Ontario

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Ministry of Finance
Ontario Lottery and Gaming Corporation

Final Draft Report

Audit of Governance and Accountability Framework and Mechanisms (Phase 1 of 2)

June 2020

Finance Audit Service Team
Ontario Internal Audit Division
Treasury Board Secretariat

Serving:
Ministry of Finance

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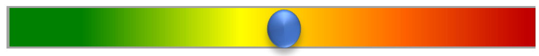
Executive Summary

Overall Risk Rating:



Introduction

The Ontario Lottery and Gaming Corporation (OLG) operates under the Ontario Lottery and Gaming Corporation Act, 1999, and is classified as a Government Business Enterprise (GBE) Agency of the Province of Ontario. The mandate of OLG includes: to enhance economic development; to generate revenue for the province; to promote responsible gambling; and to serve the public interest.

The OLG is responsible for conducting and managing lottery games, Charitable Gaming (c-Gaming), Digital (Internet) Gaming (i-Gaming), and Land-based Gaming, which includes: Independent Service Provider-operated Slots and Casinos and Resort Casinos; Caesars Windsor in the province. OLG also supports and administers funding to Ontario's horse racing industry.

The OLG is required to contribute its annual net profit (NPP) from its operations to the Government of Ontario's Consolidated Revenue Fund. These funds are used to support provincial priorities. Please refer to **Table 1** below for OLG's revenues and net profit to the province between fiscals 2014/15 and 2018/19. **Table 2** provides the details of OLG's contributions to the province compared to the other GBEs of the province of Ontario for fiscals 2017/18 and 2018/19.

Table 1 - OLG's Gross Revenues and NPP 2014/15 to 2018/19 – ($ Million)[1]

Lines of Business	2014/15	2015/16	2016/17	2017/18	2018/19
Land-based Gaming	3,252	3,444	3,583	3,796	3,857
Lottery	3,269	3,786	3,681	3,780	4,167
Digital Gaming	8	49	58	73	92
Charitable Gaming	115	166	153	172	183
Total Gross Revenues	**6,644**	**7,445**	**7,475**	**7,821**	**8,299**
Net profit to the province (NPP)	**1,999**	**2,231**	**2,361**	**2,487**	**2,471**
NPP / revenue ratio	**30.1%**	**30.0%**	**31.5%**	**31.8%**	**29.8%**

Table 2 – GBEs Contributions[2] to the province 2017/18 to 2018/19

	2017/18		2018/19	
Government Business Enterprises	**$ Million**	**%**	**$ Million**	**%**
Ontario Lottery and Gaming Corporation	2,487	40	2,471	45
Liquor Control Board of Ontario	2,207	36	2,276	42
Ontario Power Generation	1,092	18	837	15
Ontario Cannabis Retail Corporation	(6)	0	(42)	(1)
Hydro One	372	6	(31)	(1)
Total monies to the province	**6,152**	**100**	**5,511**	**100**

The OLG is in the final stages of a major transformation. The Modernization Plan (the Plan) was approved by Cabinet in February 2012. The Plan outlined the need for a change of the model that was used to administer lottery and gaming in the province. The plan highlighted advances in technology; changes to patron's shopping patterns; aging demographics; and declining visits from

[1] Source of Data: OLG Annual Consolidated Financial Statements
[2] Source of Data: Public Accounts of Ontario

the United States as some of the key factors that were threatening the industry and the economic contributions to the province.

The Office of Auditor General of Ontario (OAGO) released a special report on OLG's Modernization Plan in April 2014. The OAGO commended OLG for its fair and transparent procurement processes and practices, but also outlined key opportunities for improvement related to, consistency between municipalities' hosting fees; overly ambitious timelines of the Plan; overly optimistic financial projections; overstated jobs and private-sector capital investment projections; and for the province and OLG to partner and prevent and mitigate problem gambling in Ontario.

With the support and recommendation from the Ontario Internal Audit Committee (OIAC), the Audit and Accountability Committee (AAC), a sub-committee of the Treasury Board/Management Board of Cabinet (TB/MBC), approved this audit as part of the 2019/20 OPS-wide Audit Plan.

This audit is being conducted in two phases. Phase one, this report, assessed the effectiveness of the governance and accountability framework and mechanisms at the OLG. Phase two will determine if OLG has adequate processes, procedures and practices to operate and achieve its mandate efficiently, economically, and effectively. The OLG's Internal Audit function is externally certified by the Institute of Internal Auditors. To prevent and minimize duplications of efforts, the Ontario Internal Audit Division (OIAD) relies on the work performed by the OLG's Internal Audit where possible.

Objective and Scope

The objective of this phase of the engagement was to assess the effectiveness of the governance and accountability framework and mechanisms at the OLG.

The scope of phase one includes: Board of Directors composition; Board sub-committee structure, roles and responsibilities; procurement policies and practices governing the procurement of land-based gaming service providers; travel, meals and hospitality expenses (TMHE) for senior management and Board members; human resource practices relating to executive compensation and benefits; governance and accountability of information and information technology; anti-money laundering; and social responsibility (impact problem gambling). The scope period of this engagement was fiscal 2011/12 to December of fiscal 2019/20. Please refer to **Appendix D** for detailed engagement scope and objective.

Audit Conclusion

We concluded that at the time of the audit, governance, and accountability frameworks, and mechanisms were established at the OLG. However, we have identified several opportunities where improvements are required in the areas of: Executive Compensation; Minimizing the Risk of Fraud in Financial Transactions; Conflicts of Interest Declarations; Responsible Gambling and Cybersecurity.

We noted that 28 of the evaluated audit criteria were met. However, the 14 (11+3) criteria that were both partially met and not met had significant impacts on the overall conclusion, results and rating of the audit.

Summary - Audit Criteria Evaluation Results

	Criteria Met	Criteria Partially Met	Criteria Not Met	Total
Audit Criteria Evaluation	28	11	3	42

See **Appendix G** for the full multiphase list of engagement criteria and our evaluation of the Phase 1 criteria.

Summary of Key Observations

OIAD identified the following significant observations:

1. OLG's executive compensation program was designed in line with the requirements of the Broader Public Sector (BPS) Executive Compensation Act, 2014, the Executive Compensation Framework and the BPS Executive Compensation Program Directive and was approved by the Ministry of Finance. However, we noted examples of OLG practices which did not always conform with the spirit of the compensation restraints that were in effect between April 2012 to March 2018.

2. OLG's performance-based compensation envelope was approved by its Board of Directors annually. In our opinion, the executive performance-based compensation program was not effectively designed to reward executives with bonuses based on the achievements of key financial and non-financial performance and results.

3. OLG has established a Financial Approval Policy and a Financial Delegation Approval Policy. We evaluated the policies and noted that enhancements are required for the policies to effectively meet the operational needs of the organization.

4. We reviewed a sample of 21 wire transfer payment transactions (April 2017 to January 2020) totaling $846.4M. These payments were approved as "exceptions" in accordance with the Financial Delegation Approval Policy and the "Financial Approval Exception" summary. The summary was not consistent with the governing Financial Approval Policy and created potential risks to the organization. We identified no evidence of inappropriate transactions in our sample. In addition, we noted that segregation of duties controls governing wire transfer transactions were inadequate in managing the risk of fraud.

5. We reviewed a sample of three wire transfer transactions totaling $146.7M which indicated that controls were inadequate. A senior staff person in Treasury Operations increased his own limit in the wire transfer system and then approved wire transfer payments in excess of his delegated payment approval limit under the "Financial Approval Exception" summary. We identified no evidence of inappropriate transactions in our sample.

6. OLG's Board of Directors (Board) meets regularly and is comprised of independent Directors. Roles and responsibilities were defined, and Board performance evaluations were being performed. Key and strategic decisions were also made by the Board. However, we noted that some Board governance processes and practices could be strengthened.

7. OLG has established an independent, self-funded Responsible Gaming (RG) Program and the Program was rated at a level four (highest level) by the World Lottery Association in

2018. However, OLG's approach to mitigate and manage the risks of problem gambling in Ontario can be strengthened.

8. OLG has identified Cybersecurity as one of its most critical enterprise risks. We noted that oversight by the Board of Directors over this key enterprise risk, and security awareness and phishing simulation practices could be improved.

9. Our review of a sample of travel, meals and hospitality expenses (TMHE) indicated that OLG generally complies with its TMHE policy. However, our review of a sample of Corporate Purchasing Card purchases identified that 29% of the sampled transactions, totaling $73,281, were spent on purchases such as, furniture, fixtures, equipment and travel. Under the OLG policy, Corporate Purchasing Cards are not allowed to be used as a medium for these purchases.

Summary of Key Recommendations

1. OLG should ensure that executives are compensated in an appropriate, fair, and transparent manner, and in compliance with all the rules governing BPS executive compensation; review the existing executive salary levels to ensure they are reasonable in comparison to other similar BPS organizations; ensure that all changes to executive salaries are executed in a reasonable and prudent manner.

2. OLG should evaluate the size of its executive complement and align span of control with overall staffing levels in order to ensure staffing levels are reasonable and that the appropriate people are in the right positions to meet the agency's business needs.

3. The OLG should review the design of the performance-based compensation program to establish proper linkages to the achievements of the agency's (financial and non-financial) performance and results to ensure payment of bonuses is commensurate with the risks and rewards of the agency's operations. OLG should define and document the criteria for measuring the individual performance objectives with linkages to organizational factors.

4. OLG should adopt a more realistic and reasonable method when budgeting and forecasting profits (NPP); review its annual business planning and forecasting practices and develop a scorecard with reasonable and appropriate (financial and non-financial) targets and Key Performance Indicators (KPIs); track, measure and report on the annual achievements of all targets, KPIs, and priorities.

5. OLG should ensure that payments of executive bonuses are reasonable and comparable to other similar BPS organizations; ensure that bonuses are paid in accordance with the appropriate governing policies and directives, and are adequately approved, justified, and documented; discontinue the practice of awarding guaranteed bonuses to all levels of employees to ensure compliance with the governing BPS compensation framework.

6. OLG should streamline its policies to ensure the delegation of authority (DOA) effectively meets the operational needs of the organization; developing a comprehensive "authority and approval matrix" that identifies and defines the appropriate DOA requirements to meet the operational needs of the organization.

7. To ensure good governance and effective internal controls are in place over the processing of wire transfer payments, and to mitigate fraud risk, OLG should ensure that functional and individual segregation of duties considerations are factored in the design of controls pertaining to all aspects of wire transfer payments (e.g., initial request and approval, creation, review, approval, and release of all wire transfer payments).

8. OLG should ensure appropriate approval authorities and limits are assigned to key positions across the organization in alignment with operational needs; design and implement adequate segregation of duties controls to restrict positions from having incompatible privileges.

9. OLG should strengthen its Board Governance processes and practices to ensure appropriate compliance with key Code of Business Conduct, Ethical and conflict of interest requirements.

10. The OLG and the Ministries of Finance and Health should partner and develop the provincial Problem Gambling Strategy. This will ensure a holistic approach is taken to effectively address problem gambling, its interrelationships and consequential impacts in Ontario, and will ensure funds are allocated and spent economically to optimize outcomes and benefits. The OLG should also: enhance and strengthens its Responsible Gaming (RG) policy and program, to connect its prevention and mitigation initiatives/services with the consequential and social implications that results from problem gambling as part of the broader Problem Gambling Strategy.

11. OLG should enhance its governance and reporting structure over cybersecurity to a level commensurate with cybersecurity's enterprise level risk ranking.

12. OLG should strengthen its practices to ensure compliance with its credit card policies; increase training and awareness regarding the use and compliance with the governing policies; and ensure that the nature of reimbursable employee business expenses is genuine, prudent and justifiable.

Noteworthy Accomplishments

The following noteworthy processes and practices were observed at the time of the audit:

Corporate Governance Framework:

- OLG had established an appropriate governance framework.
- OLG's oversight committees (i.e., Board of Directors and Board Committees) met regularly to decide on significant issues affecting the organization, and to govern the organization.

Legislation, Policy, Directive and Regulatory Requirements:

- Processes were established to ensure that all mandatory and governing laws, regulations, policies, requirements were identified for adherence, and policies and procedures were aligned to mandatory governing requirements.

- OLG had established risk management processes and practices to identify and manage significant risks to the organization.

- Regulatory compliance, monitoring and oversight mechanisms were established.

Board of Directors Composition, Structure, Roles and Responsibility:

- OLG's Board was comprised of independent members.

- Roles and responsibilities of the Board, Board Committee Chairs and senior management committees were formally defined and established.

- The Board governance structure was to enable OLG to respond to promptly respond to key and emerging priorities.

Travel, Meals and Hospitality Expenses:

- Travel, meals and hospitality expenses were governed by the applicable Directives and policy.

- Based on our sample testing, Board of Directors and management expenses were generally in compliance with governing Directives /policies and were appropriately supported and approved.

Procurement Policies and Practices – Used to Procure the Independent Land-based Gaming (LBG) Service Providers (SPs), and Operational Oversight Over Independent LBG SPs:

- Through its modernization and transformation initiatives, the OLG successfully outsourced the Land-based Gaming (LBG) Casino business segment (except for Caesars Windsor) to independent service providers (SPs) who are responsible for the day-to-day operations of LBG Casinos.

- The procurement of LBG service providers was carried out in compliance with the appropriate policies, procedures, directives etc. Pre-established evaluation criteria were formally defined to support competitive tendering processes and were used when evaluating prospective SPs' proposals.

- Casino Operating Service Agreements (COSAs) were established that governs the relationships between OLG and the independent LBG SPs and OLG had established appropriate processes and mechanisms used to perform oversight and monitoring over the independent LBG SPs.

Anti-Money Laundering (AML):

- OLG had established a formal anti-money laundering program with components to detect, monitor and report suspected / actual acts of money laundering. The program was reviewed periodically, including by FINTRAC.

Information Technology (IT) Governance and Cyber Security:

- OLG's IT function had established mandate, strategy, and frameworks to assist in identifying and managing the organization's IT risks.

Overall Management Response

The OLG thanks the OIAD for its phase one audit report of OLG's Governance and Accountability Framework and Mechanisms. We appreciate the observations and recommendations contained in the report.

Given the large scope of the audit and timeframe, in some cases, it should be noted that some of the observations reflect past practices which have since been rectified or are in the process of being reviewed.

OLG is responsible for managing an $8 billion gaming market and for ensuring its continued growth. We are committed to strong governance and have effective measures in place to continue to deliver value to the Province of Ontario. This includes our executive compensation framework. Our initial framework was developed in consultation with and approved by the Ministry of Finance and Treasury Board Secretariat according to Broader Public Sector Executive Compensation Act 2014 requirements.

OLG is committed to reviewing its executive compensation framework, to ensure it is applied in a consistent, transparent and effective manner. In 2019, in an effort to improve overall company performance, the company began execution of a new performance management approach to strengthen the connection between performance pay and the achievement of committed objectives and targets. The review will be an opportunity to strengthen and advance this work. In addition, the agency is in the process of developing organizational restructuring options which include the goals of increasing management spans of control and reducing its overall Full-Time Equivalent (FTE) count. Both pieces of work will be presented to the incoming Chief Executive Officer (CEO) and Board of Directors for their review prior to implementation.

Going forward, OLG will further strengthen governance and accountability by ensuring that education and attestation requirements on conflict of interest provisions for Board members are transparent and clear. We will also ensure that cybersecurity has the appropriate level of visibility at the Board level and that IT and cybersecurity awareness and education are elevated across our organization. And, we will consolidate and streamline our Financial Approval and Financial Delegation policies to ensure the delegation of authority (DOA) effectively meets the operational needs of the organization.

Social Responsibility and Responsible Gambling remain cornerstone values for OLG and key to our future success. We are committed to building on our global recognition as the Best

Responsible Gambling Program in the World, a distinction twice awarded to OLG by the World Lottery Association. We would welcome the opportunity to work with the Ministries of Finance and Health as an active participant in a provincial Problem Gambling Strategy.

OLG is the biggest contributor of non-tax revenue to the Province of Ontario, funding health care and other provincial priorities. As we continue to evolve, we are maintaining our commitment to strong governance and delivering value-for-money for our shareholder.

Conformance with Audit and Assurance Standards

This engagement has been conducted in conformance with standards from the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and Chartered Professional Accountants of Canada Audit and Assurance Standards.

Acknowledgement

The OIAD would like to thank the management and staff of OLG for their assistance and cooperation throughout the audit.

