CROWN AGENCIES AND CORPORATIONS

12.

ATLANTIC LOTTERY CORPORATION INC. - 1996 SHAREHOLDER'S AUDIT

BACKGROUND

12.1 This chapter highlights the results of the first direct audit coverage by a legislative audit function of the Atlantic Lottery Corporation Inc. (ALC). The audit was requested under the Shareholder's Audit provision of ALC's corporate bylaws by the Nova Scotia Gaming Corporation (NSGC), in its capacity as the Nova Scotia shareholder.

12.2 ALC was incorporated in 1976 under the Canada Business Corporations Act, and is jointly and equally owned by the Atlantic provinces. Since being established, ALC has reported sales in excess of $4.7 billion up to and including the fiscal year ended March 31, 1996. After prizes, commissions and other costs of approximately $3.1 billion, ALC has distributed profits of $1.56 billion to its shareholders, including $623.6 million to Nova Scotia. On behalf of its four shareholders ALC is now directly involved in the annual management and control of more than $1 billion of public funds through its various gaming products and related activities. At the time of our audit the corporation had approximately 400 permanent and casual staff.

12.3 The original enabling inter-provincial agreements signed in 1976 provided the following with respect to the mandate or purpose for the corporation.

> *"The Atlantic Lottery Corporation, a body corporate incorporated under the Canada Business Corporations Act, is designated as and hereby becomes an agency of Her Majesty in the right of* [each of the shareholder provinces] *for the purpose of conducting and managing lottery schemes in each of those Provinces or other Provinces."*

12.4 ALC's mission as per its corporate strategic plan, approved by the Board of Directors in 1993, is as follows:

> *"The Atlantic Lottery Corporation will profitably create, develop, market and manage lottery and gaming activities with integrity in partnership with the Shareholder Provinces."*

12.5 Each jurisdiction has lottery and gaming related statutes in place, with supporting Regulations, that must be appropriately considered and complied with by ALC. While similar, there are some regulatory or policy directive differences (e.g., re: video lottery terminals). Historically, ALC has played a role in the monitoring of regulatory compliance for each jurisdiction. Various inter-provincial agreements have been signed with respect to ALC. Further, ALC has corporate bylaws, last updated and approved by the corporation's Board of Directors and the shareholder provinces in 1994. These lay out the basic framework under which ALC's Board and management must function.

12.6 Each shareholder province can appoint two representatives to an eight member Board of Directors, and each shareholder has one of its Board representatives on the corporation's audit committee. Decisions are usually determined based upon a majority vote, with one exception being changes to the methodology for allocation of profits to the shareholders, which requires unanimous approval.

12.7 Each shareholder province also holds a share in and has one representative on the Board of Directors of the Inter-Provincial Lottery Corporation (ILC). The ILC coordinates and manages the national lottery programs through "regional marketing organizations." ALC is the regional marketing organization for Atlantic Canada, and must adhere to defined policies and standards for national lottery games (e.g., 6/49, super 7).

12.8 Additional background information and analysis on ALC is provided in the exhibits at the end of this chapter, including the following:

Exhibit 12.1 - Overall Governance, Accountability and Management Organization in 1996

Exhibit 12.2 - Summary of Results

Exhibit 12.3 - Summary of Operating Expenses

Exhibit 12.4 - Summary of Staffing Levels and Costs

Exhibit 12.5 - Corporate Strategic Objectives

Exhibit 12.6 - Summary of Terminals and Sites

Exhibit 12.7 - Allocation of Gross Profit by Game Type

Exhibit 12.8 - Income from Video Lottery

Exhibit 12.9 - Video Lottery Receipts

Exhibit 12.10 - Profits Distributed

Exhibit 12.11 - Summary of Economic Benefits

RESULTS IN BRIEF

12.9 The following highlights our principal observations from this audit.

- ALC is an established organization, with various systems, processes and procedures in place to manage and control its ongoing operational responsibilities. Considerable time and resources have been and continue to be invested in implementing systems and practices to support the corporation's operations and activities. We have identified some opportunities to improve the level of control and reporting in selected areas. However, nothing was observed that would indicate the integrity of ALC's lottery and other gaming products has been adversely affected.

- The inter-provincial agreements and the corporate bylaws should be revisited by the shareholders and the shareholder provinces to ensure they provide the necessary guidance with respect to the operations and overall accountability and control of an inter-provincial organization of the size and complexity of ALC.

- ALC's status as a crown agency should be formally clarified, and the applicability to its operations of the various and differing statutory and other administrative policy directives (e.g., wage restraint, expenditure control) in the shareholder provinces needs to be determined.

- As part of the updating of ALC's strategic plans, its mission statement should be interpreted, including appropriate clarification or segregation of the fiscal, societal and other aspects of the corporation's mandate and mission. Further, the corporation's mission statement should be formally approved by the shareholder provinces.

- The information and reporting to the Legislature on ALC's activities and results need to be significantly improved in order to support an effective and timely accountability review. Sufficient and appropriate information and reporting on the corporation's plans and performance (i.e., financial and non-financial) should be available to the Board, the shareholders and the Legislature in each shareholder province on a timely basis. Improvements should be made to both the internal and external reporting of ALC's results and performance. The content and distribution of ALC's annual report needs to be improved, including an expanded and appropriate focus on the corporation's strategic objectives. Further, the following key improvements to the corporation's financial reporting (i.e., either through its financial statements and/or other annual report sections) should be made:

    - disclosure of gross profit by game type;
    - reconciliations demonstrating compliance with the video lottery payout regulations for each of the shareholder provinces;
    - inclusion of depreciation expense in the divisional expenses; and
    - comparison of budget figures to actual with appropriate variance analysis.

- The manner in which ALC's costs and profit are being allocated results in certain shareholder provinces, in essence, subsidizing other jurisdictions. More specifically, using information for the 1995-96 fiscal year, we estimate that Nova Scotia's share of ALC's profit distribution could have been approximately $5 million higher.

- The Board's decision (i.e., by majority vote) in October 1995 to enter into a long-term lease for the new head office space was made at a time when the Nova Scotia shareholder was reviewing the structure and arrangements for the corporation, which should have warranted deferral of the decision until such matters could be fully resolved by the shareholders. The Board's deliberations and decisions relating to the acquisition of ALC's new head office were not adequately documented. Further, the net benefits to accrue to shareholders through future profit distributions as a result of the additional costs to be incurred were not formally quantified. In this regard, it should be noted that under the current profit distribution methodology, Nova Scotia will bear the related costs based on its share of net sales of regular lottery products (i.e., approximately 39% based on 1995-96 results).

- In fall 1996, the Board decided to proceed with the $31 million New Retail Terminal Project, an initiative that had been subject to considerable study and discussion by the Board. In our view, it would have been appropriate if the net benefits to accrue to the shareholders through future profit distributions had also been specifically and formally updated from those that had been identified in 1992.

- The current commission rates for video lottery terminal (VLT) site-holders are set by the shareholder governments through regulation, and are among the highest in Canada. We are not aware of ALC or others having formally assessed the costs and risks associated with the VLT site-holders' involvement or responsibilities with respect to the video lottery program (VLP) to justify the level of commission paid.

In Nova Scotia, based on the results for 1995-96, a 1% change in commission rates for VLT site-holders would equate to a $1 million change in the Province's profit distribution from ALC.

AUDIT SCOPE

12.10 By letter dated December 15, 1995, the Nova Scotia Gaming Corporation (NSGC), in its capacity as the Nova Scotia shareholder for ALC, requested the Auditor General of Nova Scotia to "*perform an audit of the operations of the Atlantic Lottery Corporation including issues of economy and efficiency that could impact the Province of Nova Scotia.*" This request was made under the Shareholder's Audit provision, Section 20, of ALC's corporate bylaws.

12.11 There were no restrictions or limits placed on the scope of the assignment, which was planned and conducted essentially as if it were a legislative audit conducted under the mandate of Nova Scotia's Auditor General Act. Further, as had been planned since the first attempts to exercise mandates under the respective Auditor General Acts, the assignment was performed jointly by audit staff from Nova Scotia and New Brunswick.

12.12 The assignment's overall audit objective was to review the systems and practices for the management and control of selected areas or aspects of ALC's operations, in order to assess and/or report upon whether there was adequate:

- compliance with statutory and other policy requirements;
- control systems or procedures in place and functioning; and
- due regard for economy and efficiency.

12.13 In auditing towards this overall objective, we selected five audit projects or lines of inquiry for coverage during 1996, including:

- overall governance, accountability and management control framework;
- video lottery program;
- information technology;
- procurement; and
- allocations to shareholders.

12.14 As part of our detailed planning for the assignment, specific audit objectives and criteria were defined for each of the lines of inquiry, and used to determine the nature and extent of our coverage in the various areas. In order to avoid any unnecessary duplication of audit effort, our plans included reviewing and relying, to the extent appropriate, on the coverage and results of the corporation's external and internal audit functions.

PRINCIPAL FINDINGS

Introduction and Overview Comments

12.15 At the outset, we feel it appropriate to observe that while we are reporting on a number of matters with respect to the management and control of ALC's operations, nothing was observed that would indicate the integrity of ALC's lottery and other gaming products has been adversely affected.

12.16 During the course of this 1996 audit, we identified opportunities to improve the level of control and reporting in selected areas. Our report to the Nova Scotia Gaming Corporation as a result of the 1996 Shareholder's Audit includes various recommendations for consideration by the appropriate combination of ALC's management, Board, shareholders and/or shareholder provinces. Appendix 12A to this chapter on page 167 lists our recommendations organized under the major headings of that report. Based upon information and comments received from ALC, action has been taken or is planned for many of the improvements suggested (see ALC's response on page 170 the end of this chapter).

