Ontario

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MEDIUM SENSITIVITY

Ministry of Finance
Ontario Lottery and Gaming Corporation

Final Report

Audit of Ontario Lottery and Gaming Corporation – Phase 2

December 2020

Central Services Audit Branch
Ontario Internal Audit Division
Office of the Comptroller General
Treasury Board Secretariat

Serving:
Ministry of Finance

Finalized subsequent to the July 27, 2021 Audit and Accountability Committee Meeting

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Executive Summary

Overall Risk Rating: Medium/High

Introduction

The Ontario Lottery and Gaming Corporation (OLG) is established without share capital under the Ontario Lottery and Gaming Corporation Act, 1999 ("the Act"), and is classified as a Government Business Enterprise (GBE) Agency of the Province of Ontario in accordance with the Management Board of Cabinet Agency Establishment and Accountability Directive.

OLG is responsible for conducting and managing Lottery games, Land-based Gaming (LBG) Casinos, Charitable Gaming (cGaming) and Digital Gaming (D-Gaming) (formerly Internet Gaming). The day-to-day operations of the LBG casinos (except Caesars Windsor) are owned and managed by independent Service Providers (SPs). OLG also support and administers funding to Ontario horseracing industry.

The Act requires OLG to contribute its annual net income in the form of Net Profit to the Province (NPP) to the Government of Ontario's Consolidated Revenue Fund. Please refer to Table 1 for a summary of OLG's financial performance and NPP for fiscals 2016 to 2020.

OLG's mandate includes:

- enhancing economic development; to generate revenue for the province; to promote responsible gambling; and to serve the public interest;
- developing, undertaking, organizing, conducting and managing lottery schemes on behalf of Her Majesty in right of Ontario;
- providing for the operation of gaming premises;
- ensuring that gaming premises are operated and managed in accordance with the Act and the Gaming Control Act, 1992 and the regulations made under those acts; and
- providing for the operation of any business that the corporation considers to be reasonably related to operating a gaming premise, including any business that offers goods and services to persons who play games of chance in a gaming premise.

OLG's net income is used to fund government priorities that support hospitals, amateur sport, recreational and cultural activities, communities, provincial priority programs (such as health care, education), local and provincial charities and non-profit organizations through the Ontario Trillium Foundation.

OLG is subject to the regulatory authority of the Alcohol and Gaming Commission of Ontario (AGCO) and the statutory authority of the Criminal Code of Canada as an agency appointed by the province to conduct and manage gaming.

Table 1: OLG's Summary Financial Performance and NPP, F2016 to F2020 – ($ Million)[1]

	F2016	F2017	F2018	F2019	F2020
Revenues	**7,445**	**7,475**	**7,943**	**8,395**	**8,403**
Gross Margin	**4,345**	**4,401**	**4,512**	**3,996**	**3,648**
Operating Expenses	1,889	1,919	1,913	1,419	1,086
Corporate Costs	497	411	425	386	515
Net Income	**1,959**	**2,071**	**2,174**	**2,191**	**2,047**
Add Back: Win Contribution	272	290	313	280	256
NPP as reported by OLG	**2,231**	**2,361**	**2,487**	**2,471**	**2,303**
NPP to Revenue Ratio	**30%**	**32%**	**31%**	**29%**	**27%**

At the time of the audit (F2020), OLG was still in the process of implementing the initiatives under the Modernization Plan (the Plan). The Plan was approved by the Provincial Cabinet in February 2012 and highlighted the need for a change of the then business model used to administer lottery and gaming in the province. The Plan highlighted a shift to partner with the private sector to optimize financial and economic opportunities in the LBG casino business, in addition to advances in technology; changes to patron's shopping patterns; demographic shifts; and declining visitors from the United States as some of the key factors that were threatening the Ontario market and the economic contributions to the province. Please refer to Table 3, for a summary of the proposed financial and economic benefits of the Modernization Plan.

Approved by the Audit and Accountability Committee, a sub-committee of the Treasury Board/Management Board of Cabinet (TB/MBC), as part of the 2019/20 OPS-wide Audit Plan, this audit was conducted in two phases.

- Phase one (completed June 2020), focused on the effectiveness of the governance and accountability framework and mechanisms in place at OLG and identified opportunities for improvement with respect to: executive compensation; minimizing the risk of fraud in financial transactions; conflicts of interest declarations; responsible gambling and cybersecurity.
- Phase two, this report, focused on the adequacy of processes, procedures and practices at OLG.

Objective and Scope

The objective of this audit was to determine whether OLG had adequate and effective processes, procedures and practices to operate and achieve its mandate, and associated modernization initiatives, efficiently and economically.

The scope of this phase of the audit included:

Modernization Plan:

- Procurement policies and practices of LBG SP (sections deferred from Phase one);
- Progress of expenditures related to OLG's Modernization Plan (section deferred from Phase one);
- Benefits realization of the Modernization Plan transformational initiatives, digital strategy initiatives and related costs (including, planning assumption and considerations.); and

[1] Source of Data: OLG Annual Consolidated Financial Statements

- Design and structure of LBG SP fees.

Operational Areas:

- Procurement of goods and services (excluding, I.T. and Land-based Gaming (LBG) Service Providers (SPs));
- Transformational plan initiatives for Caesars Windsor, including the electricity generating facilities;
- Profitability of business lines; and
- Revenue maximization plans and initiatives; Cost management, including OLG managed, leased and operated facilities (e.g. offices, data and prize center etc.).

The scope period for this engagement was fiscals 2012 to 2020. Please refer to Appendix D for the detailed engagement scope and objective.

Covid-19 Pandemic

The audit focused on OLG's operations prior to the period of Covid-19; however, subsequent to March 2020, the Covid-19 pandemic has been having a significant impact on OLG's business and is expected to further impact the timing of the benefits of modernization. Please refer to Appendix A for a summary of Covid-19 impacts provided by OLG.

Audit Conclusion

Overall, OIAD found that, at the time of the audit, OLG had mechanisms in place to manage some aspects of its operations in an effective and efficient manner. However, in support of its Modernization Plan, expected benefits and future decision making, the audit identified several areas where improvements are required, including business cases, risk management and program management frameworks, and the robustness of cost benefit analyses.

Of the 21 evaluated audit criteria, seven were met; seven were met with opportunities for improvement; and, seven were not met. Please refer to Appendix G for the detailed list of engagement criteria and their evaluation for this audit.

The audit identified 52 observations and 39 audit recommendations across 13 themes. When the audit recommendations are implemented, it is OIAD's opinion, that they will likely improve OLG's governance and operations framework, and in turn, its performance against the audit objective, criteria and attributes assessed to achieve value for money and outcomes for the agency.

Summary of Key Observations

With regards to OLG's Modernization Plan OIAD observed that:

1. OLG's Modernization Plan was not supported with an integrated business case that underlies and supports the development, execution and monitoring of its modernization and transformation strategy.

2. The achievement of portions of the proposed benefits of OLG's Modernization Plan continued to be delayed, eight years after the plan was approved and launched. The projected financial and economic benefits are tracking below their original proposed target

levels. Also, certain projections and assumptions (e.g., financial) appeared optimistic and some of the proposed benefits were not being tracked, measured and monitored.

3. [Redacted]. This was in part due to ineffective risk management and mitigation strategies employed by OLG during the implementation of the Modernization Plan initiatives.

4. In order to implement a government policy decision to maintain slots at racetracks at (Ajax Downs) in a timely manner, OLG and the Service Provider ("SP") had to execute the Ajax gaming zone agreement within compressed timelines. This has resulted in an agreement that was not supported by cost/benefit analysis to determine the value for money implications, and to properly assess the commercial value in order to inform the decision-making and contract negotiation process.

5. The bid evaluation process and the criteria used by OLG to select Land-based Gaming Service Providers ("SPs") in the future could be enhanced to better support their established value for money (VFM) objectives. The analyses and decision-making framework required strengthening to be more effective in informing, supporting and mitigating key risks that impacted the casino gaming bundles.

6. [Redacted].

7. The proposed financial benefits of the Charitable Gaming (cGaming) modernization initiatives have not been fully achieved. Ten years after the program was launched, one of the key objectives (annual revenue growth to $400M), has realized only 50% of its target. From F2013 to F2020, OLG had incurred cumulative financial losses of $182M in this business segment. Financial losses are also forecasted to continue between $24M to $28M per fiscal between F2021 to F2024.

8. The Great Blue Heron casino's assets were sold for $5M less than their appraised market value due to an error in the independent appraisal report that was not identified by OLG in a timely manner.

With regards to the other aspects of OLG operational areas, OIAD observed that:

1. [Redacted].

2. OLG's $82M investment in the electricity generating and thermal energy plant did not provide the intended benefits or value to the organization and specifically to Caesars Windsor Casino. This type of energy investment is also not included in OLG's Mandate.

Summary of Key Recommendations

1. OLG should develop sound and comprehensive business cases, integrating appropriate supporting analysis (e.g., cost/benefit analysis, risk assessments, value for money baselines, timelines, performance measurement etc.) and objective assumptions to support all future programs and projects.

2. OLG should enhance and strengthens its program management mechanisms and frameworks (in key areas of LBG, Lottery, D-Gaming, efficiencies, capital investments and new FTEs) to be used for identifying, tracking and measuring the achievements of the proposed benefits of the Modernization Plan in order to promote transparency and accountability towards optimizing the financial and economic values and benefits in an efficient and effective manner.

3. OLG should adopt a more holistic and proactive risk management framework with methodologies to identify, evaluate mitigate, and minimize the risks that will continue to have adverse impacts on revenues and NPP. This should include the coordination of risk management activities with SPs and other key stakeholders across the gaming bundles, to ensure risk events (contractual and non-contractual) that [redacted].are adequately considered and continuously measured as part of the broader risk management process.

4. [Redacted].

5. OLG should perform retrospective cost/ benefit analysis, and evaluate, and determine the value for money implications of the terms of the Ajax gaming zone agreement. This exercise will assist OLG in identifying and mitigating further potential downside risks, as well as to ensure the commercial values of the agreement is understood in order for the benefits (financial and economic) to be effectively measured. OLG should also enhance its risk management processes in a manner that will enable the organization to optimize the modernization benefits within the terms of the agreements.

6. For future RFP and procurement processes, OLG should enhance its existing mechanisms and approach by incorporating a more comprehensive risk management strategy that considers a wider range of factors being analyzed, including but not limited to market size, capacity, opportunities, and other potentials. This should help in ensuring that projections are based on the realities of the markets. OLG should also apply more consistent methodologies to better align timelines relating to the bid evaluation terms used when determining Final Proposal Scores and implement a more robust and integrated process to perform sensitivity analysis to better identify, understand and integrate the potential impacts of key underlying assumptions that support financial and non-financial projections and targets, and use the results to appropriately inform the risk mitigation strategies, and to ensure a more reasonable risk sharing /transfer with the SPs.

7. OLG should explore opportunities with the SPs to specifically define the valuation approach of FMV in a manner aligned with that of the original sale. [Redacted]. OLG should also ensure that the agreement for the future transition of Caesars Windsor Casino is properly designed with clearly and consistently defined post-termination terms.

8. OLG should take appropriate steps to minimize its current and future financial losses and update its strategy based on the realities of the charitable gaming market in order to ensure maximum benefits can be achieved for OLG and its stakeholders.

9. To ensure full benefits and values are received and realized at all times, OLG should implement a more effective review process over all third party and internally generated reports to detect errors and omissions in a timeline manner.

10. In order to mitigate against future losses, and to ensure that long term financial and economic benefits are maximized OLG should: ensure future decision making with regards to any capital investments/expansion is based on reasonable and conservative estimates and robust risk assessments; undertake a detailed review of Caesars Windsor Casino operating costs and take steps to reduce/eliminate losses; [redacted].

11. OLG should ensure decisions to fund future capital investments and expansions (e.g., Casino Windsor and WEC) are based on sound and defensible business cases supported by achievable business estimates and a robust risk management framework. Proper project governance and oversight mechanisms should also be established. Also, OLG should undertake a review of Caesars Windsor Casino operating costs and take appropriate steps to minimize against future financial losses.

The Covid-19 pandemic has adversely impacted OLG's business and the organization has been faced with uncertainties, specifically in the LBG business segment that historically generated about a half of OLG's total revenues between F2016 and F2020. There may be additional opportunities to take into consideration the observations and recommendations in this report to inform and support future strategies and decision-making.

Noteworthy Accomplishments

The following noteworthy processes and practices were observed at OLG during the audit:

Modernization Plan:

- OLG's Senior Management team, led by the Board of Directors formed the governance structure that provided oversight over the implementation of the Modernization Plan.
- The appointment of a Fairness Monitor to ensure the LBG procurement process was conducted in an open, fair and transparent manner.
- The key initiatives and objectives of the Modernization Plan were defined and included an array of planned financial and economic benefits
- The engagement of a Supplementary Evaluator to independently review and validate OLG's financial evaluations and VFM assessments for the LBG proponent's bid evaluation process.
- The involvement of multi-disciplinary, cross-functional teams throughout the implementation of the Modernization Plan with the support of relevant subject matter experts.
- Establishing a bid rigging analytics process to assess existence of bid rigging, conflict of interest and collusion among proponents as well as the financial strength and likelihood of fraud within proponents' operations.
- The digital gaming initiative was successfully launched.
- The launch of multi-lane sales and digital lottery sales as part of the lottery modernization initiatives.

Revenue Maximizing Strategy:

- OLG has established an appropriate product development roadmap, supported by a Roadmap Governance Committee that oversees the product innovation and design process, including approvals.

- OLG established a professional working relationship with the AGCO and demonstrates an understanding of their requirements. We did not identify any significant delays when OLG obtained new product approvals from the regulator.

Procurement of Goods and Services:

- Supply Chain Management incorporated practices to negotiate prices with vendors when procuring goods and services with the aim of achieving value for the organization's procurement dollars.

Marketing and Branding:

- The marketing team that supports the Lottery business incorporates good practices that incorporated: use of scale economy to secure favourable advertising rates that benefits the organization. Surveys were also performed and measure the efficacy and appeal of the advertising campaigns.

Overall Management Response

The OLG would like to thank the OIAD for its phase two performance audit report on OLG's processes, procedures and practices to operate and achieve its mandate, and associated Modernization Plan initiatives. We appreciate the recommendations in the report and welcome the opportunity to engage with our shareholder and business partners to enhance business decisions and processes.

OLG is one of the biggest contributors of non-tax revenue to the Province of Ontario (prior to COVID-19), which is used for funding health care and other provincial priorities. OLG is committed to continuous improvement and will continue to refine its business practices while delivering ongoing value-for-money to our shareholder.

OLG is responsible for managing an $8 billion gaming market and for ensuring its successful recovery from the COVID-19 pandemic and continued growth. We are committed to strong controls and effective measures which will enable us to continue generating returns for Ontario, while serving the public interest, game integrity, and other regulated standards.

Some of the findings in this audit date back to business decisions taken ten years ago or more, identified some issues that have since been partially rectified. In other instances, historic business decisions were taken by OLG to implement policy direction approved by Cabinet at the time, impacting the scope of options available to OLG as a Crown agency.

In the last eight years, OLG has successfully implemented aspects of the gaming modernization, including the opening of several new land-based casinos, launching its new digital platform, and modernizing its lottery system. Between 2012 and 2019, NPP to the Province grew by 20 percent. While the pandemic has challenged land-based gaming, OLG is confident that post pandemic it will achieve a full recovery. OLG also plans to significantly grow the business by capitalizing on digital opportunities while maximizing its competitive advantage in lottery.

Over the past decade, OLG has continued to strengthen its risk management capabilities, identifying potential and emerging risks and mitigation strategies. This includes maturing its ability to measure business performance, including the establishment of KPIs and metrics to hold staff accountable for achieving annual targets. As we further develop our risk program, OLG will work closely with the new Comptroller General's Office at Treasury Board Secretariat to ensure alignment with the best practices being established for risk management government wide.

As we move forward, OLG will further strengthen its business cases by including comprehensive analysis, risk assessments and value for money considerations. While the agency believes it has undertaken business case reviews in the past, as the discipline of risk management has evolved, we will benefit from incorporating the latest advances in the field.

We also recognize the importance of transparency and value-for-money in procuring good, services with vendors. We commit to reviewing the procurement function to further optimize third party delivery and contract management in our organization. We've already initiated an internal review of our procurement function to identify enhancement opportunities and determine whether further efficiencies can be achieved by establishing stronger partnerships with the new centralized procurement agency.

OLG also remains committed to operating, as efficiently and effectively as possible. In 2019/20, we were realized significant operating efficiencies by implementing a hiring freeze, cutting non-critical spending by five percent, and targeted voluntary exits of staff. This work will continue in the next fiscal year, with FTE and spending reduction targets incorporated into our 2021/22 budget.

We look forward to working in partnership with the provincial government to continuously improve our operations and execute the recommended actions outlined in the audit.

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

Brad Obee CIA, CFA, MBA
Interim Director, Central Services Audit Branch
Ontario Internal Audit Division
Office of the Comptroller General
Treasury Board Secretariat

Detailed Observations and Action Plans

1. Modernization Plan Business Case

OLG's Modernization Plan was not supported with an integrated business case that underlies and supports the development, execution and monitoring of its modernization and transformation strategy.

Modernization Plan

In February 2012, the Ontario Provincial Cabinet approved OLG's Modernization Plan ("the Plan"). The purpose of the Plan was to transform lottery and gaming in Ontario, and creating additional economic activities and benefits, gains in employment, attracting private sector capital investments, annual cost-efficiencies and additional financial contributions to the province (referred to as Net Profit to the Province ("NPP")).

The plan outlined significant transformational and strategic initiatives that (if successfully implemented between F2013 and F2018) were intended to start realizing incremental benefits and values from key business segments such as casino and lottery operations, digital gaming, and charitable gaming, while enhancing the responsible gambling strategy. Please refer to Table 3, for a summary of the proposed financial and economic benefits of the Modernization Plan.

Casino Landscape

OLG sought to drive growth by transforming the casino landscape to become more customer-focused, by shifting the day-to-day operations of casino gaming facilities to the private sector partners. This initiative was also intended for private sector partners to invest in new casino facilities and games at selected sites across the province. To enable the fulfillment of this initiative, OLG engaged in an open competitive procurement process to identify and select successful private sector partners.

This transformation initiative has resulted in OLG packaging all the casinos (except Caesars Windsor) and racetracks into eight geographical gaming bundles across the province, between January 2016 to June 2019. Please refer to Table 2. Each of the eight bundles were subjected to OLG's open procurement process, where successful private sector partners (Land-Based Gaming Service Providers ("LBG SPs") were selected. This change in business model allows OLG to provide oversight over and monitor LBG casino operations.

Table 2: OLG's Modernization Plan, Gaming Bundles and COSA Dates

#	OLG Gaming Bundle	Service Provider	Casino Site	COSA Effective Date	COSA Expiration Date
1	**East**	Ontario Gaming East Limited Partnership	• Thousand Island Casino • Kawartha Downs Slots • Belleville Casino • Peterborough	January 2016	March 2040
2	**Southwest**	Gateway Casinos Entertainment Limited (Gateway)	• Point Edward Casino • Western (London) Fair District • Clinton Raceway • Chatham • Hanover Raceway • Woodstock Raceway • Hiawatha	May 2017	March 2037
3	**North**	Gateway	• Sault Ste Marie • Thunder Bay • Sudbury Downs • Optional new build – Kenora • Optional new build – North Bay	May 2017	March 2037
4	**Ottawa**	Hard Rock L.P.	• Rideau Carleton Raceway Casino	Sept 2017	March 2037
5	**Greater Toronto Area (GTA)**	Ontario Gaming GTA LP - (Partnership of Canadian Gaming Corp, Brookfield GTA Gaming Management Inc & Clairvest Group Inc)	• Woodbine Casino • Ajax Downs Casino • Great Blue Heron Casino • Pickering (new build)	January 2018	January 2039 – subsequently extended to January 2042
6	**West GTA**	Ontario Gaming West GTA LP - (Partnership of Canadian Gaming Corp & Clairvest Group Inc	• Brantford Casino • Flamboro Downs • Grand River Raceway • Mohawk Racetrack	May 2018	March 2038
7	**Central**	Gateway	• Rama Resort Casino • Georgian Downs • Wasaga Beach Simcoe County - Optional new build	July 2018	July 2041
8	**Niagara**	MGE Niagara Entertainment Inc	• Fallsview Resort Casino • Casino Niagara	June 2019	Mar 2040

Lottery Operations

Similar to the casino business, OLG was intending on outsourcing the day-to-day operations of lottery games to private sector partners, but in September 2016 OLG revised its approach with OLG retaining lottery operations. The goal of the lottery initiative was for OLG to expand its lottery ticket sale at major retailers and big box outlets and for private sector partners to drive the technological value through the enhancements of technology integration with retailer's cash register applications, and a complete lottery terminal refresh at all lottery ticket retailers.

Other Initiatives

Other initiatives of OLG's Modernization Plan includes, cancellation of slots at racetracks, enhancements to the responsible gambling program, and implementation of digital gaming. These initiatives were previously included in the scope of previous audits performed by the Office of the Auditor General of Ontario (OAGO) (April 2014 and September 2016), and the Ontario Internal Audit Division (OIAD) in July 2020 and were therefore not repeated for the purposes of this audit.

Observation:

1. OLG's implementation of the Modernization Plan initiatives is still underway (F2020). To successfully achieve and realize the full proposed benefits and values of modernization, key methodologies and enablers were required to support its development, execution, implementation and monitoring of the modernization initiatives. The Modernization Plan was supported by "specific scope" analysis (e.g., the need, preliminary / short term risks, evaluation of impacts on NPP, current /future states, benchmarking, the preferred option etc.), with no integrated costs /benefits analysis and considerations for risks and interdependencies of the initiatives.

   We noted that, despite the OAGO's observation in April 2014 that a comprehensive business case was required and that they believe that the assumptions may have been optimistic partially due to the lack of a comprehensive underlying business case. However, OLG did not subsequently develop one. This would have represented a significant tool with appropriate quantitative and qualitative data, analysis and objective assumptions to support OLG in developing, executing, and monitoring the implementation of the Modernization Plan.

