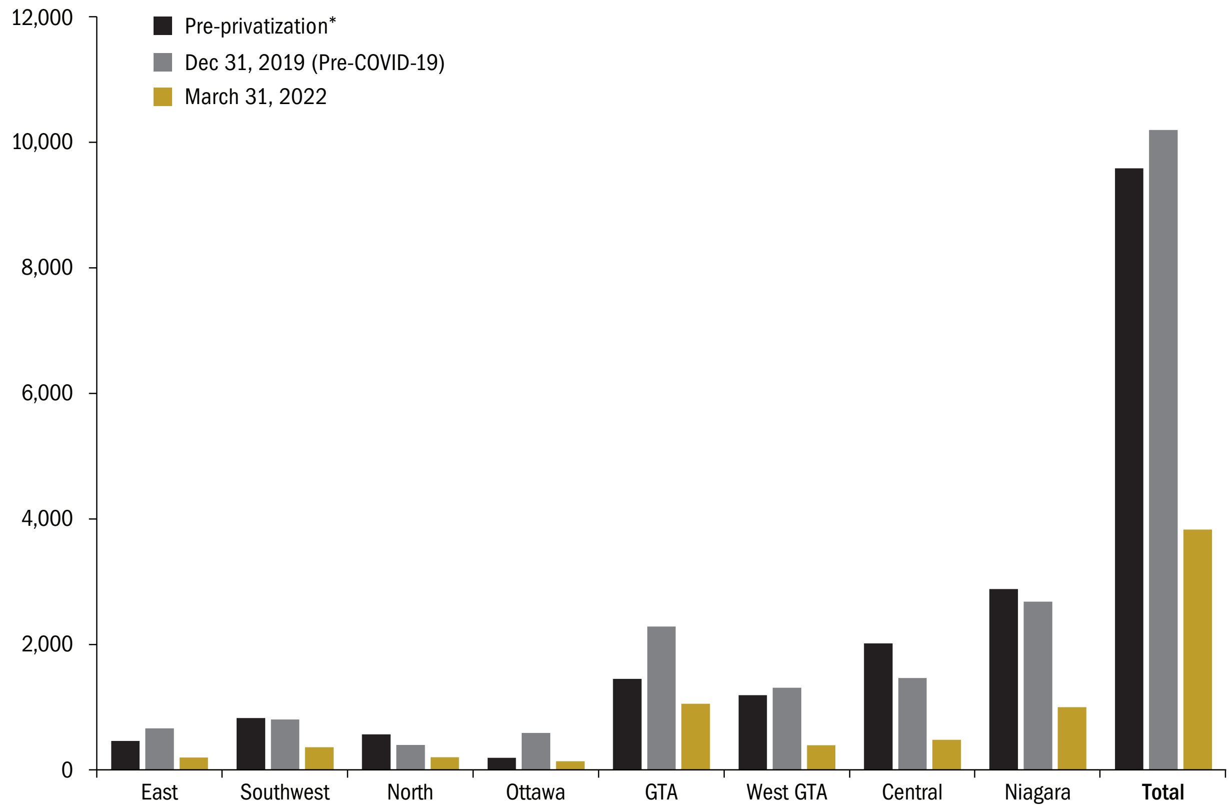
Source of data: Ontario Lottery and Gaming Corporation

Gaming Region	Casino Operator	Casino Operating Contract Effective Date	Casino Operating Contract End Date	Capital Investment Projections* ($ million)	Revised Capital Investment Projections* ($ million)	Capital Expenditures Expected (as of Mar 31, 2022) ($ million) (A)	Actual Capital Investments (as of Mar 31, 2022) ($ million) (B)	Variance (Expected Less Actual as of Mar 31, 2022) ($ million) (B) - (A)	% of Projected Investments Completed as of Mar 31, 2022 (B) / (A)
East	Great Canadian Entertainment	11 Jan 2016	31 Mar 2040	137	n/a	123	97	(26)	79
Southwest	Gateway Casinos	9 May 2017	31 Mar 2037	256	n/a	222	144	(78)	65
North	Gateway Casinos	30 May 2017	31 Mar 2037	149	169	131	62	(69)	47
Ottawa	Hard Rock	12 Sep 2017	31 Mar 2037	334	307	277	52	(225)	19
GTA	Great Canadian Entertainment	23 Jan 2018	22 Jan 2039	3,680	1,922	3,082	1,082	(2,000)	35
West GTA	Great Canadian Entertainment	1 May 2018	31 Mar 2038	1,109	177	1,004	131	(873)	13
Central	Gateway Casinos	18 Jul 2018	31 Jul 2041	144	n/a	85	30	(55)	35
Niagara	Mohegan Gaming	11 Jun 2019	31 Mar 2040	136	n/a	40	56	16	140

* For the first 10 years of operations.

Figure 9: Change in Full-Time Casino Employees for the Eight Gaming Regions, January 2016–March 2022

Source of data: Ontario Lottery and Gaming Corporation



* Last full fiscal year operated by OLG.

operators must only maintain the same FTE levels at their gaming facilities for 12 months after they start operating in the awarded region.

4.1.7 Significant Portion of the Increase in Casino Revenue Is Being Kept by Private Casino Operators

Figure 2, as noted earlier, shows the increase in casino revenues for five of the eight gaming regions from the last full year where the casinos were operated directly by OLG, up to 2019/20 (the last fiscal year with limited COVID-19 impacts). Casino revenues decreased for the Central, Niagara and North regions during that same period. In contrast, as seen in **Figure 3**, over the same period the net profit to the Province decreased for five of the eight regions. These five regions include three regions where casino revenues increased, the East, Southwest and West GTA regions. **Figure 10** shows the 10-year cumulative gaming revenue projections and adjustment for all eight regions.

Appendix 7 compares the pre-privatization and post-privatization compensation models. OLG was previously responsible for all operating and capital costs at the facilities it operated. It paid a management fee to resort casino operators, but kept all gaming and non-gaming revenues.

In exchange for exclusive land-based gaming rights within their geographic regions, casino operators have committed to an annual revenue amount that is guaranteed to OLG as well as a 30% of any revenues above the guaranteed amount. After privatization, overall casino gaming revenues grew to $3.872 billion in 2019/20 from $3.532 billion in 2016/17, a 9.6% increase. However, net profit to the Province from casino gaming dropped by $15 million over the same period. OLG received 58% of the $3.872 billion in casino gaming revenues (see **Figure 11**). OLG also

Figure 10: Projected 10-Year Cumulative Casino Gaming Revenue for All Gaming Regions ($ million)

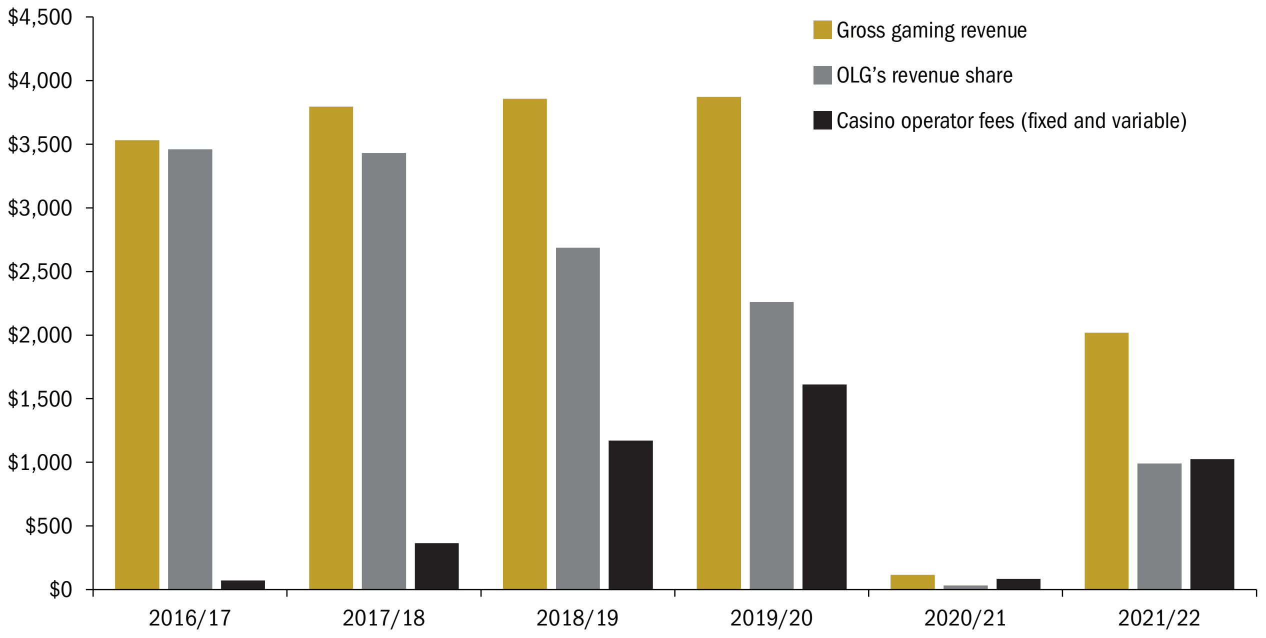
Source of data: Ontario Lottery and Gaming Corporation

Region	Private Operator Contract Bid Proposals	Amended Revenue Projections[2]	Change Increase (Decrease)
East	1,713	1,683	(30)
Southwest	2,996	3,112	116
North	1,764	1,676	(88)
Ottawa	2,858	1,990	(868)
GTA[1]	25,892	24,335	(1,557)
West GTA	11,109	6,676	(4,433)
Central	4,999	3,641	(1,358)
Niagara	7,017	6,080	(937)
Total Gaming Revenue	**58,348**	**49,193**	**(9,155)**
Overall Impact on OLG's Revenue Share and Casino Operators Share			
OLG's Revenue Share	**30,400**	**27,118**	**(3,282)**
Casino Operators' Revenue Share	**27,948**	**22,075**	**(5,873)**

1. For the GTA region, the first year of the bid projections was used for the 2017/18 partial year and 2018/19 first full year of operation.
2. Amendments were based on revenue projections prior to the onset of the COVID-19 pandemic. In August 2022, OLG approved another reduction of the minimum revenue guaranteed commitments for the Ottawa region for a total of $80 million in 2025/26 and 2026/27 and, as a result, OLG's revenue share was reduced by $56 million for the two years.

Figure 11: OLG and Casino Operating Gaming Revenue Shares, 2016/17–2021/22 ($ million)

Source of data: Ontario Lottery and Gaming Corporation



does not now receive any non-gaming revenues, which grew from $100 million in 2012/13, when OLG earned these revenues, to $313 million (a 213% increase) in 2019/20, of which OLG received $34 million from its Windsor casino.

RECOMMENDATION 2

To maximize its casino revenues and the economic benefits to the Province of having casinos in Ontario, we recommend that the Ontario Lottery and Gaming Corporation:

- seek to obtain capital investment plan commitments as addenda to existing Casino Operating and Service Agreements and hold casino operators accountable for their proposed capital infrastructure investments; and
- incorporate capital expenditure commitments in any new agreements.

OLG RESPONSE

OLG agrees with the Auditor General that capital investment is required to maximize casino revenues and economic benefits to the Province. Under OLG's modernization program, Casino operators have invested $1.7 billion to date.

OLG agrees it should identify opportunities to obtain capital investment commitments for any outstanding or future capital development. OLG also agrees with the Auditor General that it will seek to obtain the inclusion of specific capital investments in future procurement process, or other new agreements as they may arise.

4.1.8 OLG Failed to Fulfill Its Contractual Commitment to Pay a Share of Non-Gaming Revenue Annually to the Ontario First Nations (2008) Limited Partnership

OLG and Ontario First Nations (2008) Limited Partnership (First Nations) entered into a Gaming Revenue Sharing and Financial Agreement (Agreement) in 2008. Under the Agreement, OLG is required to share with First Nations 1.7% of its "aggregate gross revenues." The gross revenues under the Agreement include gaming and non-gaming revenue from OLG and any other agents of the Province. The Agreement notes that non-gaming revenues include hotel, food and beverage and other services, including the retail value of accommodation, food and beverage services and other services provided to gaming patrons on a complimentary basis.

In OLG's new agreements with casino operators, all non-gaming revenue is to be retained by the casino operators. OLG did not attempt to communicate or disclose the planning and decision-making on non-gaming revenues to First Nations or to involve them. The Minister of Finance and OLG did not grant First Nations a seat on the OLG Board from 2008 to 2015, although this was a contractual obligation under the Agreement. According to OLG, it expected that its decision to transfer responsibility for non-gaming operations to private casino operators would benefit First Nations financially, as growth in the gaming revenues that First Nations share in would far exceed the loss of any non-gaming revenues. The annual payments to First Nations increased from $137 million in 2015/16 to $149 million by 2019/20 due to the increase in gaming revenue.

However, First Nations were not aware they would lose their share of non-gaming revenue due to OLG's contracting with private-sector casino operators and were caught by surprise when they stopped receiving payments related to non-gaming revenue starting in 2016, when the first agreement with Great Canadian for the East Region came into effect. Upon discovering this, Ontario First Nations (2008) Limited Partnership sued OLG for breach of the 2008 Agreement by filing a Notice of Dispute under the Agreement in 2016 and initiating arbitration. The courts ruled in favour of First Nations on March 31, 2020 and ordered OLG to pay First Nations, on an ongoing basis, 1.7% of total gross non-gaming revenue. In November 2021, OLG paid $7.4 million in missed payments and interest plus $2.6 million for reimbursement of legal costs, to the First Nations. In our discussion with Ontario First Nations (2008) Limited Partnership, we were informed that First Nations has almost no trust in OLG, and that OLG does not treat First Nations as a stakeholder.

As OLG did not contractually require casino operators to pay First Nations the percentage of non-gaming revenue that they were entitled to under the Agreement with OLG, OLG not only transferred 100% of its non-gaming revenue to casino operators, it now also incurs an additional expense equal to 1.7% of non-gaming revenue that it no longer receives, estimated at about $5.3 million annually. As noted earlier, from 2011/12 to 2015/16, OLG generated a loss from its non-gaming operations each year.

RECOMMENDATION 3

To ensure that the Province and the Ontario Lottery and Gaming Corporation (OLG) transfer the costs of non-gaming related payments for Ontario First Nations (2008) Limited Partnership to casino operators, we recommend that the Ontario Lottery and Gaming Corporation:

- include this requirement in the casino operating and service agreements with operators when negotiating any future contract amendments; and
- include this requirement in any future new agreement with private casino operators.

OLG RESPONSE

OLG will incorporate the transfer of costs for non-gaming related payments to casino operators in new agreements and will consider this as a requirement in future contract amendments. OLG will also ensure uninterrupted and ongoing payments to the Ontario First Nations (2008) Limited Partnership consisting of 1.7% of revenues from the non-gaming amenities. In addition, OLG is developing an approach to renew the relationship with First Nations partners to resolve outstanding disputes related to the Gaming Revenue Sharing and Financial Agreement.

4.1.9 Neither OLG Nor the Alcohol and Gaming Commission of Ontario (AGCO) Monitor to Ensure Slot Machines Actually Pay Out 85%, Relying on Casino Operators to Self-Monitor and Self-Report

According to the AGCO's Casino Electronic Gaming Devices and Gaming Systems Minimum Technical Standard, the minimum theoretical payout (known as the "theoretical hold") of a game is to be set at 85% or above in Ontario. This represents the theoretical minimum payback for a machine over the machine's lifetime. The theoretical hold is set directly in the settings of each slot machine, and can be confirmed only by examining the machine itself. Currently, casino operators decide the payout on all slot machines, i.e., whether it is to be greater than or equal to 85%, and hire their own technicians to set up the machines on-site. However, OLG does not ensure that slot payouts meet the gaming standard of 85% or above to be paid out to players.

OLG's Gaming Management System (GMS) has the ability to remotely monitor certain slot machine interactions with the GMS, such as a machine going offline or a software failure. Although the actual machine payout data is uploaded automatically to the GMS, the system cannot detect whether the theoretical payout percentage set at the machine for a specific game meets the gaming standard.

According to OLG, casino operators are required to follow AGCO standards of ensuring that a game's theoretical percentage is set at 85% or above. Under the current system, casino operators are responsible for conducting their own regular reviews of payout percentages (daily, weekly and monthly) and for ensuring the payouts are within the acceptable percentage. Under the Registrar's Standards for Gaming, casino operators are required to notify the AGCO immediately of any issues with the "integrity or security of the gaming system or gaming supplies." Any instance of not meeting the expected payout percentage would be considered an issue of integrity.

Starting in December 2021, the AGCO required OLG to provide them with quarterly machine payout data. The AGCO compares the operator's payout data to OLG-reported data, analyzes the operator's action plans regarding machines that are potentially non-compliant, and takes appropriate compliance actions as required. However, as of September 2022, the AGCO had not taken any compliance actions.

Based on our review of January 2017 to August 2022 payout data for 27,732 slot machines, 639 (2.3%) of slot machines were paying under 85% and 83 were paying under 80%. Two hundred fifty slot machines were still paying under 85% after more than 100,000 games played. **Appendix 8** shows payout percentages by casino.

The expectation is that over longer periods of time, gaming machines will pay out the theoretical 85% amount; however, a machine may be removed from the floor before it reaches its theoretical payout. According to OLG, it does not monitor or ensure whether slot machines taken off the floor have met the payout requirement, as it sees this as a responsibility of the AGCO. In our 2020 audit of the AGCO, we noted that the AGCO does not monitor slot payouts because it considers this a low risk. We noted that we found this to be unusual given AGCO's role as the gaming regulator in Ontario and that the public would expect it to be doing this work.

In April 2022, the AGCO updated its notification requirement for casino operators to include the requirement to provide quarterly reports to the AGCO on machine payout data and any associated actions taken by the operator. As part of this policy, we found that the AGCO has developed a template for casino operators to self-report their machine payouts quarterly along with any action plans. However, the AGCO does not provide any guidance on when a casino operator is expected to provide an action plan for a particular slot machine. In our follow-up of our 2020 report on the AGCO, we noted that casino operators do not provide action plans for all slot machines paying under 85%. For example, one casino provided action plans for only five of the 31 slot machines that had paid out below 85%.