Approved by

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Ontario Internal Audit Division
Treasury Board Secretariat

Detailed Observations and Action Plans

1. Human Resources Practices, Executive-base Compensation

OLG's executive compensation program was designed in line with the requirements of the Broader Public Sector Executive Compensation Act, 2014 (BPSECA), the Executive Compensation Framework, and the Broader Public Sector (BPS) Executive Compensation Program Directive and was approved by the Ministry of Finance.

We noted examples of OLG practices which did not always conform with the spirit of the compensation restraints that were in effect between April 2012 to March 2018. For example:

- [Redacted]
- **OLG's internal job promotional practices (2015 to 2018) resulted in executives receiving salary increases of 16% to 46%, compared to a 3% to 10% promotional salary increase typical in other BPS Government Business Enterprise organizations, and did not provide them sufficient opportunity for progression within the new salary bands which serve as a mechanism to encourage improved performance.**
- **As a result of an Auditor General audit finding, OLG discontinued assigning fleet cars to executives in 2015. In its place, OLG increased each executive's salary by 16,000. OLG was asked to follow the spirit of the Broader Public Sector Accountability Act, 2010 (BPSAA). These Payments and benefits in lieu of perquisites were also prohibited under both the former Executive Compensation Framework Regulation (O. Reg. 304/16), and the current Compensation Framework Regulation (O. Reg. 406/18) made under BPSECA.**
- **OLG's modernization initiatives led to an 82% reduction in staff from January 2016 and June 2019. However, the number of OLG executives increased by 36% (from 25 to 34) over the corresponding period.**

A 2017 study commissioned by the OLG reviewed the compensation structure for the actual and targeted compensation levels (base and variable pay) for all of OLG's executive positions, and proposed minimum, mid-point and maximum base salary bands for all executives.

Executive compensation at OLG is governed by BPSECA. OLG's current executive compensation program was developed under the Executive Compensation Framework Regulation (O. Reg. 304/16) and the BPS Executive Compensation Program Directive (although the regulation and directive no longer applied as of August 13, 2018). As of August 13, 2018, OLG's executive compensation is subject to the O. Reg. 406/18 the "Compensation Framework," which replaced O. Reg. 304/16 and instituted a freeze on executive salaries.

OLG's executive positions include, President and Chief Executive Officer (CEO), Chief Operating Officer (COO) and Executive Vice President (EVP), Chief of Staff (COS), Senior Vice President (SVP) and Vice President (VP). **Table 3** shows OLG's executive ranks compared to three other Ontario BPS agencies of comparable size and scope, as well as the British Columbia Lottery Corporation (BCLC), Alberta Gaming, Liquor & Cannabis Commission (AGLCC), and Lotto-Québec (LQ) as of December 2019.

Table 3 – OLG's Executives Compared to Other BPS Agencies and Gaming Industry Executives[3]

Job Title	# of Positions OLG	# of Positions Metrolinx	# of Positions LCBO	# of Positions WSIB	# of Positions BCLC	# of Positions AGLCC	# of Positions LQ
President /CEO	1	1	1	1	1	1	1
COO / EVP	1	6	0	1	0	1	2
COS	1	1	1	0	0	0	0
SVP	8	0	5	0	0	0	0
VP	23	27	16	20	7	6	8
Total	**34**	**35**	**23**	**22**	**8**	**8**	**11**

OLG retained a Human Resources (HR) consultant to perform executive market compensation studies in 2016 and 2017. The 2016 study included a wide cross-section of public, BPS and private sector comparators, such as: Canadian BPS organizations, Canadian industries and other Financial Sector Companies. The studies reviewed the actuals and targeted compensation levels (base and variable pay) for all of OLG's executive positions.

The purpose of the 2017 study was to comply with the requirements of the BPS Executive Compensation Framework that was in effect at the time and compared OLG executive compensation structure against 22 Ontario BPS and other Canadian BPS organizations (sectors include: Banks, Financial Services, Insurance, Leisure and Hospitality, Retail, Healthcare, Telecommunications etc.). Example of comparators includes: Bank of Canada, Canadian Mortgage and Housing Corporation, Workplace Safety and Insurance Board, Atlantic Lottery Corporation, Royal Canadian Mint, Deposit Insurance Corporations of Ontario, LCBO, SaskTel, Metrolinx, University Health Network and Hospital for Sick Kids.

In 2017, OLG commissioned a study to review the compensation structure for the actual and targeted compensation levels (base and variable pay) for all OLG's executive positions, and proposed minimum, mid-point and maximum base salary bands for all executives.

We compiled total executive compensation figures for four Ontario BPS agencies for 2018 and 2019: OLG, the Liquor Control Board of Ontario (LCBO), Metrolinx and the Workplace Safety and Insurance Board (WSIB). We compiled the data from the annual Public Sector Salary Disclosure (PSSD).

For both years, OLG's total executive compensation was higher than the other three agencies. The 2019 total executive compensation for Metrolinx, the LCBO and WSIB were $7.2M, $6.1M, and $5.2M, respectively. OLG's total executive compensation was $11.1M (higher than other three agencies by 54%, 82%, and 113%, respectively). Also, OLG's total executive compensation was 13% higher in 2019 versus 2018.

OIAD acknowledges that a more in-depth and detailed analysis to compare compensation across BPS agencies may be beneficial, and OLG should consider this as appropriate when

[3] Other Ontario BPS data from 2019 Ontario Public Sector Salary Disclosure; other provinces' data from publicly available government websites

reviewing compensation going forward. That being said, OIAD does note that the use of PSSD data offers a snapshot and one lens for comparison of executive compensation in BPS agencies

Modernization and Transformation Initiatives

As part of the modernization and transformation, OLG bundled all slots at racetrack and land-based gaming (LBG) casino operations (except for Caesars Windsor), into eight separate gaming bundles. The bundles transferred the tangible assets, working capital, and the right to operate and build new facilities to independent private sector service providers (SPs), through a competitive procurement process. OLG and the SPs signed Casino Operating Services Agreements (COSAs), which govern the operations of the casino sites in each of the bundles. SPs are responsible for managing and controlling the day-to-day operations of the casinos.

The transformation initiative resulted in significant reductions (82%) in OLG's full-time employees (FTEs) headcounts between January 2016 and June 2019 when the eight COSAs were signed and became effective. Please refer to **Table 4** for staff to executive ratios pre versus post modernization.

Table 4 – Staff to Executive Ratios Pre vs. Post Modernization

	Approximate # of Employees	# of Executives	Average Staff / Executive Ratio
Pre-Modernization	8,000	25	320:1
Post-Modernization	1,450 (82% decrease)	34 (36% increase)	43:1

We reviewed the requirements governing OLG's executive compensation program, the compensation studies, data related to the declines in FTEs, and the salaries OLG paid to its executives between fiscals 2011/12 to 2018/19. We also interviewed key personnel from OLG's HR function.

Observations:

1. We identified several compensation practices relating to OLG's executives that may not have been consistent with compensation restraint measures which OLG was directed to follow by the Minister of Finance in September 2014:

    a. A market salary survey conducted by OLG prior to a senior executive starting in January 2015 recommended that the senior executive's base salary be within the range of $296,000 to $494,000. This specific recommendation only for the senior executive's proposed compensation level was approved by the then Minister of Finance (September 2014) under subsection 7(1) of the OLG Corporation Act. In the same letter, the Minister of Finance also expressed his concerns to OLG that "compensation levels will be frozen during the current provincial period of restraint in keeping with the spirit of the provisions in the Broader Public Sector Act" (referring to Part II.1 of BPSAA). [Redacted]. This increase was not consistent with compensation restraint under Part II.1 of the BPSAA, which OLG was expected to follow in spirit. This practice did not allow the senior executive to progress in the salary band. Furthermore, we haven't been provided with documentation to link it to a valid business justification, or to the achievement of performance and results.

b. With respect to internal promotional practices (2015 to 2018) amongst the executive ranks at OLG, we identified that when members of the executive team were promoted, changes to their salaries take them from the previous position in their salary bands to the top half or closer to the ceiling of the new salary bands for their new positions. This practice has rewarded executives with salary increases between16% to 46%, compared to a 3% to 10% promotional salary increase typical in the other BPS Government Business Enterprise organizations, and did not provide them sufficient opportunity for progression within the new salary bands which serve as a mechanism to encourage improved performance. We also reviewed a sample of the job descriptions (prior roles vs. new roles) for some of the promoted individuals and it was not always clear whether there were significant changes in roles and responsibilities.

c. In 2010, the Office of Auditor General of Ontario (OAGO) reported that OLG was providing fleet cars (each vehicle was valued from $41,500 to $62,500) to 26 executives, plus providing annual motor vehicle allowances (worth $17,000 to $24,000 to each executive) to another 16 executives. In contrast to the OLG's practice, the OAGO pointed out that the OPS limited fleet cars to Deputy Ministers only, with a maximum value of $30,000 per vehicle compared to OLG's $62,500 per vehicle. The OLG was advised to review entitlements to executive vehicles in the context of their executive compensation arrangements.

   We identified that OLG has discontinued assigning fleet cars to executives and increased each of their salaries by $16,000 annually, since 2015. Note that this increase of $16,000 to each of the executive is also pensionable income. In addition, we noted that motor vehicle allowances were also provided to executives who were not required to travel by car for business purposes. In our opinion, this does not appear to be consistent with the spirit of the compensation restraints that were in effect under Part II.1 of the BPSAA. We note that payments and benefits in lieu of perquisites were also prohibited under both the former Executive Compensation Framework Regulation (O. Reg. 304/16) and the current Compensation Framework Regulation (O. Reg. 406/18) made under BPSECA.

2. Under the modernization initiatives, OLG transferred direct control and operations of the land-based gaming casinos (eight bundles) to independent service providers. This enabled OLG to shift its focus from day-to-day land-based gaming operations towards a monitoring and oversight role. The first casino operating agreement was signed in January 2016, followed by four in 2017/2018, two in 2018/19, and one in 2019/20. This transformation reduced total OLG headcounts by 82%, from approximately 8,000 to 1,450 employees.

   We identified that while OLG experienced significant staffing reductions, the number of OLG executives rose by 36% (ranging from 25 to 34) after all the casino bundles were transferred to the independent service providers between fiscals 2017/18 and 2019/20. Please refer to **Table 4** for staff to executive ratios, pre vs. post modernization.

Recommendations:

1. To ensure that executives are compensated in an appropriate, fair, and transparent manner, OLG should:

   a. Review its existing executive compensation structure to ensure compliance with all the rules governing BPS executive compensation. OLG should also review its existing executive salary levels to ensure they are reasonable in comparison to other similar BPS organizations and that they are paid in accordance with governing requirements and policies.

   b. Ensure promotional salary increases given to executives are justified and supported by sufficient documentation and allows for progression within their established ranges based on performance.

   c. OLG should review all perquisites, including motor vehicle allowances paid to executives to confirm if they are allowable, reasonable, and comply with the BPSECA and the Perquisites Directive. OLG should also review to ensure entitlements are aligned with governing business travel requirements.

2. To ensure appropriate staffing levels are in place to meet the agency's business needs, OLG should evaluate the size of its executive complement and align span of control with overall staffing levels.

Management Responses / Action Plans:

OLG agrees that executives should be compensated in a fair and transparent manner. The agency's compensation framework was designed with these goals in mind. It disagrees with the audit's findings that its compensation framework is not comparable to that of other Broader Public Sector (BPS) organizations, since only BPS comparators were used in establishing the framework, and compensation levels (base and variable pay) were established at the mid-point of those comparisons. It does agree, however, that the agency's compensation framework is not the same or comparable to the Ontario Public Service.

Certain activities referenced in the audit's observations, such as perquisites or the provision of an executive car allowance, are no longer in practice and were phased out earlier during the period under audit.

OLG disagrees with the audit's assertion that upon promotion or recruitment, candidates should enter a position at the bottom of a pay band in all cases. This is particularly the case for very senior positions such as the CEO. Compensation should align with relative capability and experience within the role. New employees with less experience are hired at the low to mid points of the band leaving room for growth. More experienced candidates, or those with highly marketable skills, are placed higher within the band. Compensation increases can also be used to retain high value employees who had other job opportunities, as the cost of recruiting new executives is high. In addition, given the public sector compensation environment, and the potential for freezes or legislative changes affecting employment contracts, most incoming candidates or those being promoted, seek to negotiate mid-point or higher salaries. And, in fact, executive compensation has been frozen for two years as of today. OLG has had difficulty recruiting and retaining executives, particularly at the VP level in certain “hot skill” areas (e.g. analytics, IT) due to compensation. For this reason, a measure of flexibility in the application of the framework in certain cases while remaining within the framework and legal requirements is important given the nature of the agency’s evolving business.

Next Steps:
OLG’s Actions are as follows:

1. OLG is currently in compliance with all compensation legislation and directives, as referenced earlier on in the report. In light of the audit’s observations, the agency will conduct a third-party review to further strengthen its executive compensation practices to ensure its policies are applied consistently and transparently throughout the organization.

2. The compensation review will include how the agency can further strengthen its policies around the administration of internal promotional increases.

3. OLG is in compliance with government directives and legislation which bans perquisites and has been in compliance since 2015 with regard to executive car allowances. It is currently in the process of reviewing which staff should have access to fleet vehicles, with the goal of reducing costs and curtailing the use of cars unless a core element of an employee’s job requires regular travel (e.g. regional sales staff, field investigators).

4. Finally, the agency underwent an initial round of reorganization to address the impacts of land-based gaming modernization in 2019. A second phase of work was commenced earlier this year with the goal of reducing executive and staff head count, increasing spans of control, and better aligning the agency to its business goals of increasing its digital business. To lay the groundwork for FTE reductions, it recently offered a voluntary exit program which will exit approximately 90 staff without backfill including some executive positions. Reorganization options for consideration will be ready for review by an incoming Chief Executive Officer. Timing of this work is also February 2021 to allow the incoming CEO the opportunity to add value and their perspective to the process.

Target Completion Dates:

1. February 2021
2. February 2021 (pending direction of a new CEO)
3. December 2020
4. February 2021

2. Executive Performance-based Compensation Program

OLG's performance-based compensation envelopes were approved by its Board of Directors annually.

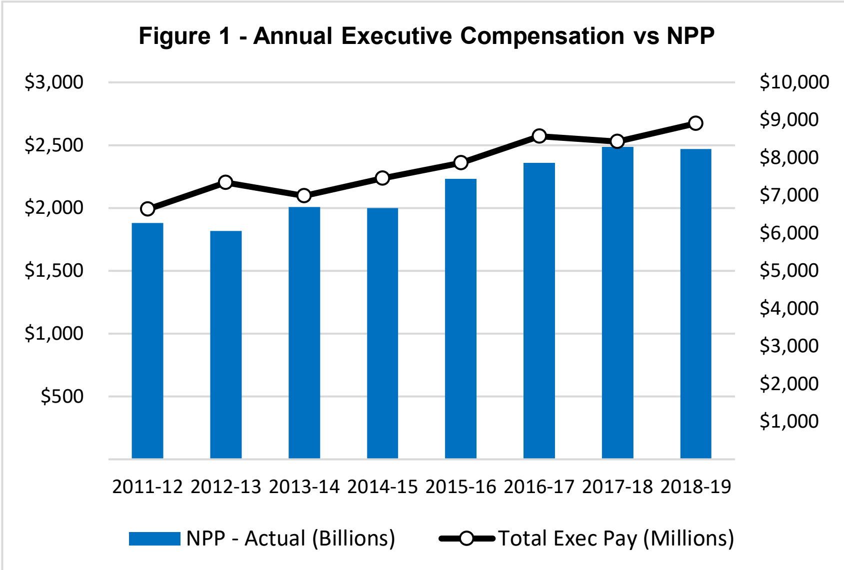
In our opinion, the executive performance-based compensation program was not effectively designed to reward executives with bonuses based on the achievements of key financial and non-financial performance and results. For example:

- **The Performance-based Compensation Program was not always directly tied and aligned to the actual achievements KPIs and results.**
- **OLG's conservative approach to fiscal budgeting/forecasting and setting NPP targets, i.e., current years' budget was always lower than prior years' actuals, and annual bonuses were tied to achieving those forecasted targets.**
- **OLG increased its NPP by $10M in fiscal 2015/16 and $22M in 2018/19 for what it deemed unusual circumstances for bonus calculation purposes.**

Since fiscal 2018/19, OLG took initiatives to improve the program with more linkages to corporate priorities, key performance indicators (KPIs), and metrics. The revised Program defined achievement targets, payout percentages, and assigned performance rating scores (1 – 5) to eligible employees based on performance evaluation results. Employee positions were also assigned predefined bonus targets.