   A business case is based on well defined goals and strategies with comprehensive supporting analyses to evaluate options /alternatives, costs and benefits, risks, and risk mitigation strategies to adequately justify and support the development, execution, and monitoring of significant projects and strategic undertakings such as the Modernization Plan, and to enable the measurement and achievement of projected benefits.

   In the absence of an integrated business case, we were not able to determine what evaluations and considerations were given to:

   - defining the appropriate alternatives to propose a commercially viable strategy;
   - the best/worst case scenarios of alternatives;
   - sensitivity analysis of integrated impacts on revenues, costs, benefits, risks, opportunities, timelines for all alternatives, scenarios etc.; and
   - key value drivers, and appropriate performance measures.

   We also could not determine what considerations were given to internal resources, challenges and capacities, macro and micro economic factors, and how the conclusion was derived with a clear, supportable chosen option aligned with the organization's strategic objectives.

Recommendation:

1. In order to ensure more comprehensive analysis, risk assessments, value for money baselines, timelines, performance measurement and monitoring functions are in place to effectively support the overall development, execution and monitoring of all strategic and transformation initiatives (including major projects and programs), OLG should develop the required comprehensive business case, integrating the appropriate supporting analysis and objective assumptions in the future.

Management Response / Action Plan:

OLG agrees with the need for comprehensive business cases to support particularly significant and strategic initiatives. While OLG believes it provided a business case, using third party consultants for each of the modernization gaming bundles, the agency recognizes that greater risk mitigation strategies could have been incorporated into these documents. Since the original procurement, the agency has evolved and matured its risk program, as well as its project management office.

Action Plans:

1. OLG agrees to broaden the scope of business case development to include enhanced risk assessments and mitigation to support the overall execution and implementation of significant and strategic initiatives in the future. A risk assessment will be presented to the Board of Directors when all major procurements and policy initiatives are brought forward for approval. This risk assessment will flag benefits and mitigation plans and will be tracked and updated on a quarterly basis as part of the OLG's regular enterprise risk discussions. OLG will also ensure clear documentation of scenarios where stakeholder demands do not align with the strategic direction of the company.

2. To strengthen risk analysis, OLG will continue to build its risk management capabilities by, engaging third party risk management expertise as warranted to help facilitate and document risk discussion and analysis when developing business cases, and incorporating risk management concepts into OLG management training. Project management plans will continue to have well defined milestones and deadlines. This has been the past practice of the company. A corporate dashboard with KPIs and metrics to support oversight of all projects is currently being finalized. This comprehensive document will be used by the Executive Team and Board of Directors to monitor business performance and encourage discussion on risk and mitigation plans to address any initiatives behind schedule or facing implementation challenges.

Target Completion Dates:

1. April 2021
2. January 2021

Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy and Risk and Audit, Chief Information Officer (Business Design)

2. Modernization Plan Benefits Realization

The achievement of portions of the proposed benefits of OLG's Modernization Plan ("the plan") continued to be delayed, eight years after the plan was approved and launched. The projected financial and economic benefits are tracking below their original proposed target levels. Also, certain projections and assumptions (e.g., financial) appeared optimistic and some of the proposed benefits were not being tracked, measured and monitored.

Strategic Business Review

In December 2010, based on the government's direction to modernize commercial and charitable gaming, OLG launched a Strategic Business Review ("SBR") that included extensive consultations with stakeholders and analysis of its business. Over 50 stakeholders were consulted over a six-month period to gather input regarding the gaming marketplace of the future. A full-time SBR team was established that included expertise and supported by various consultants with relevant subject matter expertise.

The SBR highlighted that there were a number of obstacles leading to declining net profits including technological and infrastructural obsolescence, an outdated business model and changes in customer needs and demographics that resulted in slow revenue growth and declining net profits. Compared to gaming organizations in other Canadian provinces, OLG was assessed to be underperforming. With a mandate that included meeting a number of non-commercial goals involving a broad range of stakeholders, OLG was assessed to be caught in a gaming ecosystem that was not conducive to value maximization.

The foregoing issues coupled with new growth opportunities made a compelling case for the need for a fundamental change. It was also paramount to ensure the long-term sustainability of the largest source of non-tax revenue for the Ontario government, which is used to support provincial priorities, such as healthcare and education, and to provide funding for charitable organizations

Modernization Plan

The Modernization Plan was formulated in the "Modernizing Lottery and Gaming in Ontario - Strategic Business Review / Advice to Government", also known as the "Blue Book" and in February 2012, the Ontario government approved the Modernization Plan that triggered the start of modernization in March 2012. The three recommendations for systemic change underpinning the Modernization Plan were:

1. Become more customer focused.
2. Expand regulated private sector delivery of lottery and gaming.
3. Renew OLG's role in oversight of lottery and gaming.

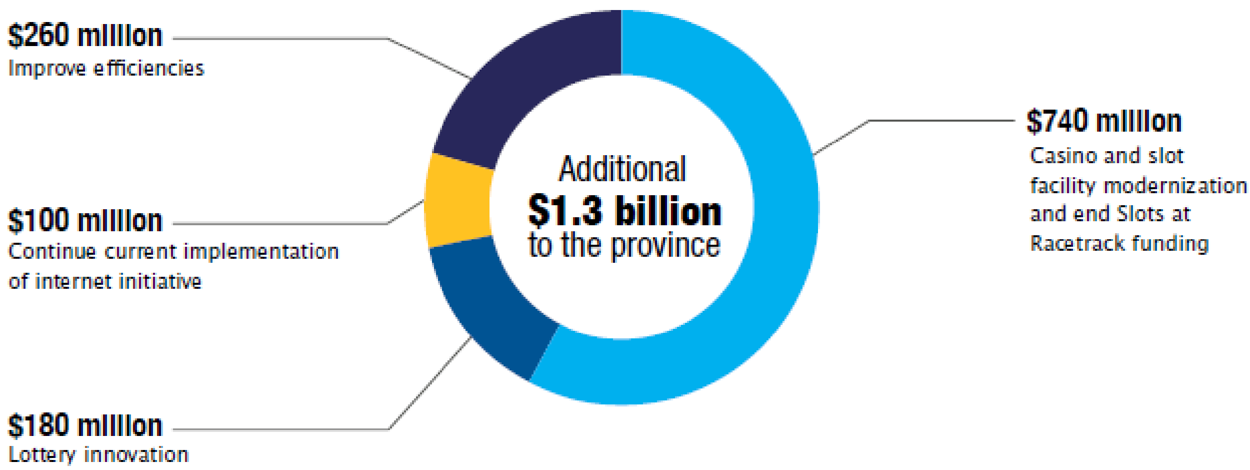
The first recommendation was to address the need to be more responsive to customer needs and expectations regarding attributes such as products, services and locations. The second recommendation was to unlock OLG's full potential value and to expand private sector participation in Land-based Gaming ("LBG"), by operating day-to-day activities of casino gaming sites and investing in capital development and refurbishment. Similarly, day-to-day operation of the lottery business would shift to regulated private sector operators though this was subsequently reversed. Lastly, a new business model was recommended that would provide OLG with a clear mandate for market management and oversight within a streamlined gaming landscape.

The three recommendations were designed to be implemented in a holistic and integrated manner based on four guiding principles for transformation as defined in the Blue Book. By F2017-18, six years after the implementation of the Modernization Plan, the proposed benefits expected to be realized are outlined below. Please refer to Table 3.

Table 3: Summary of Proposed Modernization Benefits, Starting F2018

Key Metric	Expected Benefit
Additional Net Profit to the Province ("NPP")	$1.3 billion annually
Net New Jobs	Gaming industry: 2,300 Service sector: 4,000
Capital Investment by Private Sector	$3.0 billion

Proposed annual additional NPP would be derived from the following sources:



The successful implementation of modernization was expected to widen the appeal of gaming in Ontario, creating a broader patron base while reducing the amount of public capital invested (by engaging private sector partners) in gaming and lottery infrastructure, as well as encouraging efficiency and innovation.

The expected annual incremental financial benefit to the province from modernization of $1.3B per the 2012 Blue Book was subsequently reduced in OLG's budgeting process as the bidding process unfolded and new information became available for each fiscal until F2018, as shown in the Table 4.

Table 4: Revisions to Expected NPP F2013 to F2018 ($'M)

Line of Business	Blue Book	OLG Budget Year					
		F2013	F2014	F2015	F2016	F2017	F2018
Land-Based Gaming	740	788	585	592	574	555	512
Lottery	180	192	200	200	182	164	164
Internet Gaming	100	58	89	89	88	25	32
Efficiency Improvement	260	225	145	145	145	145	145
Total Annual Incremental NPP	**1,280**	**1,263**	**1,019**	**1,026**	**989**	**889**	**853**
Target Year of Full Value	**F2018**	**F2018**	**F2018**	**F2019**	**F2021**	**F2022**	**F2022**

OLG reported that, starting in F2015 budget, the target for the achievement of full realization of modernization benefits was expected to be delayed based on the F2017 budget. The delay was expected to be at least by four years, from F2018 to F2022.

Land-Based Gaming

Prior to modernization, OLG was directly involved in operating and/or overseeing the casino gaming and racetrack facilities across Ontario. OLG was also a major employer with responsibility for about 18,000 direct and indirect employees, while also competing with the private sector operators that they were overseeing. The responsibility for capital investment and improvement at all gaming sites resided with OLG which relied on public funds.

At the onset of modernization, based on optimizing market potential, OLG bundled all casino gaming sites (except Caesars Windsor) into eight geographic bundles across the province. Please refer to Table 2. With the gaming bundles in place, OLG launched its multi-year Request for Proposal ("RFP") and competitive procurement processes to identify and select successful private sector partner proponents (Land-based Gaming Service Providers ("SP")) for each of the gaming bundles.

To plan the transition from OLG to private sector operation, OLG developed an initial perspective on the supply of gaming opportunities based on a 2010 GTA Market Assessment by leading gaming consultants. The primary goal was to balance gaming supply and demand in the province through expansion and consolidation of gaming sites at locations not limited to racetracks based on customer interest.

With the commencement of modernization, OLG sought to drive growth by transforming the casino business to become more customer-focused, by shifting the day-to-day operations of casino gaming facilities to private sector partners. OLG was also responsible for the conduct and manage mandate, responsible gambling, and providing monitoring and oversight over the private sector partners. Private operator SPs would run day-to-day operations of the casino gaming sites and proposed newly built facilities and would assume responsibility for all employees at the gaming sites. The public-private partnership model would shift the responsibility for funding major capital investment to the private sector. By F2017-18, the modernization of LBG was expected to provide $740M increase in annual NPP.

The expected increases of annual NPP benefits of $740M from LBG modernization per the 2012 Blue Book was subsequently reduced by OLG in their budgets for F2014 to F2018 as new information became available through the multi-year RFP process, which is reflected in Table 5.

Table 5: Summary, Revised LBG Annual Incremental NPP Benefits F2013 – F2018 ($'M)

Initiative	Blue Book	OLG Budget Year					
		F2013	F2014	F2015	F2016	F2017	F2018
LBG Annual Incremental NPP-Gross		**1,073**	**802**	**799**	**781**	**847**	**809**
Operator Fee & Other Costs		(285)	(217)	(207)	(207)	(292)	(297)
LBG Annual Incremental NPP	**740**	**788**	**585**	**592**	**574**	**555**	**512**
Target Year of Full Value	**F2018**	**F2018**	**F2018**	**F2019**	**F2021**	**F2022**	**F2022**

Lottery Operations

Prior to the launch of modernization, OLG's lottery systems were still, largely paper-based, just like when it was introduced over 45 years ago. Prior to modernization, OLG operated 16 terminal-based lottery and sports games and offered more than 80 INSTANT lottery products through approximately 10,000 independent retailers across Ontario. Revenue growth was constrained by the existing delivery channels to rely solely on growth with existing customers at the time. There was a huge reliance on convenience stores, though large retailers such as supermarkets and big box stores were become increasingly more popular. The lottery operations did not keep pace with technological advances and customer's evolving needs.

Similar to LBG, the initial approach was to shift day-to-day operation of lottery network to a private sector service provider. However, the procurement process was cancelled in September 2016 in favour of a revised modernization approach as the results of the process identified that the selection of a single service provider may not provide sufficient value for the province. The lottery alternate strategy ("the strategy") was then launched in December 2016 and sought to enhance capabilities in technology and innovation through partnership with the private sector to unlock the full potential of the business.

The strategy focuses on customer base expansion with a three-pronged approach, namely multi-lanes in big-box stores, digital channels and traditional terminals. Lottery modernization will be enabled by infrastructure upgrade initiatives such as new lottery terminals and new player platform, and driven by new products such as sports betting and innovative games, designed by private service providers. By F2017-18, lottery modernization was expected to provide about $180M of additional NPP annually.

The expected increases of annual NPP benefits of $180M from lottery modernization per the 2012 Blue Book was subsequently revised by OLG in their budgets for F2013 to F2018 as shown in Table 6.

Table 6: Summary, Revised Lottery Annual Incremental NPP Benefits F2013 – F2018 ($'M)

Initiative	Blue Book	OLG Budget Year					
		F2013	F2014	F2015	F2016	F2017	F2018
Lottery Annual Incremental NPP	**180**	192	200	200	182	164	164
Target Year of Full Value	**F2018**	**F2018**	**F2018**	**F2019**	**F2021**	**F2022**	**F2022**

Digital Gaming (D-gaming), formerly Internet Gaming

At the time of the strategic business review, OLG was not yet engaged in internet or digital gaming ("D-gaming"). At the time, OLG was missing out on the opportunity for a share of the estimated $400M wagered annually on gambling websites that were not authorized in Ontario under the Criminal Code of Canada. Provinces like British Columbia and Quebec were already operating in this segment of the industry. In August 2010, OLG formally introduced its D-gaming, that the organization deemed will operate in a responsible, trustworthy and secure environment.

The D-gaming strategy and goals were set out in a business case with an expected initial launch in late 2012 and fully in 2013. The plan was to offer a full range of games online including lottery ticket sales, interactive casino-style games and peer-to-peer games. By F2017-18, the new D-gaming business was expected to contribute at least $100M increase in annual NPP, while adhering to responsible gaming rules and standards. For the first five years of operation, D-gaming was estimated to deliver a cumulative $375 million in NPP benefits to the province.

The expected increases of annual NPP benefits of $100M from the D-gaming initiative per the 2012 Blue Book was subsequently reduced by OLG in their budgets for F2013 to F2018 as shown in Table 7.

Table 7: Summary, Revised D-gaming Annual Incremental NPP Benefits F2013 – F2018 ($'M)

Initiative	Blue Book	OLG Budget Year					
		F2013	F2014	F2015	F2016	F2017	F2018
D-gaming Annual Incremental NPP	**100**	58	89	89	88	25	32
Target Year of Full Value	**F2018**	**F2018**	**F2018**	**F2019**	**F2021**	**F2022**	**F2022**

Efficiency Improvement

The first guiding principle for transformation is that "OLG will be a modern, efficient agency operating in the best interests of Ontarians". While the main thrust of modernization is customer-centric and market-driven, efficiency improvement was also one of the pillars of modernization. It was envisioned that OLG would become a leaner, more efficient organization focused on well-defined market management and oversight functions while maintaining a gold standard in responsible gambling.

The OLG of the future was based on the premise that private sector operators would be able to run operations more efficiently and effectively. In LBG, operational efficiency would be achieved through cost reductions of gaming and non-gaming labour, and back-office operations. The efficiency gains for the lottery business were targeted at streamlining of the existing channel support, print and distribution cost reductions, as well as shared services optimization. Upgrading of the business and infrastructure systems and customer-focused innovations were expected to be key enablers. By F2017-18, efficiency improvement initiatives were expected to provide an incremental amount of $260M in annual NPP.

The expected increases of annual NPP benefits of $260M in efficiency improvements per the 2012 Blue Book was subsequently reduced by OLG in their budgets for F2013 to F2018 as shown in Table 8.

Table 8: Summary, Revised Efficiency Improvement Annual Incremental NPP Benefits F2013 – F2018 ($'M)

Initiative	Blue Book	OLG Budget Year					
		F2013	F2014	F2015	F2016	F2017	F2018
Corporate Efficiency		100	100	100	100	100	100
Lottery Efficiency		125	45	45	45	45	45
Efficiency Annual Incremental NPP	**260**	**225**	**145**	**145**	**145**	**145**	**145**
Target Year of Full Value	**F2018**	**F2018**	**F2018**	**F2019**	**F2021**	**F2022**	**F2022**

Capital Investment

Prior to modernization, OLG was responsible for maintaining and refreshing gaming facilities, which was a major burden on public funds. Without modernization, OLG would need to spend an estimated $1B in public capital to update its service in casinos. There was an opportunity to use public-private partnerships as a funding mechanism for capital investments just like the Ontario government did with the building of hospitals through these partnerships. Furthermore, OLG was unable to sustain the level of capital investments required to support the lottery business infrastructure at the time of modernization in order to maintain its NPP level at the time.

Capital investment is widely known to be a key driver of revenue and profit growth in the hospitality and gaming industry. New development and periodic refresh of gaming and non-gaming facilities and amenities are critical in ensured sustained growth. To enhance the attractiveness of casinos, the provision of diverse amenities provides the opportunity for synergy to induce higher gaming revenue. A popular strategy to optimize value is full-service casino facilities, which include hotels and restaurants as well as broad entertainment offerings such as live performance.

Modernization was expected to reduce the burden of capital costs on public funds whereby the private sector takes on major capital investment to maximize the value of each LBG bundle. Private sector funding was expected to be made available to build new gaming facilities and to expand or refresh existing ones. By F2017-18, the province was expected to benefit from an additional $3B in new private sector capital investment.

Job Creation

Pre-modernization, OLG directly employed approximately 7,700 employees and an additional 10,000 people indirectly in the privately-operated resort casinos. Low revenue growth coupled with minor capital investment led to stagnant or declining staffing at gaming sites, at the time and employment outlook for the lottery operations was equally doubtful.

The importance of capital investment in the gaming industry cannot be overemphasized. In addition to providing financial benefit in terms of revenue and NPP growth, capital investment also fuels economic development not only in temporary construction jobs but also in permanent direct and indirect employment during ongoing operations.

In LBG, modernization was expected to shift employees from OLG's payroll to private sector and result in a number of new employment opportunities in new, expanded or relocated gaming sites and new non-gaming amenities that will exceedingly surpass job losses arising from site closures, cross-site cannibalization and operational streamlining. Likewise, the lottery business was also expected to create new jobs through distribution expansion and the introduction of new products was expected to outweigh jobs eliminated by efficiency optimization. By F2017-18, the result was expected to be 2,300 net new lottery and gaming industry jobs and an estimated 4,000 service sector jobs in hotels, restaurants, entertainment centres and retail. Over the first five years of operation, internet gaming was also expected to create about 50 jobs, both at OLG and in the industry, in Ontario.

Observations:

The following are some of the Modernization Plan initiatives that were completed at the time of the audit:

- The creation of casino gaming zones and gaming bundles across Ontario.
- The RFP and competitive procurement processes and the day-to-day operations of the eight casino gaming bundles have been transitioned to independent SPs effective June 2019.
- Implementation of a consistent hosting fee model for municipalities.
- Expansion of lottery ticket sales to an additional 510 multi-lane retail outlet locations.
- The implementation of D-gaming.
- Revised revenue sharing and operating agreements were executed with the C-Gaming sector stakeholders.

The following observations within different aspects of modernization benefits share common themes such as timeline delays, optimistic projections and questionable timeframe / basis for benefit assessment, measurement, monitoring and reporting. OLG's program management approach tended to lean on the side of optimism such as best-case scenario or ideal conditions. There was not much allowance for contingencies to mitigate against adverse conditions that could be reasonably foreseen. While OLG uses a forecast to account for changes, the program management framework and mechanisms did not involve setting and revising baselines as part of the process or to measure certain benefits. Ineffective risk sharing and transfer has also undermined the achievement of proposed financial and economic value to be derived from modernization.

The following observations were noted in the key scope areas of the modernization:

Land-based Gaming

1. The implementation of modernization initiatives for LBG has experienced delays. OLG's approach to adopt best-case scenarios with little allowance for contingencies may be the main underlying cause. Based on the Blue Book, achievement of the projected full benefit was expected by F2018 but in F2017, these projected benefits were postponed by at least four years to F2022. While modernization initiatives started in April 2012, the first implementation milestone in LBG occurred nearly four years later when the day-to-day operation of the East gaming bundle was transferred to a new SP in January 2016. Three and a half years later, Niagara was the final gaming bundle that was privatized in June 2019. This signalled the completion of the transition of LBG into the operation of independent SPs.

2. [Redacted]. By F2021-22, GTA, West GTA and Niagara gaming bundles are not expected to be at full operations (as shown in Table 10). West GTA is also expected to be further delayed, as its planned capital investment was put on hold at the time of the audit, and the SP had not provide any firm commitment to resume capital spending.

3. The timelines to achieve the planned NPP modernization benefits for LBG appeared unclear. The achievement timeline was subsequently revised, and the estimated amount was $512M (Table 5) in F2018 budget which represents a 31% reduction. An analysis of the budgeted annual incremental NPP contribution by key LBG modernization initiative is shown in Table 9.

Table 9: Budgeted LBG Modernization Benefits Breakdown ($'M)

Initiative	OLG Budget Year						F2018 vs. F2013
	F2013	F2014	F2015	F2016	F2017	F2018	
Slots at Racetrack Program (SARP)	291	220	220	220	220	220	(71)
New Sites	257	63	63	63	63	63	(194)
Site Differentiation	86	110	110	110	110	110	24
Additional Amenities at Existing Sites	63	30	30	30	30	30	(33)
Woodbine Expansion	-	-	-	-	103	103	103
Site Relocation	88	20	20	20	20	20	(68)
Site Closures	16	16	16	16	16	16	-
Customer Programs	55	55	55	55	55	27	(28)
Site Efficiency	105	105	105	105	105	105	-
Gaming Support Efficiency	60	60	60	60	60	60	-
Projects In-flight pre-modernization	47	47	47	47	47	47	-
Other	5	76	73	55	18	8	3
Annual Incremental NPP - Gross	**1,073**	**802**	**799**	**781**	**847**	**809**	**(264)**

The reductions in the planned benefit projections up to F2018 budget appeared to be attributed to high uncertainties and optimism regarding the gaming market potential and capital developments, since only one gaming bundle (East) had been transitioned at that time. Over time, the underlying risks were expected to fall, particularly, after the agreement was executed for the GTA gaming bundle in January 2018, since this bundle was perceived to be located in the most underserved market.