Windsor Casino's Slots Not Connected to OLG's Gaming Management System for Remote Monitoring

We noted that OLG's Gaming Management System (GMS) has not been implemented at the Windsor casino. Therefore, neither the AGCO or OLG is able to remotely monitor slot payouts at this location, relying instead on reports submitted by the casino operator. According to OLG, the existing agreement with the Windsor casino operator does not allow OLG to dictate the system used for slot operations, but it will implement the GMS in August 2025 after procuring a new long-term agreement for the Windsor location.

Mass Slot Machine Reset by Casino Operators That May Impact Slot Payouts

Based on the gaming algorithm, the payouts of slot machines will fluctuate below or above the theoretical hold in the early life of the game; the expectation is that over a longer period of time, payouts will level out and reach the theoretical hold. Therefore, it is possible for certain slot machines to have payouts less than 85% in the early life of the game and only later reach the theoretical hold. However, if a slot machine is continuously reset before it reaches its theoretical payout, the casino may retain more than 15% of the money wagered.

In our 2020 audit of the AGCO, we noted that, from 2015/16 to 2017/18, gaming machines with integrity or security issues (incorrect payouts or jackpots displayed) more than tripled, and the number of machines requiring repairs more than quadrupled. Over this same period, the number of AGCO inspections decreased by 40%.

In addition, in January 2018, the AGCO moved to a standards-based model for electronic gaming compliance that allows private-sector gaming operators to repair or make changes to machines and add machines to the gaming floor without requiring an AGCO inspection.

In February 2020, as part our 2020 audit of the AGCO, the AGCO had noted that casino operators reported 686 gaming machines on the casino floors that were not connected to the OLG's gaming management system, meaning these machines could be vulnerable to software tampering affecting payouts to clients. The AGCO's practice is to follow up with casino operators only when 15% or more of a casino's gaming machines are not connected to the system. We noted that the AGCO did not conduct any inspections to verify the reasons for machines being offline. The AGCO developed a plan in June 2022 to improve its oversight of offline electronic gaming machines, which includes requiring OLG to provide AGCO with biweekly data reports on electronic gaming machines that include information about offline machines. A July 2022 OLG report to the AGCO noted 638 incidents of slot machines being offline, with 173 (27%) indicating the machines were disabled due to a failure of the record-keeping software. For the remaining 465 (73%) incidents, the report notes communication failures where machines are offline or unresponsive to system queries. According to the AGCO, the system is working as intended if a machine is disabled when its record-keeping software fails. The AGCO also considers unresponsive and offline machines as low risk, and does not inspect these machines for anomalies.

We found that the AGCO had developed a Casino Gaming Monitoring System (GMS) in July 2022. Under this system, casino operators are required to perform a GMS software verification every three months and report the results to OLG. Similarly, operators are expected to monitor the health and connection reliability of their GMS and report to OLG every six months. However, the onus is on casino operators to perform testing and self-report to OLG.

Generally, slot machines are reset when software is updated, hardware is replaced, or when technical trouble-shooting is needed. However, we noted that casino operators performed an unprecedented mass slot machine reset unrelated to any software or hardware change between October 2021 and April 2022. Upwards of 75% of slot machines in the GTA region, the West GTA region and the East region casinos were reset during that period. A machine may be reset for other reasons as well, including to modify its credit limit, jackpot limit, printer or attendant pay limit, maximum limit per game, or to change game options and configurations, such as its theoretical payout. OLG noted that "specifically changing the payback percentages on those games" was the casinos' main reason for resetting the slot machines. However, OLG is not tracking these changes to assess whether they had any direct impact on slot payouts and whether those changes would be fair to patrons playing on those machines.

RECOMMENDATION 4

To ensure that slot machines are paying out appropriate amounts to customers in line with the Alcohol and Gaming Corporation of Ontario's (AGCO's) Casino Electronic Gaming Devices and Gaming Systems Minimum Technical Standards we recommend that:

- the AGCO require credible explanations for all slot machine resets and allow resets only for software and hardware updates;
- the Ontario Lottery and Gaming Corporation support the AGCO in monitoring slot machine payout reports on a regular basis and take any required corrective actions to ensure that minimum payout standards are met;
- the Ontario Lottery and Gaming Corporation implement the Gaming Management System for the Windsor casino to allow for remote monitoring as soon as possible, instead of waiting until 2025; and
- the AGCO strengthen its oversight of electronic gaming machines in casinos, including payouts of slot machines, and conduct inspections of slot machines that are offline.

OLG RESPONSE

OLG provides slot payback reports to the AGCO on a quarterly basis for review and any required follow-up. OLG will work with the AGCO to determine whether any adjustments are required or if increasing the frequency of the reporting will meaningfully mitigate risk.

OLG will also explore the feasibility of implementing the GMS for Windsor sooner than 2025. Earlier implementation would prevent the current operator from using their current enterprise systems.

AGCO RESPONSE

The AGCO is committed to ensuring effective oversight of electronic gaming machines. In light of recent enhancements to its slot machine compliance program, the AGCO will continue to look for opportunities to strengthen its oversight of electronic gaming machines in casinos.

Slot machine resets by operators primarily occur when software is updated, game options or configuration is changed, or hardware is replaced. As noted by the Auditor General, the AGCO compares operators' payout data to OLG reported data.

Additionally, the AGCO requires immediate notification of any suspected problem with the integrity or security of the gaming system or gaming supplies, and/or sensitive data.

Regarding offline machines, the AGCO monitors unresponsive and offline machines on a biweekly basis and requires operators to promptly provide evidence that these machines are connected to the gaming management system, responsive and online.

When certain integrity or security incidents involving slot machines are identified that warrant an in-person inspection, an AGCO inspector will attend a casino to conduct an inspection.

4.2 Internet Gaming

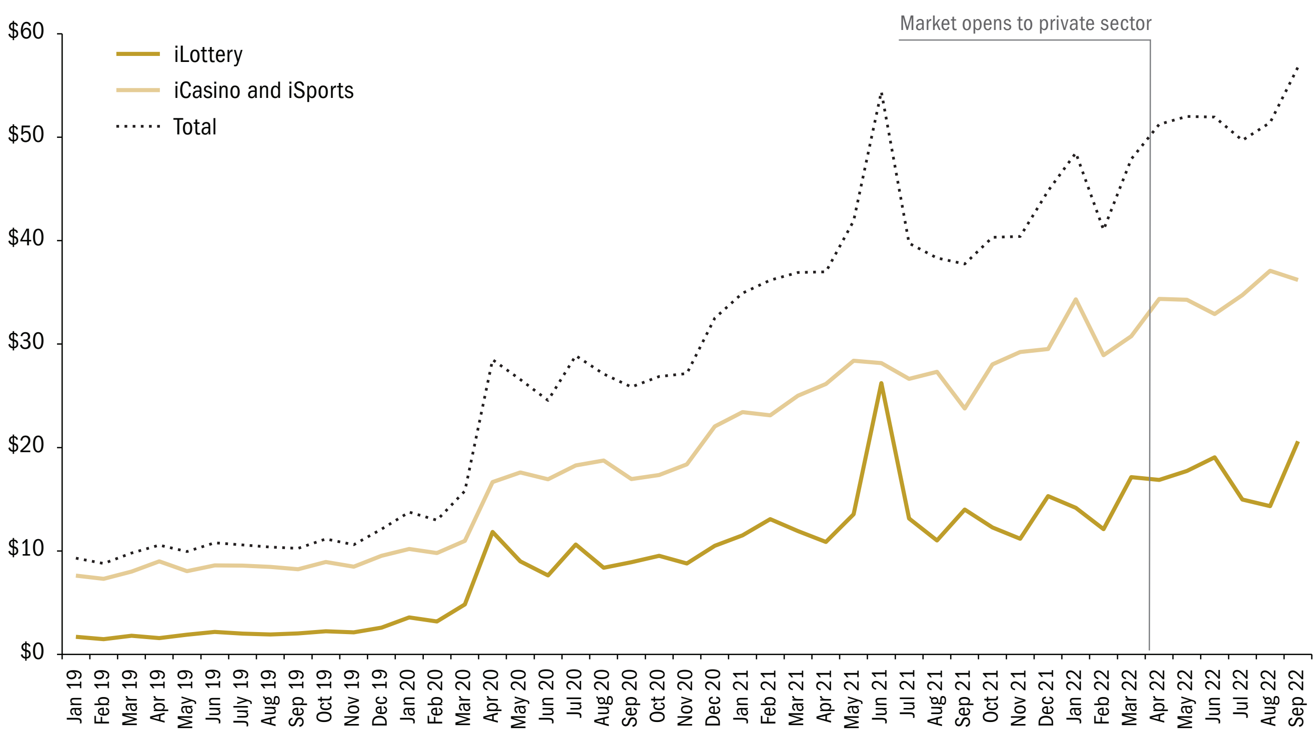
4.2.1 Province Retains More than 45% of OLG's Internet Gaming Revenues as Opposed to Only 5.7% from iGaming Private-Sector Operators

OLG's Internet gaming revenue grew from $139 million in 2019/20 to $511 million in 2021/22, but OLG now faces significant competition from Ontario's privately operated Internet gaming sites. As of April 4, 2022, private operators that registered with the AGCO entered into operating agreements with iGaming Ontario to offer both online casino and sports betting in Ontario. This competes directly with OLG's Internet gaming products. Before April 4, 2022 OLG was the only legal and authorized provider of Internet sports betting and online gambling in the Province.

As seen in **Figure 12**, OLG's Internet gaming revenues (excluding its Internet lottery) increased by 7% from $101 million over the three-month period from April to June 2022 to $108 million in the three-month period ending September 2022. In direct competition, iGaming Ontario reported an increase of 65% from $162 million in private operators' gaming revenues from April 4, 2022 to June 30, 2022 to $267 million for the three-month period ending September 2022. Although a part of this growth could be attributed to iGaming Ontario adding six new operators, average monthly spending per active player on iGaming Ontario websites also increased by 25% over the same period.

Figure 12: OLG Internet Gaming Revenues, 2019–2022 ($ million)

Source of data: Ontario Lottery and Gaming Corporation



There would be a significant revenue advantage for the Province if OLG's Internet gaming revenues could be maximized. As seen in **Figure 13a** and **13b**, the Province receives approximately 45% of OLG's Internet gaming revenue, compared to only 5.7% of gaming revenue from play on private Internet platforms registered with iGaming Ontario.

OLG expects to maintain approximately 25%–30% market share and forecasts that its Internet gaming revenue will reach $530 million (excluding Internet lottery sales) by 2025/26, a 56% increase over the $340 million (excluding Internet lottery sales) generated in 2021/22 (**Figure 14**). Strategic initiatives on which OLG bases its forecasts include quicker releases of new products; table wagering with a live dealer dealing cards or spinning the roulette wheel; direct pay for iLottery; and other customer acquisition and retention activities.

OLG is also currently working with British Columbia, Quebec and Alberta to offer live table games on its Internet platform.

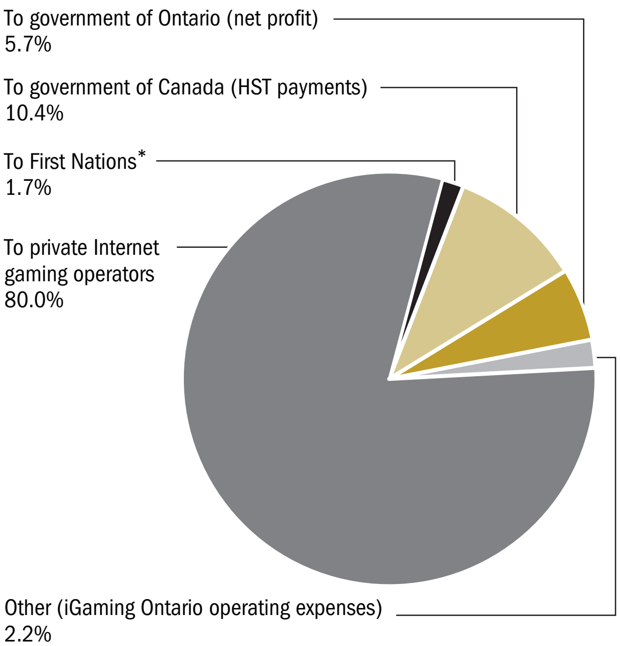
As of December 31, 2021, 56% of OLG's Internet players were playing only the lottery, which only OLG can offer. This is an advantage that OLG could leverage to bring more Internet players to its Internet casinos and sports offerings. The increased provincially authorized online competition from private operators has made it important for OLG to ensure that its strategies are sound to achieve the growth that it has projected.

RECOMMENDATION 5

To achieve its projected growth rates and remain competitive within the new gaming model, which includes significant private-sector competition, we

Figure 13a: Portion of Gross Gaming Revenues Retained by the Province from Private Internet Gaming Operators, 2022/23 Forecast

Prepared by the Office of the Auditor General of Ontario

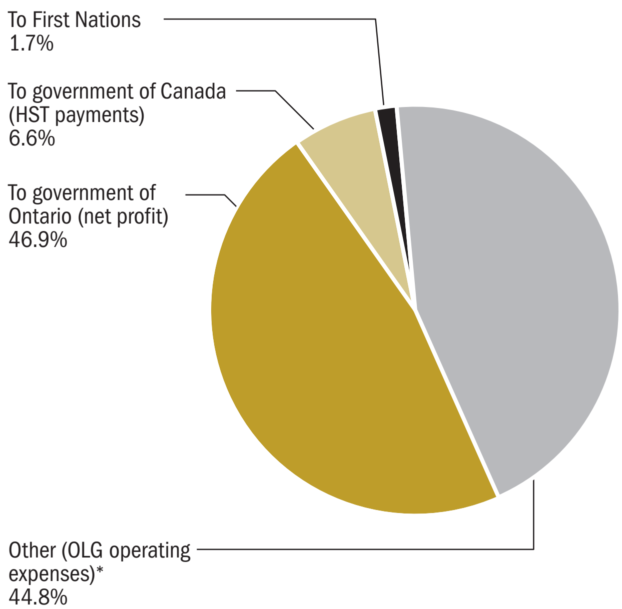


Note: The 80% private Internet gaming operator's share of Gross Gaming Revenue reflects the initial terms and conditions of operating agreements and is subject to change and reduction.

* Estimate based on the Gaming Revenue Sharing and Financial Agreement that is subject to negotiations with the Ontario First Nations (2008) Limited Partnership.

Figure 13b: Portion of Gross Gaming Revenues Retained by the Province from OLG's Internet Gaming Revenues, 2022/23 Forecast

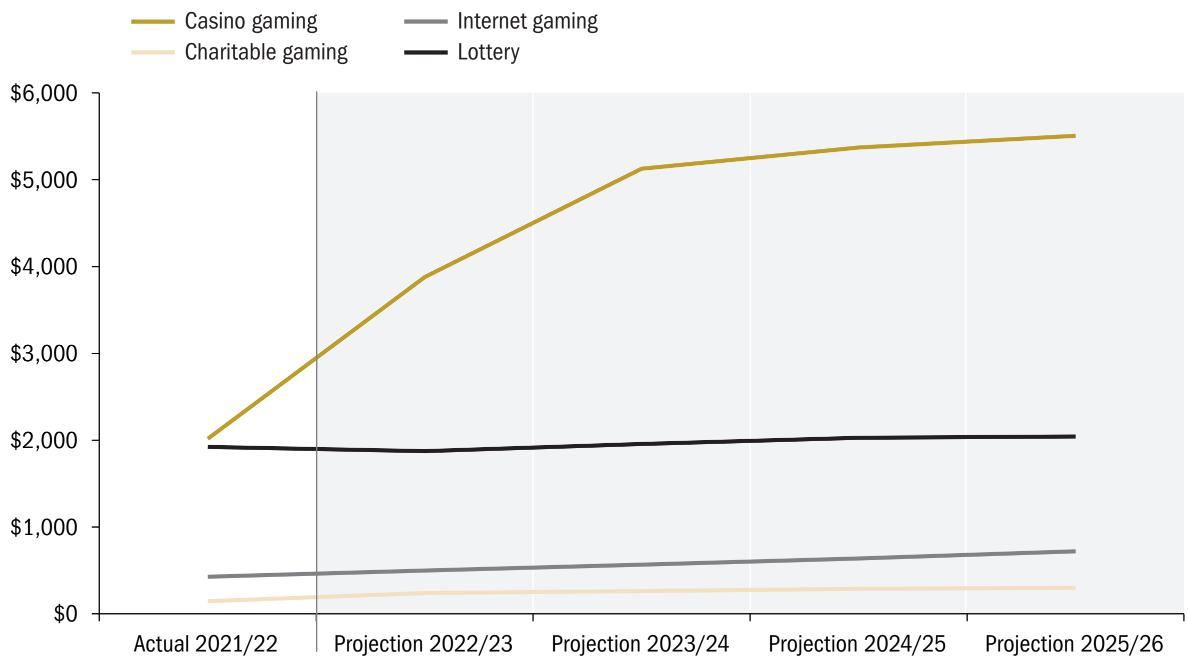
Source of data: Ontario Lottery and Gaming Corporation



* Does not include allocation of corporate overhead costs to Internet gaming.

Figure 14: OLG Revenues by Line of Business—Actual and Projections, 2021/22–2025/26 ($ million)

Source of data: Ontario Lottery and Gaming Corporation



recommend that the Ontario Lottery and Gaming Corporation:

- develop a comprehensive strategy on the introduction of new products and the timeline for their introduction;
- continue to explore options to offer more real-time games (such as poker, blackjack, etc.) in collaboration with other provinces and then implement chosen options;
- maximize the advantage of its unique position as provider of lottery products to create a stronger customer base and integrate these players into other Internet offerings; and
- follow up regularly on progress toward projected growth and make necessary adjustments to respond to market conditions to retain and grow its customer base.

