



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

## 2022 Value-for-Money Audit

### Why we did this audit

- Since our 2014 special audit of OLG's Modernization Plan, OLG has selected private sector casino operators for eight of its nine gaming regions. After the procurement of casino operators, annual casino revenue was expected to reach \$6.4 billion by fiscal 2024/25.
- OLG has had a monopoly on Internet gaming in Ontario. However, as of April 4, 2022, all private-sector operators that have operating agreements with iGaming Ontario, the Province's Internet gaming agency, can offer both online casino and sports betting in Ontario. This is in direct competition with OLG's Internet gaming products.

### Why it matters

- OLG is one of the most significant sources of non-tax revenue for the Province. In 2021/22, OLG accounted for \$1.562 billion (24%) of the \$6.4 billion in non-tax revenue generated by government business enterprises. OLG also shares a portion of its revenues with host municipalities and Ontario First Nations.
- About 60% of Ontario adults purchase OLG's lottery, casino or Internet gaming products annually.

### What we found

#### **OLG Re-negotiated Significantly Reduced Revenue Commitments from Casino Operators Despite Signed Contracts Already in Place**

- In 2019, casino operators in the Ottawa, North and West GTA regions asked OLG for reductions to the guaranteed revenue commitment in their contracts with OLG and received these concessions:
  - The Ottawa casino operator requested and was granted a 25% reduction in future casino revenue, thereby reducing the Province's minimum revenue share. This operator had projected annual gaming revenues of \$330 million by 2026/27 in its winning bid, but now only expects revenue to reach \$250 million annually by 2026/27.
  - The successful bidder for casino operations in the West GTA region won with unrealistic financial projections, and then requested financial relief, thereby reducing OLG's projected revenue share by \$1.8 billion over 10 years.
  - The North region operator reduced its revenue projections by \$88 million over the first 10 years of its agreement with OLG after delays in construction due to municipal approvals and legal challenges from First Nations.
- Under its contract, OLG had no obligation to re-negotiate these contracts and accept revenue reductions.
- Contracts do not require casino operators to make the capital investments and staffing commitments they proposed in their bids.

#### **RECOMMENDATION 1**

#### **OLG Selected Casino Operator for Niagara Region That Proposed the Least Amount of Capital Investment**

- OLG's external consultant concluded that the winning bidder for the Niagara region brought less economic and financial benefit than if OLG had continued with its own operations in the region.
- Along with projections of significantly higher gaming revenues, the other two bidders proposed significantly more direct capital investment. One bidder proposed \$857 million more in capital investment than the winning bidder.

- OLG’s evaluation process was designed to select the bid that offered the highest present value of cash flows over the first 10 years, without considering overall economic and capital investment benefits for the region.

#### RECOMMENDATION 2

##### **OLG Failed to Pay a Share of Non-gaming Revenue to First Nations**

- In OLG’s new agreements with regional casino operators, all non-gaming revenue is now retained by the casino operators, despite OLG’s contract obligation to pay a 1.7% share of such revenues to Ontario First Nations (2008) Limited Partnership (First Nations).
- First Nations sued OLG for breaching their contract with OLG, and OLG was ordered to annually pay First Nations 1.7% for non-gaming revenue.
- OLG now incurs an additional expense equal to 1.7% of non-gaming revenue that it no longer receives, estimated at about \$5.3 million annually.

#### RECOMMENDATION 3

##### **Neither OLG Nor AGCO is Ensuring Slot Machines Pay Out 85% as Required**

- Casino operators are required to follow the Alcohol and Gaming Commission of Ontario (AGCO) standards to ensure that slot machine payouts are set at 85% or above over the life of each machine. Both OLG and AGCO are currently relying on casino operators to self-monitor slot payouts and self-report any issues.
- Based on our review of January 2017 to August 2022 slot payout data, for 27,732 slot machines, 639 of slot machines were paying under 85% and 83 were paying under 80%. Of these, 250 slot machines were still paying under 85% after more than 100,000 games played.
- Casino operators performed a mass slot machine reset unrelated to any software or hardware change between October 2021 and April 2022. The mass slot machine reset may have impacted slot payouts.
- OLG’s Gaming Management System has not been implemented at the Windsor casino, so neither the AGCO nor OLG is able to remotely monitor slot payouts at this location, relying instead on reports submitted by the casino operator.
- AGCO does not conduct on-site inspections of slot machines.

#### RECOMMENDATION 4

##### **OLG’s Responsible Gambling Tools Not Used by Online Players**

- OLG’s Internet gaming customers grew from 31,000 average monthly players in 2017/18 to almost 257,000 in 2021/22. However, the percentage of active players using the casino loss limits tool dropped from 33% in June 2017 to only 11% in June 2022.
- Players who self-exclude from OLG’s Internet gaming platform are not automatically self-excluded from casino gaming sites. They can also continue to access Internet gaming platforms operated by iGaming’s private Internet gaming operators.

#### RECOMMENDATION 15, 16

##### **Reporting of Suspicious Transactions Related to Money Laundering Varies by Casino**

- The value of suspicious transactions reported related to money laundering was less than 1% of revenues in 19 of 27 casinos.
- 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 obtained casino cheques between \$4,900 and \$10,750, on multiple occasions, with limited play and no proof of casino winnings, effectively confirming that they could launder money.

#### RECOMMENDATION 17-19

**Public Reporting Incomplete and Lacks Transparency**

- 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.
- Its 2021/22 financial statements do not show how much money is being paid to casino operators each year. This is less disclosure than that in prior years.

**RECOMMENDATION 11-14**

**OLG's Board Has Not Retained Direct Independent Advice on Any Matter**

- When the conduct of a former CEO was questioned, an investigation was led by a senior executive with a direct reporting relationship to the CEO.
- All compensation reviews for the CEO and the executive team have been led by advisors hired by OLG management.
- An independent governance advisor has not been retained by the Board to facilitate the evaluation of the Board, each Board Committee and each Director.

**RECOMMENDATION 20, 21, 25**

**Conclusions**

- OLG undermined the credibility of its own procurement process by failing to hold casino operators accountable for their financial commitments in the contracts they originally signed to operate casinos. By agreeing to lower financial commitments and not incorporate capital investment commitments in contracts, OLG has weakened its ability to achieve the government's objectives of maximizing provincial profits and private-sector capital investments.
- Money laundering continues to be a significant risk in Ontario casinos. OLG and casino operators do not have effective processes to prevent money laundering in casinos.
- Alcohol and Gaming Commission of Ontario, the regulator of gaming in Ontario, does not ensure the integrity of slot machines by inspecting for the standard of 85% payout over the life of the machine, nor ensuring that all slot machines are appropriately monitored. OLG does not perform this work either.
- OLG could improve its performance measures by focusing on its core objectives; it could strengthen its responsible gambling program by focusing more proactively on players whose play indicates a risk of problem gambling.

Read the report at [www.auditor.on.ca](http://www.auditor.on.ca)