At the time of the audit, the planned benefits' estimates included in OLG's budgets were not aligned with the amounts identified in the SP's bid projections. These updates should have been considered as part of the new baseline amounts. Once initial development plans were completed, the gaming bundles were expected to be at full operations and were expected to realize annual benefit amounts in excess of an estimated $2.7B in NPP by F2024-25. Please refer to Table 10.

Table 10: Revenue and NPP Projections at Full Operations ($'M)

Gaming Bundle	COSA Execution	Start of Modernization	Full Operations per SP Bids		
			First Year	Revenue	NPP
East	11-Jan-16	F2017	F2020	[Redacted]	[Redacted]
North	30-May-17	F2018	F2021	[Redacted]	[Redacted]
Southwest	9-May-17	F2018	F2021	[Redacted]	[Redacted]
GTA	23-Jan-18	F2019	F2025	[Redacted]	[Redacted]
Ottawa	12-Sep-17	F2018	F2021	[Redacted]	[Redacted]
West GTA	1-May-18	F2019	F2023	[Redacted]	[Redacted]
Central	18-Jul-18	F2019	F2022	[Redacted]	[Redacted]
Niagara	11-Jun-19	F2020	F2024	[Redacted]	[Redacted]
Total				**[Redacted]**	**[Redacted]**

The effective start of the implementation of LBG modernization was in F2016-17, the achievement of the annual incremental NPP targets should have been revised from $512M to $1,519M based on OLG's updated pre-modernization baseline in F2015-16 NPP of $1,200M.

4. We noted that, subsequent to the transition of the gaming bundles, OLG claimed that measuring certain key activities was no longer feasible. There was no evidence to demonstrate that certain initiatives and underlying assumptions as set out in Table 9 were measured, monitored and assessed. In this case, the overall project / program management framework needed improvements, there was no formal mechanisms to demonstrate how past performances were used to inform corrective actions and the achievement of established goals and priorities.

5. The achievement of the full modernization NPP benefits in LBG as at F2020 appeared to be unclear since OLG has not been effectively measuring the performance of individual lines of business against appropriate established modernization baselines. OLG reported benefits of $557M in incremental revenue and $390M in incremental NPP from the inception of the modernization initiatives in F2012-13 to F2018-19 based on a comparison against OLG's Status Quo model as shown in Table 11.

Table 11: Modernization Benefits in Land-based Gaming ($'M)

Performance Metric	OLG Status Quo	Actual			Incremental		
		F2018	F2019	F2020	F2013 to F2019	F2018 to F2019	F2018 to F2020
Revenue	3,300	3,796	3,857	3,871	557	61	75
NPP	1,200	1,693	1,590	1,631	390	(103)	(62)

We noted that this basis of measurement of NPP benefits is misaligned because the actual implementation of LBG modernization initiatives only commenced in in F2016-17 with the East gaming bundle. Based on Table 10, modernization continued with the transition of three additional gaming bundles in each of the following two years and was completed in F2019-20. Therefore, increases in revenues and NPP prior to F2016-17 and for most of the ensuing fiscal could not be directly attributable to the modernization.

With the first four gaming bundles transitioned to independent SPs, F2017-18 appeared to be a more reasonable basis for appropriate comparisons of incremental NPP benefits. With this basis, revenues increased by $61M but NPP reduced by $103M. In F2019-20, the first full year of LBG modernization implementation (except for three months prior to the transition of Niagara in June 2019), no incremental modernization NPP benefit was achieved, since there was a negative incremental NPP of $62M. We are unsure what the NPP situation would have been if the casinos were not required to be closed for two weeks in March 2020 due to the Covid-19 pandemic.

Prior to the onset of COVID-19 pandemic, the F2020-21 business plan projected NPP of $2,498M in F2023-24, primarily driven by the Woodbine expansion and the opening of the new Pickering casino both in the GTA gaming bundle. Using F2017-18 as the effective start of implementation of modernization, the incremental NPP would be expected to be $806M, compared to the estimated amount of $740M in the Blue Book and $1,519M based on SP bid projections.

Lottery Operations

6. The achievement of the proposed modernization benefits of the lottery business continued to be behind schedule. The cancellation of the outsourcing procurement process in September 2016 was a contributing factor and raised concerns about the strength of the initial business case. The December 2016 lottery alternate strategy delayed the implementation timelines by three years to F2020-21, although the budget for F2016-17 projected further delay by one year.

7. We noted that most of the transformation initiatives were behind schedule. Five of the key initiatives should have been completed by F2020. Please refer to Table 12 for a summary of the initiative timelines. COVID-19 was not expected to have a significant impact on the schedule as only three projects would be affected by up to two quarters.

   At the time of the audit (F2020), only 13% of planned lottery terminals were installed across OLG's retailer network. OLG has since forecasted a 90% completion by December 2020. As for the multi-lane retail solution, it was about two-third complete. Details of the New Retail

Partners initiative were not yet defined, although the initial plan was calendar year ("CY") 2017. This could indicate that this project is delayed.

Table 12: Lottery Modernization Initiatives - Actual vs. Plan Timelines

Initiative	Deliverables		Timelines		Revised Timelines	
	Plan	Actual	Plan	Actual	Pre-COVID	Post-COVID
New Lottery Terminals	10,100	1,282	CY2019	In Progress	Q3 F2021	Q4 F2021
New Player Platform			Q1 CY2018	In Progress	Q2 F2021	Q2 F2021
Web & Mobile Apps			Q1 CY2018	In Progress	Q2 F2021	Q4 F2021
Multi-lane Retail Solution	800	491	CY2019	In Progress	Q4 F2021	F2022
New Sports Platform			Q2 F2021	In Progress	Q1 F2022	Q1 F2022
Enhanced CRM Phase 2			Aug 2020	In Progress	Q3 F2021	Q3 F2021
New Retail Partners	To be defined in CY2017			In Progress	Information not available	
Improved Ticket Inventory Management System	Added to scope of ERP implementation project					

8. The three key modernization initiatives in the lottery business generated revenues less than the estimated amounts for the first 3 years, as illustrated in Table 13**.** Revenues were less than half of projections for the last two years and is expected to start recovering in F2021. Digital lottery and casino fared reasonably well over the initial 3 years, only 8% below plan ($335M vs. $363M) but the other two initiatives performed below expectations. In aggregate, forecast revenues in F2020-21 will be two-thirds of the original target.

Table 13: Incremental Revenue from Key Lottery Modernization Initiatives ($'M)

Key Initiative	Actual			Forecast F2021	Original F2021 Target
	F2018	F2019	F2020		
Total Digital Sales	84	112	139	249	245
Multi-lane Retail Solution	2	8	11	5	70
New Lottery Terminals	0	0	1	6	85
Total Incremental	**86**	**120**	**151**	**260**	**400**
Original F2021 Target	**112**	**245**	**338**	**400**	
Variance	**(23%)**	**(51%)**	**(55%)**	**(35%)**	

9. Except in the first year of implementation, the achievement of expected benefit from the key lottery modernization initiatives were below the targets, as summarized in Table 14**.** The achievement of incremental NPP also trended in a similar pattern as revenues for the last two years. The achievements of lottery modernization benefits were about one-third below the proposed amount for the first 3 years, $187M vs. $275M. In F2020-21, while digital sales revenue was forecasted to be slightly higher than original target, the achievement of incremental NPP is expected to be lower, $97M vs. $111M.

Table 14: Incremental NPP from Key Lottery Modernization Initiatives ($'M)

Key Initiative	Actual			Forecast F2021	Original F2021 Target
	F2018	F2019	F2020		
Total Digital Sales	43	60	74	97	111
Multi-lane Retail Solution	1	4	4	2	23
New Lottery Terminals	-	-	1	2	36
Total Incremental	**44**	**64**	**79**	**101**	**170**
Original F2021 Target	**36**	**98**	**141**	**170**	
Variance	**22%**	**(35%)**	**(44%)**	**(41%)**	

Digital Gaming (D-gaming)

10. We noted that the launch of the D-gaming business was delayed by over two years. The planned launch was expected in late 2012, compared to the actual launch date of January 2015.

11. The revenue projections for the first 5 years of D-gaming operations appeared optimistic. It was four times the actual revenue generated, as shown in Table 15. There was no evidence to demonstrate that OLG's share of the D-gaming market and the related growth have been properly measured.

Table 15: D-gaming Revenue - Actual vs. Business Case ($'M)

Revenue ($'M)	F2016	F2020	5 Year Total
Actual	49	139	**412**
Business Case	203	477	**1,696**
Variance ($'M)	(154)	(338)	**(1,284)**
Variance (%)	(76%)	(71%)	**(76%)**

The revenue outlook in F2020-21 business plan (Table 16) shows some improvements but continue to be lower than the original targets. F2023-24 revenues are expected to be 27% lower than projected for full operations ($349M vs. $477M).

Table 16: D-gaming Revenue and NPP per F2020-21 Business Plan ($'M)

Key Metric	F2021	F2022	F2023	F2024
Revenue	142	200	261	349
NPP	12	76	114	169

12. The incremental NPP estimates were also not achievable. One and a half times actual NPP in F2019-20 and almost two and a half times the actual NPP for the first 5 years, as summarized in Table 17.

Table 17: D-gaming NPP - Actual vs. Business Case ($'M)

NPP ($'M)	F2016	F2020	5 Year Total
Actual	(4)	74	**148**
Business Case	50	110	**360**
Variance ($'M)	(54)	(36)	**(212)**
Variance (%)	(108%)	(33%)	**(59%)**

Based on Table 16, the achievement of the planned additional annual NPP of $114M is expected in F2022-23 (compared to the forecast of $110M (F2020) as shown in Table 17). This is three years later than originally planned.

Efficiency Improvement

13. The achievement of the planned modernization benefits attributable to efficiency improvements are unknown. At the time of the audit, there was no evidence to demonstrate that these benefits were tracked, measured and monitored, despite being one of the core themes of OLG's business transformation. The importance of efficiency improvement cannot be overstated, especially against the backdrop of net new modernization implementation costs of $650M incurred as at December 31, 2019. This could undermine the achievement of these proposed modernization benefits.

    A program of the scale as the Modernization Plan certainly warrants comprehensive cost benefit analyses with key performance indicators ("KPI") measured, monitored and assessed over the program's lifecycle. One such KPI is efficiency improvement with estimated annual incremental NPP of $260M, one-fifth of the total projected benefit of modernization. This is a lost opportunity in value creation through initiatives such as human resource optimization, organizational and process streamlining and the drive for operational excellence.

Capital Investments

14. We noted that the achievement of the proposed benefits of the capital developments is behind schedule, resulting in delays in achieving planned NPP modernization benefits in LBG. [Redacted]. Construction and relocation of many gaming sites were hampered. Unachievable timelines and lack of proactive stakeholder consultations (e.g., Indigenous groups and host municipalities etc.) also played a role in the delayed schedule. This has resulted in delayed and/or loss opportunities to OLG and the SPs, as well as delayed opportunities to host municipalities, local communities and other key stakeholders.

15. The baseline for assessing capital investments by the private sector SPs had not been revised at the time of the audit to take into account the proposed construction, expansion or relocation projects in the SPs' bid submissions for the eight gaming bundles. Table 18 shows a comparative analysis of OLG's actual and forecast capital investments as at August 2019 against the service providers' bid projections.

Table 18: Proposed Capital Investment OLG vs. SP Bids ($'M)

Gaming Bundle	OLG	SP Bid	Variance	
			Amount	%
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Total	**4,013**	**5,435**	**(1,422)**	**(26%)**

While the new capital investment was estimated at $3B in the (F2012) Blue Book, we noted that the projections were subsequently revised downward, and at one point stood at an estimated $1B in F2016. Instead, these estimates should have been revised upward after the capital project plans were firmed up based on the amounts included in the SP's bid submissions. OLG's capital investment estimates (F2020) pre-COVID-19 revisions were $1.4B or 26% lower than bid estimates. This excluded the West GTA gaming bundle, that is faced with ongoing market response issues. The variance was $551M (10%), which was mostly due to the GTA gaming bundle.

16. [Redacted].

One of the main focus of OLG's current contract model is to contractually hold the SPs accountable for Variable Fee Threshold, that is, the minimum gaming revenues generated, of which 100% accrues to OLG. Variable Fee Threshold on its own without key enablers and supporting strategies, such as capital investments is not sufficiently effective to ensure strategic alignment between OLG and the SPs.

Job Creation

17. At the time of the audit, we noted that net new jobs defined as net Full Time Equivalent ("FTE") was not translated into a reporting requirement in the agreements with the SPs. Also, we were not provided with evidence to demonstrate that OLG was actively tracking and monitoring this KPI, despite its publication as a major economic benefit of modernization. The changes in net FTEs for the first 10 operating years for each of the respective agreements were reviewed during the bid evaluation process and also considered during the independent economic impact assessment of the Preferred Proponent's bid.

18. The baselines for the creation of new jobs arising from the overall modernization were not updated to align with the higher estimated amounts proposed in SPs' bid submissions, particularly, in the GTA gaming bundle. The Blue Book initially projected that modernization would create 2,300 gaming jobs and 4,000 service jobs by F2017-18. In 2016, the estimates reduced to 1,736 jobs and the total estimate for service jobs was retracted. The new baselines were not revised to align with the overall amount of over 6,800 net new FTEs projected and outlined in the SPs' bid submissions across all eight gaming bundles.

Recommendations:

1. The recommendations for the modernization benefits are centred around effective program management for all key areas, namely LBG, Lottery, D-Gaming, efficiency improvements, capital investment and net new FTEs. OLG should enhance and strengthen its internal processes, practices, mechanisms and frameworks for identifying, tracking and monitoring the achievements of the proposed benefits of the Modernization Plan in order to promote transparency and accountability towards optimizing the financial and economic values and benefits efficiently and effectively. This includes:

    a. Establishing more reasonable and achievable timelines that considers known risk factors such as stakeholder consultations and agreement, municipal and other governmental approvals, and consider the inherent nature of the risks related to capital developments, as well as providing for sufficient and reasonable contingencies.
    b. Establishing processes to appropriately review and update key timelines on an ongoing basis in a systematic manner, also based on the emergence of new information and events in order to ensure schedules and baselines reasonably presented.
    c. Establishing the goals of the benefits and re-evaluate their achievability based on further research and analysis. This will assist in determining appropriate baselines and will enhance setting baselines as part of for performance measurement.
    d. Establishing a process to review and update modernization benefit targets periodically in a formalized and systematic manner to consider the effects of risks and other events as part of performance measurement.
    e. Establishing performance management criteria, processes and metrics, including the appropriate KPIs, that identify, measure and monitor all key modernization benefits on an ongoing basis. This includes evaluating actual vs planned performances against baselines, with periodic reports to senior management as part of the oversight mechanism.
    f. Establishing processes for capturing and sharing lessons learned with the aim of enhancing continuous improvements.

    The foregoing recommendations are also applicable to any major projects /programs that OLG planned to undertake in the future.

2. Regarding the capital investments and the creation of net new jobs, OLG should:

a. Ensure that when negotiating future threshold reliefs and amendments with the SP, appropriate trade-off conditions are considered in order to enhance the benefits of the modernization.
b. Monitor capital investment commitments in SPs' annual business plans to ensure sustainable revenue growth. These should also be measured against the actuals as part of KPI's.
c. Actively track and report on job creation benefits including net FTE impacts.

Management Response / Action Plan:

OLG acknowledges the observations and recommendations and agrees with the importance of transparency, tracking, measuring and reporting of modernization benefits. OLG believes their in-year forecasting process is also used to measure benefits associated with modernization. Since modernization was initiated in 2012, the forecasting process originally measured expected benefits by activity. The approach was changed in 2018 to measure the aggregate value through NPP by gaming bundle.

Action Plans:

1. OLG will share business performance information with more transparency. Given the current stage of modernization, this information will be presented in aggregate as part of the agency's annual report. A more detailed document outlining the performance of individual bundles will be provided to the Board on an annual basis. OLG plans to disclose the results of its monitoring and reporting through the establishment of its annual KPIs and through the publication of its annual business plan.

2. As part of its efforts to create a comprehensive corporate dashboard that monitors line of business performance, OLG will share this dashboard with our Board on a quarterly basis to ensure that the economic benefits of modernization are clear. As part of its corporate dashboard, OLG will incorporate a metric that reports on job creation including net FTE increases and reductions, improvement efficiencies, capital investments amongst others. There will be a metric to measure SP FTE numbers, and corporate OLG numbers.

3. Going forward, the company will also establish clear KPIs to measure company performance. OLG is in the second year of cascading KPIs throughout the company for performance purposes and will continue to refine this work to ensure its KPIs are clear and measurable. KPIs will be shared with the Board and shareholder on an annual basis.

4. With regard to sharing lessons learned, beginning with the launch of the digital platform project, OLG will conduct a project launch post-mortem exercise to document lessons learned. While lessons learned discussions are commonplace at OLG, formally documenting these discussions will be enhanced.

5. With the entry of the new CEO, key stakeholder discussions are being instigated on a range of fronts to inform our strategic planning process going forward.

Target Completion Dates:

1. January 2021
2. April 2021
3. December 2020
4. April 2021
5. November 2020 (Going forward)

Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy and Risk and Audit, Chief Executive Officer (Stakeholdering)

3. Threshold Reliefs

[Redacted]. This was in part due to ineffective risk management and mitigation strategies employed by OLG during the implementation of the Modernization Plan initiatives.

When the Request for Proposals (“RFPs”) and competitive procurement processes were completed for the eight LBG bundles, OLG and each of the successful SPs signed the respective Transition and Asset Purchase Agreement (“TAPA”) outlining the terms governing the transition of casino gaming site operations and the transfer of the related gaming and non-gaming assets at the LBG sites included in the gaming bundles to the SPs. This process was followed by the signing of the Casino Operating and Services Agreement (“COSA,” or “Agreements”), which sets out the terms and conditions of operating the casino gaming sites within the gaming bundles over their defined operating terms.

Variable Fee Threshold

For each of the eight gaming bundles, the proponents were required to propose a Variable Fee Threshold (“VFT”) for the first 10 years in each of their bid submissions. The VFT represented the threshold of gaming revenue of which 100% would entirely accrue to OLG. Gaming revenues that exceeded the threshold would be shared between OLG and the SP, 30% and 70% respectively.

The VFT played a key role in the selection of the successful SPs, since it was primary component of the final proposal score that determined the successful SP.

Risk Mitigation and Threshold Relief Provisions

The risk of the SPs’ default was a factor that was taken into consideration during the procurement process and in the governing agreements for the gaming bundles. The evaluation process for the proponents’ bids included criteria that assessed the reasonability of each bid, the proposed site development plans, and the revenue projections. There were also contractual provisions for matters such as termination rights, indemnities, letters of credits, and step-in rights provisions, to mitigate against SPs’ default risks.

[Redacted].

Recommendations:

1. To ensure risks are adequately understood, managed, and are used to inform current and future decisions, OLG should:

    a. Adopt a more holistic and proactive risk management framework with methodologies to identify, evaluate mitigate, and minimize the risks that will continue to have adverse impacts on revenues and NPP. This should include risk management coordination with the SPs across the gaming bundles to ensure risk events (contractual and non-contractual) [redacted] are incorporated, assessed and planned for as part of the broader framework.
    b. [Redacted].

c. [Redacted].
d. Establish a formal learned framework to inform future risk management decision-making and support continuous improvement, particularly with respect to the upcoming RFP for the Caesars Windsor Casino.

Management Response / Action Plan:

OLG anticipated applications for relief outside of the permissible circumstances under the operating agreements. During the creation of the operating agreements with service providers, OLG thoroughly reviewed the circumstances under which it would provide threshold relief to service providers. [Redacted]. OLG believes that this tailored approach best serves the purpose of minimizing the impacts of material changes and optimizes returns to the Province.

Action Plans:

1. With regard to future requests for threshold relief, OLG will continue to limit relief based on the commercial circumstance at the time, and will require a thorough business case from providers to ensure that the relief does not compromise the viability of revenue to the Province in the medium to long term. When a business case for threshold relief is presented to the Board of Directors, a complete risk assessment and mitigation strategy will be presented to ensure adequate documentation and discussion. Once relief is provided, impacts will be monitored by the Risk and Audit team, in collaboration with colleagues in the Operations Division, to determine if the intended benefits of granting relief have been realized.

2. An audit of impacts will be conducted by OLG Internal Audit 12-24 months after the provision of relief to determine if the desired impacts on service provider performance have been achieved, and if not, what further actions are required to improve service provider performance.

OLG believes it took steps to performed cost/benefit analysis of all threshold relief applications from service providers which included risk assessments, cost/benefit analysis, a review of trade-off and exchange options; and a business case which included a rationale, considering financial, economic, legal and other risk ramifications. The details of the analysis were presented to the Board of Directors. OLG will continue to improve these processes with the action plan below.

Action Plans:

3. OLG will review its business case templates for all contract amendments to ensure the following sections are required to be included in the business case prior to approval of recommendations: a thorough risk assessment, cost-benefit analysis, trade-off and exchanges; and a rationale for final recommendations.

4. As mentioned previously, OLG will establish a formal project post-mortem where lessons learned from a large-scale project are documented and ultimately incorporated into future initiatives. This process will be coordinated by the Operational Risk Management group, with support from project management and project leads. Reports from the process will be submitted to the Risk, Compliance and Audit committee for review.

Target Completion Dates:

1. December 2020

2. September 2021
3. April 2021
4. April 2021

Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy, Risk and Audit, and Chief Information Officer (Business Design)

4. Ajax Gaming Zone Agreement

In order to implement a government policy decision to maintain slots at racetracks at (Ajax Downs) in a timely manner, OLG and the Service Provider ("SP") had to execute the Ajax gaming zone agreement within compressed timelines. This has resulted in an agreement that was not supported by cost/benefit analysis to determine the value for money implications, and to properly assess the commercial value in order to inform the decision-making and contract negotiation process.