Compliance with Statutory and Policy Requirements

12.17 ALC is required to comply with various acts, regulations and other policy directives including the requirements of the inter-provincial agreements and its corporate bylaws. In 1995, the new Gaming Control Act and related Regulations were approved in Nova Scotia. The new Act provides for a more appropriate segregation between the operations and regulatory functions associated with gaming and lottery activities within the Province than had previously existed. The Nova Scotia Gaming Corporation (NSGC) is responsible for gaming operations within Nova Scotia, including being the Province's ALC shareholder. The Nova Scotia Gaming Control Commission is now responsible for regulatory-related matters (e.g., licensing, monitoring, inspections) with respect to gaming and lottery activities in Nova Scotia. It is our understanding that the Commission has identified certain issues relating to how ALC's operations will need to be modified in order to more fully meet the regulatory requirements in Nova Scotia.

12.18 Further, each shareholder jurisdiction has implemented budget/expenditure restraint (including wage freezes and/or rollbacks) to some degree and in differing ways. For example, ALC management and staff did not experience the same rollbacks and wage freezes applied to public sector employees in the shareholder provinces, and have received both economic and merit increases in recent years. However, in this regard it is unclear as to which jurisdiction's requirements (statutory or policy directives) should be applied to ALC's operations and activities. The inter-provincial agreements are silent in such regard. As a result, it is not possible for us to definitively conclude on ALC's level of compliance with such requirements, due to the fact that no decision or directive has been made with respect to which jurisdiction's requirements apply to the corporation.

Adequacy of Systems and Controls

12.19 ALC is an established organization, with various systems, processes and procedures in place to manage and control its ongoing operational responsibilities and activities. There has been and continues to be considerable time and resources invested to implement improved, updated systems and practices (including selected management policies, information technology systems, organizational structure) to support the ongoing management and control of the corporation. Such changes or initiatives have had, and should continue to have, a constructive impact on the overall adequacy of ALC's management systems and practices.

12.20 With respect to more traditional internal accounting or procedural controls, we did not identify any significant control weakness that would impact upon the overall integrity of ALC's financial records. However, information technology systems and resources, which are seen as mission critical, should be subject to expanded audit coverage to ensure the Board has the appropriate assurance on the level of controls in place. Further, suggestions for enhancing the internal audit function, an important and integral element in the corporation's overall control framework, have been identified.

Due Regard for Economy and Efficiency

12.21 The area of due regard for economy and efficiency as it relates to ALC offers some unique considerations, both from a management and operational perspective. Due regard must be considered at a number of levels, certain of which may at times be somewhat incongruent. For example, due regard for the corporation overall could be achieved, but at the expense of one or more of the shareholders. Likewise, what is good for one shareholder may result in increased costs or less benefit for others.

Governance, Accountability and Management Control

12.22 ***Inter-Provincial Agreements*** - The inter-provincial agreements, corporate bylaws and other key policies (e.g., profit distribution) for ALC need to be fully reviewed and updated/modernized to ensure that the current interests and concerns of the individual shareholders are clearly defined and can be met. For example, during our audit we noticed a number of issues which indicate the inter-provincial agreements and corporate bylaws should be revisited to determine if they provide the appropriate level of guidance to ALC and its shareholders. These key issues include:

- the requirement to more precisely define ALC's status as a crown agency;
- concerns over the content and method of accountability reporting to the Legislature in each shareholder province;
- a responsibility to more explicitly define the division of business and social responsibility for gaming between ALC and the shareholder governments;
- a need for periodic re-examination of the profit allocation methodology;
- concerns over the fairness and equity of the distribution of corporate activity among shareholder jurisdictions;
- the applicability of legislation from various shareholder provinces (e.g., wage restraint, financial budgeting and reporting); and
- moves toward increased Atlantic co-operation in various fields.

12.23 Under the inter-provincial agreements and the corporate bylaws decisions are usually determined by majority vote. Changes to the agreements themselves and to the profit distribution methodology require unanimous vote at the Board and/or shareholder levels.

12.24 We have suggested the inter-provincial agreements and the corporate bylaws be revisited by the shareholders and the shareholder provinces to ensure they provide the necessary guidance with respect to the operations and overall accountability and control of an inter-provincial organization of the size and complexity of ALC.

12.25 Further, ALC's status as a crown agency and the jurisdictional boundary limits of provincial statutes are significant matters yet to be fully resolved. The inter-provincial agreements make it quite clear that ALC is *"an agency of Her Majesty* [i.e., the crown] *in the right of"* each of the shareholder provinces. In 1994, we obtained a legal opinion that concluded that ALC was an "agency of government" as defined in the Auditor General Act in Nova Scotia, and that ALC was collecting and expending public money. However, during the audit there continued to be views expressed by others that ALC is not a crown agency. The fact that ALC was not listed as a regional organization for purposes of the Atlantic Procurement Agreement further complicates or clouds the questions - is ALC a crown agency, and if not what is it?

12.26 ***Organization Overview*** - ALC, through its Board of Directors, has operational and regulatory accountability relationships to each of the Atlantic provinces. Exhibit 12.1 on page 156 provides summary information on the governance, accountability and management organization for ALC's operations at the time of our fieldwork in 1996. Subsequent to our fieldwork, organizational changes were approved at ALC, including the creation of a sixth division and the realignment of some management responsibilities.

12.27 ALC's internal management systems and practices have been going through a significant amount of change in recent years, including a number since we first attempted to initiate a legislative audit review in 1994. Certain of the changes that have been made relate to, or otherwise can be linked back to, a report resulting from an external consulting study by Smith Green & Associates Inc. completed in 1991-92. That report included a number of significant comments and recommendations on the organization and management processes of the corporation, as well as the overall governance process, many of which were consistent with matters raised during our audit.

12.28 ***Corporate Mission*** - Over the years, as the corporation's activities have continued to evolve and mature, management with the approval of the Board of Directors has defined the mission of the corporation using different words. The corporation's mission as defined in the 1993 Corporate Strategic Plan is to *"profitably create, develop, market and manage lottery and gaming activities with integrity in partnership with the Shareholder Provinces."*

12.29 While it may appear on the surface to be relatively straight-forward, the corporation's mission statement does in fact have some complexities - e.g., "profitably" and "integrity"-, each of which can mean different things to different people. It also, as far as we can determine, has not been formally approved by the shareholder provinces.

12.30 During our discussions with management staff, we observed a fairly consistent emphasis on the maximization of profits to the shareholders as being the priority. However, in this regard, certain views focused on the maximization of sales (e.g., through new products, expanding the market share or penetration), while others tended to focus on maximizing the return from existing levels and activities.

12.31 We did observe that management was control conscious, especially in terms of revenues and compliance considerations. While consideration of the social or societal consequences and implications of the corporation's products was not absent, clearly performance in terms of sales and profits is the predominant focus for management and the Board. In light of the nature and extent of the changes in the lottery and gaming industry generally and specifically in Atlantic Canada, it would be appropriate for a clearer definition of the desired balance to be incorporated into ALC's mandate and its mission statement.

12.32 ***Accountability to the Legislature*** - Information and reports available to interested external parties (including the Legislature in each of the shareholder provinces) on ALC's plans and performance need to be expanded and improved to support an accountability review of the nature and extent warranted for an organization involved in the management and control of such significant public program activities.

12.33 In order to support them in their role in the accountability process as it relates to public gaming, the Legislators in the shareholder provinces require and have a right to receive sufficient, appropriate and timely information on ALC's plans and performance (i.e., from both financial and non-financial perspectives).

12.34 In this regard, we acknowledge that the Nova Scotia Gaming Corporation's annual and interim financial statements are tabled or deemed tabled and released publicly on a timely basis. They include summary information on ALC's financial results, the nature of which had not previously been readily available to the Legislators or the public. Further, we understand that as part of the business planning information that it now needs to submit to the Legislature under the provisions of Section 73 of the Provincial Finance Act, the NSGC will be providing summary planning information with respect to ALC operations in Nova Scotia.

12.35 ***Corporation's Annual Report*** - ALC's corporate bylaws state that *"the Board will annually make public the results of its operations."* ALC management does prepare a formal annual report, however we do not believe the spirit of this bylaw requirement has been adequately met. In our view, if one of its primary purposes is to provide information that supports a meaningful accountability review by interested external parties, then the content and distribution of ALC's annual report need to be improved.

12.36 This requirement should be met by a more formal public and directed release of ALC's annual report. This should include the provision, through the shareholder provinces' ALC Board representatives, of sufficient copies of the corporation's annual report to the responsible Minister in each jurisdiction for tabling or deemed tabling in the respective Legislature.

12.37 We are not aware of ALC's 1996 or past annual reports having been tabled or deemed tabled in the respective Legislature of each shareholder province. Information provided indicates that ALC's annual report is distributed to selected parties, including the media and certain Ministers of the Crown in each shareholder province. However, the corporation indicated that copies of its annual report would be provided to anyone who made a request.

12.38 ALC's 1996 annual report includes ten pages, five of which are the corporation's audited financial statements for the fiscal year ended March 31, 1996. Beyond the financial statements, the report does not include adequate information in order to support a modern and appropriate accountability review by interested parties external to ALC. It does not provide substantive summary information on the corporation's plans and performance, clearly linked to its mission statement and strategic objectives. However, we note that ALC's shareholders had not directed the corportion to provide such information in its annual report.

12.39 During the course of our work, we did review the annual reports of other Canadian lottery organizations, and found ALC's annual report lacking in comparison. ALC's Board needs to determine the nature and extent of the information that should be included in the corporation's annual report, and provide clear direction to management. ALC has indicated that it *"will be improving disclosure"* in its annual report for the 1996-97 fiscal year.

12.40 ***Board of Directors*** - Each shareholder province can appoint two representatives to an eight member Board of Directors, and each shareholder has one of its Board representatives on the corporation's audit committee. Historically, the Board had been made up of senior public servants from the shareholder provinces. Decisions are usually determined based upon a majority vote, with one exception being changes to the methodology for allocation of profits to the shareholders, which requires unanimous approval.

12.41 One of the roles of the shareholder's representatives on ALC's Board is to ensure their jurisdiction's investment or interests are appropriately protected and utilized to the benefit of their government and taxpayers. However, this role must be appropriately balanced with the individual Board member's responsibility to all shareholders (i.e., the corporation collectively).