OLG operated a Performance-based Compensation Program (the Program) for its executives and employees. The aim of the Program was to reward eligible employees for their contributions towards the successful achievement of the agency's results and achievement of individual objectives. Prior to fiscal 2018/19, the Program's measures and weights were 30% for financial (net profit to the province) and 70% for individual objectives. This program did not have clear linkages to achievement of results, priorities, KPIs, or defined targets. OLG was unable to clearly demonstrate how actual bonuses were calculated and awarded to eligible employees.

The Program measures/weights were, 25% for financial targets and 75% for non-financial targets. Non-financial targets comprised 5% for responsible gambling and 70% for individual objectives. The 25% for financial target was solely based on net profits, broken into 10% for corporate net profits and 15% for segmented (Lottery, Charitable, Internet and Corporate Gaming) net profits. **Figure 1** shows the relationships between annual executive compensation and NPP between fiscals 2011/12 to 2018/19.



We evaluated the Program, interviewed OLG's key personnel, and reviewed bonuses paid to executives between fiscals 2011/12 to 2018/19.

Observations

1. Between fiscals 2011/12 and 2018/19, OLG's Performance-based Compensation Program was not directly tied and aligned to the achievement of the agency's priorities, financial performance and results. We identified that members of the executives received bonuses that exceeded their targets, which was based the achievement of individual objectives, which carried a weighting factor of 70%. OLG was unable to provide proof of the factors on which the 70% weighting of individual objectives/target was tied to, and the criteria formally used for measuring and evaluating the achievements of related results.

2. OLG adopted a conservative approach to fiscal budgeting/forecasting and setting NPP targets. Twenty-five percent of the performance-based compensation was then measured against these NPP targets. We identified that forecasted targets were consistently lower than prior years' actuals. In our opinion, this practice could inadvertently contribute to guaranteed bonus payouts. Please refer to **Table 5** for a comparison of budgeted/forecasted verses actual NPP.

Table 5 – Budgeted /Forecasted versus Actual NPP

Net Profit to Province	F2015/16	F2016/17	F2017/18	F2018/19	F2019/20
Actuals (net of gain on sale of assets)	$2.21 B	$2.36 B	$2.38 B	$2.43 B	TBD
Budgeted/Forecasted	$1.92 B	$1.97 B	$2.13 B	$2.24 B	$2.41 B

3. The OPS and some BPS organizations have been the subject of various compensation restraints since 2012 for executives and non-unionized employees. The restraints included a complete freeze on executive salaries. While the OLG was not directly subjected to

compensation restraint under Part II.1 of the BPSAA, they were expected to comply with the spirit of the restraint requirements with respect to executive and non-executive compensation practices for non-unionized employees.

4. Twenty-five percent of OLG's current performance-based compensation program was measured and weighted on financial targets, specifically NPP. After each fiscal year end, OLG adjusted its NPP to add/or subtract estimated dollar impacts attributed from favourable and/or unfavourable circumstances that affected the organization. We noted that some of these adjustments were made despite there being no actual/real related net profit/cashflow impacts. Please refer to **Table 6** for detailed revenue and net profit impacts, and NPP adjustments for bonus calculation purposes.

   a. For fiscal 2015/16, we identified that when calculating the annual bonus, OLG adjusted NPP to add back $10M ($7M + $3M) estimated to be the impact from labour disruptions at four casino sites, and the budgeted closure and relocation cost impact of another casino site, items that could be considered normal costs of doing business. In the same fiscal, OLG estimated that both revenues and NPP had declined as a result of both circumstances. However, the NPP amount used for the annual bonus calculation was increased by this amount.

   b. For fiscal 2018/19, OLG's NPP declined by $16M compared to the previous fiscal. We also identified that, when calculating the annual bonus, OLG once again adjusted the NPP to add back $22M they estimated to be the impact as a result of a labour disruption that closes a casino site for two months, again normal costs of doing business. During the closure, OLG earned no revenues or profits. However, the NPP amount on which the bonus was calculated was increased and was declared to be achieved by a factor of 109%, resulting in bonuses being paid out fully at 100%.

Table 6 – NPP Adjustments Used in Bonus Calculations

Fiscal Year	Nature of Circumstances	Impact on OLG Revenue	Impact on Profits and NPP	NPP Adjusted for Bonus Purposes
2015/16	Labour Disruptions – Woodbine, Brantford, Sudbury and Rideau	+ $16.7M	+ $3M	+ $3M
	[Redacted]	[Redacted]	[Redacted]	[Redacted]
2018/19	Labour Disruptions Resulting in two months closure at Caesars Windsor	Lost two months in revenue	Lost two months in profits /NPP	+ $22M

Discussions with OLG confirmed that, since they did not budget for unforeseen circumstances, NPP calculations to determine bonuses were adjusted when these circumstances occurred. Labour disruptions are, in our opinion, an ongoing business risk and therefore should not warrant special treatment as an unforeseen event for the purpose of calculating bonus payments.

Recommendations:

1. Regarding the Performance-based Compensation program, OLG should:

a. Review the design of the program and establish more direct linkages to the achievements of the agency's (financial and non-financial) performance and results.

b. Reconfirm the current model (70% individual objectives, 25% NPP and 5% responsible gambling) to ensure the appropriate balance and emphasis (including weights) be placed on the agency's (financial and non-financial) outcomes and achievements that are directly tied to performance and results. This will ensure that the payment of bonuses is commensurate with the risks and rewards of the agency's operations. Targets and weights from an appropriate model should be used to develop annual performance plans on which individual bonuses should be measured and determined.

c. Define and document the criteria for measuring financial and non-financial objectives with clear linkages to organizational factors. This will ensure bonuses to employees are appropriate, fair, and transparent.

2. Regarding budgeting, forecasting and setting targets, OLG should:

   a. Adopt a more realistic method when setting revenues, cost, and profits (NPP) targets. This will ensure realistic outcomes and determined on which bonus payments should be based on their performance.

   b. Review its annual business planning and forecasting practices and develop a scorecard with appropriate (financial and non-financial) targets and KPIs depicting the agency's priorities. These targets, KPIs, and priorities should be communicated to all employees; annual performance plans and performance evaluations should be measured and linked to the outcomes and achievement of the agency's targets, KPIs, and priorities. OLG should track, measure, and report on the annual achievements of all targets, KPIs, and priorities.

   c. Ensure that its performance-based compensation program is effective, transparent, and realistically aligned to the achievements of the agency's (financial and non-financial) outcomes, targets, KPIs, and priorities. OLG should discontinue the practice of adjusting NPP for bonus purposes, whereby the estimated dollar impact of adverse and unfavorable circumstances is added back to increase NPP, for the purpose of bonus calculation, even if the agency has not realized a benefit from any real/actual cashflows to revenues and profits. This will ensure that all bonuses are aligned to the achievements of the agency's actual performance and results, and that bonuses are commensurate with the agency's risk and reward relationships.

3. To ensure payments of executive bonuses are comparable to other similar BPS organizations, OLG should ensure that bonuses are paid in accordance with the appropriate governing requirements (e.g., Act, Policies, Directives, etc.) and are adequately approved, justified, and documented, and that the "envelope" of funds to award annual bonuses is reasonable, transparent, and is determined based on the approval of actual achievements of (financial and non-financial) performance and results.

Management Responses / Action Plans:

OLG agrees that any performance-based management compensation program should be tied to the company's strategic objectives and measurable KPIs. In 2019, the agency began implementation of a new performance management program which ties all staff performance to the achievement of corporate objectives and KPIs which are reviewed and approved by the CEO and Board of Directors. While in its early stages (second year of implementation), OLG is confident this new approach will result in greater accountability and performance going forward. The new approach will be complemented by the recent adoption of a new Human Capital Management system (Workday) which will include a talent and performance management module, which will make the cascading and tracking of objectives easier. OLG's "envelope" for performance related pay for executives is determined in compliance with the requirements of the BPSECA.

With regard to the establishment of NPP figures for performance management purposes, OLG believes that employees should not benefit from extreme wind falls or negative events beyond their influence, which does not reflect their performance. However, as outlined below, it will review this methodology and review how to increase transparency and to ensure that financial targets are incenting.

Finally, the audit does not recognize evidence that was provided by the agency regarding government discounting of OLG's NPP numbers in 2015. This was done by the Ministry of Finance. As a consequence, OLG undertook efforts to provide more conservative forecasts based on this direction. This is important context which was not addressed.

Next Steps:
OLG's Actions are as follows:

1. Building on the work it commenced in 2019, OLG will continue to refine its performance-based compensation program to strengthen the connection between individual performance and corporate objectives and KPIs. This work is ongoing with objectives and KPIs being established annually.

2. As part of its compensation review, OLG will seek advice on whether the current split between financial and non-financial objectives (70% individual objectives, 25% NPP and 5% responsible gambling) remains the best measure of the company performance-based compensation program. As previously stated, the review will be complete by February 2021 to correspond with the entry of a new CEO.

3. OLG will continue to abide by government direction on signing bonuses and guaranteed payments. These practices have not been in place for many years. It considers this action complete.

4. OLG will examine its methodology for establishing NPP targets for the performance-based compensation program purposes to ensure its approach is transparent and defensible. This work will also be incorporated into the compensation review for February 2021.

5. In the past year, OLG has made changes to how it conducts NPP forecasting in general in an attempt to bring more accuracy and rigour to the process. This involves greater analysis and discussion with land-based gaming service providers. OLG's forecast also needs to consider the volatility of lottery roll patterns. Given these challenges, OLG is willing to work

more closely with the Ministry of Finance as part of the budget process to undertake this work to ensure greater accuracy. It commits to do so leading into the 2021/22 provincial budget process.

Target Completion Dates:

1. Ongoing
2. February 2021
3. Complete
4. February 2021
5. 2021/22 Provincial Budget process - TBD

3. Financial Approval and Financial Delegation Approval Policies

OLG has established a Financial Approval Policy and a Financial Delegation Approval Policy.

We evaluated the policies and noted that enhancements are required for the policies to effectively meet the operational needs of the organization. For example:

- **We noted no proof of the Board's Delegation of Authority (DOA) authorization. This authorization would give the CEO authority to delegate authorities down.**

- **The approved "Financial Approval Exception" summary was not consistently aligned with the governing Corporate Financial Approval Policy.**

OLG governs authorization and approval of financial transactions through the Financial Approval and Financial Delegation Policies. These policies have been in place since June 2012 and were last reviewed in June 2019.

Financial Approval Policy

This policy apportions authority for financial approvals relating to commitments, payments, and expense reimbursements. It also establishes financial approval authority for employees on behalf of the organization. The policy applies to approval of invoices, purchase requisitions, expense reimbursements, and contracts. This policy outlines the standard "approval limits" for all positions in **Table 7**.

Table 7 – OLG's Financial Approval Authority Matrix

Position	Approval Authority Limit
Board of Directors	> $10,000,000 accumulated non-budgeted operating expenditures > $5,000,000 non-budgeted capital expenditures
Chief Executive Officer	Unlimited budgeted expenditures $10,000,000 accumulated non-budgeted operating expenditures $5,000,000 non-budgeted capital expenditures
Executive Vice President	$5,000,000
Senior Vice President	$2,500,000
Vice President	$1,000,000
Director / Senior Director	$250,000
Manager / Senior Manager	$25,000

Financial Delegation Approval Policy

This policy represents the framework of accountability for employees on behalf of the organization with respect to exception-based and temporary delegations of financial approval authority. The policy is applicable to all employees who delegate authority, or who are the recipient of a financial approval authority on an exception or temporary basis.

In addition to the policy, OLG has established an approved "Financial Approval Exception" summary that provides specific financial approval exception delegation to certain positions in OLG. The exception delegated positions are responsible for approving large dollar transactions that exceed the assigned dollar authorization limits associated with their positions as outlined in the governing Corporate Financial Approval Policy.

We evaluated the Financial Approval and Financial Delegation Approval Policies, and the approved "Financial Approval Exceptions" summary.

Observations:

1. The Corporate Financial Approval and Financial Delegation Approval Policies were based on the principles of delegated authority where the ability to incur expenditures on behalf of the organization was established by the Board of Directors which delegated to the CEO, who in turns delegated further down to other positions as deemed necessary. We evaluated the policies and noted that the policies did not differentiate and define the specific types of Delegations of Authority (DOA) required to meet the operational needs of the organization. The following DOAs were not defined in the policies:

    a. Board of Director's DOA authorization, giving the CEO the authority to delegate authorities down to the executive leadership and allowing further downstream re-delegations of authorities to other groups of senior and middle managers;
    b. DOA to commit the organization based on specific budgeted, un-budgeted operating and capital expenditure amounts/limits;
    c. DOA to authorize all types of payments (budgeted, un-budgeted operating and capital expenditure amounts/limits), once the DOA requirements to commit the organization are satisfied;
    d. DOA to approve all different types and limits of payments (e.g. budgeted, un-budgeted operating and capital expenditure); and,
    e. DOA was not designed to fully address the authorization and approval of the end-to-end process flow, such as purchase requisition, purchase order, contract, invoice, and payment.

2. The nature and types of budgeted and un-budgeted operating/capital expenditures incurred by OLG were mostly defined and understood. OLG established the "Financial Approval Exception" summary that supplements the Financial Delegation Approval Policy. The "Financial Approval Exception" summary identified: a list of established vendors, nature of expenses, of approvers, and approval limits ($250K to Unlimited). It also gave certain positions the authority to approve transactions in excess of their standard assigned approval limits.

    We identified that the delegated financial approval exceptions were approved by the CEO to meet operational needs. The exceptions, however, contravened the standard assigned approval limits as defined in the governing Financial Approval Policy. These exceptions were also not aligned with the limitations stated in the governing policy. **Table 8** below includes some of the examples we identified.

Table 8 – Examples of Conflicting Approval Limits Assigned to Individual Positions

Name of Position	Corporate Financial Approval Policy Maximum $ Limits	Delegated Financial Approval Exceptions $ Limits (June 2019)	Delegated Financial Approval Exceptions $ Limits (February 2018)
Executive Vice President	$5 million – for all transactions	“unlimited” – for certain transactions	“unlimited” – for certain transactions
Senior Vice President	$2.5 million – for all transactions	$15 and $120 million, and “unlimited” – for certain transactions	$10, $15 and $33 million – for certain transactions
Vice President	$1 million – for all transactions	$8 million and “unlimited” – for certain transactions	$2.5 million – for certain transactions
Director / Senior Director	$250K – for all transactions	$5 and $10 million – for certain transactions	$250K, $4 million, $7.5 million, ≥ $25 million and “unlimited” – for certain transactions
Senior Manager	$25K – for all transactions	≥ $25 million – for certain transactions	$100K to $250K – for certain transactions

3. The Financial Approval Policy was narrowly designed with a standard “financial approval authority” matrix applicable to the entire organization. We identified that the policy was not designed to cater to the specific nature and types of expenditures that respective business segments and functions incurs. For example, the nature and type of expenditures incurred and approved by Lottery Operations, Treasury, Land-based Gaming and Corporate Social Responsibility were all very specific and required different types of DOA levels and approval limits.

Recommendations:

1. OLG should streamline its policies to ensure the DOA effectively meets the operational needs of the entire organization by:

    a. Developing a comprehensive “authority and approval matrix” that identifies and defines the nature and types of budgeted/un-budgeted, operating, and capital expenditures applicable to the nature of OLG’s different business segments, including the required DOA authorities.

    b. Providing the Board of Directors with “total” authority: to commit the organization to incur budgeted and un-budgeted, operating and capital expenditures; and to authorize and approve all types of payments.

    c. The Board of Directors should formally delegate appropriate “authority”, “authorization” and “approval” limits to the CEO: to commit the organization based on budgeted and un-budgeted, operating and capital expenditures, and to authorize and approve all types of payments. This should include approving the CEO’s DOA authority to delegate/re-delegate downward as appropriate.

    d. Based on (a) above, the CEO should delegate specific “authorization and approval limits” to the senior and middle management teams at business segment and functional levels to commit the organization (budgeted and unbudgeted), and to authorize and approve payments as within specific limits as appropriate. Segregation of duties should be considered with respect to delegations around the standard commitment, procurement and disbursement process flows, with sufficient granularity to identify the different positions entrusted with authority for the purchase requisition, purchase order, contract, invoice and payment activities.

e. OLG should incorporate all the elements of the “Financial Approval Exception” summary as part of the development of a comprehensive “authority and approval matrix.” Going forward, this should prevent further non-compliance with the Corporate Financial Approval Policy and will ensure alignment with the governing policy.

f. OLG should ensure that specific authorizations and approvals limits are defined (in the comprehensive “authority and approval matrix”) to meet the operational needs of all business segments based on the nature, type, and amount of the transactions. This should also ensure that DOA, authorization, and approval limits are properly assigned to the appropriate levels within the organization.

g. OLG should ensure that all DOA, authorization, and approval limits in accordance with the governing policy are consistently configured and incorporated into the key application systems across the business segments and functions.