Casino Operating Service Agreement

After the Request for Proposal (RFP) and the competitive procurement process was completed, in January 2018 OLG signed a [Redacted] year Casino Operating Service Agreement ("COSA") for the Greater Toronto Area ("GTA") Gaming Bundle with the successful Service Provider ("SP"). The GTA Gaming Bundle includes Woodbine Casino, Great Blue Heron Casino and Ajax Downs Casino.

Under the COSA, the Ajax Downs Casino was to be closed once the new Pickering Casino was opened. Bids received during the procurement process reflected this state of the local gaming market.

The COSA provides for infringement protected territory rights to the SP and specifically prohibits OLG from establishing a new casino within a 50km radius of an existing casino within the gaming bundle. Should there be a change in the protected territory, the SP would be entitled to a compensation for adverse economic impact resulting directly from the change. In the event of the establishment of a new gaming zone within a protected territory, the COSA also grants the SP an option to provide services to OLG in the new gaming zone.

Slots at Racetracks Program

The "Slots at Racetracks Program" ("SARP") was designed to ensure a strong and sustainable horseracing industry. Ajax Downs was one of the 17 racetracks in Ontario that was benefiting from the program. The program was intended to provide direct financial benefits to the horseracing industry, while contributing to local economies and municipalities. For the fiscal year ended March 2012, the SARP provided $347M in funding to the horseracing industry.

OLG's Modernization Plan included the cancellation of the SARP effective March 2013. The cancellation resulted in adverse financial and economic impacts on the horseracing industry, municipalities, and local businesses. In March 2014, the provincial government announced a plan to provide funding of approximately $500M over a five-year period to the horseracing industry. This was subsequently extended by two additional years to March 2021. The government also requested that horseracing be integrated into Modernization Plan and starting in April 2019, OLG has been providing direct funding under a long-term funding agreement of $120M per year to the horseracing industry.

Optional Slots at Racetrack Program

To supplement the long-term funding agreement, amount of $120M per year, in March 2019 the Ontario government announced that an agreement was reached with industry partners to provide financial support through the Optional Slots at Racetracks Program ("OSARP"). This program provides support to eligible racetracks that were impacted by the cancellation of the SARP, including Ajax Downs. The measures were to be implemented immediately in Spring 2019.

The government directive under OSARP resulted in the continuing operation of Ajax Downs contrary to the GTA Gaming Bundle COSA. This necessitated the creation of a new Ajax Gaming Zone, 9 km away from the new Pickering Casino, an infringement of the SP's protected territory rights. The GTA Gaming Bundle SP exercised its option to provide services to OLG at the Ajax Downs casino based on the protected territory change compensation, OLG negotiated the terms and conditions of the Ajax Gaming Zone Agreement with the GTA Gaming Bundle SP.

[Redacted].

Observation:

1. Maintaining slots at Ajax Downs was an important government policy decision. This decision impacted the terms of the GTA gaming bundle agreement, and the SP had consent rights over the change. The timeline to execute the ajax gaming zone agreement in order to implement the government's decision was compressed. However, the audit noted that, OLG did not perform costs/benefits analysis to evaluate the value for money implications in order to inform its negotiation and decision-making process when determining the terms and conditions of the Ajax gaming zone agreement with the SP.

   [Redacted].

Recommendation:

1. To ensure the overall commercial value of the agreement is understood and fully realized, OLG should perform retrospective cost and benefits analysis, and evaluate and determine the value for money implications. This analysis can assist in mitigating further potential downside risk to OLG. OLG should leverage the results of the cost /benefit analysis to further inform its risk management processes and to continue optimizing the modernization benefits within the terms of the agreement.

Management Response / Action Plan:

Action Plan:
1. OLG will specifically document the costs and benefits achieved and forecasted for the Ajax Gaming Zone Agreement as part of its annual business plan process and use the results to inform risk management profiles for other land-based gaming bundles. In addition, the costs and benefits will be included, in the near term, as part of the modernization benefits tracking. As noted above, eventually this location's results will form part of OLG's base operations.

Target Completion Date:

September 2021

Accountability: Chief Financial Officer

5. Bid Evaluation Process Used to Select Service Providers

The bid evaluation process and the criteria used by OLG to select Land-based Gaming Service Providers ("SPs") in the future could be enhanced to better support their established value for money (VFM) objectives. The analyses and decision-making framework required strengthening to be more effective in informing, supporting and mitigating key risks that impacted the casino gaming bundles.

Land-based Gaming Procurement Process

Between F2013 and F2020 OLG conducted a three-stage procurement process to identify and select successful private sector SP partners to operate each of the eight Land-based casino gaming bundles. The procurement process started with a Request for Information ("RFI") which entailed world-wide consultation with key stakeholders in the gaming industry to gather market intelligence and generate interest. The second stage was the Request to Prequalify (RFPQ") process that sought to identify qualified entities among respondents that commenced the registration process with the Alcohol and Gaming Commission of Ontario ("AGCO") and would meet all other requirements to be eligible proponents in the final Request for Proposal ("RFP") stage. Finally, the RFP was issued to pre-qualified proponents who were then required to submit their business and financial proposals.

The Land-based Gaming ("LBG") procurement process was resource intensive, requiring involvement of cross-functional teams with the support of numerous external consultants with subject matter experts. An independent Fairness Monitor was appointed to oversee the competitive procurement process while a Supplementary Evaluator was engaged to conduct independent financial evaluations and value for money (VFM) assessments and to validate the work of OLG's team. OLG established a core team who was responsible for leading and managing the process, and oversight was provided by the executive management. The process for each of the gaming bundles spans multiple years between the F2013 to F2020 timeframe, with individual RFPs being opened for about one year on average.

Bid Evaluation Process

Among other things each of the RFP documents set out the compensation structure that will be applied to the successful proponent that will become the Service Provider ("SP") and pre-established bid evaluation criteria were in place. The SP compensation model provides for a fixed fee component towards operation and maintenance expenses, a variable fee component of 70% of gaming revenue above the threshold, and 100% of all non-gaming revenues.

The bid evaluation process comprised seven key steps and was reasonably consistent across all eight gaming bundles as outlined in Table 22.

Table 22: Bid Evaluation Steps and Criteria

Evaluation Step	Purpose and Summary of Criteria
1. Compliance of Proposals	• assessed compliance with the terms and conditions of the RFP documents
2. Evaluation of Business Submission	• included Marketing, Operations, Ontario First Nations, Financing and Site Development Plans • only for the GTA: Site development Plan was separately assessed and was part of the Final Proposal Score • evaluated on Pass/Fail basis in accordance with established criteria and thresholds
3. Evaluation of Financial Projections and Supporting Explanations	• financial projections were consistent with business submission • evaluated on a Pass/Fail basis subject to thresholds
4. Proponent Presentation	• not scored • could impact Business Submission score based on proponent's clarifications
5. Evaluation of Variable Fee Thresholds	• no minimum score for the Variable Fee Thresholds • minimum requirement for Variable Fee Threshold as a % of Gaming Revenue in any bid operating year • computed as PV of the Variable Fee Thresholds net of Fixed Fee and Permitted Capital Expenditure for first 10 operating years • main or only component of Final Proposal Score
6. Value for Money ("VFM") Assessment	• [Redacted].
7. Ranking the Proponents	• based on Final Proposal Score • in addition to Variable Fee Threshold score, the Final Proposal Score also included: - GTA: Site Development Plan score - Niagara: Understanding of the unique features of gaming bundle score

Both step 2 – Business Submission and step 3 – Financial Projections and Supporting Explanations were evaluated on a Pass/Fail basis whereby the established threshold for each step was the Pass score. Proponents that did not receive a Pass evaluation were disqualified and not evaluated further. Points awarded for each evaluation step were only used to determine whether a proponent had passed the step and were not carried forward for aggregation as part of the Final Proposal Score.

A snapshot of the level of participation and summary outcomes for each gaming bundle is presented in Table 23.

Table 23: Summary, Bid Evaluation Outcomes

Gaming Bundle	No. of Proponents			
	Pre-Qualified	Bid Submission	RFP Compliant	Met OLG's VFM
East	4	3	3	[Redacted]
North	4	2	2	[Redacted]
Southwest	5	3	2	[Redacted]
GTA	7	4	4	[Redacted]
Ottawa	4	3	3	[Redacted]
West GTA	5	4	4	[Redacted]
Central	5	2	2	[Redacted]
Niagara	5	3	3	[Redacted]

As demonstrated in Table 23, in four cases, only one proponent met OLG's VFM threshold for a half (4/8) of the gaming bundles and those proponents eventually became the successful SPs.

Selection of Service Providers

Subject to meeting the RFP compliance requirements and the threshold score for business and financial submissions, the first-ranked proponent was the one with the highest Final Proposal Score, which was primarily based on the Variable Fee Thresholds for the first 10 operating years of the Casino Operating Service Agreement ("COSAs"). The first-ranked proponent would become the Preferred Proponent if they met the VFM threshold set for the respective gaming bundles.

In conjunction with recommending a successful SP, OLG's bid evaluation team performed supplementary reviews and analyses to assess the bid against other modernization objectives which would be achieved, through:

- Optimal VFM in terms of increased cash flows and NPP;
- Economic development (e.g., jobs and spending impacts) to local communities driven by capital investment; and
- Effective risk management through risk sharing and transfer to successful SP.

To meet these objectives, further assessments for of Preferred Proponent's bid was reviewed through various scenarios to determine the impact of changes in key material assumptions. Different sensitivity scenarios were analyzed across the gaming bundles. Sensitivity analysis can be a valuable tool to validate the resilience of amounts included in proponent's bid projections and the key underlying assumptions to adverse conditions.

Economic impact assessments were also conducted by an independent consulting firm for each of the gaming bundles, to evaluate the economic impact associated with the relocation, construction, expansion and operations of gaming sites as per the Preferred Proponent's bid relative to that of OLG's Status Quo (do nothing) scenario. Direct, indirect and induced economic impacts were measured in terms of output, GDP / value-added, labour income and employment (FTE's) for the first 10 operating years of the COSAs. Capital expenditure was cited as one of the main drivers of the financial and economic growth.

Lastly, VFM was about risk sharing and risk transfer from OLG to the SPs. Various risk factors were considered for each of the gaming bundles, including municipal approval and cannibalization. Qualitative assessments were made of the increase in VFM to the province arising from the proposed risk transferred to the SPs. There was a total of 37 inherent risks rated as high, 24 of the 37 were assessed, at some level to be transferrable from OLG to the SPs, though it was recognized that in many instances, risk ownership may still reside with OLG under its conduct and manage mandate.

A summary of other financial and economic impact metrics that were considered are listed in Table 24.

Table 24: Summary of Other Financial and Economical Impacts

Metric	Purpose
% of OLG cash flows from Variable Fee Threshold	• measure of financial risk
Preferred Proponent Bid vs. Shadow Bid	• reasonability check for bid projections
Gaming Revenue	• key driver of Final Proposal Score and VFM
Variable Fee Threshold %	• key driver of Final Proposal Score
Initial capital investment	• key driver for: - revenue growth - economic development including job creation for enhanced VFM
Non-gaming operations	• key driver for revenue growth through induced gaming • contributor to job creation

Following the results of the supplementary reviews and analyses, the Preferred Proponent for the respective gaming bundle was recommended as the successful proponent and SP to the Executive Management Committee and to Board of Directors for approval.

Observations:

It was noteworthy that an independent Fairness Monitor was appointed to ensure openness, fairness and transparency of the procurement process for all gaming bundles. While the fairness attestation reports confirmed the fairness of the procurement process with regard to all proponents and compliance with the RFP requirements, we noted opportunities to improve the approach to bid evaluation and supporting analyses in the future.

1. OLG’s calculations of the Final Proposal Score and the VFM Score were based on different time horizons though both scores were mainly based on the Variable Fee Threshold (“VFT”). The Final Proposal Score used the first 10 operating years of the COSA while the VFM Score used the full operating term (at least 20 years) of the COSA for all gaming bundles. The rationale provided by OLG that the shorter timeframe ensured greater certainty and degree of accuracy to revenue and VFT projections did not appear justifiable since the overriding objective of the procurement process was the optimization of value over the full term of the COSA. Moreover, the financial estimates, particularly for major long-term projects, are inherently uncertain but nevertheless necessary to assess the projected return on investment and inform decision-making.

The scoring system employed may have encouraged a shorter-term view, whereby higher revenue and VFT projections for the first 10 years were deemed more important than over the full term of the COSAs. We observed that proponents (based on the proposals) with a slower ramp-up period, followed by periods of steady revenue growth could have been put at a disadvantage under the bid evaluation system. Higher revenues and/or variable threshold amounts for the first 10 years, followed by relatively lower projections (for the remainder of the COSA terms) were seen as sufficient to be ranked first. This issue became evident in one gaming bundle, where the successful proponent who became the SP received the highest Final Proposal Score and at the same time, the lowest VFM score.

2. [Redacted].

   Furthermore, we noted that, there was no consideration of formal strategies to enhance the attractiveness of gaming facilities that could mitigate the impacts of cannibalization across the gaming bundles. There may have been no need to lower the VFM threshold below 100% if proponents were incentivized to adopt branding and marketing strategies backed by capital investment plans that could continue to drive revenue growth even in an increasingly competitive marketplace.

3. VFM sensitivity scenarios of the proponent's key bid assumptions were not consistently assessed across all gaming bundles to validate the resilience of the bid projections, in delivering VFM if faced with adverse conditions. We noted the following:

   a. The impacts of key financial and economic drivers and related risks were not assessed for certain gaming bundles:

Impact of Scenario Not Assessed	Gaming Bundle
Reduction in gaming revenue	Central and Niagara
Impact of cannibalization	West GTA and Niagara
Reduction in capital investment where significant development was planned	GTA, Ottawa and West GTA
Delay in project schedule where significant development was planned:	Southwest, Ottawa and West GTA

   In the absence of an integrated framework that ensures systematic and consistent assessments of relevant key assumptions, the related risk exposures may not have been known and may not be within acceptable or tolerable levels.

   b. As for the Southwest gaming bundle, most (4 out of 5) of the sensitivity scenarios performed did not meet the VFM threshold, and no risk mitigation strategies or actions were implemented at the time. Our concern was that if revenue was to fall by as little of 2%, VFM would not be met, or if there were no revenue growth during the renewal term (years 11 to 20) of the COSA. The risk was identified but not mitigated, and this raised concerns about the effectiveness of the risk management process in place at the time.

   c. As for the GTA gaming bundle, in the scenario a [Redacted] reduction in gaming revenue (between F2019 and F2050), OLG reported that VFM would continue to be met but the SP's IRR would decrease to a point where the gaming bundle would be deemed uneconomical. This raised a concern, because, if the financial viability of the gaming bundle is not sustainable, OLG will likely not achieve full VFM over the entire term of the

COSA, particularly due to the long duration of [Redacted] that was subsequently extended to [Redacted]. The uncertainties around the SP's long-term financial viability stemmed from their proposed IRR which was lower than what the other competing proponents had proposed and was also significantly lower than the IRR the same SP (with its partner) proposed in other gaming bundles. We noted that no risk mitigation strategies or actions were developed at the time.

d. It was unclear as to why the scope of the Supplementary VFM Evaluator's review of the sensitivity analysis in their VFM letter excluded most of the scenarios assessed by OLG for the first five gaming bundles, as follows:

Gaming Bundle	Total Scenarios	Assessed Scenarios	Excluded Scenarios
East	3	1	2
North	5	1	4
Southwest	5	1	4
GTA	7	2	5
Ottawa	6	1	5
West GTA	3	3	-
Central	2	2	-
Niagara	2	2	-

Gross gaming revenue assumption was one of the significant requirements in the bid submissions that underpins the SP's compensation model. Therefore, it is critical to understand the impacts that any reductions in revenue would have on the VFM. However, the gaming revenue scenarios were consistently excluded from the Supplementary Evaluator's review for these five gaming bundles. The exclusion is concerning, since the results of the gaming revenue sensitivity analyses identified potential issues with two gaming bundles. If revenue were to fall short of the bid's projections, VFM would likely not be met for the Southwest gaming bundle, and the financial viability of the GTA gaming bundle SP would be at risk. We could not determine the reasons for the exclusions from the sensitivity analysis, but it was an integral part of the VFM assessment that required validation by the independent consultant. Other exclusions noted include, reductions in in capital expenditure, delays in project schedule and reductions in non-gaming amenities.

4. Inclusion of IRR and break-even analyses by OLG was a good practice, however they were not consistently assessed across all gaming bundles to better understand and effectively mitigate against the risks that were directly related to impacting the SP's financial viability in a proactive manner. [Redacted] which would further reduce gaming revenues and NPP and undermine the achievement of the benefits of modernization. We noted that at the time of the audit, this risk materialized for West GTA gaming bundle.

   We noted the following:

   a. IRRs were internally calculated but not independently assessed during the bid evaluation process for the East, North and Southwest gaming bundles. At the time of the audit we saw no evidence of IRR analyses being conducted retrospectively for the proponents of these bundles after the introduction of this supplementary evaluation technique for the GTA gaming bundle. It would still be insightful to know the SPs' projected return in these bundles as the risks related to financial viability will be managed throughout the duration of the agreements.

b. SPs who proposed lower IRRs may appear more favorable to OLG but these low IRR raised concerns if the IRRs were less than the SP's cost of capital. Lowered IRR for an SP, relative to its IRR in other gaming bundles and to other proponents' IRR in the same gaming bundle, or relative to another SP's IRR in other gaming bundles would also be a potential red flag regarding sustainable financial viability. We noted that there was no formal analysis to support and demonstrate that adequate risk mitigation measures were established to mitigate against selecting SPs with the lowest IRRs.

5. We noted that OLG followed a bid evaluation process that took into account elements from a broad array of inputs. The evaluation process did not, however, have an overall formal governing framework and documentation to holistically integrate the results of the bid evaluation process along with the supplementary reviews and analyses conducted by OLG in informing the selection of the SP within the context of OLG's overall bundle procurement strategy and modernization objectives.

Recommendations:

1. For future RFP and procurement processes (e.g., the upcoming Caesars Windsor), OLG should supplement and enhance its existing approach with a more comprehensive risk management strategy that integrates the range of factors being analyzed, including but not limited to the size, capacity, opportunities, and potential of the market. This should help ensure that projections are based on reasonable and achievable market potential, including the impacts of cannibalization. The results of the market research should also be leveraged to assist OLG's procurement strategy, established baselines, and Shadow Bids.

2. For all future RFP and procurement processes, OLG should consider:

   a. Alignment of time horizons regarding bid evaluation terms used to determine the Final Proposal Score. Time horizons should be consistently measured based on the duration of the COSA.
   b. A more robust process to perform sensitivity analysis to better identify and understand potential impacts of key underlying assumptions that support financial and non-financial projections and targets, and use the results to appropriately inform the risk mitigation strategies, and to ensure a more reasonable risk sharing /transfer with the SPs.
   c. A common basis to support improved financial viability for SPs (e.g., IRRs and other return on investment metrics), while allowing a balanced risk /reward approach. IRR and related metrics deemed relevant by OLG should also be monitored in light of new events over the contract term, to gauge the financial health of SPs and to serve as an early warning indicator in the event of negative outcomes.

3. For all future RFP processes, OLG should supplement its bid evaluation process with a formal framework that incorporates a broader range of analyses and metrics to determine the selection of SPs. The framework should include formal documentation of rationale of trade-off between results of evaluation metrics to demonstrate how optimal VFM and effective risk mitigation will be achieved.

Management Response / Action Plan:

Each SP, through the procurement process, performed their own independent market analysis that would be utilized to construct their own bid submission. This was performed in addition to OLG market estimates. In 2019, OLG developed a new 'gravity model' that would continue to aid in future financial forecasts and market sizing in land-based gaming. Through each LBG procurement process, OLG utilized sensitivity and scenario analysis to ensure the impact of key underlying assumptions were understood." OLG agrees that financial viability is an important consideration in determining an optimal SP and optimizing value for the money to the Province. OLG believes it had adequately constructed an evaluation process that was intended to optimize value for money as part of its modernization procurements.

Action Plans:

1. As part of future procurement processes (e.g. Windsor), OLG will continue to refine its approach to market sizing and opportunity assessment through a combination of its own internal research and third-party market analysis/support as required. As the agency moves forward with modernization for Casino Windsor, it will ensure that a complete business case with a risk analysis and mitigation plan is included as part of materials tabled with the Board of Directors for discussion. Risks associated with the project will be monitored as part of the agency's quarterly enterprise risk reports, and any significant risks will be presented as part of the quarterly risk assessment document submitted for review by the Ministry of Finance and Treasury Board Secretariat.

2. OLG will continue to assess each procurement process and evaluation criteria to optimize value for money for the Province. One such example, and as recommended by TBS, will be to assess and align the time horizons of a contractual agreement and evaluated criteria.

3. OLG agrees that the impact of the underlying sensitivity and scenario analysis can be more effectively structured and utilized to inform future risk mitigation strategies. OLG will continue to build risk management capabilities by: standardizing, where possible, a series of pre-determined sensitivity and scenario analysis, engaging third party risk management expertise to help facilitate and document areas of risk when transitioning from procurement to operations. This will ensure risk allocation is appropriate between SP and OLG, and annually document perceived risks associated with SP operations as part of its enterprise risk report to the Board of Directors

4. OLG plans to continue and enhance its efforts to monitor financial health of its SPs over the life of the agreement and will report IRR and any significant concerns annually to the Board. This will allow OLG to be more proactive in identifying potential financial issues that may impact future performance. For future procurements, OLG will continue to include the applicable level of financial viability assessment, including the potential for an IRR assessment.

5. With regards to documentation, to make bid proposals more transparent and to assist evaluation, OLG will incorporate a table outlining risk tradeoffs versus value for money as part of future bid requirements. In addition, for any further LBG bundle related procurements, Procurement and Risk will ensure that further emphasis is placed on: (i) documenting the rationale for the selection of evaluated criteria (ii) defining measurement for value for money objectives and (iii) ensuring procurement is executed within a strong risk

management framework. This will allow OLG to more effectively transition the SP from procurement to operations.