OLG RESPONSE

OLG agrees that it is important to maintain a competitive OLG online gaming offering in the new Ontario online gaming market. This fiscal year we have continued to improve our digital sports betting product with more markets and betting options, and we have implemented new live dealer games, new live games shows, new payment methods for lottery transactions, expanded our casino games library with multiple new game providers and have continued to improve our overall customer experience.

OLG agrees with the Auditor General's recommendations to focus on a comprehensive strategy and make necessary implementation adjustments based on changing market conditions. This will include the continued implementation of new products and experiences.

OLG plans to expand its live dealer category and is currently exploring the implementation of new products such as peer to peer poker. OLG will also seek to further expand by introducing its core lottery players to other online gaming products that are offered by OLG, and will include this 'cross play' metric as a key performance indicator for performance management purposes next fiscal year.

4.2.2 Internet Gaming Slot Machines Provide a Greater Return to Consumers but Information Is Not Publicly Available

As discussed in **Section 4.1.9**, we reviewed slot payouts between January 2017 and August 2022 and noted that they paid out, on average, around 91%, and about 2.3% of the slot machines were paying under 85%. The minimum theoretical payout, known as the "theoretical hold" of a game, is set at 85% or above in Ontario. In contrast, from January 2021 to August 2022, Internet slot machines on OLG's website paid out, on average, about 95%.

We noted that none of the slot machine payouts are reported publicly by casino or by region. OLG also does not publicly report the payout for its internet gaming, for slots and table games. In comparison, other jurisdictions, including the state of New Jersey, make actual slot machine payout percentages publicly available. New Jersey presents this information by casino property name and wager amounts, which offers transparency to patrons and accountability for casino adherence to payout standards.

RECOMMENDATION 6

To provide greater accountability and transparency to casino and Internet patrons, we recommend that the Ontario Lottery and Gaming Corporation (OLG) publicly disclose game payout data by casino, and for OLG's Internet gaming, for slots and table games.

OLG RESPONSE

OLG supports the Auditor General's recommendation and agrees that transparency of payouts can be improved. Casino slots are required to meet the minimum required 85% payout. The odds for table games are included in brochures at each casino. As actual payout is achieved over the life of the game (which often is achieved over 10+ years), the payout varies widely when games are new or have limited play. To improve transparency, OLG will report annually on the actual provincial wide slot and table payout percentage.

To improve transparency, OLG will collaborate with the Casino Operators to determine a public disclosure of payout information that supports transparency and protects the interests of the Province.

OLG will review disclosure of payout information for its Internet gaming platform and consider its implementation. OLG is compliant with AGCO standards by disclosing theoretical returns for each game and would be the only site out of 42 sites in the province to do so.

OFFICE OF THE AUDITOR GENERAL OF ONTARIO

In light of this, we will look at these concerns as part of the iGaming Ontario audit next year.

4.3 Lottery

4.3.1 Lottery Participation Rate by Ontarians Continues to Decline

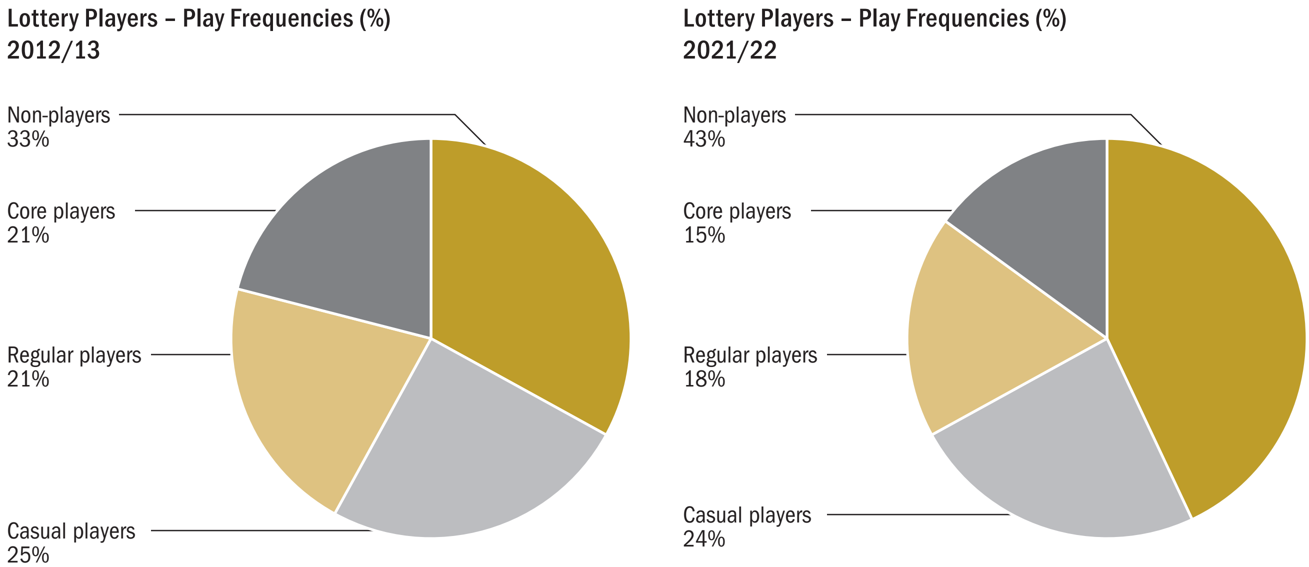
OLG's lottery revenue projections are ambitious for a market with declining interest in lotteries and an aging demographic. In December 2021, OLG forecast that new lottery initiatives would deliver a cumulative $100 million more in net profits to the Province by 2024/25. However, player participation in lotteries has been declining since 2018/19, and the percentage of Ontario adults that purchase a lottery ticket weekly decreased from 33% in 2018/19 to 30% in 2020/21. OLG conducts an annual poll of about 3,600 Ontarians to assess their lottery buying patterns, and as seen in **Figure 15**, the percentage of respondents that do not play lotteries has increased from 33% in 2012/13 to 43% in 2021/22.

The age of the lottery players has also increased over the last 10 years. As shown in **Figure 16**, the percentage of lottery players over 55 years of age has increased to 48% in 2021/22 from 36% in 2012/13.

There is a risk of declining revenues and returns to the Province if OLG is not able to add younger players to maintain and grow its proceeds from its important lottery division. In 2021/22, the lottery business

Figure 15: Lottery Players' Frequency of Play, 2012/13 and 2021/22

Source of data: Ontario Lottery and Gaming Corporation

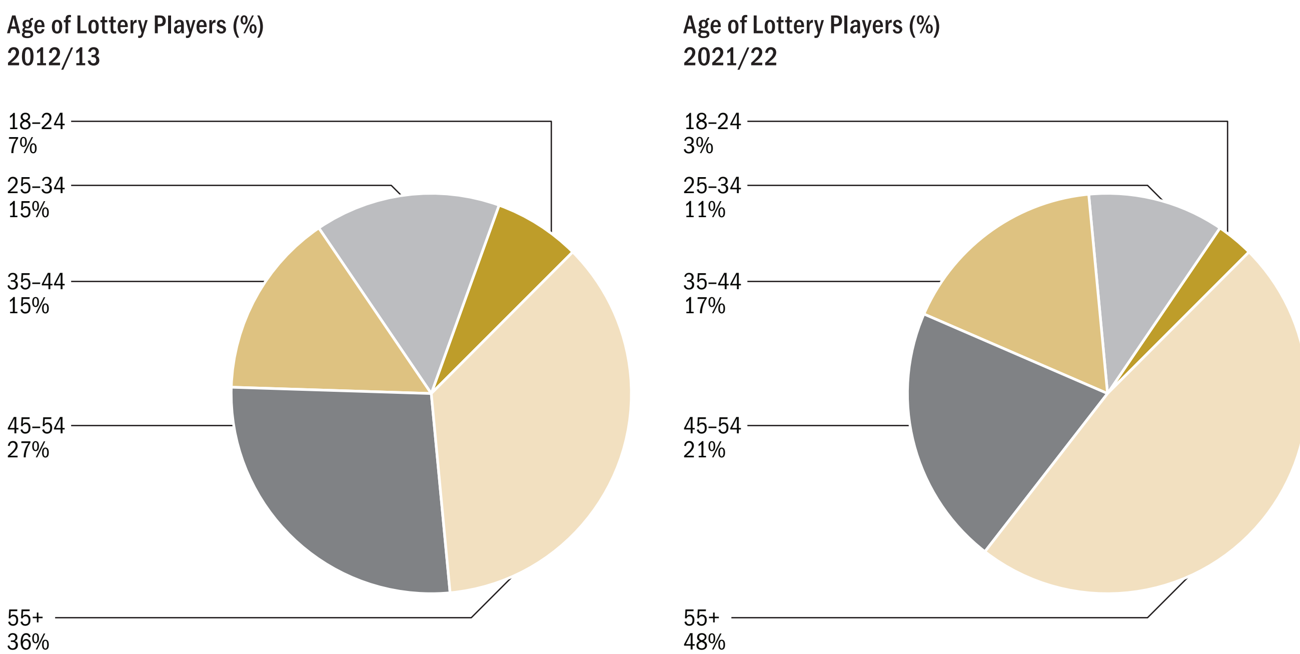


Category	Definition
Core players	Buy lotteries once a week or more on average
Regular players	Buy lotteries once every 2 months or more on average (but are not core players)
Casual players	Buy lotteries 1–4 times a year
Non-players	Buy lotteries less than once a year, or never

Note: This data is based on a sample of about 3,600 respondents per year.

Figure 16: Age of Lottery Players, 2012/13 vs 2021/22

Source of data: Ontario Lottery and Gaming Corporation



contributed $1,922 million (43%) of the total OLG revenues of $4,512 million. In comparison, for 2021/22, British Columbia Lottery Corporation's lottery product generated $590 million in revenues, accounting for 61% of overall revenues.

The percentage of total proceeds from casino gaming was much smaller than usual during the COVID-19 pandemic. OLG was heavily dependent on its lottery segment to deliver on its mandate to provide a return to the Province.

In its 2022/23 business plan, OLG still forecasts that new lottery initiatives will deliver a 10% increase in lottery sales by 2024/25 from $4.47 billion in 2021/22.

In its new strategic initiative, OLG plans to deploy self-serve terminals to new and existing retail locations, and introduce a five-minute Quick Draw Keno game. By March 31, 2025, OLG plans to place self-serve terminals in 1,400 new and existing retail locations. OLG has not yet conducted a study to assess whether all of these locations will agree to have self-serve lottery products and whether its lottery revenue estimates are reasonable.

RECOMMENDATION 7

To assist the Ontario Lottery and Gaming Corporation (OLG) in achieving its lottery product performance targets, we recommend that OLG implement a plan to lower the average age of its lottery customer base by:

- conducting a study to assess the level of interest in self-serve lottery products and the reasonableness of OLG's projections of their revenue impacts;
- introducing lottery products aimed at younger demographics eligible to play lotteries; and
- cross-promoting lottery products with Internet casinos and sports wagering.

OLG RESPONSE

OLG supports the recommendation regarding the need to attract new customer segments to lottery play, including cross promotion of lottery and internet gaming products. The Lottery line of business is investing in research and analysis to identify the next generation of players and their gaming interests.

The company has a number of product and marketing initiatives under development and intends to present its three-year lottery plan to the Board of Directors early in 2023, which emphasizes new audience acquisition, operational excellence, and use technology to enhance its overall customer experience. This will include objectives, performance targets and key actions.

OLG is undertaking a self-serve terminal pilot beginning in November 2023 and will use this data to harmonize projections in the next budget cycle. Rollout of the terminals will be phased, and include a pilot to gather learnings to optimize the selected locations based on researched store location demographic profiling, which further indicates demand. Following a stabilization period after deployment of the Terminals, performance thresholds will be set to redeploy terminals that are under performing.

4.3.2 Consumers Can Purchase Scratch Tickets with All Top Prizes Already Gone

From April 2018 to June 2022, approximately 88% of all instant scratch tickets printed were sold, bringing in net sales of approximately $6.4 billion. We noted that OLG is not ensuring that Ontarians are aware of whether any top instant scratch ticket prizes are still available at the time of purchase of open packets of scratch tickets (a pack includes around 10 scratch tickets). Previous consumer research conducted by OLG showed that a prize amount of $100,000 or greater was considered by the public to be a life-changing amount, and that consumers were less likely to purchase instant scratch tickets once all top prizes had been claimed.

OLG has a process in place to prompt retailers to withdraw all remaining instant scratch tickets once all top prizes for a specific game have been won. That is, OLG sends internal emails to trigger retailer notification and sends lottery terminal display notifications for three consecutive days to remind retailers. In addition, OLG removes any advertising for that scratch ticket game and asks the manufacturer to collect the remaining tickets from retailers. The manufacturer then reconciles the tickets returned to the main list and identifies variances before destroying the tickets. This reconciliation process can take up to six months.

There is nothing stopping retailers from continuing to sell open packets of scratch tickets after OLG has sent the notifications. Customers purchasing tickets may not be aware that major prizes may not be available, although they may win other prizes. OLG has confirmed that any tickets sold after the call to terminate sales will still be honoured if they are winning tickets, until the expiry date of the ticket.

Currently, OLG posts publicly on its website the number of prizes per instant scratch ticket game, and how many remain unclaimed.

RECOMMENDATION 8

To prevent consumers who are unaware that the top prizes have all been won from continuing to purchase scratch tickets, we recommend that the Ontario Lottery and Gaming Corporation:

- implement a process to track instant scratch tickets more closely by requiring bar codes that retailers must scan for inventory tracking purposes; and
- disable bar codes once the top prizes have all been won to prevent the remaining tickets from being sold.

OLG RESPONSE

OLG accepts the recommendation and will review current ticket deactivation practices to identify improvement opportunities. In the near term, our focus will be on increasing retailer education on the process. This will be accomplished with the support of our retail sales network but also through enhanced communication.

OLG will explore options and develop a business case to expand centralized inventory management including systematically managing single ticket activations. OLG will ensure enforcement of Retailer penalties if they are non-compliant with their obligations to remove instant tickets when instructed.

4.3.3 Lottery Retailers Who Sell Lottery Products Continue to Win Significant Prizes

According to OLG's policy, OLG employees, Board of Directors, consultants of OLG and AGCO employees (including OPP Investigation and Enforcement Bureau) are considered related parties that are ineligible to play or win lottery games in Ontario.

Owners of OLG retail locations and their employees who handle lottery tickets are considered both related parties and insiders, and are not allowed to play at their own location, but may participate at other stores or on OLG's website. From April 1, 2017 to December 31, 2021, 202 employees who sell lottery products won prizes of $10,000 or more, totalling $19.2 million. Over this period, lottery retailers accounted for 1.0% of the eligible Ontario population but claimed 1.4% of the lottery wins over $1,000. This means that lottery retailers who sell lottery tickets won at a 40% greater rate than when compared to the general eligible population of 18 years or above. OLG indicated that it checks that tickets cashed were not scratch tickets issued directly to that retailer location for sale and that tickets were purchased at a different location.

RECOMMENDATION 9

In order to protect the integrity of its lottery products, we recommend that the Ontario Lottery and Gaming Corporation (OLG):

- regularly monitor the frequency and prize share amounts of insiders (including retailers) in comparison to the general public; and
- review its controls around OLG lottery retailer wins and take corrective actions.

OLG RESPONSE

OLG agrees that ensuring the integrity of its games is paramount. Our Insider program has strict controls to identify and investigate prize claims by eligible players whom it considers "Insiders" prior to the payment of any prize.

We are committed to better understanding the relationship retailers have with our games and to that effect will commission a study to examine play habits, frequency and preferences to better interpret our prize claim data as it relates to this subset of winners.

OLG relies on its retail partners to drive customer awareness and sales growth of its lottery games. OLG will undertake a review to evaluate the effectiveness of controls in place specific to retailer participation and prize claims in the current environment and make efforts to fortify them, as required.

4.4 Corporate Services

4.4.1 OLG Is Using Recommendations Based on Unreasonable Comparisons to Decide Corporate Staffing Levels

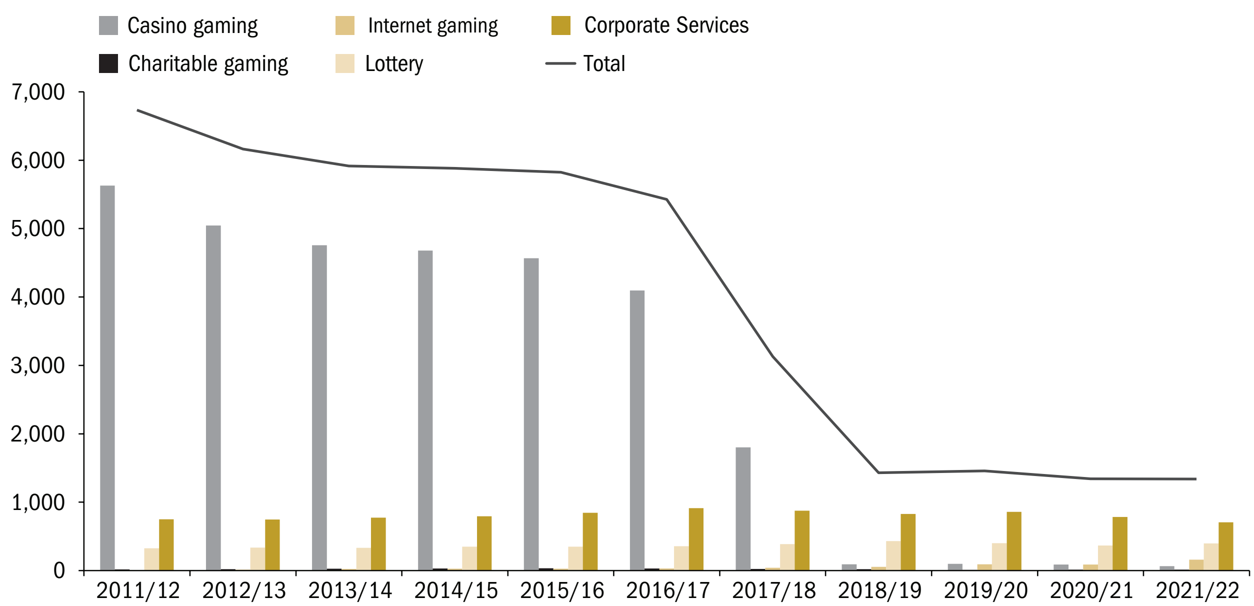
One of the goals of selecting private casino operators was to outsource day-to-day operations of gaming facilities to the operators and reduce direct personnel costs across all OLG divisions. When private operators began to operate Ontario casinos in 2016, OLG's staffing significantly decreased as OLG-operated casino staff were transferred to these operators. As seen in **Figure 17**, the number of OLG's casino gaming employees decreased by 99% between 2011/12 and 2021/22.