Management Responses / Action Plans:

OLG agrees with the recommendation and recognizes the importance of financial stewardship, accountability and control. The current Financial Approval and Financial Delegation Approval policies were designed taking into account OLG’s organizational structure, system capability, and business risks. The two policies complement each other in assigning authorities required for various types of disbursements.

Next Steps:
OLG’s Actions are as follows:

1. OLG will consolidate and streamline the Financial Approval and Financial Delegation Approval policies (including the “Financial Approval Exception” Summary) to ensure the delegation of authority (DOA) effectively meets the operational needs of the organization.

2. OLG will also develop a comprehensive “authority and approval matrix” that identifies and defines appropriate DOA requirements. In addition, OLG is implementing a new Enterprise Resource Planning (ERP) system, currently planned for early fiscal 2021, that will enhance the financial approval capabilities, which is lacking in the current ERP system.

Target Completion Dates:

1. December 2020
2. August 2021

4. Authorization and Approval of Wire Transfer Payments

We reviewed a sample of 21 wire transfer payment transactions (April 2017 to January 2020) totaling $846.4M. These payments were approved as "exceptions" in accordance with the Financial Delegation Approval Policy and the "Financial Approval Exception" summary. The summary was not consistent with the governing Financial Approval Policy and created potential risks to the organization. We identified no evidence of inappropriate transactions in our sample.

In addition, we noted that segregation of duties controls governing wire transfer transactions were inadequate in managing the risk of fraud. For example:

- **Wire payments were requested, created and approved by individuals in the Treasury Operations without regard for functional segregation of duties.**

- **Employees in the Treasury Operations approved large wire transfer payments based on the "Financial Approval Exception" summary that exceeded their approval limits under the governing Financial Approval policy.**

- **Lottery prize payments were not approved at the appropriate level and there was no evidence of executive involvement, approval and oversight over prize payments to lottery winners.**

The authorization and approval of wire transfer payments at OLG are primarily governed by the Financial Approval and Financial Delegation Approval Policies, along with the "Financial Approval Exception" summary. The "Financial Approval Exception" summary allows individual positions within OLG to authorize and approve wire transfer payments to various types of vendors and organizations.

We evaluated a sample of 28 wire transfer payments totalling $1.027 billion (ranging from $11K to $155.8M) between April 2017 to February 2020 against the governing Financial Approval Policy, together with the Financial Delegation Approval Policy and the approved "Financial Approval Exception" Summary. The wire transfer payments are categorized in **Table 9**.

Table 9 – Summary of Wire Transfer Payments Reviewed

Category	# Payments	Dollars
1. Province of Ontario Payments	8	$520,220,919
2. Lottery Prize Payments	6	$256,508,055
3. Casino Service Provider Related Payments	2	$176,008,429
4. Interprovincial Lottery Related Payments	2	$37,068,696
5. Legal Related Payment	1	$25,000,018
6. Contracted Vendors Related Payments	3	$12,408,263
7. Miscellaneous Related Payments	6	$238,373
Total	**28**	**$1,027,452,753**

Observations:

1. OLG makes payments through its Treasury Operations function to the Province of Ontario. While the risk associated with these payments might be considered low, we reviewed a total of eight significant transactions (ranging from $14M to $152.6M) amounting to $520,220,919 and noted the following:

    a. All eight transactions were requested, created and approved by individuals in the Treasury Operations function without regard for functional segregation of duties and we saw no proof that the wire transfer payments were requested by a function independent of Treasury Operations.

    b. Three Senior Managers in Treasury Operations approved five wire transfer payments ($14M, $18M, $60M, $135.3M and $152.6M) based on the “Financial Approval Exception” summary. These amounts exceeded their approval limits under the Financial Approval Policy where the Senior Manager’s approval limit is $25K.

    c. A Director in the Treasury Operations approved three wire transfer payments ($30M, $30M and $80.3M) based on the “Financial Approval Exception” summary. The Director’s approval limit under the governing Financial Approval Policy is $250K.

2. After completing an investigative process, OLG makes payments to lottery prize winners through its Treasury Operation. We reviewed a total of six lottery prize payment transactions (ranging from $25.5M to $70M) amounting to $256,508,055. We noted the following:

    a. A Director in Treasury Operations approved two wire transfer payments for $30M and $26M, and Senior Managers approved amounts for $70M, $55M, $50M and $25.5M all under the “Financial Approval Exception” summary. However, under the governing Financial Approval Policy, the Director approval limit is $250K and the Senior Manager approval limit is $25K.

    b. Lottery prizes were not being approved at the appropriate level, and the executive lead for Lottery Operations was not involved in the approval or the provision of oversight over prize payments to lottery winners. We identified that, regardless of the size of the payments, lottery prizes were handled at the Prize Centre where the Supervisor, Senior Manager and the Director approved significant prize payments up-to $70M. These individuals have initiated the approval of the lottery payments without having the required authorization/approval limits under the governing Financial Approval Policy.

3. Wire transfer payments to, a Land-based Gaming Casino Operator ($20.2M); the Interprovincial Lottery Corporation ($19.7M and $17.4M); and other vendors ($1.1M, $5.6M and $5.7M) were approved by either a Senior Manger or a Director in Treasury Operations based on the “Financial Approval Exception” summary. These approval limits were not consistent with those outlined in the governing Financial Approval Policy. As previously noted, the Director’s limit is $250K and Senior Manager is $25K.

4. We identified two instances where the approval of wire transfer payments was performed by individuals who did not have the approval limits under the Financial Approval Policy or the “Financial Approval Exception” summary. These amounts were $4.2M for a return of funds

to a Land-based Gaming Service Provider in February 2018, and $30K to a ticket vendor in April 2019.

Recommendations:

To ensure good governance and effective internal controls are in place over the processing of wire transfer payments, and to mitigate fraud risk, OLG should:

1. Ensure that functional and individual segregation of duties considerations are factored in the design of controls pertaining to all aspects of wire transfer payments (e.g., initial request and approval, creation, review, approval, and release of all wire transfer payments).

2. Ensure that all documents requesting wire transfer payments are approved by at least two senior level management individuals who have the appropriate approval authority limits in accordance with the governing Financial Approval Policy.

Management Responses / Action Plans:

OLG recognizes the importance of appropriate approval and accountability in executing financial transactions. OLG's Financial Approval policy and Financial Delegation Approval policy (including the delegated "Financial Approval Exception" Summary) are designed to complement each other in assigning authorities required for approval or commitment of the transactions such as expense reimbursements and contract approvals. The financial transactions were appropriately approved in accordance with the Delegated "Financial Approval Exception" Summary.

There are internal controls embedded in the wire transfer process. As a preventative control, the responsibilities for establishing, releasing, and record keeping of wire transfers are separated. OLG also has other detective controls in place, such as the bank reconciliation process, to further mitigate the risk of misappropriation of funds.

Next Steps:
OLG's Actions are as follows:

1. As OLG streamlines the Financial Approval and Financial Delegation Approval policies (including the Delegated "Financial Approval Exception" Summary), we will review the role and responsibilities of the Treasury function and its Treasury procedures to enhance the adequacy and effectiveness of internal controls over the processing of wire transfers, while maintaining proper segregation of duties in managing day-to-day Treasury activities.

2. OLG will consider, as part of the policy review, whether approval of wire transfers by at least two senior level management individuals is a valuable additional control.

Target Completion Date:

December 2020

5. Controls Within the Wire Transfer System

We reviewed a sample of three wire transfer transactions totaling $146.7M which indicated that controls were inadequate. For example, a senior staff in Treasury Operations increased his own approval limit in the wire transfer system and then approved wire transfer payments in excess of his payment approval limit under the "Financial Approval Exception" summary. We identified no evidence of inappropriate transactions in our sample.

We evaluated a sample of three wire transfer payments totalling $146.7 million between May 2017 and January 2018 as categorized in **Table 10**.

Table 10 – List of Wire Transfer Payments Controls where a senior staff increased his own approval limit

Category	Dollars
1. Goodmans LLP in Trust	$79,960,703
2. Lottery Prize Payment	$35,317,981
3. Lottery Prize Payment	$31,379,999
Total	**$146,658,683**

Observations:

1. The request to pay a wire transfer amount of $79.96M originated from the Chief Financial Officer who had a maximum approval limit of $2.5M under the Financial Approval Policy. The Treasury Director approved the request and then approved the $79.96M in the wire transfer system without regards for the segregation of duties controls. The Controller enabled the Treasury Director to approve the amount by permitting him to increase his delegated approval limit from $30M to $80M in the wire transfer system.

2. The Treasury Director increased his own approval limit in the wire transfer system from $30M to $31.5M, and then he approved a lottery prize payment of $31.4M in November 2017. This practice was again repeated in January 2018 when the Treasury Director increased his own approval limit in the wire transfer system from $30M to $36M to allow himself to approve another lottery prize payment in the amount of $35.3M.

Recommendations:

1. OLG should ensure appropriate approval authorities and limits are assigned to key positions across the organization in alignment with operational needs. Adequate segregation of duties controls should be designed and implemented to restrict positions from having incompatible privileges. Controls should also be established to prevent management overrides in the system.

2. OLG should perform a comprehensive review of all user profiles in the wire transfer system to ensure the following:

a. All individual position profiles are compatible with segregation of duties controls, to ensure that a position cannot perform more than one conflicting activity (e.g., request and approval, create, review, approve and release) in the wire transfer payment process.

b. The controls should be re-designed to allow users who are required to approve and release wire transfers to have established “approval limits” in accordance with the governing Financial Approval Policy. The design of the controls should prevent users who approve wire transfers from making changes to their own approval limits.

3. To prevent the practice of individuals making changes to their own approval limits in the wire transfer system, OLG should ensure that all user profiles are independently setup and managed outside of the Treasury Operation. Controls over all changes, including approval limits should reside elsewhere. Requests to make changes to individual users and approval limits in the system should be authorized by persons having appropriate authority within the organization. Request for changes in approval limits to users such as the positions of Treasury Director should be authorized by two senior level management positions with appropriate authority.

Management Responses / Action Plans:

OLG is committed to effective and efficient management of OLG’s finances. The wire transfer amount of $79.96M was a return of funds to a legal firm that was sent in error one day in advance of a transaction closing. This transaction was initiated from OLG’s legal department and was escalated to the CFO. This exception was noted by OLG’s Internal Audit department in August 2018 and the Delegated “Financial Approval Exception” Summary was subsequently amended to provide the CFO authority to approve funds of this nature.

Next Steps:
OLG’s Actions are as follows:

1. As OLG streamlines the Financial Approval and Financial Delegation Approval policies (including the Delegated “Financial Approval Exception” Summary), we will ensure appropriate approval authorities and limits are clearly documented and assigned to key positions across the organization in alignment with operational needs.

2. OLG will also design and implement adequate segregation of duties controls to restrict positions from having incompatible privileges.

Target Completion Date:

December 2020

6. Board of Directors Corporate Governance Practices

OLG's Board of Directors (Board) meets regularly and is comprised of independent Directors. Roles and responsibilities were defined, and Board performance evaluations were being performed. Key and strategic decisions were also made by the Board.

We noted that Board governance processes and practices could be strengthened. For example:

- **Performing timely acknowledgements/disclosures regarding the review and compliance with OLG's Code of Ethics and Conduct for Board Members / Employees and Conflict of Interest Rules.**
- **Having all new Board Directors completing and signing the attestation regarding conflicts of interests prior to participating in Board activities.**
- **Including a standing agenda item requiring Board Directors to declare any potential, perceived or actual conflict of interests at the commencement of all Board meetings.**

The responsibilities of the Board of Directors of OLG include:

- Overseeing the overall management of the affairs of the Corporation in accordance with its objects as set out in the Ontario Lottery and Gaming Corporation Act (OLG Act), the Corporation's by-laws, the approved business plan, and this MOU; and,
- Establishing a Code of Ethics to govern the Board and the Corporation and ensuring the Corporation upholds and adheres to the principles of openness, transparency, integrity and accountability in delivering its mandate.

The OLG Board of Directors is also a key component of the organization's corporate governance framework. The Board is made up of independent Directors, including the Chair. The OLG Act allows a minimum of five Directors. At the time of the audit, OLG had a total of eight Directors.

Filling Board Vacancies

When a Board vacancy is available at the OLG, it is advertised on the Ontario Public Service appointments page of the Ontario.ca website. When candidates are short-listed for the vacancy, they are invited to participate in an interview with the Standing Committee on Government Agencies. If the Committee believes a candidate is fit for appointment, the candidate is required to perform a personal and conflict of interest disclosure statement and police record check. The Committee notifies the Lieutenant Governor who signs an Order in Council to make the appointment official. All OLG Board Directors are appointed by the Lieutenant Governor through an order-in-council for a two to three year term.

The OLG's General Counsel and Corporate Secretary is responsible for coordinating the onboarding of newly appointed Board Directors. The General Counsel and Corporate Secretary also reviews obligations of new Directors under the Public Service Ontario Act, including the conflict of interest rules.

All Directors (new and existing) are required to comply with OLG's Board By-laws, including, OLG's Code of Ethics and Conduct for Board Members / Employees and Conflict of Interest Rules. As part of the onboarding process, new Directors are required to complete a questionnaire that assesses any potential and/or actual conflict of interests. The questionnaire is then reviewed by the Board Chair. If there are no concerns, the new Director is allowed to attend and participate in Board meetings.

During the audit we reviewed the process related to the appointment of Board Directors at OLG, together with a selection of Board meeting minutes, agendas, including selected Board sub-committees.

Observations:

1. Required items like annual acknowledgements/disclosures regarding the review and compliance with OLG's Code of Ethics and Conduct for Board Members / Employees and Conflict of Interest Rules were not being performed.

   The Governance and Corporate Social Responsibility Committee (GCSRC) is responsible for overseeing the Directors adherence/compliance with the Code of Ethics and Conduct for Board Members / Employees, including Conflict of Interest Rules. While the GCSRC had included the annual acknowledgements in their Workplan on May 31, 2018, we identified that, as of February 2020, the annual acknowledgements have not yet been completed by Board Directors.

2. OLG requires newly appointed Board Directors to complete an attestation that acknowledges their compliance with the Code of Conduct and Conflict of Interest Rules as part of the onboarding process. New Board Directors must also complete a questionnaire that addresses any perceived/actual conflicts with regards to any interests, relationships and involvements in the: gaming industry, horseracing, any litigation or dispute with OLG, First Nations, suppliers and customers, lobbying and other.

   We reviewed the process and documentation used to onboard two new Directors who were appointed in November 2019 and January 2020. We also had discussions with the General Counsel and Corporate Secretary and reviewed the January 2020 Board package. We identified that the new Directors had participated in the Board meeting subsequent to their appointments, without completing the required questionnaire and/or attestation regarding conflicts of interests. The questionnaire was also not designed to require signatures and dates.

3. The attestation document that Board Directors were required to sign annually was not adequately designed to identify whether the Directors have any actual or perceived conflict of interests.

   The attestation states that Directors have "read, understand, and will comply with the Code." While the acknowledgement and understanding of the Code is a good practice, it is the identification and disclosure of the types of conflicts that are significant. The design of the current attestation document did not specifically list the areas for actual/perceived conflict of interests to prompt Directors to consider and disclose all interests and relationships. For example, business, personal and family relationships, financial, professional, reputational, etc.

While attestation was completed during the onboarding of new Directors, it was not included as part of an annual sign off process.

4. Board Directors' personal circumstances, interests, and relationships change from time to time during their tenure. Therefore, the need to declare all conflicts of interest at the beginning of all Board and Board Committee (e.g., Audit and Risk Management Committee) meetings is a good Board governance practice. We reviewed a sample of OLG Board of Directors meeting agendas and identified that declaration of conflict of interests was not a standing meeting agenda item.