Target Completion Dates:

1. January 2021
2. December 2020
3. April 2021
4. December 2020
5. December 2020

Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy, Risk and Audit

6. Post-termination Rights and Obligations of Casino Assets

[Redacted].

Under the Modernization Plan, OLG transferred the day-to-day operations of the Land-based Gaming ("LBG") casino business to independent private sector partners referred to as Service Providers ("SPs"). OLG utilized the Request for Proposal ("RFP") mechanism and open competitive procurement processes (herein, "the RFP Process(es)") to identify and select successful SPs. The initiative resulted in OLG packaging all the casinos (except the Caesars Windsor Casino, ("CW")) and racetracks into eight geographical gaming bundles across the province, between January 2016 to June 2019. Please refer to Table 2.

CW is now being prepared to go through a similar RFP process in the next three years.

Sale of Casino Gaming and Non-gaming Assets

When OLG launched the RFP processes for the eight casino gaming bundles, it was a requirement of the RFP that the successful proponents bid submissions include proposals to purchase the gaming and certain non-gaming assets that were in use at each of the casino sites that comprised the respective gaming bundles, at prices set out in the RFP documents. OLG had the rights and obligations to all the assets, and at the time, they were recorded on OLG's books. Please refer to Table 25.

For each gaming bundle, OLG engaged the services of an independent professional business valuator to determine the Fair Market Value ("FMV") of the gaming and certain non-gaming assets at each casino site that would be the basis of the asset sale price for inclusion in the RFPs. After the RFP processes were completed, OLG and each of the eight successful SPs signed the Transition and Asset Purchase Agreements ("TAPA"). The COSAs were subsequently signed by OLG and the SPs for each of the eight gaming bundles.

The sale of assets took effect after each of the gaming bundles were closed and the agreements were signed with the respective SPs. At the time, the Depreciated Replacement Cost ("DRC") approach was used as the basis for disposing of the assets. DRC typically results in the lowest valuation amount of the three principal approaches to asset valuations as it does not account for value creation. The other two FMV approaches are based on income and market, and the application of these alternate approaches usually produces higher valuation amounts.

Table 25: Summary of Assets Values Sold to SPs, F2016 to F2020 ($'000)

Gaming Bundle	East	North	South West	GTA	Ottawa	West GTA	Central	Niagara	Total
Real Estate	27,500	55,900	53,100	44,400	6,600	68,700	3,700	-	259,900
Other Assets	9,900	13,185	22,167	51,000	10,300	27,900	58,900	88,837	282,189
Total	**37,400**	**69,085**	**75,267**	**95,400**	**16,900**	**96,600**	**62,600**	**88,837**	**542,089**
Net Book Value	17,852	41,029	40,235	39,649	7,290	18,924	36,879	61,893	263,751
Gain on Sale	**19,548**	**28,056**	**35,032**	**55,751**	**9,610**	**77,676**	**25,721**	**26,944**	**278,338**

Observation:

1. The COSAs defined a number of rights and obligations for OLG in the gaming bundles, including, the post-termination rights and obligations, that requires OLG to repurchase gaming and certain non-gaming assets from the SPs, either at the expiration of the agreements, or in case of a premature termination.

   [Redacted].

Recommendations:

1. [Redacted].

2. OLG should ensure that, the agreement for the future transition of Caesars Windsor Casino is properly designed with a post-termination clause that clearly defines the valuation basis, method and approach to be used to repurchase the assets. For example, if the assets are sold using the DRC approach, the repurchase of the assets must be based on the same approach.

Management Response / Action Plan:

OLG has considered the recommendation and is not, at this time, in a position to unilaterally impose further specifics into the description of "fair market value "in the context of the repurchase obligation/option in the signed COSAs. OLG would need to enter into negotiations with each Service Provider to amend the COSAs. [Redacted]. Further, as noted in Management Response #2, there are advantages to OLG to maintaining the present language. The most appropriate "fair market valuation" approach (i.e. income, sales comparison or cost) generally depends on the nature of the asset and, in some instances, on the circumstances in which the need for a valuation arose.

The repurchase obligation/option in the COSA is to occur at the end of the term of the COSA (approximately 20 years plus possible extensions) or earlier termination. [Redacted] of the assets for any gaming bundle would be made by the person selected by OLG to take the place of the selling Service Provider and not by OLG itself.

Action Plan:

1. [Redacted]. In agreements not yet completed by OLG, OLG will give due consideration as to the benefits to OLG that a more detailed description of fair market value might achieve.

Target Completion Date:

December 2020

Accountability: SVP Legal

7. Charitable Gaming Financial Performance

The proposed financial benefits of the Charitable Gaming (cGaming) modernization initiatives have not been fully achieved. Ten years after the program was launched, one of the key objectives (annual revenue growth to $400M), has realized only 50% of its target. From F2013 to F2020 OLG had incurred cumulative financial losses of $182M in this business segment. Financial losses are also forecasted to continue between $24M to $28M per fiscal between F2021 to F2024.

OLG operates four main business segments, and cGaming is the smallest, contributing 2% of the organization's total annual gross revenues between fiscals 2018 and 2020.

The cGaming sector, which provides financial benefits to key sector stakeholders including charities, host municipalities, and Indigenous groups, has been declining in Ontario over the past twenty years, as exemplified by the reduction in the number of bingo halls (229 in 1999 vs 60 in 2020). The decline has impacted gaming revenues from the bingo halls that supports local charities in Ontario. OLG has conduct and manage mandate over 37 of the province's 60 bingo halls, and in 2010, was directed by the Ministry of Finance ("MOF") to launch a new cGaming focus program to support revenue sustainability and growth for the sector.

cGaming Modernization Initiatives

Starting in 2010, as part of the Gaming Modernization Initiatives, OLG committed to modernize the delivery of the game offerings available to Ontarians, to enhance competitiveness, increase net revenues to the province, and to provide new revenues to the charitable gaming sector. Key cGaming modernization initiatives include:

- Expansion of electronic bingo and an additional electronic suite of products (e.g., electronic break-open tickets);
- Introduction of new rapid-draw bingo, home play along with hall-based bingo;
- Implementing a new cGaming program, with a minimum target of 25 participating bingo halls to generate gross revenues of $400M per year;
- Negotiating agreements that were beneficial to OLG and the cGaming sector stakeholders; and,
- Developing a new standardized revenue sharing model that will allow OLG to, at minimum, cover its operating costs for the new cGaming program.

Actual and Projected Revenue, Costs and Net Income

cGaming revenues, direct and operating costs, annual and accumulated financial losses for F2013 to F2020 are outlined in Table 26**.**

Table 26: cGaming, Income and Expenditures F2013 to F2020 ($'000)[2]

	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020	Total
Revenues	**39,876**	**73,817**	**114,875**	**165,953**	**153,044**	**172,096**	**182,995**	**201,000**	**1,103,656**
Direct expenses	43,309	73,432	112,240	151,170	126,023	136,609	97,995	132,000	872,778
Gross margin	**(3,433)**	**385**	**2,635**	**14,783**	**27,021**	**35,487**	**85,000**	**69,000**	**230,878**
Operating and other expenses	18,622	61,128	54,528	49,570	37,632	33,158	81,329	77,000	412,967
Net income /(loss) i.e. (- NPP)	**(22,055)**	**(60,743)**	**(51,893)**	**(34,787)**	**(10,611)**	**2,329**	**3,671**	**(8,000)**	**(182,089)**

cGaming forecasted revenues, direct and operating costs, and annual financial losses for F2021 to F2024 are outlined in Table 27.

Table 27: cGaming, Forecasted of Income and Expenditures F2021 to F2024 ($'000)

	F2021	F2022	F2023	F2024
Revenues	**240,983**	**259,777**	**275,239**	**287,445**
Direct expenses	215,991	231,624	243,558	253,048
Gross margin	**24,992**	**28,152**	**31,682**	**34,398**
Operating and expenses	29,412	30,594	31,191	31,948
Net income /(loss) i.e. (- NPP)	**(4,420)**	**(2,441)**	**491**	**2,450**
Corporate Shared Costs/Gaming Revenue Sharing & Financial Agreement Costs	23,851	25,656	26,290	26,724
Net income /(loss) i.e. (- NPP) (after cost allocation)	**(28,270)**	**(28,098)**	**(25,799)**	**(24,274)**

OLG has worked with key sector stakeholders to renegotiate and finalize the terms and conditions of their agreements. The expected financial impacts of the agreements are included in the forecasts.

Capital Asset Investments

OLG was solely responsible for bearing all capital and gaming-related operating costs as part of the 2010 modernization initiative. Between F2015 to F2020, OLG invested a total of ~$31M in new capital expenditures primarily related to the conversion and automation of bingo halls and launching new games. The investments were immediately written off as incurred in impairment losses. Please refer to Table 28.

Table 28: Investments in New Capital Assets F2015 to F2020 ($'000)

	F2015	F2016	F2017	F2018	F2019	F2020	Total
Capital asset cost	19,404	6,496	2,831	1,011	734	183	**30,659**
Capital asset write-off	(19,425)	(6,496)	(2,831)	(976)	(755)	(50)	**(30,533)**

[2] OLG's Annual Financial Statements

Independent Service Provider Delivery Model

Similar to LBG casinos, in F2020, OLG transferred the day-to-day management and operations (i.e. ownership of gaming equipment, installation costs, maintenance, sundry supplies) of cGaming centres to independent Service Providers ("SPs"). A total of 31 gaming centres have been transferred, and another six are planned for transfer in F2021. OLG and the cGaming sector has also finalized the terms of the agreement that successfully transitioned the sector, allowing OLG to provide monitoring and oversight over these activities.

Observations:

1. The audit noted that 10 years (2010 to 2020) after OLG was directed to enhance a new cGaming focus program to support revenue sustainability and growth, the cGaming business has generated financial returns for the Charities, SPs and other stakeholders. However, OLG and the province have been subsidizing the cGaming business from other profitable business segments from an NPP perspective. The cGaming business has incurred accumulated net financial losses of ~$182M between F2013 to F2020. We noted net income generated in two years, F2018 and F2019 of $2.3M and $3.7M respectively, followed by a resumption of losses in F2020, of $8M.

   Despite OLG's cGaming key modernization initiatives, including ~$31M (F2015 to F2020) in capital investments and a redesigned revenue sharing model intended to allow OLG to cover its operating costs (at minimum), the cGaming business is expected to continue generating financial losses, based on forecasts ranging from $24M to 28M between F2021 and F2024. Please refer to Table 27**.** These expected financial losses could further deteriorate, as a result of the uncertainties posed by the impacts of Covid-19. OLG stated that the objective of cGaming is not to generate profits but instead to support local charities and stakeholders. However, the continues financial losses for this business segment are being subsidized by other profitable business segments, resulting in lower NPP.

2. Despite embracing a strategy that is designed to transfer financial risks to SPs, OLG has been the entity losing monies since the start of the cGaming modernization strategy. We noted that OLG transferred the day-to-day management and operations (e.g., ownership of gaming equipment, installation costs, maintenance, supplies etc.) of 31 cGaming centres to independent SPs in F2020, and the remaining six are expected to be transferred in F2021. Under this model, OLG provides monitoring and oversight, and claimed that the transfer has also resulted in the "transfer of financial risks" to the SPs. $105M (52%) of the $201M in gross revenues generated by the cGaming business in F2020 was paid out as SPs fees, leaving $96M (48%) to provide financial benefits to all stakeholder beneficiaries. The current revenue sharing model with the stakeholders is not financially sustainable. OLG is unable to cover its operating costs and bears the risk of continuing financial losses.

3. OLG was responsible for bearing the full costs of all new capital assets under the cGaming modernization program. Between F2015 to F2020, OLG invested a total of ~$31M primarily related to the conversion and automation of bingo halls and launching new games. OLG proceeded with these capital investments despite the declining cGaming business, and operating losses with investments being written off as they were incurred due to asset impairments. For example, $19.4M, $6.5M and $2.8M was invested and written off in F2015, F2016 and F2017 respectively. Please refer to Table 28.

OLG claimed that the asset write-offs were required because the because the carrying asset values of cGaming were not recoverable based on future use when evaluating the CGaming unit as a whole. This was also to ensure compliance with OLG's governing financial reporting framework. However, this accounting treatment was necessary because the capital expenditures were not expected to generate a positive return on investment, and therefore did not represent an efficient, effective and economical use of funds.

4. The 2010 cGaming modernization initiatives included a number of expected benefits, including gross projected revenues of $400M per year with a minimum of 25 participating gaming centers. OLG was expected to at least cover its annual cGaming operating costs and provide additional financial contributions to: local charities, host municipalities, bingo hall operators, and Indigenous groups.

   As of F2020, there were 37 participating gaming centres, however, revenues which have grown to $201M in F2020, were still significantly less than the $400M projected amount, bringing into question the underlying assumptions supporting the expected growth, and whether the target was realistically achievable.

Recommendations:

OLG signed the revenue sharing agreements with the cGaming sector stakeholder in 2018 and is still in the latter stages of transitioning the operations and management of all gaming centres to independent SPs. OLG also confirmed they have received approval from MOF. To ensure the sector remains financially viable to benefit all stakeholders, OLG should:

1. Perform comprehensive research to determine the cGaming market size, capacity and opportunities, and revise the strategy, underlying assumptions and projections to adapt to the market.

2. To ensure maximum benefits are achieved for OLG and its stakeholders, OLG should restructure/streamline its cost base in order to reduce internal operating costs and minimize future financial losses in the cGaming business. This includes, using the results of market research to inform key decisions. Leveraging that results and data, OLG should re-evaluate the revenue sharing model and related agreements amongst its stakeholders, and minimize the impacts of the impartial distributions of financial benefits that is currently causing OLG to incur financial losses.

3. OLG should also use the results of the market research to inform and explore opportunities with aim of optimizing the terms of the agreements with the cGaming SPs, in order to better mitigate and share financial risks. This will assist OLG to effectively streamline its overall cost-base.

4. OLG should ensure all risks are adequately understood and objectively evaluated prior to committing and investing funds in future capital and other expenditures. OLG should ensure that funds are not invested in ventures that are known and expected to lose monies, and should discontinue further capital investments in the cGaming business, until there is a market, in which the business can consistently demonstrate sustainable positive cash flows, operating and net income, and return on investment.

Management Responses / Action Plans:

OLG recently negotiated a new model with the charitable gaming sector that was endorsed by the provincial government. This new agreement intends to reduce OLG's operating losses while increasing and maximizing benefits to charities. It should be noted that the primary objective of OLG's cGaming business is to provide a sustainable source of funding to more than 2000 participating charities across the Province. To-date OLG's Charitable Bingo and Gaming Revitalization Initiative has generated more than $288M for charities, with F2020 contributions reaching $50M.

Recently, OLG successfully shifted the high cost of capital investment and certain operating costs to service providers and reconstructed the service provider compensation model which resulted in decreased costs to OLG, while creating an opportunity for continued growth in funding to participating charities. OLG expects the new model to deliver greater than $70M per year to charities over the next 3 years, as compared to the $50 million provided in fiscal 2020.

Renegotiating the Operating Agreement to the current business model was a multi-year process which yielded improved terms and conditions in several areas. While the new cGaming business model does not eliminate OLG losses, it mitigates OLG's financial risks, by lessening OLG's losses. The new OLG cGaming business model is intended to reduce OLG losses and stabilizes OLG's financial position while continuing to grow the funding to charities. OLG does not currently anticipate any further major capital investments during the lifecycle of the agreements. Any proposals for further capital expenditures will be evaluated for appropriateness and adhere to OLG internal approval requirements.

Actions Plans:

1. OLG will undertake a comprehensive market research on an annual basis to identify opportunities to grow the post-pandemic market relative to our broader provincial gaming strategy. OLG will continue to monitor the performance of the centres with new games in the market on a monthly, quarterly and annual basis to assess market changes and, in turn, possible further opportunities for growth or optimization of expected demand.

2. It should also be noted that charitable gaming payments are accounted for as an expense for OLG, meaning that payments to charities may continue to be a loss for the agency. OLG will work with the Provincial Controller and the Ministry of Finance to determine whether any changes can and should be made to address this challenge including allowing OLG to provide transfer payments via its legislation.

3. OLG will continue to exercise fiscal constraint and will review the organizational structure for OLG Charitable Gaming to reduce internal operating costs.

4. As part of the post pandemic recovery, OLG will reassess the revenue sharing model under operating agreements and identify opportunities to improve financial benefits to all stakeholders in consultation with our shareholder, noting that OLG alone, without service provider approval, cannot amend operating agreements.

5. In the new year, a cGaming risk assessment will be conducted to identify, assess and prioritize risks that could threaten the achievement of cGaming objectives across all service providers. The risks will be monitored for changes and adjustments made to strategies and mitigations as required

Target Completion Dates:

1. December 2020
2. June 2021
3. March 2021
4. September 2021
5. February 2021

Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Legal, Risk and Audit

8. Great Blue Heron Casino Asset Sale

The Great Blue Heron casino's assets were sold for $5M less than their appraised market value due to an error in the independent appraisal report that was not identified by OLG in a timely manner.

Transition and Asset Purchase Agreement

The Great Blue Heron Casino ("GBH") is included in the Greater Toronto Area ("GTA") gaming bundle.

As part of the modernization, it was OLG's established practice to engage the services of independent asset appraisers to determine the fair market values of the casino assets, that were to be sold to the successful proponents (i.e. SPs) by way of its inclusion in the Request for Proposals ("RFPs").

OLG and the SP signed the Transition and Asset Purchase Agreement ("TAPA") in August 2017, after the RFP and procurement processes were completed, and the successful SP was selected. The TAPA commits the SP to acquire certain real estate assets and equipment related to the gaming sites in the bundle. Upon closing of the transaction, the SP entered into the Casino Operating and Services Agreement ("COSA"), which governs the operations of the gaming sites, in January 2018. Table 29 provides a summary of the Fair Market Value ("FMV") appraisal amounts of GBH's real estate assets that were included in the RFP and the executed TAPA.

Table 29: Summary of FMV for GBH's Real Estate Assets - $'000

Asset classification	FMV valuation
Property (exterior and interior finishes, building, mechanicals, electricals, site development and roof)	15,415
Waste water treatment plant (erroneously omitted from valuation total in RFP /TAPA)	5,070
Total value	20,485

Observations:

1. OLG engaged the services of an independent asset appraiser to determine FMV of the real estate assets and equipment for GBH casino in October 2016. The procurement process provided for the sale price of the assets to be determined by their FMV. The detailed section of the appraiser's report for real estate assets provided a full listing of all the assets grouped by asset class, and the FMVs that were assigned to each. The aggregate value of the detailed asset listing in the report amounted to $20.5M but was erroneously shown as $15.4M, in the valuation summary due to the appraiser's failure to include the waste water treatment plant's fair market value of $5.1M in the valuation summary total.

   The audit noted that prior to incorporating the selling price amount for the assets in the RFP, OLG did not properly review the appraiser's report in a timely manner to detect the error resulted in the sale of GBH's real estate assets to the SP at a total value of $15.4M instead of $20.5M.

OLG subsequently identified the error and requested a revised report from the independent asset appraiser, but at that time, the RFP advertising period for the GTA gaming bundle was closed. The understated asset sale price of $15.4M was included in the RFP and the proponents were in the process of developing their bid responses. At this point in the process, OLG chose not to update the asset sale price for fear of disrupting bid submission and the overall procurement process, and there was no further opportunity to make adjustments to the asset sale price.

2. OLG settled for a shortfall of $5.1M in asset sale proceeds and claimed that proponents would make up for the shortfall with higher bid over the term of the COSA so there will be a zero overall net effect. However, these claims do not appear to align with OLG’s value strategy that is based on maximizing gaming revenue and variable fee threshold and these related projections are not driven by the type of assets such as a wastewater treatment plant. In fact, it is investment in gaming and non-gaming amenities that drives revenue growth and creates value. In any event, bid projections do not by themselves deliver value like actual achievements. Moreover, we noted that OLG’s claims were not supported with cost/benefit analysis. In addition, based on OLG’s post-termination right and obligations of the casino assets discussed in observation number six, OLG could repurchase this asset at a higher FMV price. Further discussions with OLG indicated that management weighed the future possible trade-offs and the decision was made in consideration of the overall procurement process.

Recommendations:

1. To ensure full benefits and values are received and realized at all times, OLG should implement a more effective review process over all third party and internally generated reports to detect errors and omissions in a timeline manner. This will assist in mitigating against the recurrence of loss arising from the type of mistakes that resulted in the assets being sold less than their fair market values.

2. OLG should also ensure that decisions, claims and assumptions that impacts strategic outcomes are adequately supported with the appropriate and objective analysis.

Management Response / Action Plan:

OLG acknowledges the observation. The omission of FMV for the wastewater treatment plant was discovered as part of OLG’s internal review process subsequent to the issuance and closing of the RFP. Given the stage of the procurement process, at the time, there was no ability to adjust the asset purchase price or true-up value following the close of bids. The omission did not change the bid process.

Action Plans:

1. OLG acknowledges the recommendation and need for greater oversight in this area. We will perform due diligence over all third party and internally generated reports to detect errors and omissions in a timely manner.

2. OLG will ensure that decisions, claims and assumptions that impact strategic outcomes are adequately supported with the appropriate and objective analysis.

Target Completion Date:

December 2020

Accountability: Chief Financial Officer

9. Caesars Windsor Casino Financial Performance

[Redacted].

Caesars Windsor Casino is a full-service resort casino, hotel, entertainment venue, convention centre and various food and beverage outlets in Windsor Ontario. Between December 2006 and July 2012, the casino was operated by Caesars Entertainment Windsor Holding Inc. Since August 2012, the casino has been operated by Caesars Entertainment Windsor Limited (CEWL) on behalf of OLG in exchange for an "operator's fee" in accordance with an operating agreement. The operating agreement was extended in January 2020 for an additional three years to August 2023. Staff working at the casino are directly employed by Windsor Casino Limited, a wholly owned entity of CEWL.