In June 2021, OLG management engaged an external consultant to perform a capacity assessment and forecast OLG's optimal future workforce and team size to meet its business strategy. The consultant analyzed the demand and supply of talent in comparison with relevant benchmarks to identify gaps in skills and personnel surpluses, using benchmarking data and market insights relating to the different business units at OLG. The data reviewed included costs, full-time-equivalent employees (FTEs) and productivity.

Using OLG's 2021 employee count, the consultant's capacity assessment concluded that OLG has a lower number of FTEs per $1 billion revenue than industry benchmarks. The report recommended that OLG hire an additional 558 FTEs by 2023 to account for a reduction of 393 FTEs from attrition, for a net increase of 165 FTEs. We noted, however, that the industry average used in the assessment is not an appropriate basis for comparison as it includes data from other

Figure 17: OLG Staffing by Lines of Business, 2011/12–2021/22

Source of data: Ontario Lottery and Gaming Corporation



Note: Based on full-time-equivalent employees (FTEs).

provincial gaming agencies such as Loto-Québec and the Atlantic Lottery Corporation, which operate their own casinos. Reasonable FTE counts for their operations would be much higher in comparison. According to OLG, historical revenue was the criteria used for selecting the organizations used for industry benchmarks in the assessment, as the size of the organization denotes the business model and staffing needs.

According to OLG, in examining the options presented by the external consultant, an option was decided based on whether OLG was directly involved in the operation and the importance the operation had in revenue generation. For example, headcount was increased in Internet and lottery based on their heavy operational component and corresponding information technology (IT) requirements. OLG's human resources department has been using this document for planning purposes, and it has informed the FTE/headcount numbers used in the budgeting process. The external consultant suggested growth of about 160 FTEs, up to approximately 1,500 FTEs from 1,340 as at March 31, 2022. According to OLG, it plans to use this figure as a benchmark for its 2024 budget process.

4.4.2 OLG Does Not Track Utilization and Efficiency for All Employees

While OLG has performance plans in place for employees, it does not track employee efficiency or utilization measures outside of its core operational areas of its call centre (average time per call), distribution centre (packages per hour) and prize centre (cases closed per hour). In 2021/22, the Ministry of Finance requested OLG identify efficiencies within its workplace. As of March 2022, OLG had approximately 1,340 employees (of which only 400 work in the core operational areas). In 2021/22, OLG spent $243 million on personnel costs, which includes $176 million in OLG staff salaries and benefits, and $67 million in reimbursements for personnel costs to the operator at the Windsor casino. As staffing levels are determined based on the needs of each project, OLG is not able to determine if all employees are fully utilized and productive in all cases.

Without knowledge of employee workload and utilization, it is difficult for management to identify efficiencies or inefficiencies within its workplace.

RECOMMENDATION 10

To support the Ontario Lottery and Gaming Corporation's (OLG's) efforts in using its resources efficiently, we recommend that OLG:

- assess whether the number of its staff is reasonable in relation to OLG's current mandate and responsibilities; and
- track and monitor employee utilization and efficiency for all employees.

OLG RESPONSE

OLG is committed to building a performance-focused organization. OLG will monitor its staffing levels as mandates and projects change and will adjust accordingly to ensure the most efficient use of human resources possible. FTE counts will continue to be submitted to the Board of Directors as part of the annual budget process, and the corporation will monitor and manage its headcount based on this annual approval.

With regard to employee productivity, every OLG team member will have a comprehensive performance plan with key performance indicators and efficiency measures by which their performance is assessed.

4.5 Public Reporting

4.5.1 OLG Publicly Reports Incomplete Performance Measures

OLG revised the performance indicators in its Integrated Strategic Plan—GameON, and approved them in 2021/22 (see **Appendix 9**). Although the new internal performance measures track net profit to the Province, customer satisfaction, relationships with casino operators and players' mental health with respect to responsible gambling, OLG does not measure and publicly report on its progress on responsible gambling, job growth, capital investments by gaming regions and sites, integrity of gaming and anti-money laundering activities.

We noted that the British Columbia Lottery Corporation reports performance measures relating to potential criminal activity, responsible gambling (percentage of players assessed as being at high risk for problem gambling) and public confidence in the integrity of its gaming. We also found that Loto-Québec reports on patrons' use of responsible gambling tools and services.

In its privatization of casino operations beginning in 2012, OLG projected $3 billion in private capital investments, 2,300 new lottery and gaming jobs and $1.3 billion in additional net profits to $3 billion overall to the Province by 2017/18. As of 2019/20, OLG had reached $2.3 billion in net profit to the province and $600 million (46%) of the 1.3 billion projected originally in 2012. Aside from reporting on the net profit to the Province, OLG did not report publicly on overall private capital investments in its latest annual report and does not measure progress of capital investments against capital plan projections of casino operators by gaming region or against OLG's privatization goals for capital investments. Similarly, OLG does not report publicly on job growth or job decline against job growth projections by gaming region.

There is a requirement for OLG to update and report publicly on its business plan annually. OLG has produced annual business plans for 2020/21, 2021/22 and 2022/23.

RECOMMENDATION 11

To effectively monitor its performance against its mandate and inform the public of its effectiveness and the impact of the privatization of casino operations, we recommend that the Ontario Lottery and Gaming Corporation:

- develop meaningful performance indicators on all key objectives (including integrity of gaming and anti-money laundering);
- set reasonable targets on all key objectives to compare actual results against; and,
- report the results publicly.

OLG RESPONSE

OLG supports the Auditor General's recommendation that measuring and reporting on performance is important.

OLG has formalized performance metrics and reporting, which is widely communicated across the organization. OLG's Board of Directors is regularly updated on OLG's strategic goals and performance. OLG will revisit its performance measures and targets and their disclosure for next year.

RECOMMENDATION 12

To demonstrate the impact of its Modernization Plan (privatization) on the financial position of the Ontario Lottery and Gaming Corporation (OLG), we recommend that OLG summarize and publicly report the additional financial benefits to the Province that have been achieved through privatization.

OLG RESPONSE

OLG supports the recommendation and will implement enhanced reporting on the benefits of Modernization.

4.5.2 OLG's New Financial Statements Less Transparent Regarding Casino Operator Fees

Prior to 2021/22, in OLG's audited financial statements, gross casino gaming revenue was shown separately before any deduction of casino operator fees. It was clear to Ontario taxpayers what revenue was earned and what money was going annually to the private casino operators. However, starting with the 2021/22 financial statements, casino gaming revenue was presented net of all casino operator fees. The new financial statement presentation does disclose how much money is being paid to casino operators each year. This information is needed for inclusion in the Province's consolidated financial statements. Although this information is presented in the Management's Discussion section of the annual report, it is not part of the audited financial statements.

RECOMMENDATION 13

To inform Ontario taxpayers of the fees paid to private operators, we recommend that in its financial statements for the year ending March 31, 2023, and going forward, the Ontario Lottery and Gaming Corporation present gross casino gaming revenues before deducting fees to private casino operators and show the fees as a separate item under Expenses on the Consolidated Statement of Comprehensive Income.

OLG RESPONSE

OLG supports the goal of fiscal transparency in its public disclosures including payments made to casino operators, which manage the day-to-day business of land-based gaming sites. OLG will disclose Proceeds from Lottery and Gaming (representing gross gaming revenue) less Service Provider fees (being the private casino operator fees) to arrive at gaming revenue.

4.5.3 OLG Does Not Allocate All of Its Corporate Costs to Its Main Lines of Business

We noted that OLG does not allocate its corporate costs to its three lines of business when calculating net profit to the Province. Without allocating all of the costs to each line of business, the net profit to the Province from each line of business is likely overstated. We asked OLG management to allocate the corporate costs to the various lines of business for the last five fiscal years and we were told that this was not something that they could provide at this time. This also makes it harder to compare the net return to the Province from OLG's Internet gaming with iGaming operators. In 2021/22 financial statements, $455 million of corporate costs were not allocated to the lines of business to allow an assessment of profitability by line of business.

RECOMMENDATION 14

To accurately inform Ontario taxpayers of the net profit to the Province from the Ontario Lottery and Gaming Corporation's (OLG's) lines of business, we recommend that, in its financial statements for the year ending March 31, 2023 and going forward, OLG disclose an allocation of all corporate costs to its three lines of business when calculating net profit to the Province.

OLG RESPONSE

OLG will review this recommendation and consider the best approach to implementation.

4.6 Responsible Gambling

4.6.1 OLG's Responsible Gambling Tools Not Being Used by Online Players

OLG's Internet gaming customers have grown from 31,000 average monthly players in 2017/18 to almost 257,000 in 2021/22. The popularity of Internet gaming surged during the COVID-19 pandemic when casinos were shut down.

Unlike with land-based gaming, where casino staff interact with patrons in person, OLG staff cannot recognize symptoms of problem gambling online to be able to approach individuals to offer appropriate gambling resources.

OLG informs players via email of limit-setting options and other responsible gambling content on its website, OLG.ca. However, the limit-setting tools are optional, and there is no requirement for players to set limits on their play. Despite the significant increase in Internet players since 2019/20, new players are generally not using the limit options available. The percentage of active players using the casino loss limits tool dropped from 33% in June 2017 to only 11% in June 2022.

OLG uses BetBuddy, a responsible gambling analytics platform that identifies and manages at-risk gambling behavioural patterns, to perform risk analytics for OLG.ca. BetBuddy assigns risk categories to online players based on their patterns of play and their self-assessment test results, and by using a predictive problem gambling risk algorithm. The platform performs daily analysis of individual players and assigns risk categories, provides OLG with risk ratings of players, and customizes responsible gambling programming responses for each player. In August 2021, OLG expanded its use of the ratings by piloting responsible gambling messages directly to high-risk Internet casino players. According to OLG, 14 of 444 (3.2%) players who received a responsible gambling message set a Casino Loss Limit within 28 days.

Players may also set limits on their OLG.ca account, including limits on deposits, play time, casino loss, casino spending, lottery purchases and sports spending. OLG notifies players electronically when they are approaching their limits and places a hard lock on the players' accounts once the limits have been reached. The play time limit is the one exception. Players can continue playing after they reach their play time limit, but they receive notification of the amount of time by which they have exceeded their limit.

According to OLG, a time limit that puts a hard stop on play time—for instance, forcing a player to stop mid-bet or before a bonus round is complete—can have adverse and unintended impacts on the player and the fairness of the game. According to the Centre for Addiction and Mental Health (CAMH), limiting time of play along with a cooling off period, in which a player cannot log into their account, is one of the best controls to prevent problem gambling.

4.6.2 Gaps Exist in Offering Responsible Gambling Tools in Charitable Gaming Halls

Although our audit did not focus on OLG's charitable gaming operations (bingo halls), we noted that OLG's self-exclusion program is not integrated with charitable gaming. Problem gamblers who self-exclude from casinos and Internet gaming would still be able to play at bingo halls.

OLG has recently introduced electronic gaming machines for charitable gaming that look and behave like slot machines. According to OLG, these are not considered slot machines because their payment algorithm uses bingo math and not a random number generator as a slot machine does. We noted, however, that patrons would see these machines as slot machines, which still could contribute to problem gambling. In our discussions, CAMH told us that it strongly believes that similar responsible gambling controls should apply to charitable gaming electronic machines. According to CAMH, electronic bingo machines allow a player to play unlimited hands and be at risk of losing money at a greater rate.

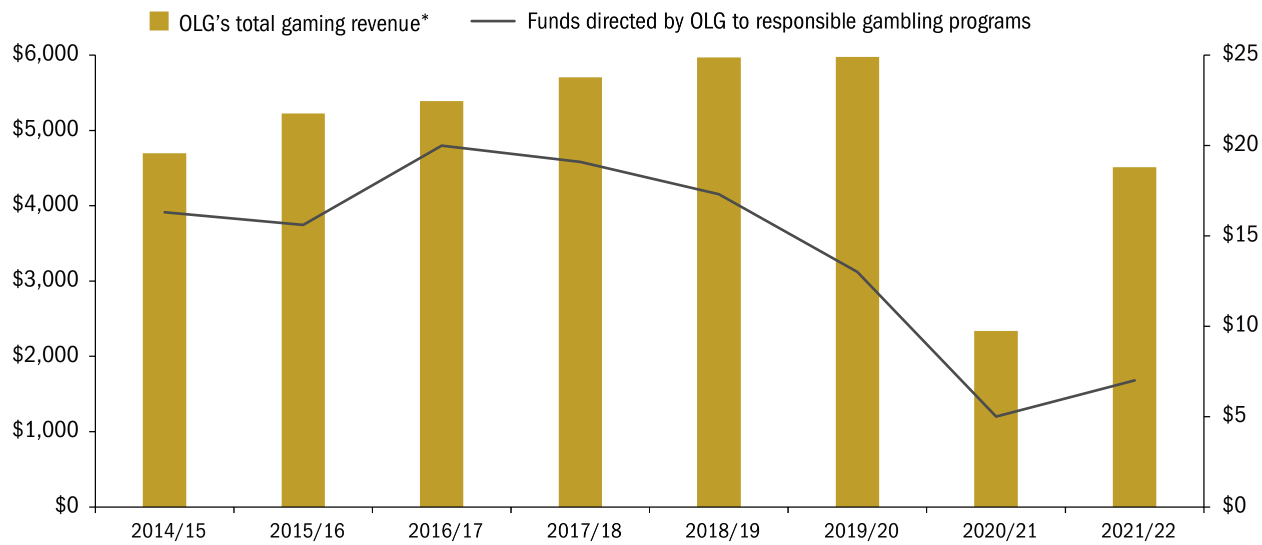
4.6.3 Player Health Index Indicates Problem Gambling Risk Increased during Pandemic

As seen in **Figure 18**, OLG's funding for responsible gambling programs has decreased significantly from $20 million in 2016/17 to only $7 million in 2021/22. OLG uses the Player Health Index, a survey-based tool, to measure the health of active OLG players across each line of business from a problem gambling perspective. The Player Health Index is an estimate of the percentage of OLG players who are not at serious or high risk of problem gambling for the time frame surveyed.

OLG measures the Player Health Index by line of business based on responses from academically validated screening questions and surveys of a sample of its patrons. It does not maintain data by site and gaming region. According to the Player Health Index for Internet players, OLG Internet players who are considered at serious or high risk of problem gambling increased from 11.5% in 2019/20 to 13.4% in 2021/22. For Internet gaming, OLG has set the 2022/23 Player Health Index goal of 20% of players being considered as serious or high risk for problem gambling, despite the actual results of 13.4% in 2021/22.

Figure 18: OLG Total Gaming Revenue and Funding for Responsible Gambling Programs, 2014/15–2021/22 ($ million)

Source of data: Ontario Lottery and Gaming Corporation



* Includes gaming revenue from casino gaming, charitable gaming, internet gaming and lottery (after deduction of lottery prizes) and before deduction of service provider fees.

According to a study published by the Responsible Gambling Council in March 2022, 32% of online gamblers in April 2020 and August 2020 (Waves 1 and 2 of the COVID-19 pandemic) and 45% of the online gamblers in December 2020 (Wave 3 of the COVID-19 pandemic) reported gambling online due to COVID-19 restrictions. The study also noted that those at high risk of problem gambling were more likely to gamble online. The prevalence of high-risk gambling among online gamblers doubled from 12% in August 2020 to 24% in December 2020.

We also noted that the Player Health Index for land-based gaming (casino and charitable gaming) has worsened considerably. For casino gaming, the percentage of players considered as at serious or high risk for problem gambling increased from 5.5% in 2018/19 to 16.7% in 2021/22. Similarly, for charitable gaming, the percentage increased from 17.5% in 2018/19 to 29.6% in 2021/22.

According to OLG, "these fluctuations in Casino and charitable Gaming Player Health Index can be partly explained by the shifts in player bases and the impact of the COVID-19 pandemic, where the decline of casual players at land-based gaming sites left a more regular player base that likely accounted for a declining Player Health Index."

RECOMMENDATION 15

To effectively address and reduce problem gambling, we recommend that the Ontario Lottery and Gaming Corporation (OLG):

- integrate self-exclusion programs across OLG products, including charitable gaming; and
- encourage the use of limit-setting tools for players rated at high risk for problem gambling and monitor the use of limit-setting tools.

OLG RESPONSE

OLG supports the recommendation to encourage the use of limit-setting tools for players. Tool use will contribute to the enterprise player health index, which is already showing positive gains since April 2022. In addition, OLG agrees with the goal of facilitating self-exclusion uptake and integration across OLG channels. OLG will review and determine the best approach for more fully integrating self-exclusion across casino, charitable gaming and OLG.ca channels.

4.6.4 OLG's Efforts to Prevent Individuals on the Self-Exclusion Lists from Gaming Lack Co-ordination between Platforms and with iGaming Sites

OLG offers a responsible gambling program, rebranded as MyPlayBreak, to allow individuals to sign onto a self-exclusion list and ban themselves from casino gaming sites, charitable gaming sites and/or Internet gaming. Players who self-exclude from a casino gaming site are automatically self-excluded from all other casino gaming sites, as well as from OLG's Internet gaming platforms. However, players who self-exclude from OLG's Internet gaming platform are not automatically self-excluded from casino gaming sites. They can also still access Internet gaming platforms operated by iGaming's private Internet gaming operators.