Recommendations:

To align with good Corporate and Board Governance practices, including Code of Business Conduct and Ethical requirements and to manage conflicts of interests within the Board of Directors, OLG should:

1. Strengthen and enhance the Board Directors' Code of Business Conduct and Conflict of Interest process to require explicit declarations for all conflict of interests. The questionnaire should be revised to include specific areas to prompt the Directors to consider and declare all conflicts relating to any interests, relationships and involvements, e.g., personal, family, financial, professional, business, etc.

2. Require the Board and the Governance and Corporate Social Responsibility Committee to implement appropriate schedule and timelines to ensure all Board Directors perform their annual acknowledgements, disclosures and attestations regarding compliance with the Code of Business Conduct, Ethics and Conflict of Interests Rules.

   All declarations, including any identified non-compliance and/or conflicts should be disclosed, including their nature, impacts, mitigation measures, actions, etc., and should be presented at the Board meetings and reflected in the meeting minutes. The Board Chair should also provide the annual declarations and attestations to the Ministry of Finance, confirming that all Board Directors have made the relevant declarations and state any non-compliance. This declaration should also be posted on the OLG Board's public website.

3. Strengthen and enhance Board Governance practices by requiring newly appointed Board Directors to fully complete the onboarding process (including all required attestations) prior to receiving access to Board meeting packages and participating in Board meetings.

4. Strengthen and enhance the annual Board Directors' Code of Conduct, Ethics and Conflict of Interest attestation and declaration requirements. Redesign the document currently used by adding a checklist that outlines the specific areas to prompt the Directors to consider and declare all conflicts in their annual attestations relating to any interests, relationships and involvements, e.g., personal, family, financial, professional, business, and other Board appointments.

5. Include conflict of interest declarations as a "standing item" on all Board and Audit and Risk Management Committee meeting agendas. This will provide the opportunity for members to manage conflicts and for members to continuously consider, declare, and disclose any potential and/or actual conflict of interests prior to the start of meetings.

Management Responses / Action Plans:

OLG agrees that any agency's Board of Directors must operate with the highest ethical standards and that conflict of interest provisions should be transparent and clear. OLG's Conflict of Interests Rules, which were approved by Ontario's Conflict of Interest Commissioner in July 2017, specifically require a director to "promptly notify his or her Ethics Executive, in writing, if he or she has a conflict of interest or a potential conflict of interest, including a personal or pecuniary interest." The Ethics Executive, the Chair in the case of directors and the Ontario Integrity Commissioner in the case of the Chair, will provide direction as to the handling of any issue.

Management agrees that annual attestation should be completed on a timely basis after the end of the year. Management acknowledges that the directors' attestations were not completed for 2019 as of February 2020 as noted. While there was a delay in completing the attestation for 2019, the risk of undisclosed material conflicts is low. In the late Spring 2019, the Chair completed a conflict of interest questionnaire as part of his onboarding. Further, the four directors applying for re-appointment to the OLG Board over the last six months all completed the Public Appointment Secretariat Conflict of Interest form and three were subsequently re-appointed to the OLG Board. The two newest directors did not participate in a Board Meeting until 2020.

Management acknowledges that one director appointed November 28, 2019 and a second director appointed January 17, 2020 attended Board calls on January 30, 2020 and February 20, 2020 before they completed their onboarding process (i.e. attestation and conflict of interest questionnaire). The matters addressed at these calls were important and the organization benefitted from their attendance and contributions.

OLG always strives to respect the busy schedules of its directors. One way it does so is by having these new directors execute the documents required to join the Board when they attend their first in-person Board Meeting. At their first in-person Board Meeting, the new directors meet with the Corporate Secretary to review the answers to their Conflict of Interest questionnaire. In the case of these two directors, the first in-person meeting following each of these directors' appointment was on March 3, 2020. They were both onboarded to the OLG Board on March 3, 2020.

Next Steps:
OLG's Actions are as follows:

1. The GCSRC will review the current conflict of interest questionnaire and provide comments to the Corporate Secretary as to any improvements that can be made to the questionnaire to better capture potential real or perceived conflicts of interest. Management will incorporate each director's completed conflict of interest questionnaire – which identifies specific areas of potential real or perceived conflict – into directors' annual attestation and declaration form. This way, at the time of the attestation and declaration, directors will be reminded of their past answers and will be prompted of relevant interests, relationships and involvements to consider.

2. Going forward, the Governance and Corporate Social Responsibility Committee (GCSRC) Workplan will include an item in November/December to remind directors to complete their annual attestation by the end of the calendar year. The Corporate Secretary will follow-up with periodic written reminders to directors before the calendar year end.

   The Corporate Secretary, along with the Chair of the GCSRC, are also in the process of reviewing the form of the directors' annual attestation and declaration. As indicated in response to Observation #1, the conflict of interest questionnaire used for onboarding new directors will be incorporated into the form. Completed annual attestation and declaration forms will be discussed at Board meetings. OLG will follow *Public Service of Ontario Act* and legislative requirements governing the required disclosure of conflicts of interest.

3. Management will strengthen both the form and content of the annual attestation and declaration. Please see our answers to the above observations. Going forward, the Corporate Secretary will ensure that new directors complete their onboarding process before assuming their role as OLG directors and receiving Board materials and participating in Board Meetings/calls.

4. The GCSRC will develop a process to ensure that all information necessary to properly address a potential real or perceived conflict (i.e. nature of conflict and its potential impact) is captured, that reasonable steps are taken to address the conflict and that a record of the mitigation measures is made. To the extent that any potential real or perceived conflicts of interest are declared, GCSRC will, subject to confidentiality obligations, provide a summary of these conflicts and how they have been managed to the Board. The attestation and disclosure form will be updated to require a director to sign and date the attestation and declaration.

5. Going forward, the Corporate Secretary will ensure that the subject of declaration of potential real or perceived conflicts of interest will be a standing item at the Board and at the ARMC. Directors will be asked at the outset of a meeting whether there are any conflicts to be declared. To prompt directors as to relevant interests, relationships and involvements to consider, the Corporate Secretary will include in the Board and ARMC materials a blank form of the conflict of interest questionnaire used to onboard new directors.

Target Completion Dates:

1. September 2020
2. Immediate (GCSRC Workplan) and December 2020 (remainder of actions)
3. December 2020 (form and content of the annual attestation and declaration) and July 2020 (remainder of actions)
4. Immediate (GCSRC Workplan) and December 2020 (remainder of actions)
5. December 2020 (form and content of the annual attestation and declaration) and July 2020 (remainder of actions)

7. Responsible Gaming Program

OLG has established an independent, self-funded Responsible Gaming (RG) Program and the Program was rated at a level four (highest level) by the World Lottery Association in 2018.

OLG's approach to mitigate and manage the risks of problem gambling in Ontario can be strengthened. For example, to increase coordination with key stakeholders to address the broader consequential impacts of problem gambling; to refresh the Problem Gambling Prevalence Study (PGPS) and to ensure funds are allocated and used efficiently and effectively.

OLG's Role in Responsibility Gambling

The OLG has a statutory responsibility under the Ontario Lottery Gaming Corporation Act 1999, to promote responsible gambling and is required to comply with the AGCO's Registrar Gaming Standard 2.6 regarding responsible gambling. The OLG is also mandated by the province to establish and implement policies that encourage gaming in a socially responsible manner.

OLG's RG Governance Framework

The OLG has established governing structures such as, a Governance and Corporate Social Responsibility Committee (GCSRC), which is a sub-committee of its Board of Directors, with responsibilities for overseeing OLG's Responsible Gambling Program. The RG program is also supported by an approved Policy.

The OLG engages key service providers, such as, the Centre for Addiction and Mental Health (CAMH) to provide RG training and the Responsible Gambling Council of Ontario, to operate RG Resource Centres at OLG gaming facilities and to deliver problem gambling awareness and support programs, as well as to administer the RG Check accreditation program for OLG's gaming facilities.

OLG's Responsible Gaming Program

The OLG has established a Responsible Gambling (RG) program (PlaySmart) that targets all players across all lines of business (Casinos, Internet Gaming, Lottery and Charitable Gaming). The program outlines initiatives to address the impacts of gambling through increasing education and awareness amongst Ontario's gambling population.

OLG's service providers deliver the program to enable OLG to focus on program design, policy and implementation, monitoring and funding. The program is primarily aimed at harm prevention and mitigation.

The key components of the RG program as set out in OLG's annual financial statements are Marketing, RG Information Centres, RG Initiatives (training, player education, self-exclusion program, research and analysis, sponsorship, etc.)

The key outcomes of the RG program are to maximize PlaySmart engagement, mitigate problem gambling risk, support long-term revenue facilitation and enhancing OLG's positive reputation. The measurement of the RG program outcomes includes: providing education to all players across all lines of business; embedding the RG program and services into the play experience; identifying and reducing the risk of problem gambling; and supporting and referring adversely impacted players for help.

Funding Sources for Responsible and Problem Gambling

The OLG spent a total of $56.4 million between fiscals 2016-17 to 2018-19 on its RG program. This amount was spent towards enhancing education and increasing awareness marketing, responsible gaming information centres, responsible gaming initiatives, such as training, player education, the self-exclusion program, research, and analysis.

In addition to the amount spent by OLG on RG, annually, the province has been allocating additional funding of approximately two percent of OLG's slot machine revenues to the Ministry of Health (MOH) to fund problem gambling initiatives and to treat problem gambling. The MOH has allocated a total of $132 million between fiscals 2016-17 to 2018-19. Approximately $15 million of this funding amount was spent on RG initiatives and services similar to the OLG, namely, prevention program initiatives, research, and analysis. Funds are also spent to provide problem gambling treatment services, system support, and coordination to address the consequential and social impacts of problem gambling. **Table 11** shows the total spent on responsible and problem gambling.

Table 11 – Amounts Spent on Responsible and Problem Gambling

Funding Organizations	2016/17	2017/18	2018/19	Total
	Millions			
Ontario Lottery and Gaming	$20.0	$19.1	$17.3	**$56.4**
Ministry of Health	$38.0	$45.0	$49.0	**$132.0**

Observations:

1. The impacts and consequences of problem gambling have numerous interrelationships that are interconnected, interdependent, and cannot be easily separated and addressed independently.

   There were no Problem Gambling Strategy or requirements to establish coordination and partnership between the OLG and Ministry of Health, which funds similar RG and problem gambling initiatives and services.

   The Provincial Cabinet requested the Ministries of Finance and Health to work together and develop the "province's Problem Gambling Strategy" in February 2012 when the OLG's Modernization Plan was approved. The Office of the Auditor General of Ontario (OAGO) also reiterated the need for the Problem Gambling Strategy in their April 2014 report on OLG's Modernization Plan. To date, a strategy has not yet been developed to establish partnership, and to enhance and strengthens coordination relating to problem gambling initiatives in Ontario.

2. Problem gambling prevalence studies (PGPS) are a good source of insights into understanding the risks and broader implications of problem gambling. The last PGPS was conducted in 2011 by the Ministry of Health and Long-Term Care.

   The OLG may not have the adequate insights required to understand the current and full extent of the risks and consequential impacts of problem gambling in Ontario, due to their continued reliance on the 2011 PGPS, which was being supplemented with the current piloting of the "responsible gambling player survey." This survey was administered quarterly by OLG and consists of a three-question problem gambling questionnaire which was intended to measure problem gambling risk amongst players for program evaluation purposes.

   An updated PGPS would be beneficial to the OLG and all stakeholders in understanding the current environment of problem gambling, the risks and the impacts. It would also assist in the efficient and effective allocation of funds to address priority risk areas and demands.

3. The OLG operates an independent RG program which focuses on harm prevention and mitigation initiatives. The program was not designed to consider the consequential and social implications that results from problem gambling. The program also had no linkages to the broader interrelationships between problem gambling, mental health, including, problem gambling disorders and relationships with other simultaneous dependencies e.g., tobacco and substance usage, alcoholism, amongst others.

Recommendations:

1. To ensure a holistic approach is taken to address problem gambling, its interrelationships and consequential impacts in Ontario, and to ensure funds are allocated and spent economically to optimize outcomes and benefits, the OLG and the Ministries of Finance and Health should partner and develop a provincial Problem Gambling Strategy. Amongst others, the strategy should address the following:

   a) Defining data requirements, data collection, sharing/usage, storage and disposition requirements and protocols, etc.;
   b) Establishing base funding requirements and services to address problem gambling and its consequential and social impacts in a structured manner;
   c) Defining a holistic and coordinated approach to updating and/or performing Problem Gambling Prevalence Studies. Setting prevalence study scope, frequency and timelines;
   d) Linking the consequences and interrelationships (e.g., disorders, mental health, alcoholism, substance usages, etc.) of problem gambling with the broader education health systems;
   e) Defining outcome-based performance measures, criteria, metric and program evaluation requirements.

2. To obtain proper insights and understanding of the risks and impacts in the current problem gambling environment, the OLG should coordinate with relevant stakeholder partners (e.g., MOH) and update/conduct a PGPS. Please refer to recommendation 1c.

3. Once the Problem Gambling Strategy is defined and established, the OLG should enhance and strengthens its RG policy and program, to connect the prevention and mitigation initiatives/services with the consequential and social implications that results from problem gambling as part of the Problem Gambling Strategy. This should include linkages to problem gambling disorders, mental health and related dependencies, e.g., tobacco and substance usage, alcoholism etc.

OLG Management Responses / Action Plans:

OLG is accountable for promoting responsible gambling and mitigating social harm in the businesses it conducts and manages: casino gaming, online gaming and lottery. OLG works to educate players on how to play responsibly through its PlaySmart programming. Unlike the Ministry of Health, OLG does not fund gambling/addiction treatment services. OLG funds education and awareness materials (branded PlaySmart) and limit-setting software systems to help players manage responsible play on PlayOLG.ca and on the electronic games at Ontario casinos (“MyPlaySmart tools”).

OLG’s allocation of funds to promote responsible gambling is evidence-based, using the best available expert research, and analytics and metrics designed to manage risk and mitigate social harm related to problem gambling. The program was approved by the Board of Directors in 2019 and was recognized globally a second time by the World Lottery Association as the Best Responsible Gambling Program in the World (first time in 2014). OLG does not have a mandate to perform Canada-wide prevalence studies but supports the evolution of scientific data gathering by credible third parties.

In 2019-20, OLG received Board approval on a three-year Responsible Gambling Plan (2019-20 to 2021-22) that sets out key milestones, project work and KPIs to measure its work in this area. Prevalence studies are used to inform researchers, guideline developers and policymakers about burden of disease, thereby supporting the process of identification of priorities in healthcare, prevention and policy. Problem gambling prevalence studies use data from a representative sample of a population in a given area, to identify the rate of problem gambling at a specific point in time.

Two updated prevalence studies undertaken by independent researchers will be released in 2020 which will provide comprehensive Ontario data (i.e. one led by Statistics Canada/CCHS, and the other led by the University of Alberta). OLG funding for additional prevalence studies would likely be duplicative.

Next Steps:
OLG’s Actions are as follows:

1. OLG welcomes the opportunity to work with the Ministries of Finance and Health as an active participant in a provincial Problem Gambling Strategy led by the province consistent with the audit recommendation. Additionally, OLG suggests that the Canadian Community Health Survey (CCHS) data and National Study findings be reviewed in Fall 2020 to further inform these discussions, including whether a further Ontario specific prevalence study is warranted.

2. OLG is open to coordinating with relevant stakeholder partners (e.g., MOH) and suggests that the data from the latest prevalence studies to be released in 2020 be reviewed by the stakeholder partners in Fall 2020 to further inform decisions related to additional Ontario specific prevalence studies, if needed.

3. OLG would welcome the opportunity to work with the Ministries of Finance and Health as an active participant in a provincial Problem Gambling Strategy and will assist the Ministries by providing advice, insight and data.

Target Completion Dates:

1. November 2020
2. November 2020
3. Summer 2021

Joint Response from MOF and MOH

Since 1999, Ontario has committed annual funding to support problem gambling prevention and treatment programs. While OLG has an important role to play in developing and implementing responsible gambling services, the Ministries of Finance and Health are responsible for the overarching provincial responsible gambling policy.