Increased Market Competition

The former Casino Windsor (now Caesars Windsor) was the dominant casino market leader in the Windsor /Detroit area with revenues of ~ $1B up until the year 2000. Initially, the casino benefited from its first-mover advantage by attracting patrons from the neighbouring Detroit area of the United States (80% of customers contributing 90% of revenues). The events of September 11, 2001 had led to increased (Canada /U.S.A.) border crossing security screening measures. Since 1999, through to the mid-2000s, the casino faced significant increasing competition from industry players on the United States side of the border (e.g., MGM Grand, Motor-City and Greektown). The competition led to significant negative impacts on the casino's market dominance, that had resulted in declines in revenues from ~ $1B in F2000, $592M in F2004, $389M in F2009, and recently $351M in F2020.

Casino Windsor Expansion

In response to the competition faced by the casino, OLG acquired lands at a cost of $6.5M (2006) and subsequently launched the Casino Windsor Expansion Project at a board approved cost of $476M (excluding $55M for the Windsor Energy Centre). The objectives of the expansion were to regain the market leadership status in the Windsor/Detroit area, reinvent the Casino Windsor customer experience, and to appeal to a broader customer base. The expansion added a new west block (Augustus hotel) tower which included 369 guest rooms, a 5,000-seat entertainment centre, 100,000 square feet of convention space, various new food and beverage outlets, and multi-level parking garages, and was operationalized in June 2008. The final construction cost of the expansion, including cost of the land was $446M.

Financial Projections and Forecasted Return on Investments

Prior to the launch of the Casino Windsor Expansion Project, the OLG's projections showed various scenarios (as they co-exist with the competition) that outlined incremental growth in revenues and net profit to the province (NPP), as well as internal rate of return (IRR) based on the expansion starting in 2008 (F2009) when the expansion was commissioned. Please refer to Table 30 and Table 31.

Table 30: Projected Incremental Revenues and NPP in 2008 ($M)

		2008 do nothing	2008 with expansion	2008 with expansion and branding	Total incremental gaming revenue
Scenario 1 – With permanent casinos in Detroit	Gaming revenue	500.6	640.9	685.4	184.8
	Market share	18.5%	22.9%	24.4%	n/a
	NPP	**162.7**	**206.6**	**223.4**	**60.7**
Scenario 2 – With permanent casinos in Detroit and racetracks in Michigan and Ohio	Gaming revenue	421.0	539.4	575.4	154.4
	Market share	18.9%	23.2%	24.6%	n/a
	NPP	**132.7**	**176.3**	**181.9**	**49.2**

Table 31: Projected IRR Starting in 2008

	Scenario 1	Scenario 2
Payback period (Years)	4.9	5.5
Net present value (NPV)	$167.4 M	$125.6 M
Internal rate of return (IRR)	17.9%	15.7%

The projections in Tables 30 identified that within the competitive environment scenarios, starting in 2008, the casino expansion would have generated incremental gaming revenue between $154.4M to $184.8M and incremental NPP between $49.2 to $60.7M. In addition, the Caesars brand was projected to generate incremental revenues between $36M and $44.5M and incremental NPP between $5.6M and $16.8M. These projections and the key underlying assumptions were tabled with OLG's Board and Board sub-committee. During F2005, when the financial projections were prepared to support the casino expansion, the casino's financial results were deteriorating, with revenues and NPP falling by 16% and 36% respectively, compared to the previous fiscal, FY2004.

Requests for additional information regarding projections (revenues, NPP, IRR etc.) beyond 2008 were not made available by OLG, which limits our scope.

Observations:

1. Despite the continued decline in market share, revenues and NPP, the financial projections and assumptions (refer to Tables 30 and 31) used to support the basis for expanding Casino Windsor, at the time, appeared to be optimistic and not achievable from the outset. None of the projected incremental gaming revenue or NPP improvements were realized. Instead, the audit noted that, starting in F2009 after the expansion was completed and operationalized, the casino generated gaming revenues of $306M (i.e. 45% and 53% of the projected revenues in favour of the casino expansion, based on scenarios one and two, respectively with the impacts of the Caesars brand). That same fiscal, the casino also generated an operating loss of $124M and a net loss of $52M and therefore made no positive contribution to NPP compared to the proposed incremental NPP of $223M and $182M in scenarios one and two respectively. Please refer to Table 30.

2. The Casino Windsor Expansion Project final cost was $446M. However, the audit noted that none of the expected benefits have been realized. [Redacted].

3. Caesars Windsor is one of the five casinos that is required to pay a levy of 20% of its gaming revenue derived specifically from slots and table games in the form of a WIN tax (contribution) as prescribed by the Ontario Lottery and Gaming Corporation Act. This amount is contributed to the province’s consolidated revenue fund and is recorded as expense that resulted in increased financial losses for the casino. After the WIN contributions, the financial losses are then subsidized by net income from other profitable operations that results in reductions in OLG’s overall NPP payments to the province. Between F2007 and F2020 Caesars Windsor casino WIN contributions totalled $743M.

4. OLG’s decisions to spend $446M to expand Caesars Windsor Casino may not have considered the risks to the investment, given the declining market at the time, may not result in any financial and economic value, benefits and return on investments. At the time, there were many uncertainties about the financial viability of the casino due to the financial losses.

   [Redacted].

5. The casino expansion cost a total of $446M (land and project costs) and was operationalized in F2009. The audit noted that within three years (F2012) of this capital investment, OLG wrote off portions of the investment when the organization adopted Internal Financial Reporting Standards (IFRS). The portion that was written off was included in the $493M that represented total asset impairment losses. The main reason for the write off was that the annual and cumulative operating, and net losses had adversely impacted the casino’s ability to generate positive cash flows. OLG stated that the asset impairment process was performed by total asset classes. There was no separate analysis delineating the expansion project investment on its own. As a result, the information was no available for us to determine what portion of the F2009 casino expansion investment was written off.

Recommendations:

In order to mitigate against future losses, and to ensure that long term financial and economic benefits are maximized OLG should:

1. Ensure future decision making with regards to any capital investments/expansion is based on reasonable and conservative estimates and robust risk assessments.

2. Undertake a detailed review of Caesars Windsor Casino operating costs and take steps to reduce/eliminate losses.

3. [Redacted].

Management Responses / Action Plans:

OLG acknowledges the observations and recommendations regarding Caesars Windsor’s financial situation. Significant and unforeseen external factors (including the 2008 recession) have negatively impacted the expanded casino. At the time the business case was developed, risk management was not a well-established discipline at OLG (risk management began in 2004). OLG has since matured its risk management program and increased enterprise-wide risk management capabilities.

Action Plans:

1. To address the need to better predict potential business challenges (e.g. economic downturns amongst other factors), OLG has taken measures to enhance its risk management capabilities and has established a dedicated risk management program that is working with the business proactively on risk mitigation strategies.

2. As OLG considers whether to privatize Caesars Windsor it will consider all recommendations and criteria including: the use of estimates supported by risk assessments, a review of operating costs with the aim of reducing losses, and analysis on optimizing the asset.

3. OLG Risk and Audit will support management with decision-making related to capital investments/expansion before Board approval is obtained. OLG Risk and Audit will support management's efforts to consider, assess, mitigate and document risks related to capital investment/expansion decisions and will challenge management’s assumptions and ensure decisions consider Board approved risk appetite. OLG Risk and Audit will also review all major procurements, including Caesars Windsor, to ensure that risks and mitigations are identified before Board approval is sought.

Target Completion Dates:

1. November 2020 (Effective immediately)
2. January 2021
3. April 2021

Accountability: Chief Financial Officer, SVPs of Strategy, Risk and Audit

10. Windsor Energy Centre ("WEC") Investment

OLG's $82M investment in the electricity generating and thermal energy plant did not provide the intended benefits or value to the organization and specifically to Caesars Windsor Casino. This type of energy investment is also not included in OLG's Mandate.

OLG expanded the Windsor Hotel and Casino in 2008. The expansion added a new west block (Augustus) tower which included, 369 guest rooms, 5,000 seats entertainment centre, 100,000 square feet of convention space, various new food and beverage outlets, and four multi-level parking garages. At the time of construction, despite assurances from specialist consultants that normal electricity distribution and heating/cooling could be serviced from the existing Windsor Utility Commission (WUC) Electricity Grid and Windsor Utilities District Energy System respectively OLG was concerned as to whether or not the Windsor Electricity Grid had existing capacity to meet the electricity needs of the new west block tower.

OLG and its consultants developed the scope and specifications for the electrical and mechanical systems for the new west block tower. The concern of a potential power shortfall to meet supply the new west block tower still existed. After evaluating its options, OLG decided that the most prudent option was to build an independent energy centre to meet the needs of the new west block tower.

OLG launched a competitive procurement and engaged a primary contractor to "design, build, operate and own" a four-generator facility. The facility was to generate 12 megawatt (MW) of electrical power, and thermal energy to provide heating and cooling to the new west block tower. Thirty four percent of the generated electricity was intended for supplying the needs of the new west block tower, and the surplus 66% was to be sold to the public grid and/or third parties, for which OLG would have received a new revenue stream.

OLG's objective was to secure a reliable energy source to provide cost-efficient and environmentally friendly energy to the new west block. The initial budget was estimated at $50M, however, the actual cost was $82M, which was $32M (i.e. 64%) over budget.

The 12 MW electricity generating facility was never operationalized to provide the expected electricity supply required for the new west block tower, therefore, supply had to be secured from the WUC Electricity Grid, at an average cost of ~ $2M per fiscal. [Redacted].

Observations:

1. The OLG Board approved the construction of the WEC without evidence of a business case to justify this project. We noted that there was no proper evaluation of alternatives, no costs / benefits analysis or risk assessment for possible adverse outcomes. There was also no defined plan as to how the returns from the WEC would be measured.
   The cost of the WEC exceeded the $50M in project contingency originally established in the Windsor Hotel and Casino expansion budget, and hence the project's cost tolerance.

2. Despite confirmed capacity within the WUC Electricity Grid and Windsor Utilities District Energy System OLG spent $82M to build electricity and thermal generating facilities 64%

more than originally budgeted. The electricity generation investment did not provide any economic benefit to Caesars Windsor and the OLG.

3. OLG was unable to operationalize the power generation facility [redacted].

4. [Redacted].

5. [Redacted].

Recommendation:

1. Engineering-based capital projects, such as those related to the design, build and operating of electric generating infrastructures are sophisticated, complexed and requires careful planning, execution and operation. In order to be successful, projects of this nature require specialized skills, substantial due diligence, key assumptions and analysis, e.g., of costs, benefits, risks, merits/demerits, evaluation of alternatives, economic viability assessment etc.

   Going forward, OLG should ensure that its decisions to fund major capital projects of this nature are based on a business case that is sound, defensible and consider risk impacts if funds are not used effectively. OLG should also ensure that any future projects are supported by effective project governance structure, oversight and framework to avoid the recurrence of other unsuccessful projects. OLG should also ensure that any future decision to operate this plant is informed by a robust risk assessment process.

Management Responses / Action Plans:

OLG acknowledges the observations and recommendations.

OLG undertook a number of actions to rectify the matter since 2008, including executive terminations. The agency is actively exploring opportunities for the sale of the asset. Since the construction in 2008, OLG has not initiated a project outside the regulatory scope of gaming and entertainment. OLG will not be engaging in any major capital energy projects of this nature going forward. In the unlikely event that OLG is involved in a major capital project of this nature, we would engage our shareholder to ensure transparency.

Action Plans:

1. OLG will continue to focus on strategic initiatives within its overall mandate, ensuring value for money through appropriate business case development and approval aligned to strategic direction.

2. A multi-disciplinary team including Risk and Audit, Legal and Finance will be engaged to review all proposals for funding major capital projects to ensure that risks have been considered and that mitigations are in place (e.g. to address potential impacts if funds are not used effectively) before Board approval is obtained.

Target Completion Date:

June 2021

Accountability: Chief Financial Officer, SVPs Strategy, Risk and Audit, and Legal

11. Procurement of Goods and Services

Eleven percent ($168.5M) of OLG’s (non-IT) goods and services procurement contracts between F2012 and F2020 were awarded based on non-competitive procurement methods. As a result, OLG may not be maximizing its value for money potential from the procurement of goods and services.

OLG’s procurement of goods and services is governed by its “Corporate Procurement Policy” (“the Policy”). The design of the policy is in alignment with the principles of the Ontario Public Service (OPS) Procurement Directive.

The purpose of the policy includes:

- Ensuring all goods and services are procured through a process that is fair, open, transparent, geographically neutral and accessible to qualified suppliers, subject only to the permitted exceptions as set out in the policy;
- Ensuring OLG meets its obligations under internal governance and applicable statutes, regulations, directives and trade agreements;
- Specifying the responsibilities of individuals and Business Units throughout each stage of a procurement process;
- Contributing to a reduction in purchasing costs and achieve value for money; and
- Ensuring consistency in the management of procurement related processes and decisions.

The principles of the policy include, the acquisition of goods and services to meet OLG’s needs in the most economical and efficient manner, compliance with applicable trade agreements, achieving value for money, geographic neutrality and reciprocal non-discrimination, supplier access, transparency and fairness, conflict of interest, and responsible procurement management.

Procurement Processes and Practices

OLG’s procurement process includes, procurement planning, authorization, determining procurement methods (e.g., open competitive procurement, invitational process procurement, vendor of record competitive procurement, existing trade deals and arrangements, and non-competitive procurement), sourcing through the procurement process, contracting, as well as vendor and contract management.

Please refer to Table 33 for a summary of contract commitments for goods and services for fiscals F2012 to F2020. Table 34 shows the summary of non-competitive procurement by category.

Table 33: Contract Commitments for Goods and Services F2012 to F2020 ($'000)

Sourcing Method	F2012	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020	Total	%
Competitive	74,998	140,958	265,341	81,323	82,190	184,498	51,837	128,217	91,109	**1,100,469**	**71**
Competitive: Other	6,109	7,538	11,648	21,755	1,657	3,612	46,305	148,814	27,145	**274,582**	**18**
Non-Competitive	2,578	99,866	6,003	11,624	10,617	5,868	12,231	9,932	9,775	**168,494**	**11**
Grand Total	**83,685**	**248,362**	**282,992**	**114,701**	**94,464**	**193,977**	**110,372**	**286,963**	**128,029**	**1,543,546**	**100**

Table 34: Non-competitive Procurement by Category F2012 to F2020 ($'000)

Category	F2012	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020	Total	%
Gaming Services		94,059	4,945	8,265	432	1,428	1,204	4,983	4,103	**119,419**	**71**
Marketing & Entertainment		511	351	1,448	9,127	598	6,834	3,181	3,548	**25,596**	**15**
Professional Services		1,341	62	389	219	347	1,824	1,114	1,983	**7,280**	**4**
Cash Processing		3,301				2,889				**6,190**	**4**
Facilities	2,578	304	274	391	88		2,056		16	**5,708**	**3**
HR Services		350	371	1,131	752	605	314	655	125	**4,301**	**3**
Grand Total	**2,578**	**99,866**	**6,003**	**11,624**	**10,617**	**5,868**	**12,231**	**9,932**	**9,775**	**168,494**	**100**

Vendor and Contract Management

OLG's established a Supply Chain Management (SCM) function, including Enterprise Procurement that provide tools, processes and practices that support and enable business units (BUs) across the organization to execute and manage procurement transactions.

Procurement transactions are initiated by individual BUs. In accordance with the policy, BUs are required to allow adequate planning time in their respective procurement plans, and to engage SCM early in the planning process. This is intended to assist in determining the appropriate procurement and sourcing method, dollar value, and to ensure adequate time to complete the procurement process in a competitive manner.

BUs are also responsible for the management and oversight of their respective vendor contracts, to ensure all contractual obligations are met, and that value is received by the organization prior to making payments.

Observations:

1. The audit noted that $168.5M (11%) of OLG's (direct non-IT) goods and services procurement contracts initiated between F2012 and F2020 were awarded by non-competitive methods, including certain follow on agreements. Non-competitive procurement methods may meet the business needs in the short term, but it does not always align with the principles of openness, transparency, fairness, and achieving value for money, and in accordance its procurement policy. OLG's procurement policy (effective July 2011 and revised May 2018) stipulates that the procurement of goods and services greater than

$500K must be carried out through an open competitive procurement process. We noted that a contract for $93M was originally procured through an “invitational procurement” process instead of the stipulated open competitive process. This contract was approved at the appropriate level and was supported with justification to suggest that, the vendor was identified and selected through the invitational process as the only vendor who could meet the business needs. The terms of the contract were also extended by two years, November 2017 to November 2019. Without utilizing the stipulated open competitive procurement process, it raised concerns as to whether or not the invitational process used to solicit the potential vendors was restricted.

The continued reliance on the non-competitive procurement methods also raised concerns about the effectiveness of the procurement planning process as an integral component, as required by the policy.

2. Vendor contract management is performed at various stages throughout the procurement lifecycle, e.g., the award, during execution, in-progress, and at the end, to ensure monitoring of deliverables, and the receipt of value. The procurement policy requires OLG’s BUs to manage their respective vendor contracts to ensure contractual obligations are met.

   The audit noted that, for seven of 11 major contracts reviewed, there was no documented evidence to demonstrate that BUs were consistently performing formal vendor contract management and oversight, including vendor performance evaluations. This raises concerns about the effectiveness of the SCM’s quality assurance and continuous improvement functions, as it relates to vendor reputation for prior goods and services, and potential future selection.

3. SCM did not formally establish an integrated contract management system that will provide BUs with the tools to perform proper vendor oversight, and to act as a centralized repository for BUs to store and communicate the outcomes of respective vendor contract management and performance reports.

4. A review of OLG’s procurement policy against a sample (32) of procurement contracts and transactions indicated improvements are required to enhance the policy to be more efficient in meeting the evolving business needs of the organization.

Recommendations:

To achieve maximum value for money from the procurement of goods and services, OLG should:

1. Ensure that its procurement practices align with the core principles of openness, fairness and transparency. Ensure adequate time is considered for procurement planning activities to reduce the amounts spent on non-competitive procurement transactions.

2. Through its SCM function, establish a formal process (including appropriate tools, dashboards, KPIs, templates, training, etc.) across the organization to enable and support BUs in performing their vendor contract monitoring and oversight roles. This will also benefit SCM’s quality assurance and continuous improvements functions.

3. Through its SCM function, establish an integrated contract management system and centralized repository (including the appropriate tools) to enable BUs to store and communicate the results of vendor contract monitoring reports. This will also assist OLG in assessing performance history for its vendors.

4. Engage the ministry and explore opportunities to re-evaluate the existing policy in a way that it can better enable OLG to meet its evolving business needs efficiently and effectively, while adhering to compliance requirements. This should assist the organization in overcoming some of the challenges faced as they continue to enhance their digital gaming strategy, amongst others.

Management Response / Action Plan:

OLG acknowledges the observations and recommendations made in this report. We recognize the importance of ensuring fairness, openness and transparency in our procurement process. OLG Risk and Audit initiated a review of the procurement process in July 2020 aiming to improve contract management by clarifying accountability, enhancing documentation, identifying process efficiencies and enhancing risk mitigation strategies.

Action Plans:

1. OLG will review its existing procurement policy to focus on continuing to make appropriate adjustments that enables more efficient, effective and flexible procurement management as OLG's business and requirements continue to evolve. In addition, the agency will engage with Procurement Ontario to determine how it can optimize its procurement strategy to operate faster and reduce red tape for vendors.
   We will review our non-competitive procurement process to ensure it meets the highest standards and is continued to be used appropriately through pro-active procurement planning to balance speed to market and value for money.

2. OLG will review our current vendor management systems, processes & support structures to enable and enhance our business in performing their vendor contract monitoring and oversight roles.

3. OLG will engage with Procurement Ontario to review the procurement function to determine how best to ensure transparency, openness and value to the organization while enabling OLG's success in an increasingly competitive market environment.

Target Completion Dates:

1. June 2021
2. December 2021
3. June 2021

Accountability: Chief Financial Officer

12. Real Estate Costs for the Head and Corporate Offices

OLG had not performed periodic due diligence and commercial real estate market analysis to inform their continued decision to operate two “corporate” / “head office” locations in Toronto and Sault Ste. Marie.

Periodic analysis had not been performed to determine if the split of departments’ staff between the two cities represents optimal costs and benefits for OLG’s operations.

OLG operates its corporate functions from one head office in Sault Ste. Marie (SSM) and a corporate office in Toronto. SSM is also home to one of OLG’s data centres, and its call centre. In addition to the corporate office in Toronto, OLG operates a prize centre, a prize investigation office, a second data centre and two distribution centres across the Greater Toronto Area (GTA). Costs for these other GTA locations are separate from those incurred at the Toronto corporate office.

Rent Costs

OLG rents two office locations. Between fiscals 2012 to 2020, OLG paid rent totalling $78.2M for both offices. Please refer to Table 35. As of fiscal 2020, OLG leased 148,375 square feet of office space in SSM and 146,153 in Toronto. Rent costs for the two offices for Fiscal 2020 were approximately $29 and $46 per square foot in SSM and Toronto, respectively.