12.42 It should be noted that ALC's size and the complexities of public gaming have increased substantially since ALC was established (and certainly in the past 5-6 years). In light of this, and considering the trends (or emphasis) on governance and accountability for public sector entities and/or public programs, changes to the Board structure for ALC could be constructive and add value to the quality of the overall governance and accountability processes. We believe such changes warrant consideration due to the magnitude of the public funds (i.e., in terms of sales, expenses, profit distributions) involved, as well as the significance of the public program activities from social or societal perspectives.

12.43 We found that the Board minutes did not always provide sufficient information on the nature or substance of the discussions regarding certain key issues or decisions (e.g., re: new head office facilities). For an organization responsible for such amounts of public funds, we would have expected to see the Board minutes provide a more comprehensive trail of the Board's deliberations.

12.44 ***Overall Management Control Framework*** - There are various systems, processes and procedures in place at ALC which are used to manage and control the corporation's operations and related activities. Among these are the following:

- The Board and its audit committee provide oversight review and approval both from a financial as well as an operational/program perspective.
- The regulatory agencies in each jurisdiction add further oversight.
- A formal organization structure exists, with assigned responsibilities and reporting relationships.
- Policy statements exist for key areas or activities. Certain of them are in draft or in the process of being updated.
- The external and internal audit functions provide some assurance key policies and procedures are in place.
- Annual planning and budgeting processes are in place for the corporation overall, with some divisions having a detailed annual planning process for their activities.
- There is regular financial reporting to and review by the Board.
- Various gaming and business systems are in place, certain of which have been or are being upgraded.
- Certain divisions have identified and are monitoring selected performance indicators.
- Internal management communications and exchanges occur through various mechanisms, including regular senior management and divisional management meetings.
- An annual management and staff performance appraisal process is in place and monitored by the human resources section.

12.45 *Corporate planning and budgeting processes* - ALC has implemented or undertaken a variety of processes to support corporate and divisional planning and budgeting. Corporate and divisional planning activities have increased and been enhanced in recent years. Indications were that the corporate and divisional planning focuses have tended to be shorter or medium term due to uncertainties associated with policy direction of the shareholders.

12.46 ALC's 1993 corporate strategic plan, which was approved by the Board of the day, identified 11 objectives for the corporation (see Exhibit 12.5 on page 160). These objectives are referred to in ALC's annual planning and budgeting process, and summary information is included in the annual budget manual provided to the Board.

12.47 Initiatives have been started or planned by management to update the corporation's strategic plans - overall and for information technology. Further, strategic planning was in process for the video lottery program, which was implemented in 1991 and now represents approximately 58% of ALC's results.

12.48 The Board needs to be more directly and collectively involved in the strategic planning for the corporation, overall and in key regards (e.g., information technology and the video lottery program) than had been the practice. The Board, with appropriate input from the shareholders and/or the responsible Ministers, needs to clearly define and incorporate into ALC's strategic plans the goals and objectives - along with desired outcomes (i.e., financial and non-financial) - that it expects management to work towards. These need to be measurable and such that specific targets can be established as part of the corporation's annual and other planning. The results against these targets should then be formally reported to and monitored by the Board as part of its accountability review of management's performance.

12.49 ALC has an annual planning and budgeting process at the corporate level, which does include review and approval by the Board of Directors. Certain, but not all, divisions have established detailed annual planning processes for their activities, which result in formal planning documents being prepared and available for review by senior management and the Board as and if necessary.

12.50 Management's annual budget proposal, that is presented to the Board for review and approval purposes, is supported by a fairly detailed manual providing summary information (both quantitative and qualitative) on the corporation's overall as well as product plans and priorities.

12.51 The formal budget manual prepared and presented to the Board provides information on planned sales and revenue levels as well as direct and other costs to be incurred, including detailed analysis (e.g., staffing by division). It also provides summary information on significant strategic and other initiatives planned in key areas. However, ALC's annual planning and budget process focuses only on the next fiscal year. ALC is not yet preparing formal three or four year budget projections as is now being required by certain shareholder governments.

12.52 *Financial control and reporting* - ALC's audited financial statements are presented to the Board and published in the corporation's annual report. The operating expense totals reported for each division on the statements are incomplete since they are exclusive of depreciation expense which is disclosed as a separate line item. For example, the 1996 financial statements report operating expenses for the information technology division as $16,493,000 when, including its share of depreciation, the division's total operating expenses were $25,412,000 (see Exhibit 12.3 on page 158).

12.53 There are standard or regular reports at the corporate and divisional levels. The Board receives quarterly reports on results against the approved budget, including management's revised forecasts for the balance of the fiscal year. Once the revised forecasts are accepted by the Board, the subsequent reporting and analysis by management focuses on variances from the current/revised forecast as opposed to the original approved annual budget.

12.54 As discussed elsewhere in this chapter, we have identified concerns relating to the adequacy of the financial reporting on the results of the video lottery and other lottery programs managed by ALC on behalf of the shareholder provinces.

12.55 ***Audit Functions*** - ALC is subject to a range of financial and other audit coverage, including work by a public accounting firm (appointed by the shareholders) and the corporation's internal audit group. In addition, another public accounting firm has been hired to audit the printing process for the passive (e.g., scratch'n wins, breakopens) ticket games to ensure game parameters as well as security and other requirements are met by the printing company.

12.56 However, while the corporation is subject to external and internal audit coverage in selected areas, its information technology systems and resources, which are seen as mission critical, should be subject to expanded audit coverage to ensure the Board has the appropriate assurance as to the adequacy and operational performance of controls in this area.

12.57 There is a Board approved internal audit policy statement, which has been in place for a number of years. The manager of internal audit reports to the president, but also has a reporting relationship to the Board's audit committee. The manager provides quarterly and certain other reports (e.g., results of selected audits or specific requests) to and meets with the audit committee.

12.58 ALC's internal audit resources are involved in a variety of regular and special audit and other assignments, including providing support to ALC's external auditors during their annual audit of the corporation's financial statements. Internal audit has also been involved in certain regulatory compliance related work.

12.59 Internal audit indicated that the nature of its efforts continue to change to meet opportunities and priorities identified by the manager, the president and/or the audit committee. It was indicated that internal audit continues to receive a number of special requests from senior management within the corporation, not all of which can be considered or met with the available resources.

12.60 We have suggested that the internal audit function, an important and integral element in the corporation's overall control framework, should more formally document its planning for the use of available resources on an annual and assignment basis, including an expanded focus on value for money issues.

Video Lottery Program (VLP)

12.61 ***General Comments*** - Since the implementation of VLP started in 1990-91, the video lottery program has been and is the fastest growing of ALC's gaming programs. There are differences in how the program is regulated and resourced by the individual shareholder provinces. The VLP has been the subject of significant public interest, and concerns have been raised in the past about the adequacy of the information and reporting on the program's activities and results. Exhibit 12.6 on page 161 titled *"Summary of Terminals and Sites"* includes information on the results, sites and commissions related to the VLP in comparison to the regular lottery activities for the year ended March 31, 1996.

12.62 ***Information on and Analysis of Program Results*** - The following comments and information on the VLP, much of which has already been reported publicly by the New Brunswick Auditor General, provide an indication of both the significance of the program and the need for improved information and reporting of ALC's plans and results with respect to it.

12.63 *Summary of ALC's results* - Exhibit 12.2 on page 157 provides information from ALC's *Statement of Operations and Allocation of Profit* over the last five years and in total for the life of the corporation. It shows ALC has two main sources of revenue, the "Net video lottery receipts" from the VLP and the "Gross ticket sales" from all other lottery programs. It would be useful to distinguish direct expenses for each of these two main sources of revenue to show the contribution that each makes to gross profit.

12.64 Using information received from ALC and its external auditor, the analysis in Exhibit 12.7 on page 162 was prepared. It categorizes the direct expenses from the financial statements under the headings "Video Lottery" and "Ticket Games", to determine a gross profit by game type. The exhibit illustrates the significant growth of the VLP with respect to its contribution to the gross profit of ALC. The VLP contribution to gross profit in 1994 was approximately 77% of the amount generated from Ticket Games. Two years later in 1996 the VLP gross profit is 111% of the amount generated from ticket games. Since 1994, the VLP's contribution to gross profit had increased 66% from $109 million to $181 million. Ticket Games grew from $142 million to $163 million, an increase of about 15% during the same period.

12.65 Reporting VLP and other lottery/gaming program results on a full-cost segregated basis would allow a level of review with respect to due regard for economy beyond that possible with the existing financial statements and other reporting.

12.66 The VLP has become the largest contributor to ALC's bottom line. We believe it would be better disclosure if, as a minimum, such gross profit information was included in ALC's financial statements and/or other external reports. Our research indicates that other lotteries in Canada present more details in their annual report and financial statements on their various lottery programs than ALC. We believe similar schedules by program would provide important information to ALC's shareholders and the Legislators in the respective jurisdictions. In this regard, we acknowledge that the Nova Scotia Gaming Corporation does provide additional information in its financial statements on ALC's results, including a segregation of the VLP and regular lottery programs.

12.67 *Income from video lottery* - New Brunswick and Prince Edward Island have involved third-party private sector coin-operators in carrying out the video lottery program. ALC has operated this program for Nova Scotia and Newfoundland without private sector coin-operators. Exhibit 12.8 on page 163 provides the net video lottery receipts and the related expenses for each shareholder province for the year ended March 31, 1996.

12.68 *Compliance with VLT prize payout regulations* - Financial information was obtained from ALC to enable the preparation of a schedule showing gross video lottery receipts, prize expense and the resulting net video lottery receipts, which agreed with the financial statements of ALC. Results for the last four years are shown in Exhibit 12.9 on page 164.

12.69 The description of the amounts has changed recently, with "Gross Video Lottery Receipts" now described as "Cash In" and "Prize Expense" now described as "Cash Out." "Cash In" ($839 million in 1995-96) is the total cash which all players collectively have put into the machines and "Cash Out" ($558 million in 1995-96) is the total cash all the players have collectively taken out.