In March 2020 Ontario launched *Roadmap to Wellness: A Plan to Build Ontario's Mental Health and Addictions System*. *Roadmap to Wellness* supports a vision that ensures all Ontarians have access to high-quality, easily accessible mental health and addictions support throughout their lifetime, where and when they need it. While this strategy is broader than problem gambling, it, alongside current investments in problem gambling prevention and treatment, provides a starting point for further work by the ministries.

Both ministries welcome the audit recommendations and are committed to working together, in conjunction with the Mental Health and Addictions Centre of Excellence at Ontario Health, to support the implementation of *Roadmap to Wellness*. This includes exploring opportunities, working in collaboration with the OLG, to review current investments in problem gambling research, prevention and treatment to optimize benefits and outcomes and exploring options that take into account the co-morbidity linkages between problem gambling disorders, mental health and substance use (i.e., alcohol, cannabis, tobacco). A priority for the ministries would be to ensure that the approach draws on a strong base of data and evidence, which could include Problem Gambling Prevalence Studies.

Timing: Summer 2021

8. Cybersecurity Governance

OLG has identified Cybersecurity as one of its most critical enterprise risks. We noted that oversight by the Board of Directors over this key enterprise risk could be improved.

In accordance with our audit terms of reference, the objective of this section was to assess the effectiveness of the governance and accountability of Information and Information Technology at OLG.

In 2019, the Office of the Auditor General of Ontario (OAGO) conducted an audit of OLG IT systems, cybersecurity and IT governance related to service provider delivery. The objective was to assess how OLG manages and administers its IT programs and activities, the level of service being delivered to the public, and the relative cost effectiveness of the service.

To minimize duplication of effort where there has been previous assurance coverage, OIAD relied on the audit outcomes reported by the OAGO in their 2019 Annual Report, Technology Systems (IT) and Cybersecurity at Ontario Lottery and Gaming Corporation. See **Appendix I** for additional information regarding the audit scope and key observations from that report.

To ensure this audit directed its efforts on the most significant risk areas within the enterprise and IT governance, OIAD focussed on governance and oversight of OLG's top ranked risk, namely Cybersecurity.

OLG has created a Cybersecurity Strategy. As noted in the strategy, OLG is subject to internal and external forces that must be considered when designing and executing its Cybersecurity Strategy. The organization must anticipate potential cyber attacks, navigate rapidly changing business systems and process, and comply with a myriad of regulatory obligations.[4]

In addition to cyber-attacks, risks related to other cyber scenarios such as destructive malware, ransomware, and other vectors used to impair the confidentiality, availability, and integrity of information systems can substantially affect an organization's tangible and intangible assets.[5]

Part of OLG's Modernization initiative includes a Digital Strategy to develop a new player platform that will be the control point for customer transactions and to create a single view of the customer. This platform will include an enterprise website and mobile applications. An expansion of OLG's digital footprint also expands their risk profile. For all organizations undergoing a digital transformation, managing cybersecurity risk is the top risk management objective for decision makers.[6]

Executive level management and board members in a Cybersecurity risk oversight role are increasing their oversight of management's development, implementation and monitoring of a comprehensive enterprise-wide cybersecurity risk management program.[7]

A sound governance structure is the glue that holds a Cybersecurity risk management program together. Effective cyber risk management needs a Board that guides/challenges management

[4] OLG Executive Committee Update, Cyber Security Strategy, October 2018
[5] Committee of Sponsoring Organizations, Managing Cyber Risk in a Digital Age
[6] RSA Digital Risk Study 2019
[7] Cybersecurity Risk Management Oversight, Center for Audit Quality, April 2018

on the adequacy of cyber risk management practices, particularly around risk appetite and cyber security strategy.[8]

According to the Summary of Enterprise Risks Reported to MOF, OLG identified cybersecurity as the most critical enterprise risk. OLG's has a very low appetite for Information Privacy and Data Security risk.[9]

What constitutes good practices for cybersecurity governance and oversight is still evolving and there is no one widely accepted model. Governance structure and oversight practices vary depending on the industry and maturity of the organization. This is amplified by a general lack of cyber expertise at the Board and executive levels of many organizations.

Observations:

We observed that:

1. OLG Board policy required Board member(s) with IT competency but did not explicitly require a cybersecurity competency. Further, no board member appeared to have a cybersecurity competency.
2. Cybersecurity was not a standing agenda item for the Board or any of its subcommittees, and the minutes had no references to ongoing board oversight over cybersecurity.
3. Cyber-risk mitigation measures and tolerances have yet to be formally set and monitored (e.g., security training and awareness).
4. OLG had not performed a comprehensive third-party security maturity and cyber controls assessment of its cyber-posture since July 2017.
5. The July 2017 assessment, while providing a positive rating for OLG relative to North American and industry peers, was based on management representation and provided no opinion, attestation or other forms of assurance.

Recommendation:

1. OLG should examine the cybersecurity management in terms of governance and reporting structure. This examination should consider a combination of the following options to ensure the Board and Management has adequate visibility and relevant information into OLG's security posture:

    a. Explicitly identify Cybersecurity as a desirable competency for board members.
    b. Consider recruiting a board member with Cybersecurity expertise. If this is not possible, engage the services of an independent Cybersecurity subject matter expert to advise the board.
    c. Consider adding Cybersecurity as a standing item to the Board agenda in order for appropriate discussions to be given regular and adequate meeting time.[10] OLG should also consider delegating or adding this critical risk matter to an existing Board committee

[8] Partnering for Cyber Resilience, World Economic Partner, January 2016
[9] OLG Risk Appetite, Risk Types, Levels & Statements, October 2019
[10] Cyber-Risk Oversight 2020, NACD Director's Handbook on Cyber-Risk Oversight, National Association of Corporate Directors (NACD), Principle 3

mandate. This would support an enterprise-lens to the risk, versus considering it as an IT risk only within the Transformation and Technology Committee.

d. Consider establishing a Chief Information Security Officer (CISO) role in order to raise Cybersecurity's profile beyond IT and give the security function higher level attention and clout.[11]
e. Develop and formalize a set of cyber-risk measures and tolerances (e.g., security training and awareness). These measures and tolerances should be reported to and monitored by the board on a regular basis.
f. Engage an independent party to perform a risk-based examination and attestation of OLG's cyber posture in order to provide greater transparency into OLG' cybersecurity program.
g. Further to an independent verification, the results of the examination should be provided to the OLG Board, MOF and the AGCO.

Management Responses / Action Plans:

OLG agrees that it could benefit from IT and cybersecurity expertise on its Board. Management does not recruit OLG directors for its Board. Individuals are appointed to the OLG Board by the Lieutenant Governor of Ontario on the recommendation of the Premier and the Minister of Finance with approval of Cabinet. Pursuant to OLG's Memorandum of Understanding, the Chair of the Board notifies the Minister of upcoming vacancies on the Board and provides advice to the Minister on appointments, reappointments and size and composition of the Board.

Management believes that the OLG Board is provided with reasonable information and support to meaningfully participate in the governance of cybersecurity risk as directors. For example: Updates to the Board on cybersecurity risk and readiness regularly contain an educational component, and the Board is provided a budget each year to use to retain independent experts, including, experts in cybersecurity, to provide advice and support or to secure required training.

Although not formally in the meeting minutes, cybersecurity is a regular part of discussions at the Board level. Following the cyberattack on Casino Rama in October 2016, the former Chair of OLG invited a cybersecurity expert to speak to the Board about cybersecurity risk. More recently, in the context of approval of the Audit Plan for 2020, the Board discussed an audit relating to security vulnerability and IT security.

OLG agrees with the importance of good cybersecurity governance which provides the security function visibility in the organization. OLG recently restructured the Technology Division following a well-established organizational model that brings profile, focus and dedicated capability to the security function. OLG is currently in the process of reviewing its organizational structure, with the goal of reducing the number of executives and increasing spans of control. OLG will consider a CISO designation as part of this organizational structure review.

OLG has established internal governance through the I&T Committee to provide visibility to the security function through its mandate. AGCO has an interest in cybersecurity governance at

[11] According to a 2018 PWC survey of 9,500 respondents, it is more common for a company's Chief Information Security Officer (CISO) or chief security officer to report directly to the CEO (40%), or the board of Directors (27%) than the CIO (24%).

OLG and service providers as it relates to regulatory standards for lottery and gaming in the Province of Ontario.

OLG agrees with the need for measures and tolerances for cyber-risk and ongoing monitoring. In late 2019, OLG's Board approved a set of 14 Risk Appetite Statements outlining OLG's risk appetite. Cybersecurity risk appetite is part of the enterprise risks that were reviewed and discussed with the Board. The approved risk framework identified the need to translate risk appetite statements into tolerances for on-going monitoring.

OLG agrees with the need to ensure cybersecurity controls meet the changing needs of the organization. To date, our assessment of operational cyber controls is achieved on an ongoing basis through a planned and repeating series of audits performed by internal and external auditors. This includes the annual KPMG financial audit that covers enterprise cyber controls, as well as an annual internal audit plan and the annual AGCO audit plan.

The AGCO's gaming and lottery standards outline the control environment and operating principles that OLG follows, including cybersecurity.

Next Steps:
OLG's Actions are as follows:

1. We recognize, however, that cybersecurity is a growing risk and we welcome opportunities to improve how we manage this risk, including at the Board level. The following are the steps that will be taken:

    a. The definition of the Information Technology competency in the Board Skills Matrix will be amended to explicitly include cybersecurity expertise.

    b. Pursuant to the Board's "Director Skill, Experience, Competencies, Orientation, Education and Evaluation" Policy, the Chair will continue to share the Board Skills Matrix with the Minister and advise the Minister of areas of competency where the Board can be strengthened.

    c. Management will remind the Board of the availability of a budget to retain independent subject matter experts, where necessary, to support the Board on cybersecurity issues.

    d. The GCSRC – which is responsible for Board training – is adding a "Board Education Plan" item to its workplan. GCSRC will ensure that the Board Education Plan includes cybersecurity. The Board may obtain external training on cybersecurity if it chooses, using the budget provided to the Board annually.

    e. Cybersecurity will be a standing item in the Board Workplan. In particular, Management will provide a report to the ARMC on cybersecurity twice a year. The chair of the ARMC will report out to the full Board on the cybersecurity report from Management.

    f. Cybersecurity will be added to the mandate of the ARMC.

g. The Transformation and Technology Committee of the Board will keep abreast of evolutions in the field of cybersecurity and examine our technology investments to ensure we are current as to opportunities and risks.

2. In order to ensure cybersecurity has the appropriate level of visibility, OLG Management will provide a report to the ARMC on cybersecurity twice a year. The Chair of the ARMC will report out to the full Board on the cybersecurity report from Management. In order to ensure independence, OLG will arrange to have a third-party expert update the ARMC on cyber trends and developments annually.

3. OLG will prioritize the development and formalization of cyber-risk measures and tolerances. These measures and tolerances will be reported to the Board based on the defined framework for risk appetite reporting.

4. OLG will engage an independent party to perform an examination in fiscal 2021 covering the internationally recognized CobIT 2019 framework of operational security controls. Gaps in desired maturity levels will be identified and plans developed to close them. The results of the independent verification will be reported to the ARMC.

Target Completion Dates:

1. November 2020
2. March 2021
3. October 2020 (develop /formalize cyber risk measures and tolerances) and June 2021 (Board reporting)
4. March 2021

9. Cybersecurity Education and Awareness

The OLG had security awareness and phishing simulation practices. We noted that these practices were not always sustained due to staff turnover.

Ninety percent or more of cybersecurity events stem from some form of human error, behaviour or lack of vigilance[12]. This makes employee awareness and training a critical and essential part of a cybersecurity program. The OPS Cybersecurity Program notes that people are very often referred to as an organization's greatest asset, but they can also be its greatest weakness because the root cause of cybercrime can be traced back to people in over 90% of cases.

To address this, the OPS's Security Education Unit's mission is to raise awareness and provide all OPS staff and contractors with the knowledge they need to be cyber-savvy. The unit has developed a range of tools (including tip sheets, articles, computer-based training modules, internal campaigns), on a wide variety of topics (including phishing awareness, mobile device security, password selection/management), delivered through a variety of channels including intranet, in-person training, events, eLearning modules, webcasts and videos.

The OPS's I&IT Security Education and Awareness Program is a key element of the OPS's comprehensive cyber security strategy. Good I&IT security practices are regarded as an essential way to safeguard government information and information technology assets and to enable digital public service delivery.

Observations:

OLG Cybersecurity strategy had multiple layers of security safeguards including the Information Security Office (ISO) Security Education and Awareness Program. This program included: The Acceptable Use Policy, Code of Conduct; Lunch and Learn; Phishing Campaign, and Promotions and Contests. The performance measures for this program as proposed in the Cyber Security Strategy were: percentage of employees that failed that simulated phishing tests, and percentage of employees that did not complete mandatory cyber training.

We noted that security awareness and phishing simulation was not always sustained due to staff turnover. For example, no phishing simulations were performed for thirteen months beginning September 2018. A security awareness manager was hired in mid-2019 to "reboot" the program.

Recommendation:

1. In order to continue mitigating the risk, OLG should maintain investment in ongoing cyber training initiatives to promote employee awareness of their role and responsibility with respect to cyber security. This could include a mandatory computer-based training program.

2. OLG should conduct regular phishing simulations that measure the click-performance of the employees over a prolonged period. This would provide a base-line and measurable statistic for the Board to monitor and inform understanding of OLG's susceptibility to phishing attacks.

[12] https://intra.ontario.ca/iit/security-education

Management Responses / Action Plans:

OLG agrees that security awareness and education is a key element to good IT security practices. OLG's cybersecurity program has multiple layers of security safeguards and security awareness has always been part of that program strategy. OLG's policy for acceptable use of information and information technology is signed off annually by employees and provides security awareness and education on protecting the company's information and information technology resources.

Next Steps:
OLG's Actions are as follows:

1. OLG will update the security awareness program with a regular set of detailed initiatives that will be rolled out across the organization throughout fiscal 2021.

2. As part of the updated awareness program, we will continue to perform regular phishing testing to measure the click-performance of employees over time. We will increase the frequency of these tests to quarterly and implement enhanced tracking (i.e., a difficulty matrix measure) to assess results in order to increase cyber awareness and compliance from OLG employees. Results will be included as part of the reporting to the ARMC. The updated security awareness program will be presented at the I&T Committee for alignment and support to implement the program.

Target Completion Date:

March 2021

10. Travel, Meals and Hospitality Expenses and Corporate Credit Cards Policy

OLG's Travel, Meals and Hospitality Expense (TMHE) policy is generally aligned with the OPS's Directive. OLG also established a Corporate Credit Cards Policy that clearly defines the scope for permitted and prohibited type of purchases as it relates to the Corporate Purchasing Card Program.

Our review of a sample of TMHE expenses indicated that OLG generally complied with its TMHE policy.

Our review of a sample of Corporate Purchasing Card purchases identified that 29% of the sampled transactions, totaling $73,281, were spent on purchases such as, furniture, fixtures, equipment and travel. Under the OLG policy, Corporate Purchasing Cards are not allowed to be used as a medium for these purchases.

OLG governs travel, meals and hospitality expenses through the Travel, Meals and Hospitality policy and other business expenses through the Corporate Credit Cards policy. These policies have been in place since May 2009 and April 2019, respectively.

Travel, Meals and Hospitality Expenses Policy

This policy outlined the guidelines and key requirements regarding incurring and approving travel, meals and hospitality expenses (TMHE) at OLG. The policy was consistently aligned with the guidelines outlined in the Ontario Public Service Travel Meals and Hospitality Directive.

Corporate Credit Cards Policy

This policy governed the use of OLG three Corporate Credit Cards, namely, Corporate Purchasing Cards, Procurement Cards and the Travel Cards.

- The Corporate Purchasing Card program complemented existing purchasing and payment policies and facilitated low dollar value purchases that are not related to travel, capital expenditures or equipment.
- The Purchasing Card (P-Card) program assisted in streamlining low dollar value business purchases through approved vendors; purchases are restricted to a specific group of pre-approved vendors.
- The Travel Card program provided a centralized method for purchasing all business-related air and through OLG's designated travel provider.

We evaluated the TMHE and Corporate Credit Cards Policies, and the three Corporate Credit Card programs. We noted that reasonable controls and practices were adequately designed, and employees were generally compliant with the TMHE policy, and the P-Card and Travel Card programs.