As of August 2022, iGaming Ontario is in the process of establishing a centralized self-exclusion platform for all iGaming sites, including the OLG website. However, as of November 2022, there was no timeline for completion of the centralized self-exclusion program.

RECOMMENDATION 16

To support problem gamblers, we recommend that the Ontario Lottery and Gaming Corporation work with iGaming Ontario to share information to prevent self-excluded individuals on the OLG.ca site and iGaming Ontario-approved operators' sites from accessing gaming activities on each of the two sites.

OLG RESPONSE

OLG agrees with the goal of establishing a centralized self-exclusion program administered by iGaming Ontario that helps prevent self-excluded individuals from playing on OLG.ca and any of Ontario's licensed gaming sites. OLG will actively contribute to this outcome with the sharing of appropriate self-exclusion data and expertise with iGaming Ontario and the Alcohol and Gaming Commission of Ontario.

5.0 Money Laundering

5.1 Money Laundering

5.1.1 Money Laundering Continues to Be an Issue in Ontario Casinos

Money laundering is the process that transforms "dirty" money (proceeds of criminal activity) into "clean" money that can be used freely without having an association to any criminal activity. Common types of money-laundering activity in casinos are described in **Figure 19**.

From 2017/18 to 2019/20 (the last complete year before the COVID-19 pandemic), casinos submitted over 10,000 suspicious transaction reports in total (**Appendix 10**). Suspicious transactions are casino patron transactions that casino employees have reasonable grounds to suspect may be related to money laundering or terrorist financing, such as when patrons' occupations do not justify the amounts being wagered. As seen in **Figure 20**, over the same three-year period, suspicious transactions reports over $100,000 nearly doubled from 406 in 2017/18 to 774 in 2019/20.

In July 2022, the Hamilton-Niagara RCMP, with the assistance of the OPP within the AGCO and FINTRAC, reported uncovering a sophisticated drug trafficking and money laundering scheme that led to multiple charges involving several individuals. Large amounts of cannabis with an approximate value of $24,282,112, and $1,029,020 in Canadian currency, were seized. The investigation started in 2017 when the RCMP began gathering information about a potential money laundering scheme that was operating in Ontario, including through casinos in the GTA and Niagara regions (mainly Casino Woodbine and Fallsview). As a result of the investigation, it was discovered that over $3 million had been laundered from the illegal sale of over 8,000 pounds of cannabis.

OLG was unaware of the investigation until March 2021 when the OPP advised OLG of nine individuals

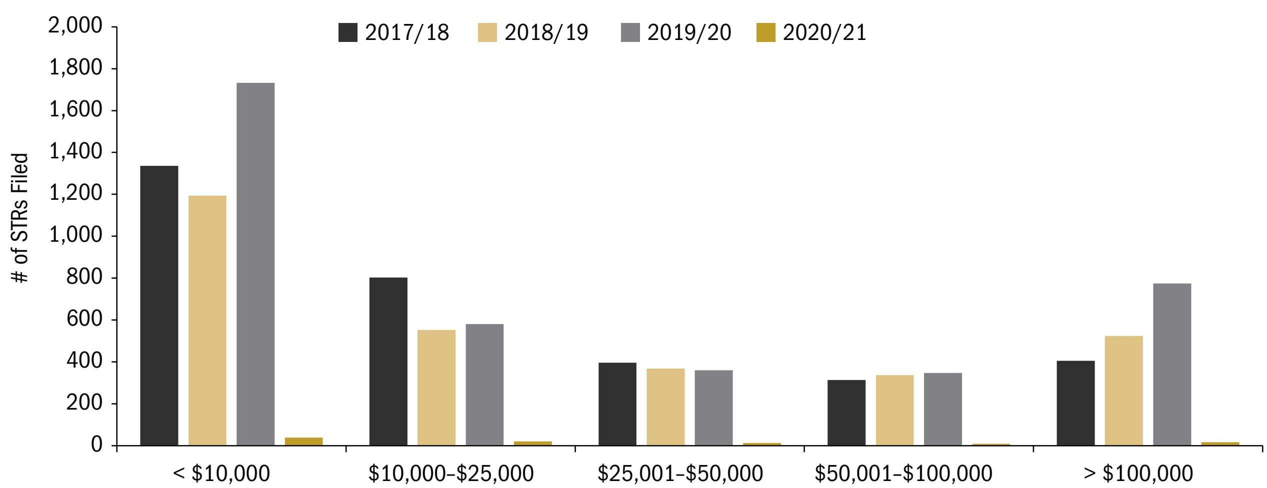
Figure 19: Common Money-Laundering Activities in the Gaming Industry

Source of data: Alcohol and Gaming Commission of Ontario

Activity	Description
"Vancouver model"	High-rollers or VIP casino attendees transfer funds to organized crime syndicates in China. In exchange, these attendees receive illegal funds or cash for gambling upon arrival in Canada from local organized crime groups in order to circumvent the need to transfer the funds internationally. The Chinese and Canadian organized crime groups use this cash transfer as payment for other illegal services or drug exchange.
Loan sharking	Loan sharks use proceeds of crime to advance to patrons. The patrons may be instructed to pay the loan back (plus interest) in gaming chips, which will be exchanged by the loan sharks as "winnings" at the casinos, or they may be told to pay the funds back in the form of a bank draft or e-transfer.
Fraud	An individual may obtain illegal bank draft(s) using funds in the victim's account through identity theft. The fraudster uses these drafts to purchase gaming chips. The bank drafts may be for large amounts (often $100,000+), although the fraudster will typically engage in minimal play before attempting to exchange the chips for cash or a casino cheque.
Currency refining	A patron will feed multiple bills, usually small denominations ($5 to $20), into one or more slot machines. The patron will engage in minimal or no play and then "cash out" to receive large denomination bank notes. This method is commonly associated with drug trafficking.
Structuring	A patron uses multiple transactions to keep each transaction below the FINTRAC reporting thresholds so the patron does not have to produce identification.
Credit	Patrons that qualify may apply for a casino line of credit and use the funds to engage in minimal gaming. The casino line of credit is then repaid with the proceeds of crime.

Figure 20: Suspicious Transaction Reports (STRs) by Number and Value, 2017/18–2020/21

Source of data: Ontario Lottery and Gaming Corporation



that were subjects of an investigation with allegations of laundering money in Ontario casinos. Based on the information provided, OLG immediately issued trespass notices to seven of the nine individuals (one of the nine did not have a casino footprint, and one had already been issued a trespass notice). Four of the nine individuals, although not charged, had significant player profiles with cash buy-ins and payouts by cheque after limited play—a sign of suspicious activity. From January 2012 to March 2021, these four players' transaction amounts showed cumulative cash buy-ins ranging from approximately $1.5 million to $12 million.

OLG ran these analyses after the OPP advised it of the charges against these players. Based on its review, OLG issued trespass notices to 32 others who were found to be connected with the charged individuals, either buying or redeeming chips for the suspects. OLG analyzed suspicious transaction reports relating to two of the charged individuals and identified individuals with interactions with the charged individuals and FINTRAC-reportable casino transactions in the past. OLG used this information to issue trespass notices to these individuals.

Trespass notices are issued when it is believed that a patron presents a significant risk to OLG of fraud, money laundering or financial crime. An OLG trespass notice bans individuals from attending any OLG casinos and charitable gaming centres, and from playing on OLG's Internet gaming platform. Information on individuals issued a trespass order, such as name and date of birth, is shared with all casinos, and casino security is expected to deny them entry or remove them if they are found on any gaming site. OLG did not conduct any additional reviews of the casinos that were identified through the investigation. However, the AGCO did initiate a review and, as of November 2022, the AGCO investigation had not concluded.

In our discussions with OLG Board members identified that money laundering was one of the first items on their list of issues "that kept them up at night."

According to the 2020 Report on Organized Crime in Canada by the Criminal Intelligence Service Canada, over 2,000 organized crime groups operate in Canada. More than half of them operate across multiple Canadian jurisdictions, and 30% also operate internationally. Based on a study of 506 major criminal groups, the report noted that Ontario had the most criminal groups operating in Canada, and although 29% of these groups were known to be involved in money laundering, the actual proportion is likely much higher. The report also highlighted that criminal groups can launder money through various means, including gaming. However, criminal groups may also use professional money launderers, some of whom may be in trusted professions such as lawyers, accountants or other financial positions with access to networks and information. The report estimated that between $45 and $113 billion is laundered in Canada each year.

5.1.2 Ontario Casinos Do Not Verify the Source of Funds from Patrons Using Large Amounts of Cash

Effective June 2021, FINTRAC required all financial entities, security dealers and casinos to reasonably establish the source of funds for all politically exposed persons and heads of international organizations for single transactions of over $100,000. According to FINTRAC, the access, influence and control that politically exposed persons and heads of international organizations have can make them vulnerable to corruption, and the potential targets of criminals who could exploit their status and use them, knowingly or unknowingly, to launder money or finance terrorist activity. FINTRAC requires casino operators to identify politically exposed persons and heads of international organizations at four points: when opening an account; during a periodic review of existing account holders; upon detecting a fact about an existing account holder; and when processing transactions of $100,000 or more.

In response to the FINTRAC requirement, in May 2021, OLG began requiring Ontario casino operators to take reasonable measures to establish the source of their funds for all patrons who conduct single transactions of $100,000 or more.

Although reasonable measures need to be taken to establish the source of funds, there is no requirement to obtain proof or a receipt for the source of funds. In contrast to Ontario, British Columbia casinos are required to obtain proof of the source of funds for casino transactions, in cash and cash equivalents, of $10,000 or more. In 2022, British Columbia's Cullen Commission recommended lowering the proof of funds threshold in casinos to $3,000 from $10,000.

In January 2018, based on Peter German's reports on money laundering in British Columbia, that province began to require proof of source of funds for $10,000 or above. The BC Commission noted that, between 2014 and the end of 2019, the number of suspicious transaction reports fell dramatically from a high of 1,649 in 2016 to a low of 222 in 2019. The corresponding dollar values of these suspicious transactions also dropped dramatically from $195 million in 2014 to $54 million in 2019. The Commission stated that the drop was due to either the changed requirement for proof of source of funds or the requirement to report all cash transactions over $10,000.

Despite these improvements, the Commission found that there was an increase in money laundering under $10,000, including suspicious packaging, and that BC casino patrons appeared to have been deliberately avoiding reaching the $10,000 threshold for having to prove the source of funds and for FINTRAC reporting.

As seen in **Figure 21**, from January 2017 to March 2020, as suspicious transaction reports were significantly declining in British Columbia, Ontario saw an increase. In Ontario, the number of suspicious transactions under $10,000 rose significantly (30%) from 1,336 in 2017/18 to 1,732 in 2019/20 (**Figure 20**).

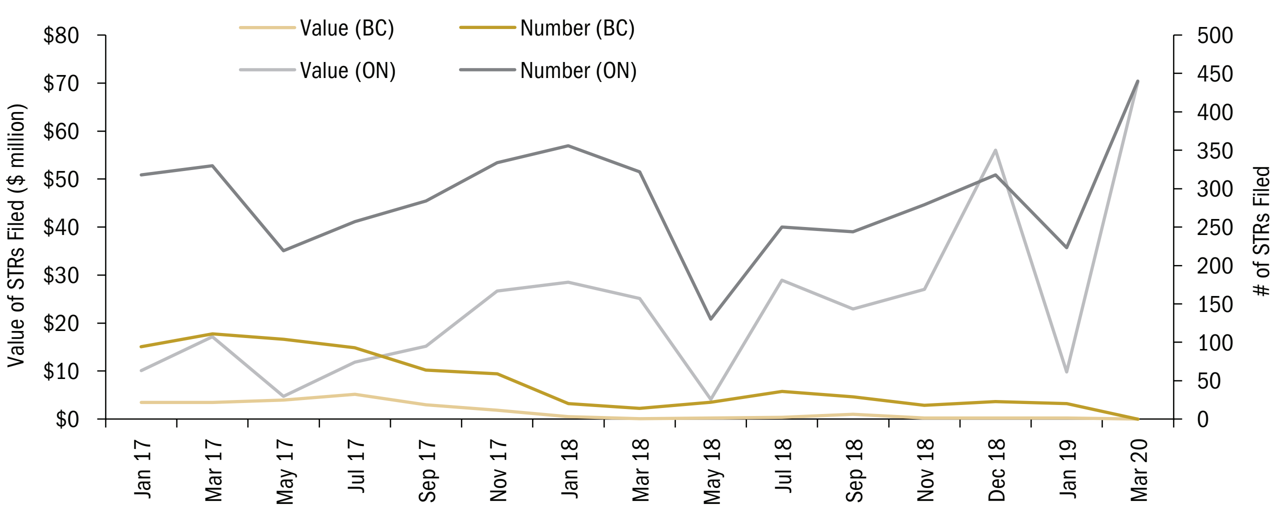
Recent AGCO Gaming Standards Require Casinos to Implement Money Laundering Policies

In July 2021, the AGCO announced new gaming standards that require Ontario casinos to request identification for any single transaction (for example, getting cash from the cashier window, purchasing or cashing out chips, cashing out slot vouchers, etc.) of $3,000 or more. The casino is required to note the patron's name, home address, date of birth, occupation, the date identity was ascertained, ID number and the type of ID document reviewed. The new standards also require casinos to implement policies, procedures and controls that specify times and situations, based on the assessment of risk, where the operator will ascertain and reasonably corroborate a patron's source of funds. According to the AGCO, verbal corroboration is acceptable and there is no requirement for patrons to provide proof of the source of their funds unless the operator determines it has doubts about the information supplied. In contrast, British Columbia casinos require proof of the source of funds. The standards also require casinos to implement risk-based procedures that provide for escalating measures to deal with patrons who engage in behaviour consistent with money laundering activities, including the refusal of transactions or exclusion of the patron.

However, as the new standard allows each casino site to set its own risk-based procedure to corroborate the source of funds, refuse a transaction or exclude

Figure 21: Number and Value of Suspicious Transaction Reports (STRs) Filed, Ontario versus British Columbia, January 2017–March 2020*

Source of data: Source of Data: British Columbia Lottery Corporation, Ontario Lottery and Gaming Corporation



* Comparison was done for months where monthly data was publicly available from British Columbia Lottery Corporation.

patrons, it may lead to inconsistencies across various casinos. The AGCO told us that it does not intend to be prescriptive and wants OLG and the casinos to consider their own risks. According to the AGCO, this does not preclude a casino or OLG from establishing a threshold. The AGCO told us that it does not see an issue with differing approaches amongst gaming operators, so long as their internal controls adequately achieve the outcome of the prevention of unlawful activity. It is our view that, as the regulator, the public would expect the AGCO set a prescriptive standard to ensure that private-sector casino operators are consistent, and that OLG is also instilling consistency through guidance to private operators to reduce money laundering through the casinos in Ontario.

OLG's Guidance on Issuing Casino Cheques Inconsistent and Unclear

OLG's Money Laundering/Terrorist Financing Risk Assessment Framework notes that there is an inherent risk that casino cheques can give the appearance that the money comes from legitimate casino winnings. In order to address this risk, OLG has an anti-money laundering policy that states "Patron gaming activity (play) must be verified prior to the issuance of any cheque of $3,000 or more and document that verified/certified wins for cheques are confirmed." However, according to OLG, the casino operators are only required to verify play of the patron before issuing a cheque. OLG told us that the need for documenting verified wins was only added to accommodate a practice that Great Canadian has of issuing cheques only for verified wins. Without clear guidance on issuing cheques for casino wins, OLG allows an inconsistent practice across Ontario casinos.

In cases where play cannot be verified, the casino must not issue a cheque and may consider submitting a suspicious transaction report to both OLG and FINTRAC. Guidance on red flags for money laundering include schemes where a patron buys in to a game with the proceeds of crime, plays for a short while or not at all, and has a cheque issued for the amount in hand. OLG's review of casino cheques issued between April 2018 and March 2020 found that casinos do not always verify play according to requirements. In its review, OLG found 257 cheques for $3,000 or more were issued, totalling $2.6 million, without evidence of play verification in the OLG's anti-money laundering system. OLG followed up on 83 of these cheques of more than $10,000, totalling $1.6 million. Based on its review, OLG found the casino sites were not able to provide evidence of play verification in 42 instances, totalling $792,000.

Section 5.1.4 provides details on mystery shopping assignments undertaken by a firm with which we contracted. The purpose of the mystery shopper assignment was to test whether the casinos verified the mystery shoppers' play and casino wins before issuing cheques of $3,000 or more. Shoppers were able to obtain casino cheques of over $3,000 with limited play and no proof of winnings from two of the four casinos visited. The mystery shoppers entered with amounts ranging from $5,000 to $11,000 in cash at the two casinos, played at table games and slots for a short while (usually 10 to 15 minutes per table or slot machine), and then proceeded to be cashed out with cheques. The shoppers were able to obtain two casino cheques of $4,900 after entering with $5,000 cash, and $10,600 after entering with $11,000 cash at one casino on two separate occasions. Although the casino attempted to verify whether the mystery shopper had played at the casino, the casino failed to verify whether the funds were coming from legitimate casino wins. Similarly, the shoppers obtained cheques of $10,500 after entering with $10,600 cash, and $10,750 after entering with $11,000 cash at the other casino on two separate occasions. However, this second casino did not attempt to verify play or whether the money was coming from casino winnings. We repeated the test at these two casinos on separate occasions to ensure these were not one-time occurrences. The mystery shoppers should not have been able to receive payouts in cheques because they did not win $36,700. They were able to leave these casinos with almost 98% of the funds they had originally brought in as cash—now these funds could be considered "laundered" because the cheque could be represented as casino winnings as the source of funds for deposit at a bank. The mystery shoppers were appropriately denied cheques at the other two casinos and left with only cash.