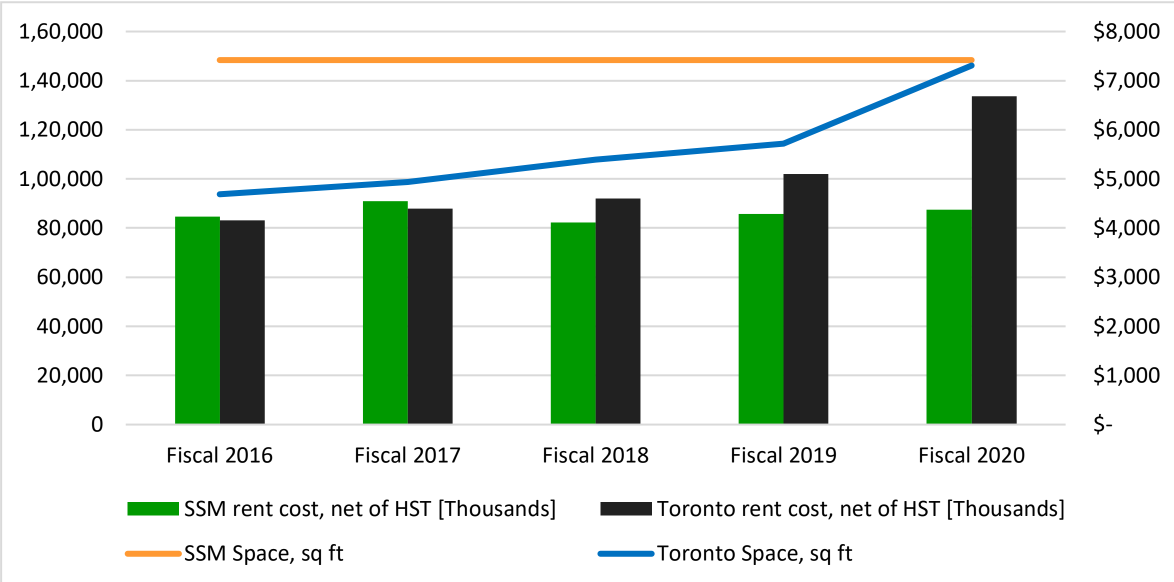
Table 35: Rent Cost for OLG’s Two Head and Corporate Offices ($’000)

	F2012	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020	Total
Sault Ste. Marie	4,308	4,308	4,667	4,155	4,005	4,635	4,811	3,587	4,285	38,763
Toronto	3,195	3,320	3,901	3,793	4,209	4,419	4,762	5,195	6,656	39,449
Total	**7,503**	**7,628**	**8,568**	**7,948**	**8,214**	**9,054**	**9,573**	**8,782**	**10,941**	**78,212**

Table 36: Rent Cost / Space per Staff F2020

Location	F2020 Rent Cost	F2020 Sq. ft	# Staff	Average Cost per Staff	Sq. ft per Staff
Sault Ste. Marie	$4,285,000	148,375	578	$7,414	257
Toronto	$6,656,000	146,153	512	$13,000	285

Figure 1: Toronto and SSM Office's Sq. Ft. and Rent Costs FY2016-2020 - $000s



Corporate and Business Functions

OLG's corporate and business functions are split between the two office locations, and staff are assigned accordingly. Data provided by OLG shows that 578 (39%) of their staff are located at the SSM location, while 512 (35%) are located at the Toronto location. Other GTA locations' staff represents staff based at the data centre, prize office, prize retail outlet, and distribution facilities. Please refer to Table 37.

Although OLG has performed a review of its skills inventory during the initial drive to modernization, there have not been any subsequent attempts to determine if it would be beneficial to consolidate functions in a single location.

Table 37: OLG Staff / Function F2019/20

Corporate Functions	# Staff at SSM	# Staff at Toronto	# Staff at Other GTA
Chief Executive Office		4	
Horseracing		9	
People and Culture	17	50	1
Corporate Affairs	16	47	2
Internal Audit and Risk	12	15	
Enterprise Strategy and Analytics	10	49	
Business Design and Customer Experience	53	60	3
Corporate Finance	100	32	25
Information Technology	147	75	98
Operations	205	94	220
Governance, Legal and Compliance	18	77	28
Total	**578**	**512**	**377**
Percent Split	**39%**	**35%**	**26%**

When renegotiating the lease for the Toronto corporate office prior to it expiring in 2019, OLG performed limited evaluations of four alternative real estate options (including its existing location) within the immediate Toronto area. The purpose was to assess retaining the corporate office at the current location or to relocate to the Toronto downtown core. The alternatives options all had higher costs per square footage compared to the current corporate office, plus other costs, e.g., renovations and configuration amongst others. The proposed alternatives were not supported by the Ministry of Finance.

Discussions with OLG indicated that while alternatives were evaluated to support a possible corporate office move to Toronto downtown, the continued operations of two separate offices in SSM and Toronto had resulted from a historical government mandate to distribute economic benefits (e.g., employment and support to local businesses, amongst others) across the province.

Observations:

1. The audit noted that, with the exception of its horseracing function, all of OLG's corporate functions are separated and performed at both the head office and corporate office locations.

2. We also noted that OLG had not performed any periodic commercial real estate market research and analysis to support its decision and approach to continue operating both the corporate and head office locations.

Recommendations:

1. OLG should ensure that periodic market assessment and analysis are performed (e.g. every 2-3 years) as part of its due diligence to support/ justify key real estate decisions regarding leasing of corporate office spaces. The results of the market analysis should be provided to the Board of Directors and the Ministry of Finance for their considerations.

2. OLG should ensure that cost-efficiencies remain fundamental to its business model and should evaluate the costs and benefits of separating key business functions within the head and corporate offices, particularly with the sudden adoption in 2020 of increased remote work measures. OLG should also ensue that its office space utilization strategy is adaptable to the safety requirements imposed by the Covid-19 pandemic.

Management Response / Action Plan:

OLG recognizes the importance of utilizing location strategy to support the growth and structure of the organization as well as the support to local economies. OLG has had locations in both northern and southern Ontario for over 30 years. OLG's head office is Sault Ste. Marie while its corporate office location is Toronto. The location strategy was established based on consideration of strategic factors and risks, including but not limited to economic development, talent diversity, geographic diversity, operating costs, productivity, morale, etc.

Action Plans:

1. OLG is currently undertaking, in response to COVID-19 and remote work measures, a review of its real estate footprint and targeting a 25-50% reduction of space, as lease agreements allow, to ensure cost efficiencies. A plan for the agency's future footprint will be presented to the Board in June 2021 to correspond with the end of pandemic**.**

2. Aligned with this work, we will review our two- location strategy to ensure a sound and cost-effective strategy is maintained. This will include affirmations with our Board of Directors and the Ministry of Finance to confirm our plans with regards to the continuation of our two-location strategy. In addition, we will revisit the issue on an annual basis to ensure our real estate approach supports our business and economic objectives.

Target Completion Date:

June 2021

Accountability: Chief Financial Officer and Senior Vise President of People and Culture

13. Presentation of Net Profit to the Province

Between F2013 and F2020, OLG's presentation of actual Net Profit to the Province ("NPP") was inclusive of the WIN contribution amounts and was not consistently aligned with the requirement of the Act.

The Ontario Lottery and Gaming Corporation Act, 1999 ("the Act"), requires OLG to make prescribed payments from its gross revenues as outlined in *subsection 14(1) Payments from revenues*, such as: prizes/winnings, payments defined by Regulations (that the corporation is required to pay into the Consolidated Revenue Fund ("CRF")), operating expenses, and payments to the Alcohol and Gaming Commission of Ontario ("AGCO"). In addition, *subsection 14(3) Payments from net revenue* states that after making the required payments under *subsection 14(1)*, the corporation shall pay the amount remaining into the CRF.

Under the Act, OLG is required to pay two separate streams of payments into the CRF:
- Firstly, under *Payments from revenues in subsection 14(1)(2), Regulation 199/00* Payments into CRF which directs OLG to remit a contribution of 20% of gross gaming revenues generated at five specific resort casinos (Caesars Windsor, Casino Rama, Casino Niagara, Fallsview Casino and Great Blue Heron) into the CRF on a weekly basis, based on the revenues for the preceding week. This is an expense to the OLG and known as the "WIN contribution," also referred to as the "Win tax".
- Secondly, under *subsection 14(3) Payments from net revenue*, OLG is required to remit all remaining amounts into the CRF. This payment represents the corporation's net income, which is the NPP.

Please refer to Table 38, NPP reported by OLG in the Other Information note in the annual financial statements, and Table 39, re-presentation of NPP in accordance with *subsection 14(3)* of the Act.

Table 38: NPP Declared by OLG in Note to Annual Financial Statement[3]

	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020	Total
Net Income	1,559	1,761	1,752	1,959	2,071	2,174	2,191	2,047	**15,514**
Plus: WIN Contribution/ tax	257	245	247	272	290	313	280	256	**2,160**
NPP	**1,816**	**2,006**	**1,999**	**2,231**	**2,361**	**2,487**	**2,471**	**2,303**	**17,674**

Table 39: Re-presentation of NPP in Accordance with Subsection 14(3) of the Act

	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020	Total
NPP as declared by OLG	1,816	2,006	1,999	2,231	2,361	2,487	2,471	2,303	17,674
Restated NPP, equals net income	1,559	1,761	1,752	1,959	2,071	2,174	2,191	2,047	**15,514**
Difference equals Win tax	**257**	**245**	**247**	**272**	**290**	**313**	**280**	**256**	**2,160**

[3] Source – OLG's annual reports

The monies OLG contributes to the province annually, consisting of WIN contributions and NPP, are used to fund key government programs and priorities, e.g., healthcare, education and to provide other benefits to the people of Ontario. OLG presented the corporation's financial contributions in its annual reports. For example, the Chair of the Board and the President and Chief Executive Officer (CEO) in their respective key messages presented that the corporation had generated NPP of $2.47B and $2.3B in fiscals 2018/19 and 2019/20 respectively.

Observation:

1. Under the Act, NPP is net income. For presentation purposes, OLG added back WIN contributions to the corporation's net income which it reports as total NPP. The practice of adding back WIN contributions to net income is not consistent with the requirement of the Act.

   The achievement of NPP targets contributes to 25% of OLG's performance-based compensation payouts. We considered the impact of including WIN contribution in calculating NPP compared to using the net income only as NPP when determining performance-based compensation payouts and noted that the impact was not significant.

Recommendation:

1. To ensure NPP is fairly presented and aligns with the requirements of the Act, OLG should clearly indicate total contributions to the province as a combination of WIN contributions and net income.

Management Responses / Action Plans:

Action Plan:

1. OLG will work with Ministry of Finance and its Board of Directors in determining the appropriateness of the use of the non-GAAP measure of NPP as a basis in measuring the performance of the Corporation. OLG will consider renaming the NPP measure to "Net Contributions to the Province" (NCP) if the Ministry of Finance determine this description is more accurate.

Target Completion Date:

June 2021

Accountability: Chief Financial Officer

Appendices

Appendix A: OLG Provided Summary of Covid-19 Impacts on its Business

OLG has faced significant operational challenges as a result of the COVID-19 pandemic. During this time, the organization have made the health and safety of employees and customers its top priority and have been optimizing revenue streams by relying on our lottery retail business and digital offerings.

Land Based Gaming

The pandemic has had a significant impact on land-based gaming with all casinos in Ontario closing on March 16, 2020. Through active planning with the industry, OLG was ready to resume casino operations under the province's re-opening framework, which allows a maximum of 50 patrons and no table games. On September 28th, 11 Great Canadian casinos re-opened. On October 8-9, Caesars Windsor and 11 of 12 Gateway casinos re-opened. On October 10th, Woodbine Casino has to close again as a result of COVID restrictions in Toronto.

These closures have materially delayed returns and a shortfall of ~$4B in gaming revenue and $2.2B in NPP is forecasted for F2021 compared to annual business plan projections. Projections for F2022-F2025 anticipate that revenues and NPP will substantially recover to pre-COVID levels within 18 months of the start of F2022 but there will be a delay of approximately one year for OLG to reach its pre-COVID revenue and NPP expectations. This forecast is anchored on a key assumption that the general economy returns to normal.

OLG continues to provide the necessary contract support for the Service Providers by:

- Providing the fixed fee component of the compensation model so Service Providers can secure gaming and real estate assets during the closed period.
- Providing Service Providers with certain waivers to reduce the burden of contractual obligations, focusing only on obligations that are required to enable them to focus on managing resources.
- Introducing an interim compensation model designed to enable Service Providers to earn their proportionate share of revenue equivalent to what they were entitled to pre-COVID in the original compensation model, helping them to sustain financial viability.

Retail Lottery and Digital (Lottery, Casino)

The Lottery retail business was negatively impacted in the early stages of the pandemic but has since recovered and remains resilient. Key events include:

- Lockdown measures saw 2,300 of 9,800 OLG retailers close while others suspended sales and redemption of tickets. Most retailers have since reopened.
- OLG Prize Centre was closed in March and prize claims were processed based on appointments where possible and the expiry period to redeem prizes was extended by six months. The Prize Centre has since re-opened and OLG received regulatory approval to increase the face-to-face prize claim threshold from $10,000 to $50,000.

- Proline betting shut down when major league sports were suspended. Instants and draw-based games sales initially slowed, and advertising was suspended. In July sports betting started again and advertising resumed.
- OLG's Support Centre saw increased demand resulting from the shift to digital play

Lottery revenue is expected to be between 90-95% of F2021 projections. New digital lottery players continue to purchase online, online lottery subscriptions continue to grow, and 98% of lottery retailers have returned. New product launches have also helped bolster revenue.

OLG's new online player platform and fully redesigned OLG.ca launched in October 2020. This was a significant milestone in our digital strategy, and revenue growth has been favourable and outpacing targets. The organization's new digital offering will be critical to OLG's revenue growth going forward.

Charitable Gaming

Charitable Gaming (cGaming) facilities closed on March 17th were able to reopen starting in July with a 50-patron limit. Nine were closed again in October due to COVID restrictions, all four in the City of Toronto remain closed. cGaming revenue for reopened facilities has been largely on budget with F21 projections as traditional casino patrons play at cGaming facilities while casinos are closed.

Given that OLG does not make a profit from cGaming and does not provide any payments to cGaming stakeholders when sites are closed (no revenue, no revenue sharing), it is charities, operators and municipalities that are most impacted by closures.

Horse Racing

All racing in Ontario was suspended in March 2020. An amendment to the Funding Agreement, approved by the Minister of Finance, redirected purse funds to owners for the care of horses during the suspension.

Racing resumed without spectators at the beginning of June with online wagering only. Racetracks continue to struggle from lost revenues.

Corporate

The majority of OLG employees have been working remotely since mid-March. We have planned for a gradual return of the workforce and have implemented health and safety measures to ensure safety. We expect flexible work arrangements to continue and are re-examining our corporate real estate requirements.

Cashflow was significantly impacted by the sudden closure of many of OLG's operations in March. The Ontario Financing Authority (OFA) approved a loan agreement in May that enables borrowings of up to $300 million, with access to another $200 million, if required, and with Minister of Finance approval. A total of $60M has been drawn to date, most of which was required to pay contractual payments from the prior year.

OLG has reduced expenditures across the organization by immediately implementing a hiring freeze and halting virtually all discretionary spending. The organization reduced marketing expenses and enhanced expenditure governance approvals, while maintaining critical project investment. The organization has embedded aggressive spending reduction targets in our F22 budget including planned workforce reductions. The organization is also reviewing our compensation framework.

Summary

This Covid-19 impact was as of November 13, 2020. Looking forward, OLG will capitalize on the recovery period, and aggressively seek new opportunities to grow returns to the province and create value within our provincially approved mandate.

	F2021 Budget	F2021 Forecast	F2022 Budget *	F2023 Projection *
Proceeds	$9.2 billion	$4.6 billion	$6.8 billion	$9.2 billion
NPP	$2.4 billion	$200 million	$1.3 billion	$2.5 billion

** Note that F2022 Budget and F2023 Projection are preliminary estimates as of Nov 2020 and have not yet been approved.*

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:

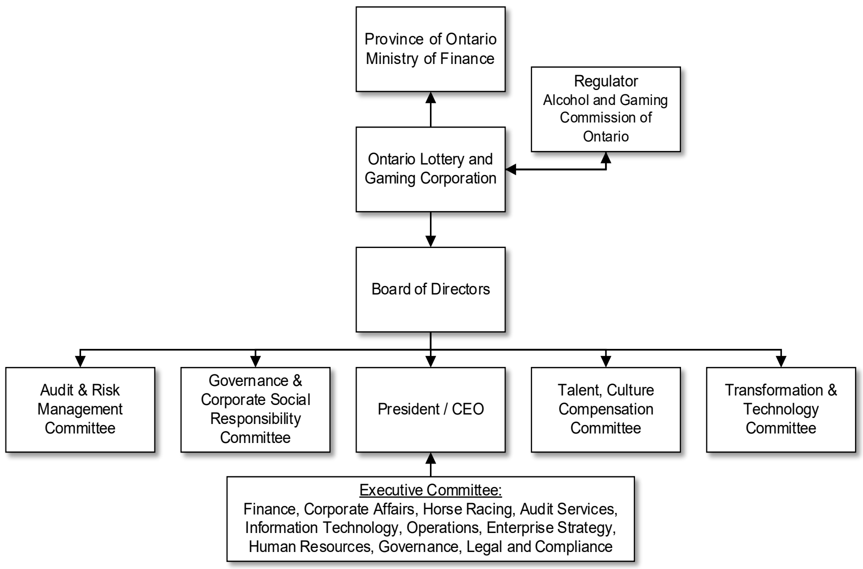
- The Modernization Plan had an overly ambitious timeline;
- The Modernization Plan depended on and assumed municipal stakeholder agreement, especially in the Greater Toronto Area;
- The timing of the Modernization Plan's financial projections was overly optimistic
- Procurement processes had been fair, 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 approved an audit of the OLG as part of the 2019/20 approved OPS-wide Audit Plan. The audit was conducted in two phases. Phase one, to assess the effectiveness of the governance and accountability framework and mechanisms at the OLG was completed in June 2020. Phase two (this phase), was to determine if OLG had 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 audit was to determine whether OLG had adequate and effective processes, procedures and practices to operate and achieve its mandate, and associated Modernization Plan initiatives, efficiently and economically.

Scope

The scope of this phase of the audit includes:

- Procurement of goods and services (excluding, I.T. and Land-based Gaming (LBG) Service Providers (SPs));
- Benefits realization of the Modernization Plan transformational initiatives, digital strategy initiatives and related costs (including, planning assumption and considerations.);
- Design and structure of LBG SP fees;
- Cost management, including OLG managed, leased and operated facilities (e.g. offices, data and prize center etc.);
- Transformational plan initiatives for Caesars Windsor, including the electricity generating plant;
- Profitability of business lines;
- Revenue maximization plans and initiatives;
- Procurement policies and practices of LBG SP (parts deferred from Phase one); and
- Progress of expenditures related to OLG's Modernization Plan (deferred from Phase one).

The scope period of this engagement was fiscals 2012 to 2020.

The scope excluded:

- IT vendor governance that was completed by the OAGO December 2019; and
- Financial support to sustain the Horse Racing Industry that was completed by the OAGO in December 2019.

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.

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

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
Modernization Plan	OLG's Modernization Plan was not supported with an integrated business case that underlies and supports the development, execution and monitoring of its modernization and transformation strategy.	**3 Medium Risk Controls need Improvements**	OLG should develop sound and comprehensive business cases, integrating appropriate supporting analysis (e.g., cost/benefit analysis, risk assessments, value for money baselines, timelines, performance measurement etc.) and objective assumptions to support all future programs and projects.	OLG agrees to broaden the scope of business case development to include enhanced risk assessments and mitigation to support the overall execution and implementation of significant and strategic initiatives in the future. A risk assessment will be presented to the Board of Directors when all major procurements and policy initiatives are brought forward for approval. This risk assessment will flag benefits and mitigation plans and will be tracked and updated on a quarterly basis as part of the OLG's regular enterprise risk discussions. OLG will also ensure clear documentation of scenarios where stakeholder demands do not align with the strategic direction of the company. To strengthen risk analysis, OLG will continue to build its risk management capabilities by, engaging third party risk management expertise as warranted to help facilitate and document risk discussion and analysis when developing business cases, and incorporating risk management concepts into OLG management training. Project management plans will continue to have well defined milestones and deadlines. This has been the past practice of the company. A corporate dashboard with KPIs and metrics to support oversight of all projects is currently being finalized. This comprehensive document will be used by the Executive Team and Board of Directors to monitor business performance and encourage discussion on risk and mitigation plans to address any

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
				initiatives behind schedule or facing implementation challenges. Target Completion Dates: • April 2021 • January 2021 Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy and Risk and Audit, Chief Information Officer (Business Design)
	The achievement of portions of the proposed benefits of OLG's Modernization Plan ("the plan") continued to be delayed, eight years after the plan was approved and launched. The projected financial and economic benefits are tracking below their original proposed target levels. Also, certain projections and assumptions (e.g., financial) appeared optimistic and some of the proposed benefits were not being tracked, measured and monitored.	**4 High Risk Controls Need Significant Improvement**	OLG should enhance and strengthens its program management mechanisms and frameworks (in key areas of LBG, Lottery, D-Gaming, efficiencies, capital investments and new FTEs) to be used for identifying, tracking and measuring the achievements of the proposed benefits of the Modernization Plan in order to promote transparency and accountability towards optimizing the financial and economic values and benefits in an efficient and effective manner.	OLG will share business performance information with more transparency. Given the current stage of modernization, this information will be presented in aggregate as part of the agency's annual report. A more detailed document outlining the performance of individual bundles will be provided to the Board on an annual basis. OLG plans to disclose the results of its monitoring and reporting through the establishment of its annual KPIs and through the publication of its annual business plan. As part of its efforts to create a comprehensive corporate dashboard that monitors line of business performance, OLG will share this dashboard with our Board on a quarterly basis to ensure that the economic benefits of modernization are clear. As part of its corporate dashboard, OLG will incorporate a metric that reports on job creation including net FTE increases and reductions, improvement efficiencies, capital investments amongst others. There will be a metric to measure SP FTE numbers, and corporate OLG numbers.