Corporate Purchasing Card Program

The governing Corporate Credit Cards policy strictly prohibited the use of the Corporate Purchasing Card towards all: travel, capital expenditure, equipment, strategically sourced goods and services, goods and services on existing vendor of record arrangements, non-business use and personal items. Between April 2017 and September 2019, OLG spent a total of $2.74M on its Corporate Purchasing Card program. We reviewed a sample of 200 purchasing transactions amounting to $257,541 against the governing Corporate Credit Cards policy.

Observations:

A review of the Corporate Purchasing Card transactions identified that 29% in sampled purchases ($73,281 of $257,541) did not comply with the governing Corporate Credit Card policy. We identified that these amounts were spent on fixtures, furniture, equipment, office supplies, travel etc. Under the OLG policy, Corporate Purchasing Cards are not allowed to be used as a medium for these purchases. Please refer to **Table 12** for the types of non-compliant purchases.

Table 12 – Types of Corporate Purchasing Card Purchases

Categories of Purchases	Amounts
Assets – Fixtures and furniture	$9,719
Assets – Equipment	$7,974
Travel	$55,588
Total	**$73,281**

Recommendations:

1. To ensure compliance with the Corporate Credit Cards policy and the Corporate Purchasing Card program, OLG should:

    a. Increase training and awareness as it relates to the use of the cards based on the policy and program requirements.
    b. Provide examples of appropriate and inappropriate type of credit card purchases to all new and existing cardholders.
    c. Implement a robust process to perform timely compliance review of card purchases on a monthly basis and follow up with employees responsible for making non-compliant purchases. These amounts should also be reported to the functional executive leader for appropriate actions.

Management Response / Action Plan:

OLG recognizes the importance of ensuring accountable, efficient, transparent, and ethical practices in acquiring products and services. OLG utilizes credit cards to process low dollar transactions, within a prescribed set of commodity restrictions regarding the nature and type of expenditures, to enable efficiency of operations while maintaining control and a lens for value for money. Of the expenditures sampled, they were noted exceptions duly approved and supported by sound business rationale but were not within the policy’s strict commodity categories.

Next Steps:
OLG's Action is as follows:

1. OLG will review the adequacy of the Corporate Credit Cards policy and the Corporate Purchasing Card program to enhance its process to enable efficiency of operations while ensuring compliance.

Target Completion Date:

December 2020

Appendices

Appendix A – OIAD Acknowledgement

OIAD would like to thank the following management and staff of the Finance Audit Service Team (FAST) for their diligent work and support to complete this engagement.

Conducted by:

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Appendix B – Background

Under the Canadian Criminal Code, a provincial government is permitted to conduct and manage gambling in its province in accordance with the laws enacted in that province. In Ontario, gambling is conducted and managed in accordance with the Ontario Lottery and Gaming Corporation Act, 1999 and the Gaming Control Act.

In March 2012, the Ontario Lottery and Gaming Corporation (OLG) published a report titled Modernizing Lottery and Gaming in Ontario – Strategic Business Review/Advice to Government (Modernization Plan) and highlighted a need for change because its business model was not sustainable in the long term. It stated, “advances in technology, changes to shopping patterns, aging demographics, and declining visits from the United States have combined to threaten the industry and the contribution to the province.”

The Modernization Plan was approved by Cabinet in February 2012. Subsequent to its release in March 2012, the then Minister of Finance provided OLG with a letter clarifying its expectations on the implementation of the Modernization Plan and requiring OLG to work in conjunction with the Ministry of Finance in this process. The Modernization Plan outlined projected financial, capital investment and employment gains to the Ontario gaming industry.

In April 2014, the Office of Auditor General of Ontario (OAGO) released a special report, titled, “Ontario Lottery and Gaming Corporation’s Modernization Plan”, which outlined that:

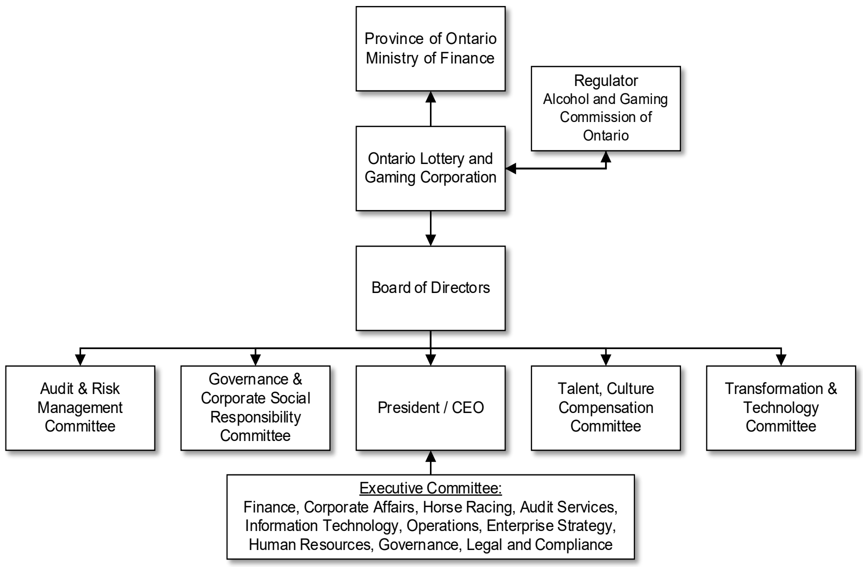
- The Modernization Plan had an overly ambitious timeline;
- The Modernization Plan depended on and assumed municipal stakeholder agreement, especially in the Greater Toronto Area;
- The timing of the Modernization Plan’s financial projections was overly optimistic
- Procurement processes had been fair, open and transparent;
- The Modernization Plan’s job and private-sector capital investment projections were overstated;
- The cancellation of the Slots at Racetracks Program was considered in the Modernization Plan but was unexpected by the horse-racing industry. Some stakeholders had been disproportionally impacted (Sarnia, Fort Erie and Windsor);
- The revised municipal hosting fee is consistent from one municipality to the next;
- The Province and OLG took steps prior to modernization to prevent and mitigate problem gambling.

The OAGO subsequently followed up on that special report in 2016 and found that OLG’s full modernization benefits had been deferred to the 2021/22 fiscal year. The additional net profit to the province attributable from the modernization had also been reduced to $889 million starting in 2021/22, four years behind schedule with only 70% of the originally projected benefits of $1.3 billion annually starting in fiscal 2017/18.

The Audit and Accountability Committee has approved an audit of the OLG as part of the 2019/20 approved OPS-wide Audit Plan. The audit is being conducted in two phases. Phase one, to assess the effectiveness of the governance and accountability framework and mechanisms at the OLG. Phase two, will determine if OLG has adequate processes, procedures and practices to operate and achieve its mandate efficiently, economically and effectively.

Appendix C – OLG Organizational Structure

OLG's Corporate Structure



Appendix D – Engagement Objectives and Scope

Objectives

The objective of this engagement was to assess the effectiveness of the governance and accountability framework and mechanisms at the OLG.

Scope

The scope of this phase of the audit includes: Board of Directors composition; Board Sub-committee structure, roles and responsibilities; procurement policies and practices governing the procurement of Land-based gaming service providers; travel, meals and hospitality expenses for senior management and Board members; human resource practices relating to executive compensation and benefits; governance and accountability of information and information technology; anti-money laundering; and social responsibility (impact of problem gambling).

The scope period of this engagement was fiscal 2011/12 to December of fiscal 2019/20.

The scope excluded:

- IT vendor management and related areas recently completed by the OAGO;
- Financial support to sustain the Horse Racing Industry recently completed by the OAGO;
- Land-based Gaming Casinos, Horse Racing and Charitable Gaming facilities' costs.

To achieve the engagement objective, OIAD performed various procedures, included but not limited to: discussions, interviews and enquiries with key OLG personnel, review, examination and inspection of policies, procedures, practices, reports and other key supporting documentation, performed walkthroughs, reviews and analysis of key processes to the extent considered necessary. Including surveys of applicable IT and cyber security related frameworks.

Appendix E – Audit Risk Rating Categories

1 Very Low Risk/ Strong Controls	**2 Low Risk/ Satisfactory Controls**	**3 Medium Risk/ Controls need Improvements**	**4 High Risk/ Controls need Significant Improvements**	**5 Very High Risk/ Unsatisfactory Controls**
• Risk(s) are being addressed by internal control systems. • Risk associated with potential control failures are not material. • Internal controls (design & operating effectiveness) are optimized and in a continuous state of improvement. • Additional evaluation criteria (if required). **Risk (Likelihood/Impact) to the Organization is Very Low**	• Risk(s) are mostly being addressed by internal control systems. • Risk associated with potential control failures exits but are not material. • Internal controls (design & operating effectiveness) are well managed and measured for effectiveness. • Additional evaluation criteria (if required). **Risk (Likelihood/Impact) to the Organization is Low**	• Risk(s) are not consistently being addressed by internal control systems and require improvements/ enhancements. • Risk associated with potential control failures exits and can be material. • Internal controls (design & operating effectiveness) processes are consistently implemented but not measured for effectiveness. • Additional evaluation criteria (if required). **Risk (Likelihood/Impact) to the Organization is Medium**	• Risk(s) are not adequately being addressed by internal control systems and require significant improvements/ enhancements. • Risk associated with potential control failures are material. • Internal controls (design & operating effectiveness) are not consistently implemented. • Additional evaluation criteria (if required). **Risk (Likelihood/Impact) to the Organization is High**	• Due to the absence of effective risk management practices, management is unable to identify, monitor or control significant risk/exposure. • Risks associated with potential control failures are highly material. • Internal control (design & operating effectiveness) are not formalized and are performed in an ad-hoc and reactive manner. • Additional evaluation criteria (if required). **Risk (Likelihood/Impact) to the Organization is Very High**

Appendix F – List of Audit Observations, Recommendations and Risk Ratings

Information included in this table should align with the information provided in the "Observations and Action Plans" section of the report.

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
Human Resources Practices – Executive compensation	We noted examples of OLG practices which did not always conform with the spirit of the compensation restraints that were in effect between April 2012 to March 2018.	Medium	To ensure that executives are compensated in an appropriate, fair, and transparent manner, OLG should: Review its existing executive compensation structure to ensure compliance with all the rules governing BPS executive compensation and the compensation restraint which OLG was directed to follow by the Minister. Review its existing executive salary levels to ensure they are reasonable in comparison to other similar BPS organizations and that they are paid in accordance with governing requirements and policies. Ensure promotional salary increases given to executives allows for progression within their established ranges based on performance. Review all perquisites, including motor vehicle allowances paid to executives to confirm if they are allowable, reasonable, and comply with the BPS Executive Compensation act and the Perquisites	In light of the audit's observations, the agency will conduct a third-party review to further strengthen its executive compensation practices to ensure its policies are applied consistently and transparently throughout the organization. The compensation review will include how the agency can further strengthen it policies around the administration of internal promotional increases. OLG is in compliance with government directives and legislation which bans perquisites and has been in compliance since 2015 with regard to executive car allowances. It is currently in the process of reviewing which staff should have access to fleet vehicles, with the goal of reducing costs and curtailing the use of cars unless a core element of an employee's job (e.g. regional sales staff, field investigators). Finally, the agency underwent an initial round of reorganization to address the impacts of land-based gaming

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			Directive. OLG should also review to ensure entitlements are aligned with governing business travel requirements. To ensure appropriate staffing levels are in place to meet the agency's business needs, OLG should evaluate the size of its executive complement and align span of control with overall staffing levels. The evaluation should take into consideration that corporations with declining staffing levels generally do not require increasing levels of senior executives.	modernization in 2019. A second phase of work was commenced earlier this year with the goal of reducing executive and staff head count, increasing spans for control, and better aligning the agency to its business goals of increasing its digital business. *Target Completion Dates:* • February 2021 • February 2021 (pending direction of a new CEO) • December 2020 • February 2021
Executive Performance-based Compensation Program	In our opinion, OLG's executive performance-based compensation program was not effectively designed to reward executives with bonuses based on the achievements of key financial and non-financial performance and results.	Medium	OLG should: Review the design of the program and establish more direct linkages to the achievements of the agency's (financial and non-financial) performance and results. Reconfirm the current model (70% individual objectives, 25% NPP and 5% responsible gambling) to ensure the appropriate balance and emphasis (including weights) be placed on the agency's (financial and non-financial) outcomes and achievements that are directly tied to performance and results.	Building on the work it commenced in 2019, OLG will continue to refine its performance-based compensation program to strengthen the connection between individual performance and corporate objectives and KPIs. As part of its compensation review, OLG will seek advice on whether the current split between financial and non-financial objectives (70% individual objectives, 25% NPP and 5% responsible gambling) remains the best measure of the company performance-based compensation program.

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			Define and document the criteria for measuring financial and non-financial objectives with clear linkages to organizational factors. Adopt a more realistic method when setting revenues, cost, and profits (NPP) targets. Review its annual business planning and forecasting practices and develop a scorecard with appropriate (financial and non-financial) targets and KPIs depicting the agency's priorities. OLG should discontinue the practice of adjusting NPP for bonus purposes, whereby, the estimated dollar impact of adverse and unfavorable circumstances is added back to increase NPP, for the purpose of bonus calculation, even if the agency has not realized a benefit from any real/actual cashflows to revenues and profits. Ensure that bonuses are paid in accordance with the appropriate governing requirements (e.g., Act, Policies, Directives etc.) and are adequately approved, justified, and documented, and that the "envelope" of funds to award annual bonuses is	OLG will continue to abide by government direction on signing bonuses and guaranteed payments. OLG will examine its methodology for establishing NPP targets for the performance-based compensation program purposes to ensure its approach is transparent and defensible. In the past year, OLG has made changes to how it conducts NPP forecasting in general in an attempt to bring more accuracy and rigor to the process. Target Completion Dates: • Ongoing • February 2021 • Complete • February 2021 • 2021/22 Provincial Budget process - TBD

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			reasonable, transparent, and is determined based on the approval of actual achievements of (financial and non-financial) performance and results. Discontinue the practice of awarding guaranteed bonuses to any employee in compliance with the governing requirements (e.g., Act, Policies, Directive, BPS Compensation Framework etc.).	
Corporate Financial Approval and Delegation Approval Policies	We evaluated OLG's Corporate Financial Approval and Financial Delegation Approval Policies and noted that enhancements are required for the policies to effectively meet the operational needs of the organization.	Medium	OLG should streamline its policies to ensure the DOA effectively meets the operational needs of the entire organization by: Developing a comprehensive "authority and approval matrix" that identifies and defines the nature and types of budgeted/un-budgeted, operating, and capital expenditures applicable to the nature of OLG's different business segments, including the required DOA authorities.	OLG will consolidate and streamline the Financial Approval and Financial Delegation policies (including the Delegated Financial Approval Exception Summary) to ensure the delegation of authority (DOA) effectively meets the operational needs of the organization. OLG will also develop a comprehensive "authority and approval matrix" that identifies and defines appropriate DOA requirements. *Target Completion Dates:* • December 2020 • August 2021
Authorization and Approval of Wire	We reviewed a sample of 21 wire transfer payment transactions (April 2017 to January 2020) totaling $846.4M. These	High	OLG should: Ensure that functional and individual segregation of duties considerations are	As OLG streamlines the Financial Approval and Financial Delegation policies (including the Delegated Financial Approval Exception

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
Transfer Payments	payments were approved as "exceptions" in accordance with the Financial Delegation Policy and the "Financial Approval Exception" summary. The summary is was not consistent with the governing Financial Approval Policy and created potential risks to the organization. In addition, we noted that segregation of duties controls governing wire transfer transactions were inadequate and not effective in managing the risk of fraud.		factored in the design of controls pertaining to all aspects of wire transfer payments (e.g. initial request and approval, creation, review, approval, and release of all wire transfer payments). Ensure that all documents requesting wire transfer payments are approved by at least two senior level management individuals who have the appropriate approval authority limits in accordance with the governing Financial Approval Policy.	Summary), we will review the role and responsibilities of the Treasury function and its Treasury procedures to enhance the adequacy and effectiveness of internal controls over the processing of wire transfers, while maintaining proper segregation of duties in managing day-to-day treasury activities. OLG will consider, as part of the policy review, whether approval of wire transfers by at least two senior level management individuals is a valuable additional control. Target Completion Date: December 2020
Controls Within the Wire Transfer System	We reviewed a sample of three wire transfer transactions totaling $146.7M which indicated that controls were inadequate. A senior staff person in Treasury Operations increased his own limit in the wire transfer system and then approved wire transfer payments in excess of his delegated payment approval limit under the Financial Approval Exception summary.	High	OLG should ensure appropriate approval authorities and limits are assigned to key positions across the organization in alignment with operational needs. Adequate segregation of duties controls should be designed and implemented to restrict positions from having incompatible privileges. Controls should also be established to prevent management overrides in the system. OLG should perform a comprehensive review of all user profiles in the wire transfer system to ensure - all individual	As OLG streamlines the Financial Approval and Financial Delegation policies (including the Delegated Financial Approval Exception Summary). We will ensure appropriate approval authorities and limits are clearly documented and assigned to key positions across the organization. OLG will also design and implement adequate segregation of duties controls to restrict positions from having incompatible privileges.