RECOMMENDATION 17

To reduce the risk in Ontario of money laundering through casinos run by private sector operators, we recommend that the Ontario Lottery and Gaming Corporation, in conjunction with the Alcohol and Gaming Commission of Ontario, implement for all casino operators the requirements to:

- obtain proof of source of funds at buy-in for cash and cash-equivalent transactions for amounts of $10,000 or more; and
- issue casino cheques only when the funds are verified as a casino win and clearly indicate on the cheques that the amounts are for verified casino wins.

OLG RESPONSE

OLG agrees with the need to continuously address money-laundering risks in land-based gaming sites. OLG is expanding its current source of funds requirements to include a requirement to obtain source of funds for all cash buy-ins above $10,000 consistent with federal requirements that are coming into force in June 2023. OLG currently has requirements for verification of play or winnings prior to issuing cheques in excess of $3,000. We will work with casino operators to evaluate additional cheque issuance restrictions.

5.1.3 OLG's Enforcement Actions on Money Laundering Are Not Proactive

OLG's anti-money laundering unit is responsible for general casino oversight and ensuring compliance with legal and regulatory requirements (**Section 2.5.4**). The unit currently consists of 28 FTEs spread between four teams: advisory, reporting, analysis and intelligence. The analysis and intelligence teams conduct reviews and analyses of FINTRAC reports, transactions, patron information and other data to detect suspicious activity and identify trends. The intelligence team currently addresses priority investigations and reviews, and manages the patron trespass program.

OLG's trespass program prohibits patrons from accessing gaming sites and services if it is believed that a patron presents a significant risk to OLG of fraud, money laundering or financial crime. When a patron is under review, casinos are notified and are to provide additional information to OLG as needed. OLG's analysis and intelligence teams identify patrons for on-site interviews that are conducted by OLG's investigators.

From July 2019 to June 2022, OLG issued 232 trespass orders. Only 7% of these trespass orders issued to 16 individuals can be considered proactive based solely on OLG's own patron transactional analysis to identify suspicious activity. The other 93% were issued to 216 people already charged by law enforcement agencies with money laundering, illegal gaming or other criminal offences, and their associates.

The orders that OLG issued proactively to the 16 individuals were due to these individuals' negative media coverage (4), political exposure or sanctions (3), and suspicious gaming behaviour with limited play and no source of funds (9). We noted that, from July 2019 to December 2021, casinos reported over 5,600 suspicious transaction involving almost 2,700 individuals.

Since January 2022, the intelligence team within OLG's anti-money laundering unit has conducted 86 investigations, of which 51 have been completed, resulting in trespass recommendations in all cases. Patrons that have been flagged for trespass consideration are reviewed with the OPP and the AGCO before a trespass notice is issued.

Individuals issued a trespass notice have an opportunity to request reconsideration. Since the program started in 2019, there have been 41 requests for reconsideration. Only three patrons, whose criminal charges were dropped, have had their trespass notices reconsidered.

Resort Casinos Still Reporting Directly to FINTRAC after Privatization

Before Ontario privatized its casino operations, OLG directly reported all relevant transactions under the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act, 2000* (Act) to FINTRAC for the slot facilities and casinos it operated directly; operators of resort casinos were responsible for submitting reports for their sites. However, since the privatization of casinos in 2016, although all casinos are operated by private-sector operators, resort casinos (Casino Rama, Casino Windsor, Casino Niagara and Fallsview Casino) are still directly reporting transactions to FINTRAC. OLG's reporting team reviews and tracks all resort casino filings after they have been filed, and may require refiling where missing information or errors are found. Suspicious transaction report filings are reviewed daily. Since June 2018, OLG has requested that 358 FINTRAC reports related to resort casinos be re-filed. The majority of errors pertained to missing patron information such as occupations and addresses.

RECOMMENDATION 18

To reduce the risk of money laundering in casinos and to provide accurate and reliable reporting to FINTRAC, we recommend that the Ontario Lottery and Gaming Corporation:

- Collect suspicious transaction reports from resort casinos and file them as part OLG's reports to FINTRAC; and
- proactively investigate and issue trespass notices to individuals who have been involved in multiple suspicious transactions reported by casino operators.

OLG RESPONSE

OLG agrees with the recommendation to develop one centralized province-wide suspicious transaction reporting approach. This year, OLG launched a project to implement a new province-wide anti-money laundering reporting system to centralize the reporting of suspicious transaction reports from all gaming sites.

OLG has established an anti-money laundering Intelligence & High-Risk Patron team that investigates patrons who present higher levels of money laundering risk based on an evaluation of the number and nature of suspicious transaction reports. We will review and continue to improve our trespass program.

5.1.4 Reporting of Suspicious Transaction Reports Varies among Casinos

British Columbia's Cullen Commission noted that some of the establishments of choice in Ontario when it comes to money laundering are Casino Niagara, Casino Rama and Caesars Windsor, and that money launderers will generally visit more than one casino in the same area.

As seen in **Appendix 11**, suspicious transactions and activities are reported on a regular basis at Fallsview, Casino Woodbine, Casino Rama and Caesars Windsor and Casino Niagara. The value of suspicious transactions reported was less than 1% of revenues in 19 of 27 casinos, including Casino Niagara. OLG has not conducted any analysis on why these sites have few or no suspicious reports filed despite the large number of patron visits. According to OLG, Mohegan (Niagara region operator) aggregates transactions for both Fallsview and Casino Niagara where the patron has activity at both sites and reports them under Fallsview. The two casinos have one surveillance room at Fallsview that is responsible for monitoring suspicious activity for both casinos. However, according to Mohegan, Fallsview and Casino Niagara offer two different customer experiences and have two different customer bases. Mohegan told us that Fallsview and Casino Niagara use the same criteria across both properties when determining when to file a Suspicious Transaction Report and each property files the required reports and information with authorities separately.

During our audit, we engaged a firm to conduct mystery shopping assignments at four Ontario casinos to assess the anti-money laundering controls in place. As noted earlier, the purpose of the mystery shopper assignment was to test whether the casinos verified the mystery shoppers' play and casino wins before issuing cheques of $3,000 or more. At two casinos visited, where the value of suspicious transactions reported was less than 1% of revenues, the mystery shoppers were able to obtain casino cheques for $4,900 and

$10,500 with limited play and without any proof of winning. For these two casinos, we repeated the exercise to ensure they were not one-time occurrences, and we increased the amount of cash to $11,000 each. The mystery shoppers were again able to obtain casino cheques for over $10,000 at both casinos with limited play and no proof of winning. In fact, one of the cheques included a handwritten notation that the amount was from winnings, even though the mystery shopper confirmed they had actually lost a small percentage of their cash at the casino. While both casinos failed to correctly assess whether the money was from legitimate casino winnings, one of the two casinos did attempt to verify the amount of play of the mystery shopper.

The mystery shoppers were not successful at the other two casino sites visited. One site correctly identified the suspicious activity, denied the shopper's requests for cheques and issued trespass orders barring the individuals from all gaming sites operated by the casino operator. At this casino, the AGCO's OPP officers were notified of the suspicious activity of our mystery shoppers by the casino operator and correctly investigated the mystery shoppers for the potential threat of money laundering. At the other site, the mystery shoppers were told that no cheques are provided by the casino. At these two sites, the shoppers entered with $22,600 in cash and left with $22,380 in cash.

RECOMMENDATION 19

To improve the controls that casinos have in place to reduce the risk of money laundering, we recommend that the Ontario Lottery and Gaming Corporation:

- monitor casino operator compliance with the anti-money laundering guidance for issuing cheques; and
- work with the AGCO as the regulator, to have the AGCO inspect casinos that are found to be non-compliant with provincial anti-money laundering requirements, and conduct analysis around suspicious transaction report filings by casino site to identify outliers and potential areas for training casino staff on the risks of money laundering.

OLG RESPONSE

OLG agrees with the recommendations to continue to strengthen its oversight of casino operators for AML compliance, including issuance of casino cheques. OLG will review the frequency and depth of that monitoring to ensure that it is appropriate.

OLG will work with the AGCO to provide appropriate information and analysis where OLG has concerns about the sites' execution of OLG's Anti-Money Laundering Program.

6.0 Board Governance

6.1 Over the Last Five Years, OLG's Board Has Not Retained Direct Independent Advice on Any Matter

In our review, we noted the following instances where OLG's Board of Directors would have benefited from directly retaining an independent advisor, but instead relied on management or on advisors retained by management:

- An investigation under the direction of the Board Chair into the conduct of the former CEO was led by a senior executive within the internal audit function who had a direct reporting relationship to the CEO being investigated. An employee, even in an oversight function such as internal audit, should never conduct any investigation involving the individual they report to directly. According to OLG, given the nature of the investigation, based on media reports, it was deemed most effective use of resources to conduct this review internally as opposed to hiring a third party. OLG spends about $6 million on consulting expenses each year and did not lack the resources to have this review conducted by a third party according to best practices.

- All compensation reviews for the CEO and the executive team have been led by advisors hired by OLG management. External advisors retained by management are not considered independent of management and therefore are not seen to provide independent advice to the Board. OLG's CEO compensation, executive pay and bonus payments have already been a topic of public and media scrutiny.
- The former Board Chair resigned in April 2021 during an investigation into his conduct by the OPP based on allegation of conflict of interest with his private business. While the OPP did not identify any wrongdoing and charges were not laid, the OLG Board never received a report or briefing on the investigation. In May 2021, OLG's General Counsel was advised by the OPP that OLG was not the subject of the investigation and OLG was not involved in the decision to investigate. The OLG Board itself never conducted a review of the situation to find out what actions they should have taken, or may still need to take. An independent governance advisor has not been retained by the Board to facilitate the evaluation of the Board, each Board Committee and each Director.

The Board has relied on OLG management, with some assistance from OLG General Counsel when required, in facilitating Board reviews. Without an independently facilitated governance evaluation from time to time, effective and emerging best practices in governance practices that are absent may not become introduced or embedded.

We also noted that the external auditors are over-tenured, having been retained since OLG's inception in 2000, and may not be reasonably perceived to be independent. OLG issued a request for proposal in 2015 for external audit services, but only the incumbent external auditor applied. Board members and OLG management believe that other audit firms are hesitant to apply for the external auditor position because these firms earn greater revenues from OLG as consultants.

Over the last five years, from 2017/18 to 2021/22, OLG senior management spent approximately $30 million on consulting and audit expenses with the major accounting firms PricewaterhouseCoopers ($13.7 million), Ernst & Young ($7.8 million), KPMG ($7.3 million) and Deloitte ($1.1 million). Along with external audit services, KPMG also provided consulting services such as advising and assisting OLG with the casino operator procurement process and helping OLG to become more effective and efficient. Other firms provided the following services:

- Deloitte provided mainly consulting services to develop, implement and maintain OLG's independent audit system.
- PricewaterhouseCoopers provided consulting services relating to information technology (IT) and network assessment, implementation advice on OLG's Internet gaming platform and performance assessment of the Windsor casino. It also led a review of the lottery network among other services.
- Ernst & Young provided consulting services, advising and assisting with OLG's strategic plan implementation for digital transformation, retail expansion strategy for its lottery business, and change management (leadership coaching and workforce planning).

RECOMMENDATION 20

To improve its Board's oversight with independent advice, we recommend that the Ontario Lottery and Gaming Corporation Board:

- directly hire its own independent advisors that report to the Board to facilitate the evaluation of the Board, and to assist on issues such as investigations, executive compensation reviews, and related-party transactions involving senior management or directors of the Board;
- review OLG staffing needs and consultant use to assess why internal senior management and

staff rely heavily on external consultant advice; and
- oversee the implementation of staffing plans to strengthen OLG's ability to conduct their own operational projects.

OLG RESPONSE

OLG accepts the recommendations and values continuous improvement to strengthen board oversight. The Board will retain its own independent advisors as required to assist in its decision-making, ensuring that it follows government procurement processes in doing so.

The Board of Directors will provide oversight of Executive compensation decisions including pay bands and variable pay.

The Board will engage an external consultant to conduct the Board Evaluation scheduled for 2023. In addition, in 2023, the Board will review its policy on Board evaluations as part of its bi-annual Board governance review to ensure that the policy supports effective Board evaluation. Where an investigation involves a member of the OLG Board or ELT, the Board will retain and instruct an independent investigator.

OLG agrees that consultants should be used judiciously and be well managed. To provide a greater window into its use of consultants as well as the business cases for procuring external assistance, all contracts above the $10 million amount will be presented to the Board of Directors for approval prior to the request for proposal stage. The OLG Board will work with management to hire staff with expertise in areas of strong business need where the expertise is not currently available in the staffing complement.

RECOMMENDATION 21

To ensure independent financial auditing advice is received from its external auditor, we recommend that the Ontario Lottery and Gaming Corporation Board:

- discontinue contracting for non-audit related services with the incumbent external auditor; and
- to address over-tenuring for external audit services, direct its Audit and Risk Committee, prior to the expiration of the current agreement with their incumbent external auditor, to issue a request for proposal for audit services to be provided by an external auditor with the necessary independence, breadth, resources and capabilities, in the judgment of the Audit and Risk Committee.

OLG RESPONSE

OLG agrees to procure for an independent external auditor to ensure value for money. OLG will also develop a minimal allowable threshold of less than $200,000 per year for the provision of non-audit services.

6.2 Oversight Functions Not Properly Reporting Directly to the Board

As of May 2018, OLG's risk and internal audit functions were combined and overseen by one individual. In early 2021, the risk and internal audit functions started reporting into the Audit and Risk Management Committee of the Board along with a reporting relationship to the CEO. However, the compliance function does not have a direct reporting relationship to the Audit and Risk Management Committee of the Board. In corporate governance best practice, these functions are independent of one another and should report directly to the audit committee of the Board. Based on our suggestion and OLG's restructuring in October 2022, OLG's risk and internal audit responsibilities are now handled by separate individuals.

A key mandate of internal audit is to test the design and operational effectiveness of internal controls over material financial and non-financial risks. The risk management function provides recommendations on the design of the internal controls. Internal audit should not test the operational effectiveness of internal controls which it has participated in designing as part of the risk management function.

Through our work, we also noted that OLG's assessment of its financial and non-financial risks and the related risk mitigation policies are not formally reviewed and approved by the Board. Ensuring that an effective risk management framework is in place is a key Board responsibility. As part of good governance practice, a Board reviews and approves elements of each material financial and non-financial risks in the organization governed. This includes the definition of the risk, ensuring management develops governance structures and internal controls to mitigate the risk, and ensuring that there is independent assurance on the effectiveness of risk management practices and controls.

According to OLG, risk assessments and mitigations do not go to the Board for approval as it is management's responsibility to assess, prioritize and manage each risk to OLG's strategy and operations. OLG also noted that the Audit and Risk Management Committee Chair provides highlights of these risks in the Committee's summaries to the Board. However, the terms of reference for the Audit and Risk Management Committee require the Committee to review and make a recommendation to the Board for approval of OLG's Risk Appetite Framework.

RECOMMENDATION 22

To improve risk governance, we recommend that Ontario Lottery and Gaming Corporation (OLG) Board:

- review and annually approve the Risk Appetite Framework, including risk assessment and mitigation for all material financial and non-financial risks;
- ensure that risk, compliance, and internal audit functions, on a go-forward basis, have a direct reporting relationship to the Audit and Risk Management Committee and to the OLG Board; and
- require compliance, internal audit and risk oversight functions to meet in camera with the Audit and Risk Management Committee at each regularly scheduled meeting to provide updates on risks, compliance and internal controls.

OLG RESPONSE

OLG agrees that appropriate interactions between the Board and risk, compliance and internal audit oversight functions is important to maintain strong risk governance.

The Audit and Risk Management Committee as well as the full Board periodically review and approve OLG's Risk Management Framework, Risk Appetite Framework and Risk Policy. The Board will now annually approve the Risk Appetite Framework.

Internal Audit will be independent of management, maintaining a functional reporting relationship to the Audit and Risk Management Committee of the Board. Compliance and risk management functions will report into management functionally and maintain unfettered access to the Audit and Risk Management Committee of the Board.

Internal audit, risk management and compliance functions will meet in camera with the Audit and Risk Management Committee at each regularly scheduled meeting.

6.3 OLG Board Competencies Not Validated and Board Continues to Lack Certain Skills

Based on our review, OLG's director competency analysis is inadequate, consisting of informal internal email exchanges to ascertain expertise. The analysis lacks sufficient validation or calibration of competencies, or the submission of resumes. According to OLG, it relies on the Public Appointments Secretariat to validate each director's competencies. However, in our discussion with Public Appointments Secretariat, the Secretariat does not validate the competencies of any appointed directors. OLG maintains a board competency/skills matrix, but the matrix does not include relevant operational experience in, for example, cybersecurity or anti-money laundering. The Board member selection process also lacks analysis or actionable planning that can be shared with the Ministry of Finance to request the necessary expertise or to provide evidence of required expertise.

Current Board members have legal and consulting backgrounds, but the Board does not have members with expertise in cybersecurity or anti-money laundering—areas important to OLG. With the expansion of Internet gaming and with the amount of sensitive customer data OLG and its casino operators have access to, cybersecurity is a significant risk. In December 2021, a casino operator had a cybersecurity breach that impacted 20 individuals whose names, dates of birth and addresses were exposed.

We noted as well that the disclosure of governance standards and practices on OLG's public website is inadequate. The website does not include any information about Board committee membership or about who chairs each committee.

RECOMMENDATION 23

For the Ontario Lottery and Gaming Corporation Board to have the level of expertise needed to be effective in its oversight, we recommend that the Board update the Board director competency/skills matrix to include cybersecurity, anti-money laundering and other relevant operational experience.

OLG RESPONSE

OLG agrees with clarifying Board skills and will update the Skills Matrix to explicitly refer to "anti-money laundering" and "cybersecurity."

RECOMMENDATION 24

To improve the transparency and accountability of Ontario Lottery and Gaming Corporation (OLG) Board governance, we recommend that OLG publish on its website:

- the composition of each committee, including the names of each Committee Chair and the Committee members; and
- the areas of expertise for each committee and Board member.

OLG RESPONSE

OLG supports the recommendation and will update its website to more prominently present details of our Board Committees and membership. OLG will also provide additional details on Board member expertise.