12.70 ALC advised that in order to verify compliance with the various regulations it is necessary to factor in all the winnings of the machines being played. Winnings are awarded in various increments of credits during the course of play. The credits are often wagered and played as the machine user continues a session with the VLT. Only those credits remaining at the time the player ends the session or when a player requests cash payout of a prize would be represented in the "Cash Out". Similarly "Cash In" would not include those credits won, wagered, and lost. ALC has indicated it has the information and the technology to provide this type of improved disclosure to regulatory bodies and other interested parties in each shareholder province.

12.71 As noted, there are two main components to ALC's operations, namely ticket games and the video lottery program, and a separate statement or schedule should be prepared for each. In our opinion, this would be better disclosure, and would demonstrate the program's compliance with the payout regulation.

12.72 Further, segmented information by shareholder jurisdiction would be useful to the Legislators in each province. Using information available to us during the audit we have prepared Exhibit 12.10 on page 165, which provides a segmented analysis of the results for 1995-96 for ALC in total and Nova Scotia's share. During the year ended March 31, 1996, Nova Scotia's share of net sales amounted to $178,505,985. Residents of Nova Scotia risked a total of $510,590,602 (video lottery, cash in, $345,992,102 and regular lottery $164,598,500) on the lottery products offered by ALC. Of the total risked, $332,084,617 (video lottery, cash out, $246,809,361 and regular lottery $85,275,256) was returned to players.

12.73 ***VLP Strategic Planning*** - At the time of our audit, ALC management was developing formal VLP strategic plans. Clearly, in light of the growth of this program since its implementation in 1991 and its current contribution of approximately 58% of the corporation's net sales, such a planning process is required. Further, the fact the VLP has been and continues to be a subject of significant social and societal concern would support such a plan dealing appropriately with more than just the financial or business aspects of the program.

12.74 The VLP strategic planning exercise is due to be completed around March 31, 1997, six years after the program started, and well after it was seen as a significant element and growth component of the corporation's sales/revenue. Based upon our inquiry and review of information available, the VLP strategic planning process is a good initiative, well planned, and with some sensitive or significant program issues/opportunities to address. The Board has been given periodic updates on the status and direction of the VLP strategic planning process, and individual Board members have been interviewed by ALC staff responsible for developing the plan.

12.75 ***Allocation of Costs and Profits*** - The established profit distribution methodology or policies (circa 1991) are being adhered to. However, these policies were established when the VLP was just getting started. Since 1991, the VLP has grown significantly in terms of revenue and operational/management considerations as well as in regard to public interest and sensitivity. Under the existing methodology the VLP results are not being allocated any of the corporation's general overhead costs. Our review and analysis indicates that there are reasonable alternatives to the existing methodology that could be used for allocating costs and profits, not only to the VLP and other gaming programs, but also amongst the shareholder provinces.

12.76 ***VLT Commissions Rates*** - The current commission rates for VLT site-holders, which are set by the shareholder governments through regulation and in certain instances are subject to additional contractual or other arrangements, are among the highest in Canada. We are not aware of ALC or others having formally assessed the costs and risks associated with the VLT site-holders' involvement or responsibilities with respect to the VLP. This suggests that the issue of commissions should be examined in some detail. In Nova Scotia, based upon 1995-96 results, a one percent change in the commission rates equates to approximately $1 million.

12.77 Further, ALC does not bill or otherwise allocate information technology costs to its business partners (i.e., coin-operators, VLP site-holders, on-line retailers) who benefit from the use and existence of the corporation's systems and resources. In this regard, it could be argued that the commission rates established for these parties could indirectly address this matter. However, we are not aware of any such specific consideration by the shareholder jurisdictions who have established the commission rates. Further, due to differences in the gaming programs between jurisdictions (i.e., especially VLP), without specific identification and allocation of such costs, they are allocated amongst all the shareholders through the profit distribution policies, which may not be fair and equitable.

Information Technology (IT)

12.78 Information technology (IT) systems and other resources are considered mission critical by ALC. Management indicated that 80% of ALC's revenues are dependent on the availability of quality information technology resources and/or systems. ALC's information technology division is by far the largest of the corporation's divisions with approximately 35% of ALC's permanent staff and accounting for approximately 49% of the annual operating expenses. Further, during 1996, major systems projects were in process (close to conclusion) involving significant software development and hardware costs.

12.79 Considerable public money has been and is invested annually on the development and maintenance of ALC's IT related resources. Relative to its significance, both in terms of the 80% of revenue and to the overall control framework, information technology security and controls should be subject to additional and more detailed audit coverage by the internal or other audit resources.

12.80 There is an approved information technology strategic plan (circa 1992), which needs to be updated. It was indicated the update will be initiated after the updating of ALC's corporate strategic plans is completed.

12.81 In 1992, the Board of Directors approved the information technology strategic plan and requested a business plan be provided to identify the benefits of the initiatives identified in that strategic plan. A business plan was prepared and submitted to the Board in December 1992. In summary, it indicated that the impact on profit from these initiatives, through a combination of reduced costs and increased revenues, would accumulate to $50 million by the end of 1997-98.

12.82 Although the then existing hardware and software were considered to have *"reached their limits in terms of capacity, reliability and functionality"*, substantial increases in the volume of sales have been experienced since 1992. This is demonstrated by the increase in gross ticket sales of 41% between 1992 and 1996 as well as the increase of 233% in net video lottery receipts over the same period. This has been achieved without all the planned new hardware and software.

12.83 It was indicated to us that these increases were primarily due to the result of increases in volume of play and not the result of increased functionality, reduced costs or improved customer service which are to be realized by the initiatives soon to be implemented. However, management has not formally updated the benefits stated in the 1992 business plan to determine if they are still valid, and in our view it would have been appropriate if such had been done.

12.84 This is particularly important since the most significant initiative planned in 1992 from a cost perspective is now actively underway. The New Retail Terminal Project, which will replace all existing on-line retail terminals at an estimated total cost of $31.2 million over the next three years, is a substantially changed project from the one approved in 1992. With an investment of this magnitude, it is vital that the benefits identified in 1992 be reviewed and revised to reflect not only the current initiative but also the significant changes which have been experienced in the gaming industry since 1992.

12.85 This initiative - the New Retail Terminal Project - represents the single largest procurement transaction in the history of ALC, and was subject to extensive management and Board review. We note that economic analysis studies were commissioned by ALC to assess the economic benefits that might accrue from the corporation's expenditures associated with this initiative. A presentation made to the Board in 1996 indicated that the alternative being selected would cost at least $3 million more than going with another manufacturer's product. However, it was indicated to us the other manufacturer's product was not considered to have the functionality that the new retail terminals will provide, and would have meant a significant procurement from a company outside of Atlantic Canada.

12.86 Based on the information provided to us, this project had been subject to considerable review by the Board prior to approving the signing of the related contracts in the fall of 1996. In our view, it would have been appropriate for the net benefits in terms of future profit distributions to the shareholders to have also been estimated and formally presented to the Board.

12.87 Further, under the existing methodology, depreciation on the new terminals will be allocated to the shareholder provinces through the general allocation of operating expenses based on net sales from regular lottery products, as opposed to allocation based on actual deployment of the terminals. This allocation process may or may not equate to the actual depreciation that should be recorded against the specific units deployed in each jurisdiction. Unless there is a direct correlation between the net sales and units deployed in the individual shareholder provinces, some jurisdictions will be subsidizing others.

12.88 In this regard, Nova Scotia's share of deployed retail terminals (i.e., 34.5% as at March 31, 1996) is lower than its share of net sales of regular lottery products (i.e., 38.9% for 1995-96) which is the basis upon which such costs have been allocated to the shareholders. Without a change in the allocation methodology - which requires a change to the inter-provincial agreement - and assuming Nova Scotia's deployment and net sales relative to the other shareholder provinces does not shift significantly, the Province could end up bearing $1.1 million more costs than if it were charged directly for the depreciation expenses for the units deployed in the Province.

Procurement

12.89 ***General Comments*** - In general, our review of procurement activities indicated ALC's procurement policies were being complied with. We did identify some opportunities for improvement in policies, including improved reporting which would support an enhanced level of review with respect to compliance and due regard for economy. For example, reporting on procurement activities and/or exceptions consistent with the requirements of the Atlantic Procurement Agreement should be implemented.

12.90 ***Distribution of Procurement by Shareholder Provinces*** - It is important to note that the inter-provincial agreements, corporate bylaws, and Board resolutions do not provide any specific parameters with respect to achieving fair and equitable distribution of the economic impact or benefits to the shareholder jurisdictions. They are silent in this respect.

12.91 Despite the absence of direction on the delivery of economic benefits, Board members have maintained a steady interest in the distribution of ALC's procurement activity. Since 1990, ALC has prepared at least four reports titled *Economic Benefits Analysis*. They appear to have originated at the request of the Board, and assign payments made to vendors and employees across the four Atlantic jurisdictions and resulting percentages of activity by province. Generally the studies assign activity to where the payments were directed, not necessarily where the goods or services are provided or consumed. The reports have made some attempt to adjust for this anomaly, particularly in the case of data line services, vehicle charges, and advertising payments. Exhibit 12.11 on page 166 shows the results from the report for the fiscal year ending March 31, 1995.

12.92 ***Policies and Procedures in Place*** - ALC has a policy and procedures manual in place. The policies seem clearly defined and understandable. General approval was granted by the Board of Directors in 1987 and several policies have received specific Board approval since then. These include the contract authorization policy; incorporation of the Atlantic Procurement Agreement principles; and an allowance for sole-sourcing exceptions based on a strong business case. Purchasing has prepared a revised policy manual which is expected to receive management committee and Board approval in 1997.

12.93 Our transaction testing results indicate that ALC's procurement policies are being adequately adhered to. In the transactions sampled, though, we noted that two major suppliers had received significant contract extensions in cases where ALC had unspecified renewal periods in the original RFP. In both cases, the original 1992 contracts were for two years plus an unspecified renewal period, and resulted in contract terms of at least five and a half years. ALC has informed us that the practice of unspecified terms for contract extensions was discontinued in 1993, and that contract extensions are now subject to a formal review and evaluation process.