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			position profiles are compatible with segregation of duties controls, to allow users who are required to approve and release wire transfers to have established “approval limits” in accordance with the governing Financial Approval Policy, and to prevent the practice of individuals making changes to their own approval limits in the wire transfer system.	Target Completion Date: December 2020
Board of Directors Corporate Governance Practices	We noted that OLG’s Board governance processes and practices could be strengthened.	Medium	Strengthen and enhance the Board Directors’ Code of Business Conduct and Conflict of Interest process to require explicit declarations for all conflict of interests. The questionnaire should be revised to include specific areas to prompt the Directors to consider and declare all conflicts relating to any interests, relationships and involvements, e.g., personal, family, financial, professional, business, etc.	The GCSRC will review the current conflict of interest questionnaire and provide comments to the Corporate Secretary as to any improvements that can be made to the questionnaire to better capture potential real or perceived conflicts of interest. Management will incorporate each director’s completed conflict of interest questionnaire – which identifies specific areas of potential real or perceived conflict – into directors’ annual attestation and declaration form. This way, at the time of the attestation and declaration, directors will be reminded of their past answers and will prompted of relevant interests, relationships and involvements to consider. Target Completion Date: September 2020

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
Responsible Gaming Program	OLG's approach to mitigate and manage the risks of problem gambling in Ontario can be strengthened.	Medium	To ensure a holistic approach is taken to address problem gambling, its interrelationships and consequential impacts in Ontario, and to ensure funds are allocated and spent economically to optimize outcomes and benefits, the OLG and the Ministries of Finance and Health should partner and develop a provincial Problem Gambling Strategy. Once the Problem Gambling Strategy is defined and established, the OLG should enhance and strengthens its RG policy and program, to connect the prevention and mitigation initiatives /services with the consequential and social implications that results from problem gambling as part of the Problem Gambling Strategy.	OLG would welcome the opportunity to work with the Ministries of Finance and Health as an active participant on a provincial Problem Gambling Strategy led by the province. OLG is open to coordinating with relevant stakeholder partners (e.g., MOH) and suggests that the data from the latest prevalence studies to be released in 2020 be reviewed by the stakeholder partners in fall 2020 to further inform decisions related to additional Ontario specific prevalence studies, if needed. Target Completion Dates: • November 2020 • November 2020 • Summer 2021
Cybersecurity Governance, Education and Awareness	OLG has identified Cybersecurity as one of its most critical enterprise risks. We noted that oversight by the Board of Directors over this key enterprise risk could be improved and security awareness and phishing simulation practices could be improved.	High	OLG should examine the cybersecurity management in terms of governance and reporting structure and should consider a combination of options to ensure the Board and Management has adequate visibility and relevant information into OLG's security posture. In order to continue mitigating the risk, OLG should maintain investment in ongoing cyber training initiatives to promote employee awareness of their	We recognize, however, that cybersecurity is a growing risk and we welcome opportunities to improve how we manage this risk, including at the Board level. In order to ensure cybersecurity has the appropriate level of visibility, OLG Management will provide a report to the ARMC on cybersecurity twice a year. The Chair of the ARMC will report out to the full Board on the

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			role and responsibility with respect to cyber security. This could include a mandatory computer-based training program.	cybersecurity report from Management. In order to ensure independence, OLG will arrange to have a third-party expert update the ARMC on cyber trends and developments annually. OLG will prioritize the development and formalization of cyber-risk measures and tolerance. These measures and tolerances will be reported to the Board based on the defined framework for risk appetite reporting. OLG will engage an independent party to perform an examination in fiscal 2021 covering the internationally recognized CobIT 2019 framework of operational security controls. Gaps in desired maturity levels will be identified and plans developed to close them. The results of the independent verification will be reported to the ARMC. OLG will update the security awareness program with a regular set of detailed initiatives that will be rolled out across the organization throughout Fiscal 2021. As part of the updated awareness program, we will continue to perform regular phishing testing to measure the

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
				click-performance of employees over time. Target Completion Dates: • November 2020 • March 2021 • October 2020 (develop /formalize cyber risk measures and tolerances) and June 2021 (Board reporting) • March 2021 • March 2021
Corporate Credit Cards Policy	A review of a sample of Corporate Purchasing Card purchases identified that 29% of the sampled transactions, totaling $73,281, were spent on purchases such as, furniture, fixtures, equipment and travel, a method of purchase not allowable for Corporate Purchasing Cards under the OLG's Policy.	Medium	To ensure compliance with the Corporate Credit Cards policy and the Corporate Purchasing Card program, OLG should: Increase training and awareness as it relates to the use of the cards based on the policy. Implement a robust process to perform timely compliance review of card purchases on a monthly basis and follow up with employees responsible for making non-compliant purchases. These amounts should also be reported to the functional executive leader for appropriate actions.	OLG will review the adequacy of the Corporate Credit Cards policy and the Corporate Purchasing Card program to enhance its process to enable efficiency of operations while ensuring compliance. Target Completion Date: December 2020

Appendix G – Evaluation of Engagement Criteria

Evaluation of Criteria	Criteria Met	Criteria Partially Met	Criteria Not Met
Objective: To assess the effectiveness of the governance and accountability framework and mechanisms at the OLG.			
Corporate Governance Framework			
1. OLG has an appropriate organizational governance framework in place.	X		
2. OLG's oversight committees meets regularly and receive reliable, complete and timely information to support both management decision making and an effective oversight function.	X		
3. Processes are in place to inform OLG's oversight bodies of significant issues identified across the organization.	X		
Legislation, Policy, Directive and Regulatory Requirements			
4. Processes are in place to ensure that all mandatory and governing laws, regulations, policies, requirements etc. are identified and complied with.	X		
5. OLG has established appropriate processes to ensure its policies and procedures are aligned to all mandatory and governing requirements	X		
6. OLG has established processes to ensure consumers are protected in line with governing requirements.	X		
7. OLG has established appropriate risk management processes and practices to identify and manage all types of potential risks affecting the organization.	X		
8. OLG has establish appropriate policies and mechanisms governing the delegation, authorization and approval of financial transactions.		X	
9. All financial transactions are properly approved in accordance with governing policies, directives etc.			X
10. OLG has establish effective internal controls over the processing and approval of financial transactions.			X
11. Regulatory compliance, monitoring and oversight mechanisms are established.	X		
12. OLG's governance mechanisms adequately establish, document and communicate the strategic direction for the organization, and support the continuing alignment of OLG's strategic and operational plans to its strategic direction through monitoring of their implementation and the results against expectations.	X		

Evaluation of Criteria	Criteria Met	Criteria Partially Met	Criteria Not Met
Board of Directors Composition, Structure, Roles and Responsibility and Succession Process			
13. Board is comprised of independent members (in line with corporate governance best practices and requirements, where applicable).	X		
14. Board composition is sufficiently diverse including, but not limited to, educational background, industry expertise and experience, gender and race.	X		
15. Board composition ensures sufficient levels of understanding and management of OLG's business risks.		X	
16. Roles and responsibilities of the board committee chairs, senior management committees, co-chairs, and members are clearly defined, documented, communicated, understood and followed.	X		
17. Key decisions are made at the appropriate levels within the organization in a timely manner with minimal duplication and overlap.	X		
18. The Board governance structure enables the OLG to respond to emerging priorities in an effective manner.	X		
19. OLG has established good governance practices to enable Board members to comply with all code of conduct and conflict of interest requirements.		X	
20. A formal succession planning process exists for the Board members, CEO and other key leadership positions at OLG.	X		
Human Resource Practices - Executive Compensation and Benefits			
21. Executive compensation and benefits are defined and consistent with policies and based on appropriate comparator groups.		X	
22. Performance-based compensation arrangements are clearly defined, approved by the board of directors annually, are supported by appropriate performance metrics, criteria etc. and are comparable to the industry.		X	
Travel, Meals and Hospitality Expenses – Board of Directors and Senior Management			
23. Travel, meals and hospitality expenses are governed by the applicable government and OLG's policies and procedures.	X		
24. Board of Directors expenses are in compliance with policies, adequately supported and are approved by the board chair.	X		
25. Senior management and employee's expenses are in compliance with policies, adequately supported and are approved at the appropriate level within the organization. (Corporate Credit Cards)		X	

Evaluation of Criteria	Criteria Met	Criteria Partially Met	Criteria Not Met
26. OLG's travel, meals and hospitality policies are periodically reviewed to ensure they remain relevant to meeting their business needs.	X		
Procurement Policies /Practices - Procurement of Services (LBG SPs)			
27. The procurement of services is carried out in compliance with the appropriate policies, procedures, directives etc.	X		
28. The need /demand to enter in a procurement process /arrangement are appropriately supported by business cases.	**Will be Evaluated in Phase II**		
29. Pre-established evaluation criteria are formally defined to support competitive RFP/RFS/RFQ tendering processes and are adhered to when evaluating prospective SPs' proposals.	X		
30. The procurement process ensures that transactions and arrangements are assessed for OLG to obtain value-for-money and appropriate quality.	**Will be Evaluated in Phase II**		
Operational Oversight of third-party Contractors (LBG SPs)			
31. Appropriate agreements are established governing the relationships between OLG and the independent LBG SPs.	X		
32. OLG has established appropriate tracking and monitoring mechanisms regarding all significant transactions / arrangements with the independent LBG SPs.	X		
33. OLG has established appropriate reporting /oversight processes over all independent LBG SPs and the agreements.	X		
Strategic Direction - Progress and expenditures Related to the OLG's Modernization Plan			
34. OLG has established appropriate governance structure to provide oversight over the implementation of the Modernization Plan (MP).	**Will be Evaluated in Phase II**		
35. OLG senior management providing oversight of the progress of the Modernization Plan is kept abreast of the status of key developments and makes timely and appropriate corrective actions when necessary.			
36. OLG has established processes and mechanisms to ensure the key initiatives of the Modernization Plan are implemented within the defined timelines.			
37. Processes are in place to ensure MP milestones are defined and appropriate tracking, monitoring, reporting mechanisms are in place.			
38. OLG has established effective monitoring and oversight mechanisms to ensure the intended objectives, outcomes and values of the Modernization Plan are achieved within the defined timelines.			
Anti-Money Laundering (AML)			
39. OLG has established a formal anti-money laundering strategy with activities to prevent, detect, monitor and report any act/suspected acts of money laundering.	X		

Evaluation of Criteria	Criteria Met	Criteria Partially Met	Criteria Not Met
40. OLG has established a formal AML Program with appropriate components.	X		
41. OLG has established effective monitoring mechanisms within the AML program.		X	
42. OLG AML program is periodically reviewed for continued efficiency and effectiveness.	X		
Social Responsibility – Responsible Gaming and Impact of Gambling			
43. OLG has established appropriate strategies and governance processes to assess, monitor and manage the impact of gambling in Ontario.		X	
44. OLG has established measures and initiatives to identify, respond to and manage the negative impacts of gambling in Ontario.		X	
Information Technology (IT) Governance and Cyber Security			
45. OLG's IT function has a defined mandate, strategy, framework(s) implemented to help the organization manage IT risks.	X		
46. Governance structures and accountability frameworks (roles and responsibilities) are in place to govern, manage, and report on IT risks across the organization.		X	
47. OLG policies and standards are updated to ensure IT risks are adequately covered.	X		
48. Communication/reporting processes are in place to update senior executives on security threats, compliance status and lessons learned from IT incidents including cyber security incidents to improve IT across the organization.			X
49. Senior IT and enterprise management and the board regularly and routinely consider, monitor and review IT risk management.		X	

Appendix H – Special Review of OLG's Cost Management Practices and CEO Compensation

In November 2019, a series of statements appeared in an opinion piece in a Toronto newspaper related to OLG's cost management practices and the CEO's compensation. The scope of the statements includes the following:

1. Extensive renovation costs to the CEO's office plus lavish expenses during a time when profits to the province haven't been keeping pace with the increased revenue at the provincial lottery company.
2. $56,000 on the CEO's apartment for over 8 months when he was hired.
3. Over $75,000 in expenses for the CEO to commute between Ottawa and Toronto when he was hired in 2015.
4. Costs for shipping painting/artwork from Ottawa to Toronto for the CEO's office.
5. $3,200 in annual expenses to rent painting/artwork from the federal government.
6. The CEO's salary jumped from $453,339 in 2015 to $765,406 in 2018.
7. OLG's revenue grew in 2018/19 by approximately $480M, but NPP was down by $15M.
8. The OLG is top-heavy and dragged down by bureaucracy.
9. According to public records, OLG has 418 of approximately 1,450 employees (29%) who earn more than $100,000 a year.
10. Under the current CEO's leadership, the administrative costs of OLG have "grown out of proportion compared to the monies handed over to the province."
11. Delays to the Niagara Falls Entertainment Centre (NFEC).

Immediately after the opinion piece was published, the Chair of OLG's Audit and Risk Management Committee (ARMC) requested their own Internal Audit function to perform a special review related to all the statements. The review focused on compliance with relevant policies, guidelines, directives, and authorization of expenses between January 2015 to September 2019.

OLG's Internal Audit special report was completed in February 2020 and points to: adherence with applicable policies, directives and guidelines; appropriate authorization of all expenses (travel, relocation, temporary accommodations, office renovations etc.); reasonableness of all expenses; artwork (leased and acquisitions) was approved internally; board approved compensation changes; [Redacted].

The OLG's special report was tabled at Board of Directors meeting. The Board apparently discussed the results of the review in camera.

The OIAD did not duplicate the work performed by OLG's Internal Audit. However, our audit confirmed that, OLG's revenues and net profit from operations have increase in fiscal 2018/19 compared to fiscal 2017/18. The overall NPP in fiscal 2018/19 has declined by $15M compared to fiscal 2017/18. The decline (compared to the prior fiscal) was as a result of reductions in one-time extra-ordinary item on the sale of assets under the modernization initiative; modernization has resulted in a 82% decline in OLG's staff count, however, executive head count has increased by 36%; approximately 420 staff earned over $100,000 in 2019, as per the 2020 Sunshine List disclosure. A review of OLG's financial reports indicated that post-modernization administrative costs have decreased.

Appendix I - Auditor General of Ontario Review

The scope of the OAGO's included: IT governance, Procurement, Data reporting, Asset management, Cybersecurity, Service delivery, Fraud and data management, and Human resource.[13]

The OAGO released their results in their Annual Report in December 2019. The OAGO's observations included:

- OLG needs to strengthen its oversight of IT vendors;
- Casinos do not fully secure customers' personal information;
- There are opportunities to strengthen cybersecurity practices;
- OLG had not developed and tested a comprehensive disaster recovery strategy;
- IT procurement is performed consistently and in accordance with the evaluation criteria, ratings and methodology; and
- Weaker project oversight and monitoring contributed to delays and cost overruns for 11 IT projects.

To avoid duplication and overlap with the work performed by the OAGO, OIAD focussed on the governance and oversight of cybersecurity, OLG's top ranked risk cybersecurity *(prior to the current pandemic)*. Governance and oversight over cybersecurity was in scope for our original coverage of IT governance coverage and was not explicitly addressed by the OAGO.

[13] External Audits - Risks and Action Plans Updates, Presentation to the Audit and Risk Management Committee September 18, 2019

Appendix J – Distribution List

This final report has been distributed to:

Peter Deeb, Chairman, OLG Board of Director
Stephen Rigby, President and Chief Executive Officer, OLG
Greg Orencsak, Deputy Ministry, Ministry of Finance
Nancy Mudrinic, Associate Deputy Minister, Ministry of Finance
Maureen Johnson, Assistant Deputy Ministry, Ministry of Finance (A)

Central Services Sector Audit Committee (CENSAC)
Ontario Internal Audit Committee (OIAC)
Chair's Office, Audit and Accountability Committee (AAC)

Beili Wong, Chief Internal Auditor, Ontario Internal Audit Division, Treasury Board Secretariat