6.4 CEO Evaluation, and Executive Compensation and Bonus Awarding Fall Short of Best Practices

CEO's Performance Not Independently Evaluated by Each Board Member

We found that there was no documented evidence that each Board director assesses the CEO's performance annually and that the provision of incentive pay is linked to the results of such an assessment.

Assessing the CEO is one of the most important roles that any board (or individual director) performs. Management may dominate a board over time by having such a review become informal, oral, or conducted only by a board chair or a committee of the board. As part of governance best practice, having each director assess the CEO annually in writing establishes and confirms accountability by a CEO to the entire board, and can be very helpful to a CEO for mentoring, coaching and development.

Incentive Pay for Executive Management and CEO May Be Provided on OLG Results Without Linkage to Individual Performance

Bonuses by their nature are not guaranteed, but are discretionary amounts designed to reward outstanding performance. Based on our review, from 2019/20 to 2021/22, we noted that all OLG executives (vice-presidents, senior vice-presidents and the CEO) received bonuses without a direct link to outstanding performance. For 2021/22, all 36 executives received at least 100% of their individual performance-related bonus and 85% of their financial bonus based on company performance totalling $1.2 million. Further, performance ratings for all employees have been based on a three-point scale. Achievement of two of the three ratings leads to the awarding of 100% of performance bonus pay, which limits flexibility to reward high performance or remediate poor performers.

Executive bonuses are meant to be a tool for a board of directors to incentivize certain types of behaviour by rewarding executives that exhibit that behaviour. However, if all executives are consistently achieving targets and expecting a bonus, then it becomes less of a tool for rewarding exceptional performance.

Furthermore, we noted that the basis for executive incentive pay became heavily weighted to financial targets between 2020 and 2022. For example, 80% of the bonus pay for the CEO (and 70% below for other management and employees) is based on net profit over the four lines of business. However, OLG's five strategic priorities are non-financial in nature:

- building a fun, diverse and performance-driven culture that is a destination for top talent;
- dominate the Internet gaming industry space and accelerate speed to market;
- re-open Land-based Gaming operations and consider new opportunities for growth;
- remove barriers to expand lottery and aggressively leverage it as a competitive advantage; and
- obsess over understanding our customers across all products and channels—and how they integrate.

Lastly, according to best practice, independent risk, compliance and internal audit functions should not be compensated based on company results. All of these oversight functions at OLG are currently rewarded for financial results such as net profit to the Province. The independence of these functions could be undermined by an incentive pay structure based on company results and outputs, because these functions should not be disincentivized to advise management to take actions that may have an adverse impact on the company's financial results and outputs. The incentive pay structure for these functions should be role- or assurance-based, and should be unaffected if their work finds concerns with OLG results and outputs.

RECOMMENDATION 25

To enable the Ontario Lottery and Gaming Corporation (OLG) Board to provide effective oversight for OLG's Chief Executive Officer (CEO) and executive compensation structure, we recommend that:

- each director assess the performance of the CEO annually in writing;
- the OLG Board set appropriate incentive pay for executive employees based on exceptional performance; and
- the risk, compliance and internal audit functions be compensated primarily on the basis of base salary, and that any incentive compensation be based solely on assurance responsibilities.

OLG RESPONSE

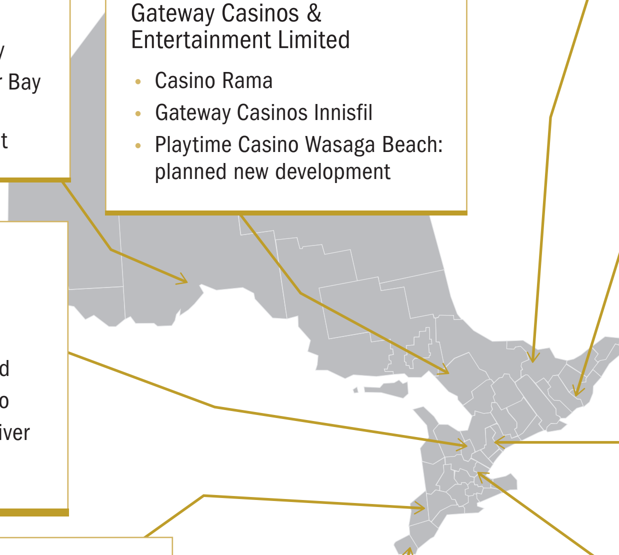
OLG agrees that the Board should have effective oversight of compensation and performance evaluations of the CEO. OLG will implement enhanced CEO performance assessments involving each director assessing the CEO's performance in writing.

The Board will continue to provide final approval for incentive pay. Payments will continue to be performance based. To introduce more rigour in its performance assessment process for executive employees for 2022/23, OLG will implement a five-point rating scale to ensure that incentive pay is focused on rewarding exceptional performance.

The Board will review the Executive Variable Pay Program for 2023/24 and ensure the advice is aligned with the expectations of the Ministry of Finance and Treasury Board Secretariat. OLG will review the compensation framework of risk, audit, and compliance staff according to best practices.

Appendix 1: OLG's Gaming Regions along with Their Private Sector Casino Operators

Source of data: Ontario Lottery and Gaming Corporation



North Gaming Region:
Gateway Casinos & Entertainment Limited

- Cascades Casino North Bay
- Gateway Casinos Sault Ste. Marie
- Gateway Casinos Sudbury
- Gateway Casinos Thunder Bay
- Playtime Casino Kenora: planned new development

Central Gaming Region:
Gateway Casinos & Entertainment Limited

- Casino Rama
- Gateway Casinos Innisfil
- Playtime Casino Wasaga Beach: planned new development

Ottawa Gaming Region:
Hard Rock Ottawa

- Rideau Carleton Casino

East Gaming Region:
Great Canadian Entertainment

- Shorelines Casino Belleville
- Shorelines Casino Peterborough
- Shorelines Casino Thousand Islands
- Shorelines Slots at Kawartha Downs

West GTA Gaming Region:
Great Canadian Entertainment

- Elements Casino Brantford
- Elements Casino Flamboro
- Elements Casino Grand River
- Elements Casino Mohawk

GTA Gaming Region:
Great Canadian Entertainment

- Casino Ajax
- Casino Woodbine
- Great Blue Heron Casino
- Pickering Casino Resort

Southwest Gaming Region:
Gateway Casinos & Entertainment Limited

- Cascades Casino Chatham
- Gateway Casinos Clinton
- Gateway Casinos London
- Gateway Casinos Sarnia (formerly OLG Slots at Hiawatha Horse Park)
- Gateway Casinos Woodstock
- Playtime Casino Hanover
- Starlight Casino Point Edward

Windsor Gaming Region:
Caesars Entertainment Windsor Limited

- Caesars Windsor

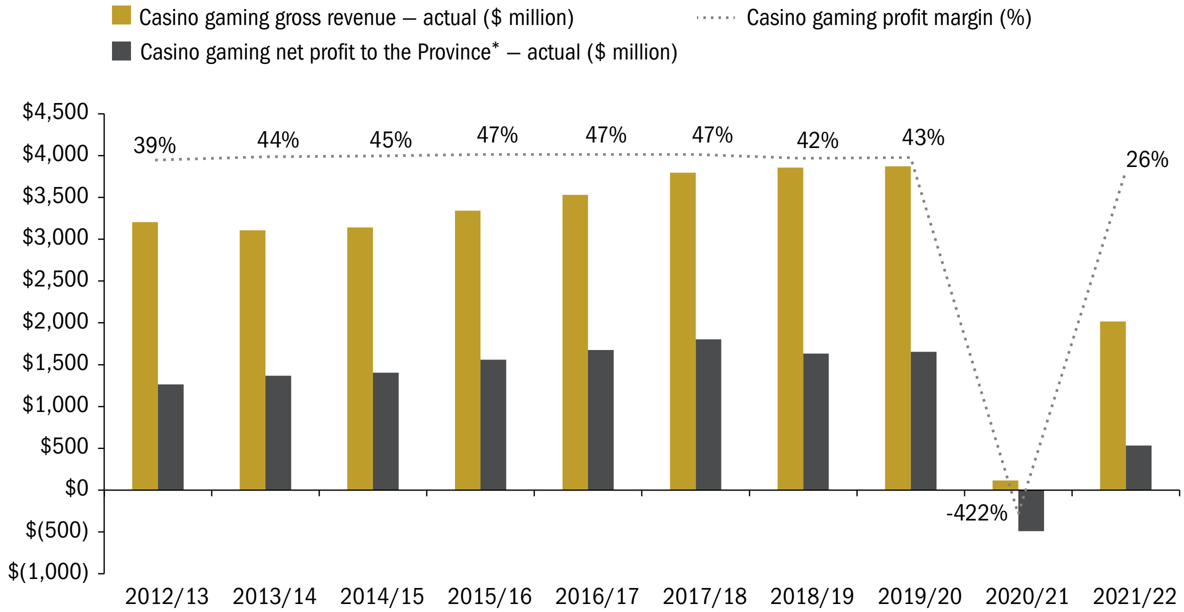
Niagara Gaming Region:
Mohegan Gaming & Entertainment Inc.

- Casino Niagara
- Fallsview Casino Resort

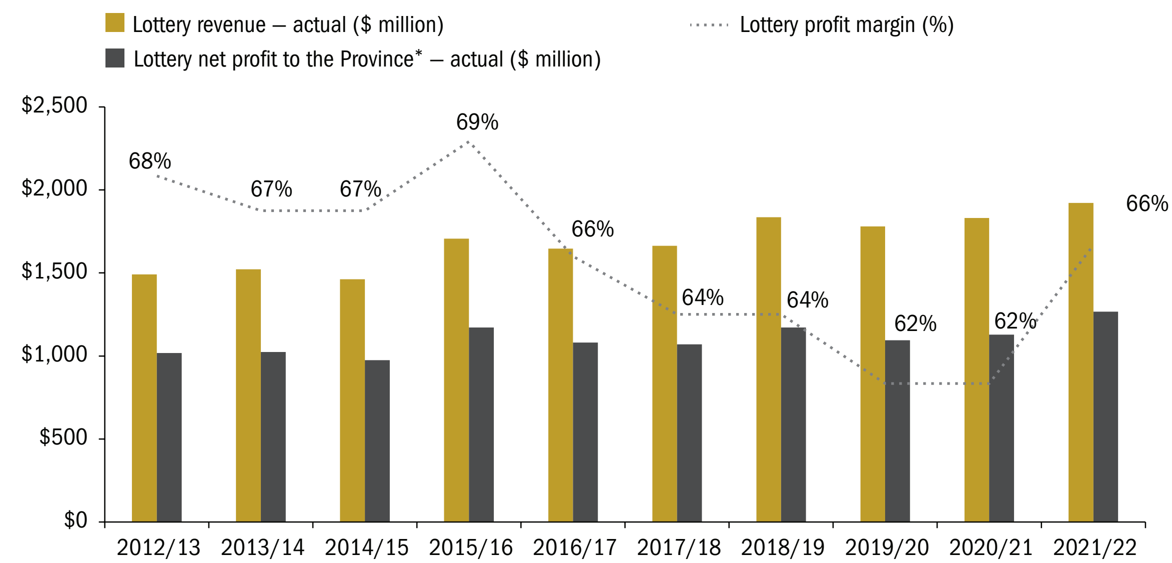
Appendix 2: OLG's 10-Year Financial Trends by Lines of Business

Source of data: Ontario Lottery and Gaming Corporation

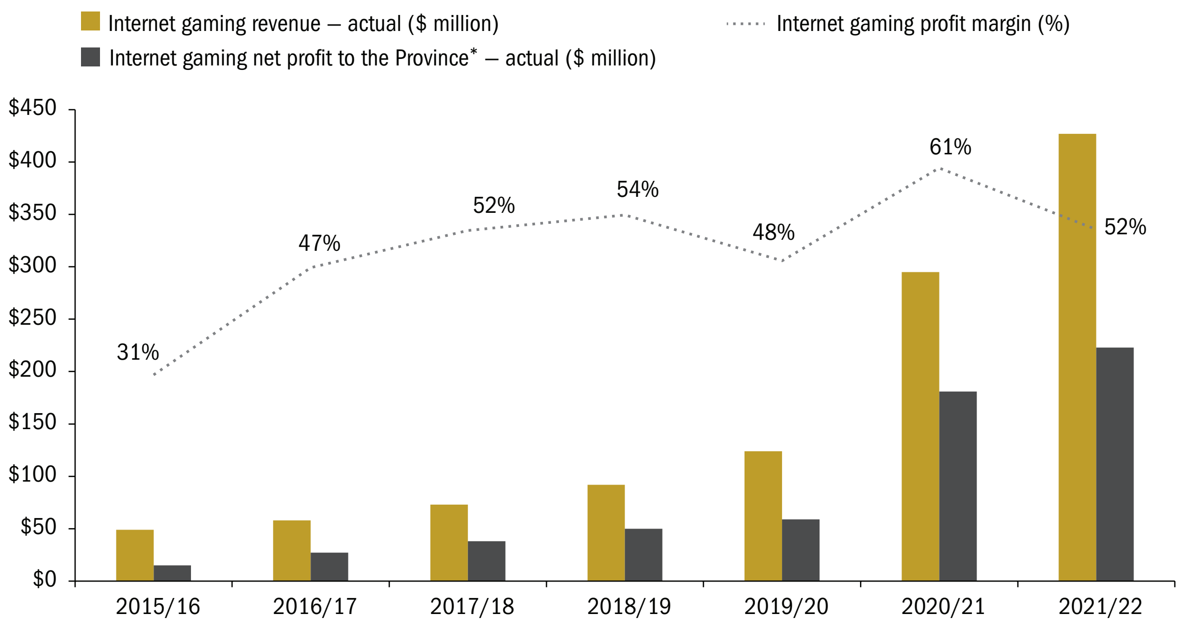
Casino Gaming



Lottery



Internet Gaming



* All net profit to the Province is before corporate services expense allocation.

Appendix 3: OLG's Privatization of Casinos—Procurement Process

Source of data: Ontario Lottery and Gaming Corporation

Request for Information (RFI)
To review respondent input and decide on gaming zone changes and compensation model, and acquire information regarding the anticipated procurement process. Non-binding; answers will not influence future competitive process.

Request for Pre-qualification (RFPQ)

To pre-qualify bidders for selection of a casino operator for gaming regions. Information on financial and technical attributes and capabilities, including proof of successful experience with similar projects and evidence of their ability to obtain a letter of credit, performance security and AGCO application are required to move to request for proposal stage. Successful respondent registers as approved casino operator registrant with the AGCO, which charges $100,000 non-refundable application fee.

Request for Proposal (RFP)

OLG financial business submission team and external evaluator conduct independent financial evaluations and test accuracy of data and assumptions used during evaluation. Independent Fairness Monitor oversees process, as follows:

Compliance of Proposals with terms and conditions.

Evaluation of Business Submission; Financing Plan; Financial Projections and Supporting Explanations: Submission of Gaming Management System (GMS), Marketing, Operations, Site Development and Governance Plans; Understanding OLG's Responsible Gambling Policies, Information Technology Policies, Ontario First Nations Plan, Horse-Racing Sustainability Plan, Financing Plan and Financial Projections and Supporting Explanations. Pass or fail evaluation only, points awarded not considered in Final Proposal Score. Bidders that pass these three stages considered viable operators.

Proponent Presentations: To Evaluation Team and/or OLG senior management and Fairness Monitor.

Evaluation of Variable Fee Threshold (Guaranteed Cash Flow to OLG): Present value of guaranteed revenue commitments over the first 10 years and the present value of one-half of OLG's 30% share of revenues projected above the guaranteed commitments.

Final Proposal Score based on 100% of Variable Fee Threshold Score for all gaming regions except GTA (Variable Fee Threshold Score – 75% and Site Development Plan – 25%) and Niagara (Variable Fee Threshold Score – 90% and Understanding Unique Features of Niagara – 10%). Variable Fee Threshold cannot be less than 10%–40% (varies by region) or greater than 100% of Total Gaming Revenue in any year. Bidder with highest final proposal score and passes OLG's value for money assessment (described below) is deemed to be winner of the region.

Value for Money (VFM) and Economic Impact Assessment: VFM assessment conducted by OLG financial scoring team compares net present value of cash flows to OLG under current business model with bidder's proposal; uses financial information provided by each bidder and assumptions provided by OLG. Pass or fail evaluation only. Scoring depends on region: pass is 95%–105% of OLG current business model. Supplementary evaluator also conducts VFM assessment, sensitivity analysis and internal rate of return analysis for certain bundles.

Economic impact study done by third-party consultant for top-ranked bidder. OLG Enterprise Risk Management team conducts bid rigging, conflict of interest and collusion analysis on all submissions, evaluates likelihood of fraudulent activity and financial strength before winning bidders selected.

Ranking the Proponents: Based on the Final Proposal Scores; top-ranked bidder identified by OLG procurement team. RFP Recommendation for Award Memo, prepared by OLG procurement team with analysis of top-ranking bid, presented to Executive Committee and then to Board of Directors for approval. Fairness Monitor submits attestation of process. Winning and unsuccessful bidders notified in writing. Unsuccessful bidders may request debriefing sessions about their proposals.