12.94 ***Atlantic Procurement Agreement* -** ALC informed us that it complies with the intent of the Atlantic Procurement Agreement. Although ALC is not mentioned in the regional organizations listed in an appendix of that Agreement, a 1993 Board of Directors minute suggested *"that ALC should incorporate the Atlantic Procurement Agreement into its purchasing policies."* We were unable to find conclusive documentation stating why ALC has been excluded from the regional organizations listed in the Agreement. However, we note that the dollar thresholds for public tendering in ALC's policy conform to the specifications of the Agreement.

12.95 One of the major areas where ALC does not comply with the Atlantic Procurement Agreement is in the area of reporting (i.e., re: Section 9 of the Agreement, titled *Information and Reporting*). Since ALC management has been directed by the Board to comply with the general intent of the Atlantic Procurement Agreement, we believe it should endeavor to develop reporting consistent with Section 9. Given the Board members' interest in the distribution of economic activity, such reporting would be beneficial to the shareholders. As well, standard reporting of exception transactions above the thresholds would serve as an additional control protecting ALC staff and management from undue criticism in cases of bid protest and dispute settlement.

12.96 ***Head Office Facilities Project* -** ALC's head office staff and related activities have been located in a combination of owned and rented office space for a number of years. In 1997, ALC's head office will be consolidated in premises in a newly renovated building in downtown Moncton under the terms of a ten-year lease.

12.97 In the early 1990s, the launch of the video lottery program, the roll-out of the IT strategic plan, and continued growth in traditional games increased ALC's space requirements, including for its head office. In 1992, ALC management staff began a detailed planning process that resulted in a June 1994 presentation of a facilities strategic plan to the Board of Directors. After a number of key changes, a formal procurement process, as well as various presentations to and discussions at Board meetings, this eventually led to the Board's decision in October 1995 to lease new head office space.

12.98 The Board's decision, by majority vote, was made at a time when Nova Scotia was in the process of reviewing the structure and arrangements for the corporation. In our view, this should have warranted deferral of a decision until such matters could be fully resolved by the shareholders.

12.99 Our review and analysis raised concerns about the adequacy of the audit/management trail supporting the Board's deliberations and decisions relating to the acquisition of ALC's new head office facilities, which will consolidate head office staff and related activities in one location. The issue of ALC's head office space was dealt with at numerous Board meetings. However, the extent of the Board's review, challenge or approval of key assumptions made and analysis provided by management (e.g., average space standard per position and projections for staff growth) could not be determined from the Board minutes or supporting information available. Further, although various qualitative benefits were identified by management, the net benefits to accrue to shareholders through future profit distributions as a result of the additional costs to be incurred were not formally quantified and provided to the Board as part of its decision-making process.

12.100 It is our understanding that at the time the October 1995 decision to go forward with a ten-year lease arrangement represented one of the largest procurement transactions that had been entered into by the corporation. The move will result in significantly more available space (i.e., approximately 25,000 sq. ft. more; a 50% increase) for ALC's head office activities than was being used at the time of our audit. There are significant additional costs associated with the new head office facilities, when compared to the arrangements at the time of our audit. In this regard, management indicated that *"at the time of the audit, space standards, special area requirements and consolidation were not in place. The new facility cannot be properly compared to existing conditions."*

12.101 Further, it was indicated that as a result of logistical and space considerations, ALC was incurring additional operating costs of approximately $220,000 per year. In addition, it was indicated to us that there were certain soft costs that could not be readily quantified, including impaired corporate communication and loss of synergy from multiple locations, which *"are without a doubt more significant than the quantifiable costs."*

12.102 Until ALC has actually moved into the new space, the actual additional costs cannot be fully determined. However, based on the information available to us more than $4 million is being spent by ALC prior to occupancy (i.e., fit up, moving and other costs), and there could be additional net costs of approximately $600,000 each year. Other costs estimated at $580,000 will be incurred converting the existing owned head office space for warehouse and other purposes. At a time of restraint in the public sector, an increase in costs of this magnitude is not insignificant. Further, it should be noted that under the current profit distribution methodology, Nova Scotia will contribute funding necessary to pay for the head office space based upon its share of ALC's nets sales of regular lottery products (i.e., approximately 39% based on 1995-96 results).

12.103 For planning purposes the amount of space required for ALC's head office was determined using an average standard per position (i.e., 242 sq. ft.) developed in 1992 and a projection of ALC's staffing level growth based on the trend over the past ten years. The original request for expression of interest indicated that ALC was looking for provision of 81,000 sq. ft. of usable office space, and this was the quantity used for purposes of evaluating the responses to the RFP that was sent to the selected proponents. However, ALC management has indicated that they will be moving into approximately 73,200 sq. ft. of usable space (i.e., 82,200 of rentable space).

12.104 In light of the fact that the successful proponent did not receive the highest score in the RFP evaluation process, but did have the lowest (albeit marginally so) cost per sq. ft., if ALC subsequently reduced its space requirements, the procurement process should have been revisited.

12.105 This becomes more of a due regard for economy consideration when one takes into account that there now is a 12.3% (i.e., 82,200 ÷ 73,200) spread between the rentable and usable space totals, as opposed to the 5.15% spread estimate used to evaluate the successful proponent's response to the RFP. ALC will be paying rent based on the rentable space total, which we understand is standard practice. However, the response to the RFP for the highest evaluated proponent, who we understand was proposing to build the head office facility on vacant land outside of the downtown core of Moncton, was evaluated using a 4.26% spread. Based on the total usable space ALC will be leasing, this 8% (i.e., 12.3% less 4.26%) gap equates to more than $100,000 per year in added lease costs.

Allocations to Shareholders

12.106 ALC's profit allocation methodology was established in 1991 when the video lottery program (VLP) was just being implemented. This key program, which now represents 58% of ALC's net sales, is not charged with any of ALC's general overheads. Further, certain costs related to the VLP are being allocated instead to ALC's other games. This inconsistency has highlighted the need to re-examine the whole profit allocation methodology. In our view, ALC management should have identified such matters to the Board so the shareholders could have determined if an earlier review of allocation methodologies was in order.

12.107 Using alternative methodologies for allocating costs and profit distribution will require a change in the inter-provincial agreements and the corporate bylaws, both of which will require unanimous approval of ALC's Board and the shareholder provinces. In this regard, it must be acknowledged that if a change is made that benefits one or more shareholders, one or more of the remaining shareholders' profit allocations will be reduced.

12.108 Our analysis indicates that the manner in which costs and profit are currently being allocated results in certain shareholder provinces, in essence, subsidizing the results in other jurisdictions by having more than their share of direct costs charged against their net sales. This latter point is especially relevant to retail commissions and depreciation, which more reasonably should be charged directly to each province as opposed to being allocated based on net sales. Using information for the 1995-96 fiscal year, Nova Scotia's profit distribution from ALC could have been $5 million higher if alternative allocation methods were used.

Concluding Remarks

12.109 ALC is an interesting and unique experiment in inter-provincial cooperation. The shareholders have invested and continue to invest significant amounts of public funds for the development, maintenance and management of ALC's operations. ALC's revenue and expenses, and its profit distributions are significant to each of the shareholder provinces.

12.110 The corporation has existed for 20 years, and no doubt there are numerous lessons that can be learned which could be used, not only to make any necessary adjustments to the arrangements for ALC, but also for consideration during the planning/establishment of any such joint ventures in the future. Clearly, each shareholder jurisdiction would be interested in, among other things (e.g., regulatory compliance, social responsibility), optimizing the return (directly and indirectly) on its investment in ALC.

12.111 There has been, and continues to be, considerable time and resources invested by ALC to implement improved updated systems and practices to support the ongoing management and control of the corporation. Such changes or initiatives have had, and should continue to have, a constructive impact on the overall adequacy of ALC's management systems and practices.

12.112 During the course of this 1996 audit, a number of opportunities for further improvement were identified, the more significant of which have been provided for consideration and, where appropriate, action by the appropriate combination of ALC's management, Board of Directors, shareholders and/or shareholder provinces.