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
				Going forward, the company will also establish clear KPIs to measure company performance. OLG is in the second year of cascading KPIs throughout the company for performance purposes and will continue to refine this work to ensure its KPIs are clear and measurable. KPIs will be shared with the Board and shareholder on an annual basis. With regard to sharing lessons learned, beginning with the launch of the digital platform project, OLG will conduct a project launch post-mortem exercise to document lessons learned. While lessons learned discussions are commonplace at OLG, formally documenting these discussions will be enhanced. With the entry of the new CEO, key stakeholder discussions are being instigated on a range of fronts to inform our strategic planning process going forward. Target Completion Dates: • January 2021 • April 2021 • December 2020 • April 2021 • November 2020 (Going forward) Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy and Risk and Audit, Chief Executive Officer (Stakeholdering)

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
	[Redacted], OLG may not realize portions of the intended financial benefits of the Modernization Plan. [Redacted].	**4 High Risk Controls Need Significant Improvement**	OLG should adopt a more holistic and proactive risk management framework with methodologies to identify, evaluate mitigate, and minimize the risks that will continue to have adverse impacts on revenues and NPP. This should include the coordination of risk management activities with SPs and other key stakeholders across the gaming bundles, to ensure risk events (contractual and non-contractual) [redacted] are adequately considered and continuously measured as part of the broader risk management process. [Redacted].	With regard to future requests for threshold relief, OLG will continue to limit relief based on the commercial circumstance at the time, and will require a thorough business case from providers to ensure that the relief does not compromise the viability of revenue to the Province in the medium to long term. When a business case for threshold relief is presented to the Board of Directors, a complete risk assessment and mitigation strategy will be presented to ensure adequate documentation and discussion. Once relief is provided, impacts will be monitored by the Risk and Audit team, in collaboration with colleagues in the Operations Division, to determine if the intended benefits of granting relief have been realized. An audit of impacts will be conducted by OLG Internal Audit 12-24 months after the provision of relief to determine if the desired impacts on service provider performance have been achieved, and if not, what further actions are required to improve service provider performance. OLG will review its business case templates for all contract amendments to ensure the following sections are required to be included in the business case prior to approval of recommendations: a thorough risk assessment, cost-benefit analysis, trade-off and exchanges; and a rationale for final recommendations. OLG will establish a formal project post-mortem where lessons learned from a large-scale project

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
				are documented and ultimately incorporated into future initiatives. This process will be coordinated by the Operational Risk Management group, with support from project management and project leads. Reports from the process will be submitted to the Risk, Compliance and Audit committee for review. Target Completion Dates: • December 2020 • September 2021 • April 2021 • April 2021 Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy, Risk and Audit, Chief Information Officer (Business Design)
	In order to implement a government policy decision to maintain slots at racetracks at (Ajax Downs) in a timely manner, OLG and the Service Provider (“SP”) had to execute the Ajax gaming zone agreement within compressed timelines. This has resulted in an agreement that was not supported by any cost/benefit analysis to determine the value for money	**4 High Risk Controls Need Significant Improvement**	OLG should perform retrospective cost/ benefit analysis, and evaluate, and determine the value for money implications of the terms of the Ajax gaming zone agreement. This exercise will assist OLG in identifying and mitigating further potential downside risks, as well as to ensure the commercial values of the agreement is understood in order for the benefits (financial and economic) to be effectively measured. OLG should also enhance its risk management processes in a	OLG will specifically document the costs and benefits achieved and forecasted for the Ajax Gaming Zone Agreement as part of its annual business plan process and use the results to inform risk management profiles for other land-based gaming bundles. In addition, the costs and benefits will be included, in the near term, as part of the modernization benefits tracking. As noted above, eventually this location’s results will form part of OLG’s base operations. Target Completion Date: September 2021 Accountability: Chief Financial Officer

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
	implications, and to properly assess the commercial value in order to inform the decision-making and contract negotiation process.		manner that will enable the organization to optimize the modernization benefits within the terms of the agreements.	
	The bid evaluation process and the criteria used by OLG to select Land-based Gaming Service providers ("SPs") in the future could be enhanced to better support their established value for money (VFM) objectives. The analyses and decision-making framework required strengthening to be more effective in informing, supporting and mitigating key risks that impacted the casino gaming bundles.	**4 High Risk Controls Need Significant Improvement**	For future RFP and procurement processes, OLG should enhance its existing mechanisms and approach by incorporating a more comprehensive risk management strategy that considers a wider range of factors being analyzed, including but not limited to market size, capacity, opportunities, and other potentials. This should help in ensuring that projections are based on the realities of the markets. OLG should also apply more consistent methodologies to better align timelines relating to the bid evaluation terms used when determining Final Proposal Scores and implement a more robust and integrated process to perform sensitivity analysis to better identify, understand and integrate the potential impacts of key underlying assumptions that support financial and non-financial	As part of future procurement processes (e.g. Windsor), OLG will continue to refine its approach to market sizing and opportunity assessment through a combination of its own internal research and third-party market analysis/support as required. As the agency moves forward with modernization for Casino Windsor, it will ensure that a complete business case with a risk analysis and mitigation plan is included as part of materials tabled with the Board of Directors for discussion. Risks associated with the project will be monitored as part of the agency's quarterly enterprise risk reports, and any significant risks will be presented as part of the quarterly risk assessment document submitted for review by the Ministry of Finance and Treasury Board Secretariat. OLG will continue to assess each procurement process and evaluation criteria to optimize value for money for the Province. One such example, and as recommended by TBS, will be to assess and align the time horizons of a contractual agreement and evaluated criteria. OLG agrees that the impact of the underlying sensitivity and scenario analysis can be more

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			projections and targets, and use the results to appropriately inform the risk mitigation strategies, and to ensure a more reasonable risk sharing /transfer with the SPs.	effectively structured and utilized to inform future risk mitigation strategies. OLG will continue to build risk management capabilities by: standardizing, where possible, a series of pre-determined sensitivity and scenario analysis, engaging third party risk management expertise to help facilitate and document areas of risk when transitioning from procurement to operations. This will ensure risk allocation is appropriate between SP and OLG, and annually document perceived risks associated with SP operations as part of its enterprise risk report to the Board of Directors OLG plans to continue and enhance its efforts to monitor financial health of its SPs over the life of the agreement and will report IRR and any significant concerns annually to the Board. This will allow OLG to be more proactive in identifying potential financial issues that may impact future performance. With regards to documentation, to make bid proposals more transparent and to assist evaluation, OLG will incorporate a table outlining risk tradeoffs versus value for money as part of future bid requirements. In addition, for any further LBG bundle related procurements, Procurement and Risk will ensure that further emphasis is placed on: (i) documenting the rationale for the selection of evaluated criteria (ii) defining measurement for value for money objectives and (iii) ensuring procurement is executed within a strong risk management framework. This will allow OLG to

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
				more effectively transition the SP from procurement to operations. Target Completion Dates: • January 2021 • December 2020 • April 2021 • December 2020 • December 2020 Accountability: Chief Operating Officer, Chief Financial Officer, SVPs Strategy, Risk and Audit
	[Redacted].	**3 Medium Risk Controls need Improvements**	OLG should explore opportunities with the SPs to specifically define the valuation approach of FMV in a manner aligned with that of the original sale. [Redacted].	[Redacted]. In agreements not yet completed by OLG, OLG will give due consideration as to the benefits to OLG that a more detailed description of fair market value might achieve. Target Completion Date: December 2020 Accountability: SVP Legal
	The proposed financial benefits of the Charitable Gaming (cGaming) modernization initiatives have not been fully achieved. Ten years after the program was launched, one of the key objectives (annual revenue growth to	**4 High Risk Controls Need Significant Improvement**	OLG should take appropriate steps to minimize its current and future financial losses and update its strategy based on the realities of the charitable gaming market in order to ensure maximum benefits can be achieved for OLG and its stakeholders.	OLG will undertake a comprehensive market research on an annual basis to identify opportunities to grow the post-pandemic market relative to our broader provincial gaming strategy. OLG will continue to monitor the performance of the centres with new games in the market on a monthly, quarterly and annual basis to assess market changes and, in turn, possible further opportunities for growth or optimization of expected demand.

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
	$400M), has realized only 50% of its target. From F2013 to F2020 OLG had incurred cumulative financial losses of $182M in this business segment. Financial losses are also forecasted to continue between $24M to $28M per fiscal between F2021 to F2024.			It should also be noted that charitable gaming payments are accounted for as an expense for OLG, meaning that payments to charities may continue to be a loss for the agency. OLG will work with the Provincial Controller and the Ministry of Finance to determine whether any changes can and should be made to address this challenge including allowing OLG to provide transfer payments via its legislation. OLG will continue to exercise fiscal constraint and will review the organizational structure for OLG Charitable Gaming to reduce internal operating costs. As part of the post pandemic recovery, OLG will reassess the revenue sharing model under operating agreements and identify opportunities to improve financial benefits to all stakeholders in consultation with our shareholder, noting that OLG alone, without service provider approval, cannot amend operating agreements. In the new year, a cGaming risk assessment will be conducted to identify, assess and prioritize risks that could threaten the achievement of cGaming objectives across all service providers. The risks will be monitored for changes and adjustments made to strategies and mitigations as required Target Completion Dates: • December 2020 • June 2021

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
				• March 2021 • September 2021 • February 2021 Accountability: Chief Operating Officer, Chief Financial Officer, SVP Legal and Risk and Audit
	The Great Blue Heron casino's assets were sold for $5M less than their appraised market value due to an error in the independent appraisal report that was not identified by OLG in a timely manner.	**3 Medium Risk Controls need Improvements**	To ensure full benefits and values are received and realized at all times, OLG should implement a more effective review process over all third party and internally generated reports to detect errors and omissions in a timeline manner.	OLG will perform due diligence over all third party and internally generated reports to detect errors and omissions in a timely manner. OLG will ensure that decisions, claims and assumptions that impact strategic outcomes are adequately supported with the appropriate and objective analysis. Target Completion Date: December 2020 Accountability: Chief Financial Officer
Caesars Windsor Casino, Financial Performance	[Redacted].	**4 High Risk Controls Need Significant Improvement**	In order to mitigate against future losses, and to ensure that long term financial and economic benefits are maximized OLG should: ensure future decision making with regards to any capital investments/expansion is based on reasonable and conservative estimates and robust risk assessments; undertake a detailed review of Caesars Windsor Casino operating costs and take steps to reduce/eliminate losses; [redacted].	To address the need to better predict potential business challenges (e.g. economic downturns amongst other factors), OLG has taken measures to enhance its risk management capabilities and has established a dedicated risk management program that is working with the business proactively on risk mitigation strategies. As OLG considers whether to privatize Caesars Windsor it will consider all recommendations and criteria including: the use of estimates supported by risk assessments, a review of operating costs with the aim of reducing losses, and analysis on optimizing the asset.

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
				OLG Risk and Audit will support management with decision-making related to capital investments/ expansion before Board approval is obtained. OLG Risk and Audit will support management's efforts to consider, assess, mitigate and document risks related to capital investment/expansion decisions and will challenge management's assumptions and ensure decisions consider Board approved risk appetite. OLG Risk and Audit will also review all major procurements, including Caesars Windsor, to ensure that risks and mitigations are identified before Board approval is sought. Target Completion Dates: • November 2020 (Effective immediately) • January 2021 • April 2021 Accountability: Chief Financial Officer, SVPs of Strategy, Risk and Audit
Windsor Energy Centre Investment	OLG's $82M investment in the electricity generating and thermal energy plant did not provide the intended benefits or value to the organization and specifically to Caesars Windsor Casino. This type of investment is also not included in OLG's Mandate.	**4 High Risk Controls Need Significant Improvement**	OLG should ensure decisions to fund future capital investments and expansions (e.g., Casino Windsor and WEC) are based on sound and defensible business cases supported by achievable business estimates and a robust risk management framework. Proper project governance and oversight mechanisms should also be established. Also, OLG should undertake a review of Caesars Windsor Casino	OLG will continue to focus on strategic initiatives within its overall mandate, ensuring value for money through appropriate business case development and approval aligned to strategic direction. A multi-disciplinary team including Risk and Audit, Legal and Finance will be engaged to review all proposals for funding major capital projects to ensure that risks have been considered and that mitigations are in place (e.g. to address potential impacts if funds are not used effectively) before Board approval is obtained.

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			operating costs and take appropriate steps to minimize against future financial losses.	Target Completion Date: June 2021 Accountability: Chief Financial Officer, SVPs Strategy, Risk and Audit, and Legal
Procurement of Goods and Services	Eleven percent ($168.5M) of OLG's (non-IT) goods and services procurement contracts between F2012 and F2020 were awarded based on non-competitive procurement methods. As a result, OLG may not be maximizing its value for money potential from the procurement of goods and services.	**3 Medium Risk Controls need Improvements**	To achieve maximum value for money from the procurement of goods and services, OLG should: Ensure that its procurement practices align with the core principles of openness, fairness and transparency. Ensure adequate time is considered for procurement planning activities to reduce the amounts spent on non-competitive procurement transactions. Through its SCM function, establish a formal and integrated process (including appropriate tools, dashboards, KPIs, templates, training, etc.) across the organization to enable and support BUs in performing their vendor contract monitoring and oversight roles. This will also benefit SCM's quality assurance and continuous improvements functions.	OLG will review its existing procurement policy to focus on continuing to make appropriate adjustments that enables more efficient, effective and flexible procurement management as OLG's business and requirements continue to evolve. In addition, the agency will engage with Procurement Ontario to determine how it can optimize its procurement strategy to operate faster and reduce red tape for vendors. We will review our non-competitive procurement process to ensure it meets the highest standards and is continued to be used appropriately through pro-active procurement planning to balance speed to market and value for money. OLG will review our current vendor management systems, processes & support structures to enable and enhance our business in performing their vendor contract monitoring and oversight roles. We will also engage with Procurement Ontario to review the procurement function to determine how best to ensure transparency, openness and value to the organization while enabling OLG's success in an increasingly competitive market environment. Target Completion Dates: • June 2021 • December 2021

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
			Engage the ministry and explore opportunities to re-evaluate the existing policy in a way that it can better enable OLG to meet its evolving business needs.	• June 2021 Accountability: Chief Financial Officer
Real Estate Costs for the Head and Corporate offices	OLG had not performed periodic due diligence and commercial real estate market analysis to inform their continued decision to operate two “corporate” / “head office” locations in Toronto and Sault Ste. Marie.	**3 Medium Risk Controls need Improvements**	OLG should ensure that periodic market assessment and analysis are performed (e.g. every 2-3 years) as part of its due diligence to support/ justify key real estate decisions regarding leasing of corporate office spaces. The results of the market analysis should be provided to the Board of Directors and the Ministry of Finance for their considerations. OLG should ensure that cost-efficiencies remain fundamental to its business model and should evaluate the costs and benefits of separating key business functions within the head and corporate offices, particularly with the sudden adoption in 2020 of increased remote work measures. OLG should also ensue that its office space utilization strategy is adaptable to the safety requirements imposed by the Covid-19 pandemic.	OLG is currently undertaking, in response to COVID-19 and remote work measures, a review of its real estate footprint and targeting a 25-50% reduction of space, as lease agreements allow, to ensure cost efficiencies. A plan for the agency’s future footprint will be presented to the Board in June 2021 to correspond with the end of pandemic. Aligned with this work, we will review our two-location strategy to ensure a sound and cost-effective strategy is maintained. This will include affirmations with our Board of Directors and the Ministry of Finance to confirm our plans with regards to the continuation of our two-location strategy. In addition, we will revisit the issue on an annual basis to ensure our real estate approach supports our business and economic objectives. Target Completion Date: June 2021 Accountability: Chief Financial Officer and Senior Vise President of People and Culture

Scope/ Criteria	Observation	Rating	Recommendation	Management Action / Timeline
Presentation of net profit to the Province	Between F2013 and F2020, OLG's presentation of actual Net Profit to the Province ("NPP") was inclusive of the WIN contribution amounts and was not consistently aligned with the requirement of the Act.	**2 Low Risk Satisfactory Controls**	To ensure NPP is fairly presented and aligns with the requirements of the Act, OLG should clearly indicate total contributions to the province as a combination of WIN contributions and net income.	OLG will work with Ministry of Finance and its Board of Directors in determining the appropriateness of the use of the non-GAAP measure of NPP as a basis in measuring the performance of the Corporation. OLG will consider renaming the NPP measure to "Net Contributions to the Province" (NCP) if the Ministry of Finance determine this description is more accurate. Target Completion Date: June 2021 Accountability: Chief Financial Officer

Appendix G: Evaluation of Engagement Criteria

Evaluation of Criteria	Criteria Met	Criteria Partially Met	Criteria Not Met
Objective: To determine if Ontario Lottery and Gaming Corporation (OLG) had adequate processes, procedures and practices to operate and achieve its mandate efficiently, economically and effectively.			
Procurement of Goods and Services (excluding I.T.)			
1. Processes are in place to ensure goods and services are acquired in compliance with applicable policies/directives with due regard for economy and efficiency.		X	
Procurement Policies /Practices - Procurement of Services (LBG SPs) – Phase One			
2. The need /demand to enter in the LBG procurement process /arrangement are appropriately supported by business cases.			X
3. The procurement process ensures that transactions and arrangements are assessed for OLG to obtain value-for-money.		X	
Strategic Direction - Progress and Expenditures Related to OLG's Modernization Plan – Phase One			
4. OLG has established appropriate governance structure to provide oversight over the implementation of the Modernization Plan.	X		
5. OLG senior management provided oversight over the progress of the Modernization Plan and is kept abreast of the status of key developments and makes timely and appropriate corrective actions when necessary.	X		
6. OLG has established processes and mechanisms to ensure the key initiatives of the Modernization Plan are implemented within the defined timelines.			X
7. Processes are in place to ensure Modernization Plan milestones are defined and appropriate tracking, monitoring, reporting mechanisms are in place.			X
8. 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.			X
Benefits Realization of the Modernization Plan Transformational Initiatives, Digital Strategy Initiatives and Related Costs (Including, Planning Assumption and Considerations.)			
9. Processes are in place to ensure benefits of the transformational initiatives (Modernization Plan and digital strategy) are measured and realized, and to ensure costs are controlled efficiently and economically.			X
10. Processes /mechanisms are in place to ensure that OLG's sale and all subsequent post-COSA termination rights, obligations and options with respect to real estate assets, gaming assets and non-gaming assets were set at fair market values, based on a valuation method consistent with the original asset sale to Service Providers and with regards to value for money.			X
Design and Structure of Land-based Gaming Service Providers' Fees			

Evaluation of Criteria	Criteria Met	Criteria Partially Met	Criteria Not Met
11. Processes /mechanisms are in place to ensure fees to Land-based gaming service providers are designed and structured with due regard for value for money.		X	
Cost Management, Including OLG Managed, Owned, Leased and Operated Facilities (e.g. Offices, Data and Prize Center etc.)			
12. Facilities costs are controlled and spent with due regard for economy and efficiency. (Head and Corporate offices)		X	
Transformational Plan Initiatives for Caesars Windsor			
13. Processes are in place to track and execute the transformational initiatives for Caesars Windsor Casino with due regard for value for money.		X	
14. Processes /mechanisms are in place to maximize the intended benefits of the Windsor Energy Centre (electricity generating plant) with due regards for value for money.			X
Lines of Business Profitability			
15. Lines of businesses (LoBs) costs are controlled with due regard for economy and efficiency. (Include the financial performance of Caesars Windsor)		X	
16. Effective processes are in place to track and measure actual /target profitability across the LoBs.		X	
Revenue Maximization Strategy and Initiatives			
17. Plans and mechanisms are in place to maximize revenues in a responsible, efficient and effective manner.	X		
Marketing and Branding			
18. A long-term strategic process in place to guide development and deployment of marketing and branding campaigns to promote its products.	X		
19. Processes are in place to ensure that marketing dollars are spent with due regard for efficiency, economy, and effectiveness.	X		
20. OLG has established effective monitoring mechanisms to assess the efficacy of marketing campaigns including advertising, co-branding activities, contests, and use of social media influencers.	X		
21. New media used in marketing and branding activities are subject to OLG governance and oversight processes.	X		

Appendix H: Profitability of OLG's Business Lines F2016 to F2020

$'Million	F2016	F2017	F2018	F2019	F2020
Lottery:					
Revenues	**3,786**	**3,681**	**3,780**	**4,168**	**4,078**
Direct Expenses	2,383	2,337	2,434	2,686	2,653
Gross Margin	**1,403**	**1,344**	**1,346**	**1,482**	**1,425**
Indirect Expenses	232	263	274	310	333
NPP Contribution	**1,171**	**1,081**	**1,072**	**1,172**	**1,092**
NPP to Revenue Ratio	**31%**	**29%**	**28%**	**28%**	**27%**
Land-based Gaming:					
Revenues	**3,445**	**3,583**	**3,917**	**3,952**	**3,985**
Direct Expenses	565	601	1,011	1,587	1,924
Gross Margin	**2,880**	**2,982**	**2,906**	**2,365**	**2,061**
Indirect Expenses	1,592	1,598	1,419	1,013	657
Add Back: Win Contribution	272	290	313	280	256
NPP Contribution	**1,560**	**1,674**	**1,800**	**1,632**	**1,660**
NPP to Revenue Ratio	**45%**	**47%**	**46%**	**41%**	**41%**
Digital Gaming:					
Revenues	**49**	**58**	**73**	**92**	**139**
Direct Expenses	9	10	12	22	40
Gross Margin	**40**	**48**	**61**	**70**	**99**
Indirect Expenses	26	21	23	20	25
NPP Contribution	**14**	**27**	**38**	**50**	**74**
NPP to Revenue Ratio	**31%**	**47%**	**52%**	**54%**	**53%**
Charitable Gaming:					
Revenues	**166**	**153**	**172**	**183**	**201**
Direct Expenses	144	126	137	98	132
Gross Margin	**22**	**27**	**35**	**85**	**69**
Indirect Expenses	39	38	33	81	77
NPP (Loss) / Contribution	**(17)**	**(11)**	**2**	**4**	**(8)**
NPP to Revenue Ratio	**-10%**	**-7%**	**1%**	**2%**	**-4%**
Minus: Corporate Costs	**497**	**411**	**425**	**386**	**515**
Total NPP	**2,231**	**2,361**	**2,487**	**2,471**	**2,303**

Appendix I: OIAD Acknowledgement

OIAD would like to thank the following management and staff of the Central Services Audit Branch (CESAB) for their diligent work and support to complete this engagement.

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Appendix J: Distribution List

This Report has been distributed to:

Gail Beggs, Chair, OLG Board of Directors
Duncan Hannay, President and Chief Executive Officer, OLG

c: Greg Orencsak, Deputy Minister, Ministry of Finance

Jeff Parker, Chief of Staff, Ministry of Finance

Nancy Mudrinic, Associate Deputy Minister, Office of Regulatory Policy and Agency Relations, Ministry of Finance

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Central Sector Audit Committee

Ontario Internal Audit Committee

Audit and Accountability Committee