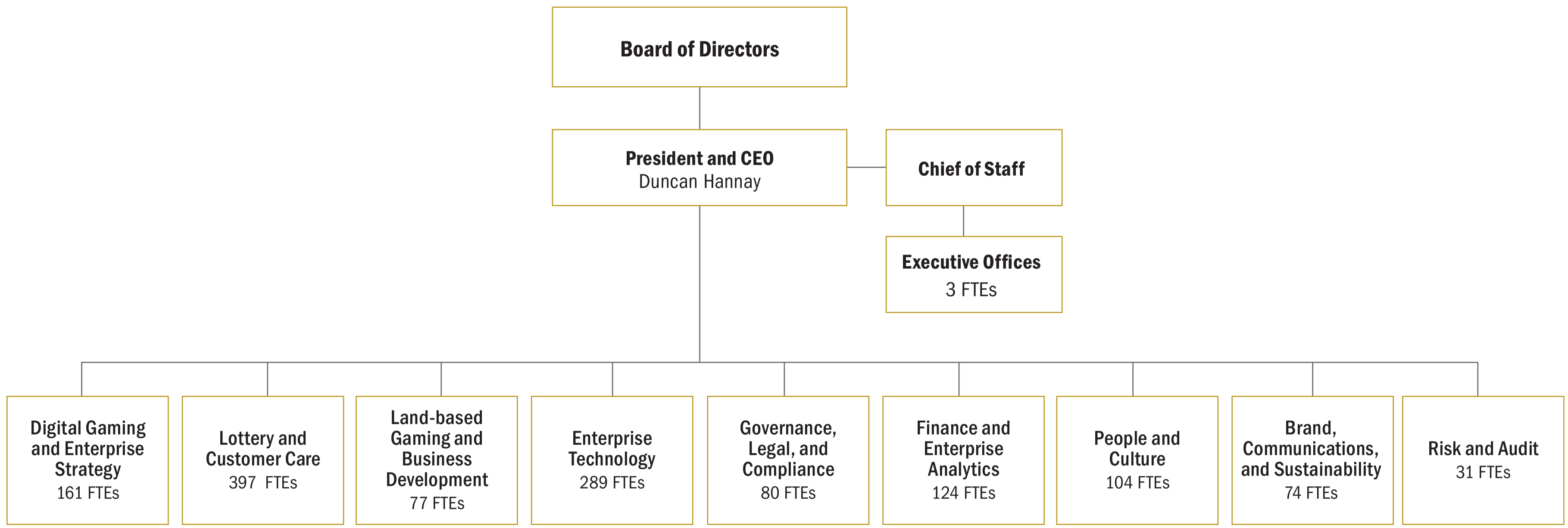
Appendix 4: Casino Operator Selection and Contract Amendment Timelines by Region

Source of data: Ontario Lottery and Gaming Corporation

Gaming Region	Request for Proposal (RFP) Issuance Date	Request for Proposal (RFP) Submission Deadline Date	Contract Award and Public Announcement Date	Operating Contract Effective Date	Initial Financial Relief Contract Amendment Date
East	25 Apr 2014	14 May 2015	8 Sep 2015	11 Jan 2016	n/a
Southwest	23 Nov 2015	8 Sep 2016	12 Dec 2016	9 May 2017	n/a
North	23 Nov 2015	22 Sep 2016	12 Dec 2016	30 May 2017	7 Aug 2019
Ottawa	27 Oct 2016	9 Feb 2017	15 May 2017	12 Sep 2017	24 Jul 2019
GTA	11 Feb 2016	20 Apr 2017	7 Aug 2017	23 Jan 2018	18 Jul 2018
West GTA	20 Oct 2016	20 Jul 2017	18 Dec 2017	1 May 2018	30 Jun 2019
Central	31 Mar 2017	11 Jan 2018	14 Mar 2018	18 Jul 2018	n/a
Niagara	10 Apr 2017	31 May 2018	10 Sep 2018	11 Jun 2019	n/a

Appendix 5: OLG Organizational Chart as of March 31, 2022

Prepared by the Office of the Auditor General of Ontario



Note: Total FTEs (full-time-equivalent employees) – 1,340.

Appendix 6: Audit Criteria

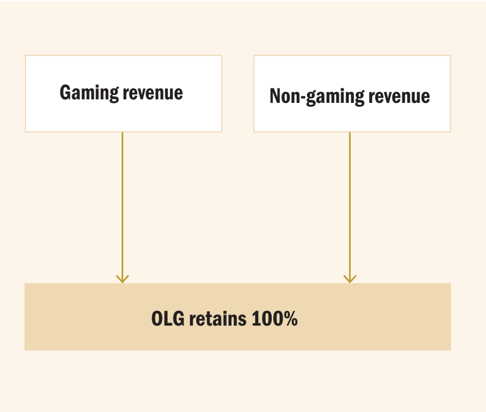
Prepared by the Office of the Auditor General of Ontario

1. OLG has effective governance and accountability structures, which are aligned with best practices, and ensure that OLG achieves its legislative mandate and complies with applicable government requirements and guidelines.
2. Competitive, fair and transparent procurement processes are followed in awarding contracts to casino operators.
3. OLG effectively manages and oversees casino operators to ensure compliance with gaming standards (including Integrity of gaming), and performance and accountability requirements.
4. OLG manages human resources, including the use of consultants and contractors, efficiently and effectively to fulfill its mandated responsibilities.
5. Processes are in place to proactively monitor product mix, market trends and emerging risks to enable OLG to maximize its revenues in a socially responsible manner.
6. OLG has effective processes in place to support the prevention of money laundering in casinos.
7. OLG has effective systems in place to monitor and ensure lottery and gaming payouts to consumers are fair and in compliance with provincial gaming standards.
8. OLG effectively promotes social responsibility by providing consumers with evidence-based education and information on responsible lottery and gaming consumption. Individuals under 19 years of age are prevented from accessing gaming products through the e-commerce platform OLG.ca.
9. Performance measures and targets are established, monitored and compared against actual results and industry best practices, and publicly reported, and corrective actions are taken on a timely basis when issues are identified.

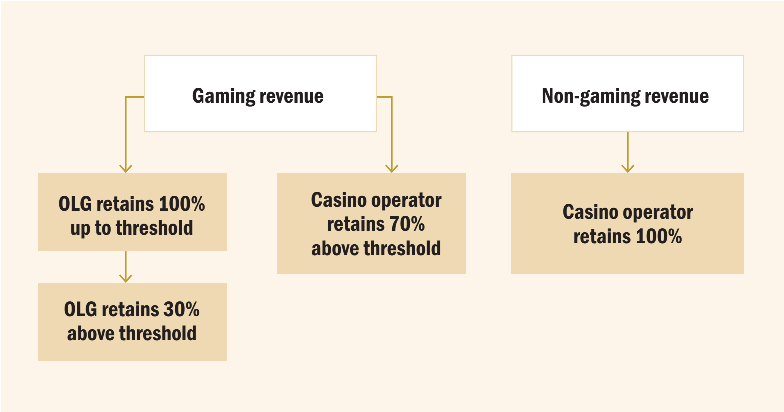
Appendix 7: Compensation Models Prior to and after Privatization of Casinos

Source of data: Ontario Lottery and Gaming Corporation

Compensation Model Prior to Privatization of Casinos[1]



Compensation Model after Privatization of Casinos[2]



1. Under the compensation model prior to privatization, which is currently in effect only for the Windsor casino, OLG is responsible for all operational and capital costs while the casino operator is paid a fee (% of gaming revenue) for their management services.
2. Under the new compensation model after privatization, OLG sets and pays a fixed fee to casino operators to support basic operating expenses. Casino operators also receive an allowance for capital expenditures incurred, as reimbursement for maintenance of capital assets.

Appendix 8: Slot Machine Payout Data by Casino, January 2017 to August 2022

Source of data: Ontario Lottery and Gaming Corporation

Casino Location	Slot Machines (#)	Slot Machines Below 85% (#)	Slot Machines at 85% or Above (#)	Slot Machines at 85% or Above (%)	Average of Actual Payout (%)
Casino Rama	2,190	121	2,069	94.5	90.6
Gateway Casinos Innisfil	1,140	1	1,139	99.9	91.3
Central Region – Gateway Casinos	**3,330**	**122**	**3,208**	**96.3**	**91.0**
Cascades Casino North Bay	171	5	166	97.1	90.4
Gateway Casinos Sault Ste Marie	370	2	368	99.5	90.9
Gateway Casinos Sudbury	457	1	456	99.8	90.9
Gateway Casinos Thunder Bay	636	0	636	100.0	91.2
North Region – Gateway Casinos	**1,634**	**8**	**1,626**	**99.5**	**90.9**
Cascades Casino Chatham	321	1	320	99.7	90.6
Gateway Casinos Clinton	163	0	163	100.0	90.7
Gateway Casinos Dresden (closed in July 2019)	18	1	17	94.4	90.8
Gateway Casinos London	997	4	993	99.6	90.9
Gateway Casinos Sarnia	157	1	156	99.4	90.0
Gateway Casinos Woodstock	390	2	388	99.5	90.9
Playtime Casino Hanover	336	2	334	99.4	90.8
Starlight Casino Point Edward	537	1	536	99.8	90.9
Southwest Region – Gateway Casinos	**2,919**	**12**	**2,907**	**99.6**	**90.7**
Shorelines Casino Belleville	482	21	461	95.6	89.6
Shorelines Casino Peterborough	492	32	460	93.5	89.7
Shorelines Casino Thousand Islands	483	30	453	93.8	89.7
Shorelines Slots at Kawartha Downs	150	10	140	93.3	90.0
East Region– Great Canadian Entertainment	**1,607**	**93**	**1,514**	**94.2**	**89.8**
Casino Ajax	504	13	491	97.4	89.4
Casino Woodbine	4,015	20	3,995	99.5	91.3
Great Blue Heron Casino	751	2	749	99.7	99.3
Pickering Casino Resort	2,380	159	2,221	93.3	89.0

Casino Location	Slot Machines (#)	Slot Machines Below 85% (#)	Slot Machines at 85% or Above (#)	Slot Machines at 85% or Above (%)	Average of Actual Payout (%)
GTA Region – Great Canadian Entertainment	**7,650**	**194**	**7,456**	**97.5**	**92.4**
Elements Casino Brantford	661	1	660	99.8	91.1
Elements Casino Flamboro	1,058	1	1,057	99.9	90.9
Elements Casino Grand River	540	0	540	100.0	90.6
Elements Casino Mohawk	1,582	9	1,573	99.4	91.0
West GTA Region – Great Canadian Entertainment	**3,841**	**11**	**3,830**	**99.7**	**90.9**
Rideau Carleton Casino	1,673	14	1,659	99.2	90.3
Ottawa Region – Hard Rock	**1,673**	**14**	**1,659**	**99.2**	**90.3**
Casino Niagara	1,436	86	1,350	94.0	89.7
Fallsview Casino Resort	3,642	99	3,543	97.3	90.3
Niagara Region – Mohegan Gaming	**5,078**	**185**	**4,893**	**96.4**	**90.0**
Total	**27,732**	**639**	**27,093**	**97.7**	**90.7**

Appendix 9: OLG's GameON Strategy and Enterprise-Wide Performance Indicators, June 2022

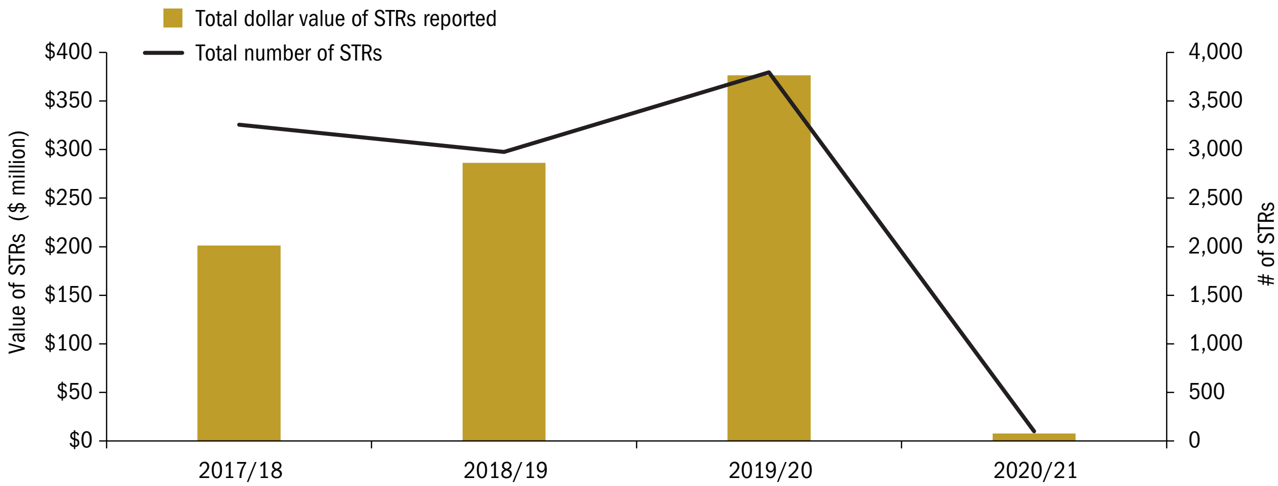
Source of data: Ontario Lottery and Gaming Corporation

Strategic Priority	Performance Indicators of Integrated Strategic Plan, as of June 2022	2021/22 Target	2021/22 Actual
Overall OLG financial	Net Profit to the Province	$1.266 billion	$1.562 billion
Build a fun, inclusive performance-driven culture that is a destination for top talent	Net Profit to the Province per FTE (full-time-equivalent OLG employee)	$0.94 million	$1.17 million
	Employee Engagement Score (measures OLG employee sentiment)	58%–60%	73%
	Inclusion Score (measures OLG organizational diversity, leveraging the Diversion tool)	57%–59%	62%
	Risk Culture Score (measures employee awareness, capability and comfort in taking and managing risks)	n/a[1]	n/a[1]
Drive share growth in digital gaming space and accelerate speed to market	Average Monthly Active Digital Customers	224,321	253,000
	Average Monthly Digital Gross Gaming Revenue per Digital Customer	$113	$143
Restore land-based gaming operations and identify new opportunities for growth	Casino Gaming Gross Gaming Revenue	$2.19 billion	$2.02 billion
	Casino Operators (Service Providers) Relationship Score	n/a[2]	13.5
Remove barriers to expand lottery and aggressively leverage it as a competitive advantage	Average Weekly Active Retail Lottery Customers	3.28 million	3.85 million
	Average Weekly Sales per Retailer	$8,434	$8,932
Obsess over understanding our customers across all products and channels. Become an exceptional partner to our stakeholders.	Customer Net Promoter Score (measures OLG's customer sentiment using surveys)	n/a[1]	n/a[1]
	Customer Satisfaction Score	n/a[1]	n/a[1]
	Enterprise Player Health Index (measures OLG's player health using surveys)	92%–95%	96.6%
	High-Risk Player Monitoring (Anti-Money Laundering)	n/a[1]	n/a[1]

1. These performance indicators were introduced in 2022/23 and therefore no targets or actual results were available for 2021/22.
2. No target for 2021/22 was available.

Appendix 10: Total Suspicious Transaction Report (STR) Filings, 2017/18–2020/21

Source of data: Ontario Lottery and Gaming Corporation



Appendix 11: Suspicious Transaction Reports Filed by Casino, 2019/20

Source of data: Ontario Lottery and Gaming Corporation

Casino	# of Suspicious Transactions	Value of Suspicious Transactions ($ 000)	Revenue ($ million)	# of Patrons (000)	Suspicious Transactions as % of Revenues
Casino Rama	700	45,641	246.9	2,328	18.49
Gateway Casino Innisfil	30	1,126	153.2	1,216	0.73
Central Region – Gateway Casinos	**730**	**46,767**	**400.1**	**3,544**	**11.69**
Gateway Casinos Sault Ste Marie	24	62	27.5	502	0.23
Gateway Casinos Sudbury	6	335	38.4	370	0.87
Gateway Casinos Thunder Bay	16	213	48.2	659	0.44
North Region – Gateway Casinos	**46**	**610**	**114.1**	**1,531**	**0.53**
Cascades Casino Chatham	6	44	27.6	428	0.16
Gateway Casinos Clinton	0	0	12.5	156	0
Gateway Casinos London	53	574	114.3	1,087	0.50
Gateway Casinos Sarnia	0	0	1.9	28	0
Gateway Casinos Woodstock	38	4,765	29.9	290	15.94
Playtime Casino Hanover	4	3	26.7	422	0.01
Starlight Casino Point Edward	11	33	45.9	610	0.07
Southwest Region – Gateway Casinos	**112**	**5,419**	**258.8**	**3,021**	**2.09**
Shorelines Casino Belleville	26	87	63.1	1,177	0.14
Shorelines Casino Peterborough	18	324	60.4	939	0.54
Shorelines Casino Thousand Islands	16	393	53.8	562	0.73
Shorelines Slots at Kawartha Downs	3	12	8.8	142	0.14
East Region – Great Canadian Entertainment	**63**	**816**	**186.1**	**2,820**	**0.44**
Casino Ajax	47	1,694	234.8	1,988	0.72
Casino Woodbine	794	131,263	988.7	7,791	13.28
Great Blue Heron Casino	121	7,708	141.8	1,195	5.44
GTA Region – Great Canadian Entertainment	**962**	**140,665**	**1,365.3**	**10,974**	**10.30**
Elements Casino Brantford	61	2,502	120.4	1,246	2.08
Elements Casino Flamboro	32	546	125.3	1,140	0.44
Elements Casino Grand River	6	3	51.9	762	0.01
Elements Casino Mohawk	52	3,323	203.7	1,405	1.63
West GTA Region – Great Canadian Entertainment	**151**	**6,374**	**501.3**	**4,553**	**1.27**
Rideau Carleton Casino	38	810	155.9	1,490	0.52
Ottawa Region – Hard Rock	**38**	**810**	**155.9**	**1,490**	**0.52**
Casino Niagara	15	386	86.2	1,703	0.45
Fallsview Casino Resort	878	151,045	522.7	5,826	28.90
Niagara Region – Mohegan Gaming	**893**	**151,431**	**608.9**	**7,529**	**24.87**
Caesars Windsor	781	23,282	280.9	3,411	8.29
Windsor – OLG/Caesars	**781**	**23,282**	**280.9**	**3,411**	**8.29**
Total	**3,776**	**376,174**	**3,871.4**	**38,873**	**9.72**

Shade indicates casinos where the value of suspicious transaction reported was less than 1% of casino revenues.

Office of the Auditor General of Ontario

20 Dundas Street West, Suite 1530
Toronto, Ontario
M5G 2C2

www.auditor.on.ca

ISBN 978-1-4868-6525-3 (PDF)

Cover photograph credit:
© iStockphoto.com/lovro77