Exhibit 12.1

Overall Governance, Accountability and Management Organization in 1996

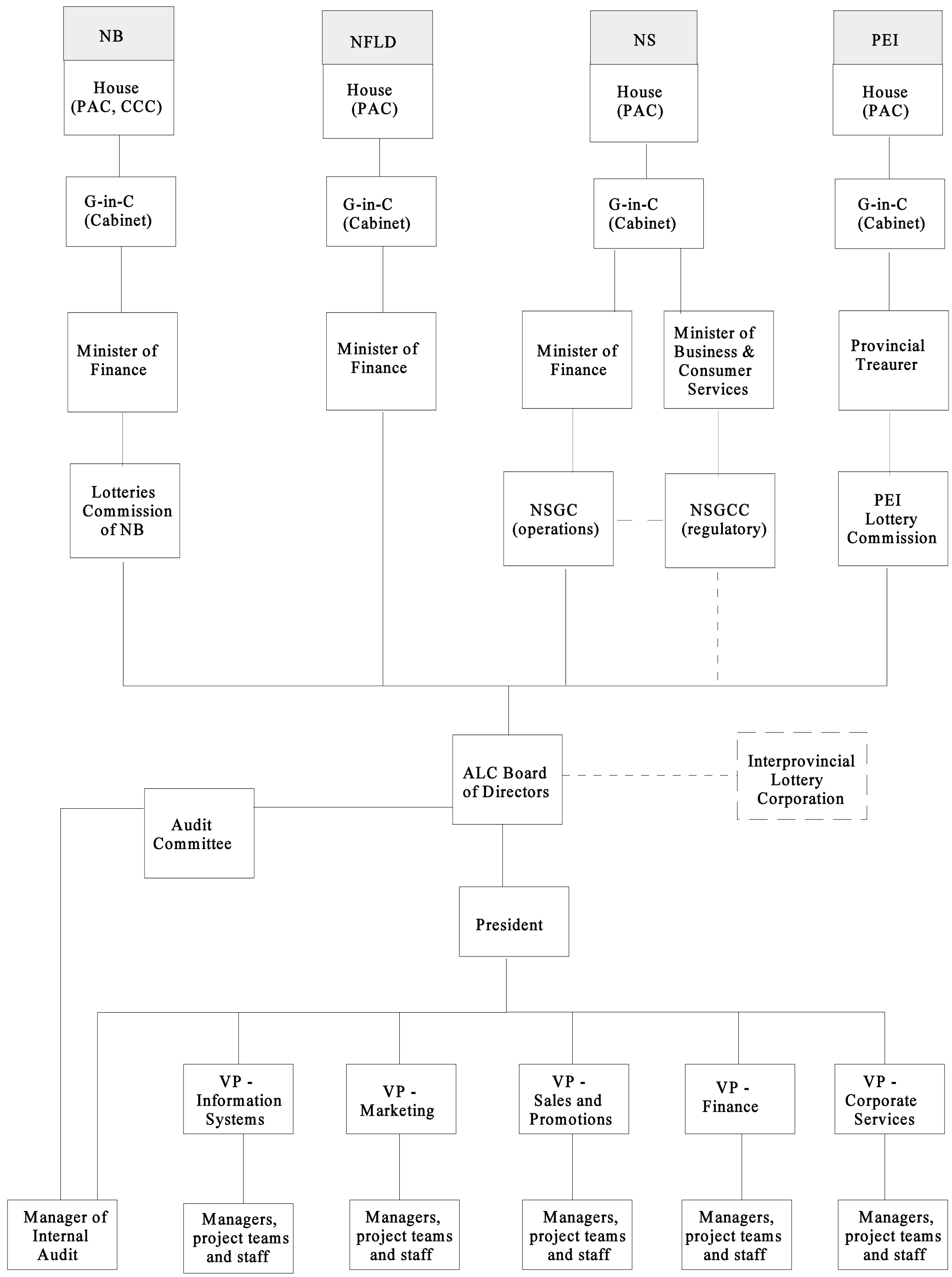

Exhibit 12.2

Summary of Results as at March 31 ($000)

(Source: ALC's audited and internal financial statements)

	Total	1996	1995	1994	1993	1992	Sub-total 1976 to 1991
Sales:							
Gross ticket sales	$ 3,730,643	$ 436,781	$ 409,406	$ 370,037	$ 346,995	$ 309,312	$ 1,858,112
Net video lottery receipts	1,001,560	281,047	246,507	195,493	183,897	84,480	10,136
	4,732,203	717,828	655,913	565,530	530,892	393,792	1,868,248
Direct expenses:							
Prizes on ticket sales	1,864,072	233,035	216,014	193,295	180,665	158,808	882,255
Commissions	662,158	131,708	122,805	112,357	111,724	67,315	116,250
- Regular lottery	243,985	31,916	29,335	26,380	24,686	21,917	109,751
- VLT site-holders	286,124	70,919	64,303	59,773	60,153	27,633	3,343
- VLT owners (coin operators)	132,049	28,873	29,166	26,204	26,885	17,765	3,156
Ticket printing	108,444	9,461	9,272	8,318	9,092	8,729	63,572
	2,634,674	374,204	348,091	313,970	301,481	234,852	1,062,077
Gross profit	2,097,529	343,624	307,822	251,561	229,411	158,940	806,171
Operating expenses:	442,699	51,325	51,079	42,012	40,676	35,793	221,814
Operating profit	1,654,830	292,299	256,743	209,548	188,735	123,147	584,357
Interest and other income	23,266	2,852	886	645	989	1,080	16,814
	1,678,096	295,151	257,629	210,194	189,724	124,227	601,171
Less:							
- Government of Canada	52,799	3,565	3,525	3,584	3,444	3,354	35,327
- Goods and Services Tax	52,252	11,970	11,250	9,549	11,319	7,215	949
- Special commissions to	3,572	220	260	254	302	444	2,092
non-profit organizations	6,547	3,733	2,814	-	-	-	-
- NS retailers bonus	115,170	19,488	17,849	13,387	15,065	11,013	38,368
Profit available for distribution	$1,562,926	$ 275,663	$ 239,781	$ 196,806	$174,659	$ 113,214	$ 562,803
Profit allocation:	$ 472,576	$ 82,031	$ 63,902	$ 57,412	$ 47,236	$ 37,021	$ 184,974
New Brunswick	383,621	74,117	69,173	54,627	43,664	30,840	111,200
Newfoundland	623,609	104,916	94,055	73,320	75,266	39,818	236,233
Nova Scotia	83,120	14,599	12,650	11,447	8,493	5,535	30,396
Prince Edward Island	$1,562,926	$ 275,663	$ 239,781	$ 196,806	$174,659	$ 113,214	$ 562,803

Exhibit 12.3

Summary of Operating Expenses ($000)

(Source: ALC's audited and internal financial statements)

	1996		1995		1994		1993		1992	
Expense by Division										
Marketing	$ 8,694	16.9%	$ 8,757	17.1%	$ 5,230	12.4%	$ 6,389	15.7%	$ 6,302	17.6%
Sales and Promotion	7,108	13.8%	7,519	14.7%	6,543	15.6%	6,221	15.3%	5,312	14.8%
Finance	2,105	4.1%	2,053	4.0%	2,042	4.9%	1,760	4.3%	1,745	4.9%
Corporate Services	7,276	14.2%	7,011	13.7%	6,171	14.7%	6,530	16.1%	5,929	16.6%
Information Systems	16,493	32.1%	15,849	31.0%	12,604	30.0%	11,734	28.8%	10,686	29.9%
Depreciation	9,649	18.8%	9,890	19.4%	9,422	22.4%	8,042	19.8%	5,819	16.3%
Total	$ 51,325	100.0%	$ 51,079	100.0%	$ 42,012	100.0%	$ 40,676	100.0%	$ 35,793	100.0%
Expense by Division including Depreciation										
Marketing	$ 8,694	16.9%	$ 8,757	17.1%	$ 5,230	12.4%	$ 6,394	15.7%	$ 6,315	17.6%
Sales and Promotion	7,601	14.8%	7,984	15.6%	7,028	16.7%	6,658	16.4%	5,715	16.0%
Finance	2,108	4.1%	2,058	4.0%	2,048	4.9%	1,760	4.3%	1,745	4.9%
Corporate Services	7,511	14.7%	7,218	14.1%	6,334	15.1%	6,667	16.4%	6,011	16.8%
Information Systems	25,412	49.5%	25,062	49.1%	21,372	50.9%	19,197	47.2%	16,007	44.7%
Total	$ 51,325	100.0%	$ 51,079	100.0%	$ 42,012	100.0%	$ 40,676	100.0%	$ 35,793	100.0%
Expense by Object										
Salaries & benefits	$ 15,391	30.0%	$ 14,175	27.8%	$ 12,242	29.1%	$ 11,226	27.6%	$ 9,639	26.9%
Depreciation	9,649	18.8%	9,890	19.4%	9,422	22.4%	8,042	19.8%	5,819	16.3%
Advertising	5,962	11.6%	6,277	12.3%	3,673	8.7%	5,275	13.0%	5,057	14.1%
Market development	998	1.9%	991	1.9%	824	2.0%	461	1.1%	452	1.3%
Communication material	656	1.3%	543	1.1%	509	1.2%	665	1.6%	556	1.6%
General services	2,214	4.3%	2,356	4.6%	1,581	3.8%	0	0.0%	0	0.0%
Professional services	180	0.4%	173	0.3%	279	0.7%	2,345	5.8%	1,817	5.1%
Occupancy cost	1,438	2.8%	1,618	3.2%	1,334	3.2%	1,220	3.0%	1,075	3.0%
Office supplies	510	1.0%	678	1.3%	879	2.1%	788	1.9%	751	2.1%
Vehicle leasing	56	0.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Rent of equipment	74	0.1%	133	0.3%	139	0.3%	218	0.5%	0	0.0%
Equipment & maintenance	3,598	7.0%	3,528	6.9%	2,315	5.5%	2,839	7.0%	3,099	8.7%
Telecommunications	5,545	10.8%	4,943	9.7%	4,358	10.4%	3,830	9.4%	3,814	10.7%
Travel & vehicle	1,867	3.6%	1,775	3.5%	1,655	3.9%	1,750	4.3%	1,512	4.2%
Retail sales support	1,808	3.5%	2,184	4.3%	1,267	3.0%	879	2.2%	0	0.0%
Human resources	185	0.4%	346	0.7%	316	0.8%	124	0.3%	0	0.0%
Training	327	0.6%	330	0.6%	428	1.0%	218	0.5%	0	0.0%
Bad debt	100	0.2%	234	0.5%	102	0.2%	170	0.4%	0	0.0%
Other	767	1.5%	905	1.8%	689	1.6%	626	1.5%	2,202	6.2%
Total	$ 51,325	100.0%	$ 51,079	100.0%	$ 42,012	100.0%	$ 40,676	100.0%	$ 35,793	100.0%

Exhibit 12.4

Summary of Staffing Levels and Costs
Permanent Positions - Budget 1995/96
(Source: ALC budget manual)

	Total	Marketing	Sales & Promotion	Finance	Corporate Services	Information Systems	President & Internal Audit
Division Total	363	27	83	61	45	134	13
Head Office	234	27	8	61	45	80	13
Regional Offices							
- NB/PEI	36		21			15	
- NS	50		29			21	
- Nfld	43		25			18	

Payroll Costs - March 31, 1996 ($000)
(Source: ALC's internal financial statements)

	Total	Marketing	Sales & Promotion	Finance	Corporate Services	Information Systems	President & Internal Audit
Division Total	$15,391	$1,105	$3,822	$1,763	$1,988	$6,098	$615
Head Office	$9,712	$1,105	$358	$1,763	$1,988	$3,883	$615
Regional Offices							
- NB/PEI	1,555		991			564	
- NS	2,108		1,254			854	
- Nfld	2,016		1,219			797	

Actual Staff Complement, January 1997

	Total	Permanent	Casual (FTEs)
Total Complement	396	336	60
Head Office	267	224	43
Regional Offices			
- NB/PEI	23	21	2
- NS	53	48	5
- Nfld	53	43	10

Exhibit 12.5

Corporate Strategic Objectives
(Source: ALC's 1993 corporate strategic plan)

- *To ensure that honesty, integrity and credibility are integrated in all business activities and work relationships throughout the Corporation.*
- *To maintain its industry leadership position by offering innovative products and services to its customers.*
- *To initiate and maintain programs and values that assure satisfied, productive, contributing employees.*
- *To ensure accurate portrayal of the Atlantic Lottery Corporation to its shareholders and publics.*
- *To continually improve our systems and processes to enhance retailer and consumer satisfaction.*
- *To empower employees by providing them with the training, work tools and work environment they need to make confident decisions.*
- *To promote the benefits which can be realized when cross-functional/divisional teams act on corporate issues.*
- *To be recognized as consulting experts in new gaming activities.*
- *To constantly monitor and adjust all facets of the Atlantic Lottery Corporation in order to return to its shareholders maximal profits.*
- *To cultivate, encourage and support business and industry throughout Atlantic Canada.*
- *To introduce and support programs that guarantee siteholder and coin machine operator satisfaction.*

Exhibit 12.6

Summary of Terminals and Sites
For the Year Ended March 31, 1996
(Source: ALC & ALC's internal financial statements)

	Total	NB	Nfld	NS	PEI
Regular Lottery					
Gross Sales	$ 436,780,722	$ 102,869,681	$ 145,417,812	$ 164,598,500	$ 23,894,729
Retailer Commissions	$ 35,648,834	$ 6,374,822	$ 13,351,360	$ 14,339,259	$ 1,583,393
Average Number of On-Line Terminals	3,227	841	1,120	1,114	152
Average per On-line Terminal					
- Gross Sales	$ 135,352	$ 122,318	$ 129,837	$ 147,754	$ 157,202
- Retailer Commissions	$ 11,047	$ 7,580	$ 11,921	$ 12,872	$ 10,417
Video Lottery					
Total Cash In	$ 838,692,150	$ 254,204,556	$ 202,494,905	$ 345,992,103	$ 36,000,586
Net VLT Receipts (Net Sales)	$ 281,046,963	$ 107,300,983	$ 58,387,607	$ 99,182,741	$ 16,175,632
Siteholder Commission	$ 70,918,699	$ 25,059,594	$ 14,540,309	$ 27,505,343	$ 3,813,453
Average Number of VLTs	9,047	3,589	2,084	2,753	621
Average Number of Siteholders	2,861	1,602	469	544	246
Average Cash In					
- Per VLT	$ 92,704	$ 70,829	$ 97,166	$ 125,678	$ 57,972
- Per Site	$ 293,147	$ 158,679	$ 431,759	$ 636,015	$ 146,344
Average Net VL Receipts (Net Sales)					
- Per VLT	$ 31,065	$ 29,897	$ 28,017	$ 36,027	$ 26,048
- Per Site	$ 98,234	$ 66,979	$ 124,494	$ 182,321	$ 65,755
Average Siteholder Commission					
- Per VLT	$ 7,839	$ 6,982	$ 6,977	$ 9,991	$ 6,141
- Per Site	$ 24,788	$ 15,643	$ 31,003	$ 50,561	$ 15,502

Exhibit 12.7

Allocation of Gross Profit by Game Type ($000)
(Source: ALC & ALC's external auditor)

	1996			1995			1994		
	Video Lottery	**Ticket Games**	**Total**	**Video Lottery**	**Ticket Games**	**Total**	**Video Lottery**	**Ticket Games**	**Total**
Gross ticket sales	$ -	$436,780	$ 436,780	$ -	$ 409,406	$ 409,406	$ -	$ 370,037	$ 370,037
Net video lottery receipts	281,047	-	281,047	246,507	-	246,507	195,493	-	195,493
	281,047	436,780	717,827	246,507	409,406	655,913	195,493	370,037	565,530
Direct expenses									
Prizes on ticket sales	-	233,035	233,035	-	216,014	216,014	-	193,295	193,295
Commissions	99,792	31,915	131,707	93,469	29,336	122,805	85,976	26,380	112,356
Ticket printing	231	9,230	9,461	137	9,135	9,272	158	8,160	8,318
	100,023	274,180	374,203	93,606	254,485	348,091	86,134	227,835	313,969
Gross profit	$ 181,024	$162,600	$ 343,624	$ 152,901	$ 154,921	$ 307,822	$ 109,359	$ 142,202	$ 251,561
	53%	47%	100%	50%	50%	100%	43%	57%	100%

Exhibit 12.8

Income from Video Lottery
For the Year Ended March 31, 1996 ($000)
(Source: ALC & ALC's external auditor)

	Total	N.B.		P.E.I.		N.S.		Nfld.	
			%		%		%		%
Net video lottery receipts	$ 281,047	$ 107,301	100	$ 16,175	100	$ 99,183	100	$ 58,388	100
Direct costs									
Retailer commission	70,919	25,060	23.35	3,813	23.57	27,506	27.73	14,540	24.90
Coin-operator commission	28,873	25,060	23.35	3,813	23.57				
Ticket costs	231					145		86	
Gross profit	181,024	57,181	53.29	8,549	52.85	71,532	72.12	43,762	74.95
Operating expenses									
Salaries and benefits	1,348					699	0.70	649	1.11
Depreciation - vehicles	159					80	0.08	79	0.14
Depreciation - terminals	5,979					3,665	3.70	2,314	3.96
Terminal movement	13					13	0.01	-	0.00
Occupancy costs	157					100	0.10	57	0.10
Vehicle leasing	3					3	0.00	-	0.00
Equipment & maintenance	520					299	0.30	221	0.38
Video lottery software	615					384	0.39	231	0.40
Vehicles and travel	290					106	0.11	184	0.32
Bad debts	61					27	0.03	34	0.06
Meetings	4					3	0.00	1	0.00
Video lottery license fees	1					-	0.00	1	0.00
Financing	770					436	0.44	334	0.57
GST	7,260	3,531	3.29	461	2.85	2,110	2.13	1,158	1.98
Terminal write offs	23					23	0.02	-	0.00
Total operating expenses	17,203	3,531	3.29	461	2.85	7,948	8.01	5,263	9.01
Income from video lottery	$ 163,821	$ 53,650	50.00	$ 8,088	50.00	$ 63,584	64.11	$ 38,499	65.94

Note: Shaded areas represent jurisdictions using coin operators.

Exhibit 12.9

Video Lottery Receipts ($000)
(Source: ALC & ALC's external auditor)

	New Brunswick		Prince Edward Island		Nova Scotia		Newfoundland		Total	
1995-1996	$	%	$	%	$	%	$	%	$	%
Cash In	254,204	100.0	36,001	100.0	345,992	100.0	202,495	100.0	838,692	100.0
Cash Out	146,904	57.8	19,825	55.1	246,809	71.3	144,107	71.2	557,645	66.5
Net Sales	107,300	42.2	16,176	44.9	99,183	28.7	58,388	28.8	281,047	33.5
1994 - 1995										
Gross Video Lottery receipts	211,718	100.0	32,659	100.0	311,006	100.0	160,918	100.0	716,301	100.0
Prize Expense	120,020	56.7	17,936	54.9	220,646	70.9	111,192	69.1	469,794	65.6
Net Video Lottery Receipts	91,698	43.3	14,723	45.1	90,360	29.1	49,726	30.9	246,507	34.4
1993 - 1994										
Gross Video Lottery Receipts	180,093	100.0	31,152	100.0	225,350	100.0	117,272	100.0	553,867	100.0
Prize Expense	100,286	55.7	17,755	57.0	160,585	71.3	79,748	68.0	358,374	64.7
Net Video Lottery Receipts	79,807	44.3	13,397	43.0	64,765	28.7	37,524	32.0	195,493	35.3
1992 - 1993										
Gross Video Lottery Receipts	176,464	100.0	32,502	100.0	258,271	100.0	70,937	100.0	538,174	100.0
Prize Expense	105,367	59.7	19,560	60.2	183,029	70.9	46,321	65.3	354,277	65.8
Net Video Lottery Receipts	71,097	40.3	12,942	39.8	75,242	29.1	24,616	34.7	183,897	34.2
Totals - four years										
	822,479	100.0	132,314	100.0	1,140,619	100.0	551,622	100.0	2,647,034	100.0
	472,577	57.5	75,076	56.7	811,069	71.1	381,368	69.1	1,740,090	65.7
Net Video Lottery Receipts	349,902	42.5	57,238	43.3	329,550	28.9	170,254	30.9	906,944	34.3

Exhibit 12.10

Profits Distributed
Year Ended March 31, 1996 ($000)
(Source: ALC's audited and internal financial statements)

Atlantic Lottery Corporation	**Regular Lottery**	**%**	**Video Lottery**	**Total**
Sales				
Gross ticket sales	$ 436,780		$ -	$ 436,780
Net video lottery receipts	-		281,047	281,047
	436,780		281,047	717,827
Prizes on ticket sales	233,035		-	233,035
Net Sales	203,745	100	281,047	484,792
Allocated expenses				
Commissions	31,915		99,792	131,707
Ticket printing	9,230		231	9,461
Operating expenses	41,382		9,943	51,325
Interest and other income	(2,713)		(139)	(2,852)
Payments to Government of Canada	3,565		-	3,565
Goods and Services Tax	4,709		7,261	11,970
	88,089	100	117,087	205,176
Special commissions to non-profit organizations	220		-	220
Nova Scotia retailer bonus	3,733		-	3,733
Total allocated expenses	92,042		117,087	209,129
Profit distributed to shareholders	$ 111,703	100	$ 163,960	$ 275,663

Nova Scotia Share	**Regular Lottery**	**%**	**Video Lottery**	**Total**
Sales				
Gross ticket sales	$ 164,598		$ -	$ 164,598
Net video lottery receipts	-		99,183	99,183
	164,598		99,183	263,781
Prizes on ticket sales	85,275		-	85,275
Net Sales	79,323	38.9	99,183	178,506
Allocated expenses				
Commissions	10,606		27,506	38,111
Ticket printing	3,490		145	3,635
Operating expenses and disturbutions (net)	20,196		7,809	28,005
	34,292	38.9	35,460	69,752
Special commissions to non-profit organizations	105		-	105
Nova Scotia retailer bonus	3,733		-	3,733
Total allocated expenses	38,130		35,460	73,5903
Profit distributed to Nova Scotia	$ 41,193	39.6	$ 63,723	$ 104,916

Exhibit 12.11

Summary of Economic Benefits
(Source: Summary of Economic Benefits Study 1994-95 Fiscal Year)

Jurisdiction	Total $ Value of Purchases & Salaries	% of ALC Total Purchases & Salaries	Jurisdiction's % of ALC's Net Revenue
Newfoundland	$ 6,861,342	11.88%	28.90%
Prince Edward Island	618,066	1.07%	5.30%
New Brunswick	15,446,876	26.75%	26.60%
Nova Scotia	11,089,013	19.20%	39.20%
Other	23,731,278	41.10%	-
Totals	$ 57,746,575	100.00%	100.00%

Appendix 12A

1996 Shareholder's Audit of Atlantic Lottery Corporation
Summary of Recommendations for Consideration

Compliance with Statutory and Policy Requirements

1. The applicability to ALC operations of the various and differing statutory and other administrative policy directives in the shareholder provinces needs to be determined.

Inter-Provincial Agreements

2. The provisions of the inter-provincial agreements should be subject to review and updating to ensure an appropriate and modern governance and accountability framework and process are in place for ALC. Among other matters, this should include consideration of the following:

   - establishing a set of guiding principles or values to support the interpretation and implementation of the agreements;

   - establishing the obligation to provide sufficient and appropriate accountability information and reporting to the Legislature in each shareholder province on the corporation's financial and program plans and performance;

   - changes necessary to the profit distribution methodology in order to ensure the allocation of costs and results are fair and equitable; and

   - sunset clauses on selected aspects of the arrangements, so that they will be subject to periodic review and updating.

3. ALC's status as a crown agency should be formally determined and clarified, both for accountability purposes, and also as to its responsibility to comply with the various statutory and other administrative policy directives in the shareholder provinces.

Corporate Mission

4. As part of the review and updating of ALC's strategic plans, its mission statement should be interpreted, including appropriate clarification or segregation of the fiscal, societal and other aspects inherent/implicit in the mandate and mission of the corporation.

5. The corporation's mission statement should be formally approved by the shareholder provinces.

Accountability to the Legislature

6. Sufficient, appropriate and timely accountability information and reporting on ALC's plans and performance should be provided to the responsible Minister in each shareholder province, so such is available for tabling or deemed tabling in the respective Legislature.

Corporation's Annual Report

7. ALC's annual report distribution should be expanded, including tabling or deemed tabling in the Legislature on a timely basis.

8. ALC's annual report should include sufficient and appropriate information on the performance of the corporation, especially in relation to its defined plans, budget and goals.

For example:

- financial and other information on the corporations's plans and performance against its strategic goals/objectives and its approved annual budget, with an appropriate emphasis on results compared to planned outcomes;

- segregated and full-cost reporting of the results for the video lottery program, including information re: cash-in, credits won, credits played and cash-out.

- increased information on the costs or expenditures of the corporation (e.g., management compensation, travel expenses, major supply and service arrangements, external/consulting services, and/or other significant costs); and

- appropriate per capita (i.e., per adult population) information and trends re: sales results and targets.

Board of Directors

9. In order to support an improved and modernized Board governance function, as part of a review of the inter-provincial agreements (which would encompass the corporation's bylaws), the Board structure and complement should also be considered.

10. The Board should ensure that appropriate comprehensive standards governing Board, management, and staff behaviour are adopted for ALC.

11. The minutes of the Board meetings should provide an appropriate audit/management trail (i.e., re: the background and rationale for significant deliberations and decisions) and also provide an indication of the voting results for Board decisions (e.g., unanimous, approved - number of votes for, against and abstentions).

12. The process for controlling and following up on the status of action taken or planned as a result of Board decisions or requests should be more formalized.

Overall Management Control Framework

13. The preparation of current corporate and other key divisional or program specific strategic plans, with appropriate input, involvement and approval by the Board and shareholder provinces, should be completed as soon as possible.

14. ALC's internal and external reporting should include appropriate information on its plans and performance against the corporation's approved strategic goals/objectives, using defined outcome measures or indicators.

15. ALC should continue efforts to increase and enhance its use of performance indicators/targets at both the corporate and the divisional levels, and to the extent possible, measurable indicators should be defined focusing on planned outcomes.

16. ALC should move to a multi-year budget process, and continue efforts to enhance the contents and presentation of the supporting information in the Board's budget manual.

17. ALC's financial statement disclosure of total divisional operating expenses should include depreciation expense.

18. ALC's internal/interim financial reporting and variance analysis should also provide a continuing link back to the original approved budget for a fiscal period.

19. ALC's annual reporting (e.g., through its financial statements or otherwise) should provide a comparison to the original approved budget for the fiscal period.

20. As part of its review and approval of internal audit's annual plans, the Board - through the audit committee - needs to consider whether and ensure there are sufficient and appropriate resources available, and that they are deployed in the areas that can be of greatest benefit to the overall level of control for the corporation.

Video Lottery Program

21. ALC should provide schedules segmenting the gross profit portion of the statement of operations by program type in its annual financial statements.

22. ALC should be required to provide a detailed statement on the video lottery program reconciling the results of operations to the required payout specified in each shareholder province's regulations.

23. The methodology for allocating costs and profits to the gaming programs and to the shareholder provinces should be subject to a comprehensive review to ensure ALC's costs and profits are shared and reported on an appropriate and reasonable basis.

24. The commission rates paid should be assessed to determine if the current commissions deliver an appropriate return in line with the costs and risks associated with those components of ALC's operations.

Information Technology (IT)

25. The management and control of ALC's information technology systems and resources should be subjected to additional and comprehensive audit coverage.

Procurement

26. ALC should prepare standard reports of its procurement activity in a manner consistent with the Atlantic Procurement Agreement, Section 9.

27. ALC should continue to periodically evaluate its list of exceptions to standard procurement practices to ensure economic acquisition of goods and services. For example, given the current competition in the telecommunications market, ALC should consider tendering for those services.

28. ALC should formally document as part of its purchasing policy its practice of specifying initial contract terms and the renewal period. Further, formal documentation should be required of the contract review and evaluation process prior to the award of a contract extension.

Allocations to Shareholders

29. ALC's reporting to its Board and external interested parties of the results of the VLP and its other gaming programs should be clearly segregated and on a more full-cost basis to the extent practical and appropriate. As a minimum, the results down to gross profit by program by shareholder province should be reported.

30. Where staff are directly involved in significant and continuing efforts related to regulatory or other activities associated with one or more but not all shareholder provinces, consideration should be given to allocating reasonable and appropriate costs to the specific shareholders concerned.

ATLANTIC LOTTERY CORPORATION INC.'S RESPONSE

Thank you for the invitation to provide a formal response to the audit that was requested by our Nova Scotia shareholder. We appreciate the time and effort that your office has put into this report. It contains a number of helpful suggestions.

We thank you for your acknowledgment that the cooperation of the Atlantic Lottery Corporation's (ALC) Board and Management was significant in the conduct and completion of the audit work. We expected, and the report states, that "nothing was observed that would indicate the integrity of ALC's lottery and other gaming products has been adversely affected."

We intend to act upon the positive suggestions contained in your report. Our shareholders, the four Atlantic Provinces, should be proud of the successes of the Atlantic Lottery Corporation. ALC games have a 20-year history of integrity. Lottery and gaming revenues continue to grow and are an important source of revenue for our shareholder governments.

The enclosed document is ALC's response regarding the 30 recommendations. It is our understanding that the ALC's responses will be included in the 1996 Report of the Auditor General.

RESPONSE TO SUMMARY OF RECOMMENDATIONS FOR CONSIDERATION (SEE APPENDIX 12A PAGE 167)

R1 ALC believes it is in compliance with shareholder provincial requirements. ALC responds in a timely fashion to any information requests or directives from shareholders.

R2 We accept your observations. The ALC shareholders and Board are constantly aware of changing situations. ALC's shareholders have reviewed and revised the profit sharing formula from time to time and recognize that it is timely to do so once again. ALC intends to issue an RFP for the conduct of an economic benefit study in the near future.

R3 ALC is federally incorporated and each of the four Atlantic provinces own one share. ALC believes this method was followed to demonstrate Atlantic provincial cooperation.

R4 The ALC strategic plan is being updated. ALC is certainly conscious of societal issues; however, these issues remain in the domain of the shareholder provinces. Agree this should be evaluated.

R5 ALC's mission statement has been approved by its Board of Directors and will be reaffirmed at the next annual shareholders' meeting.

R6-R8 ALC is considering enhancements to its annual report.

ALC's annual report is widely distributed and is available to all on request. ALC will consider an even wider distribution.

Tabling of reports in Legislatures is a shareholder decision.

R9 The Board believes the Board structure and complement are appropriately constituted.

R10	ALC has these in place and continues to enhance such standards in keeping with appropriate national corporate standards of ethics.
R11	In order to ensure more comprehensive recording of minutes, a recording secretary now attends Board meetings. Board decisions are recorded by majority and only in instances where a Board member so requests is an individual vote identified.
R12	Board members are briefed on previous and outstanding business during two recurring agenda items: the President's report and matters arising from previous minutes. We will give consideration to a more formalized process.
R13 - R15	Corporate strategic planning is in process. Key divisional and program specific strategic plans have been conducted, others are currently in progress, and yet others will be revised/redone at the appropriate time.
R16	ALC has a multi-year strategic planning process in place; however, the Board prefers to approve budgets on an annual basis.
R17	This recommendation will be considered.
R18	This has been implemented.
R19	This recommendation will be considered.
R20	ALC has always placed emphasis on the internal audit function and will continue to do so.
R21	ALC will implement this recommendation in this year's annual report.
R22	ALC will consider whether to implement this in the future; however, we are aware that most lottery jurisdictions in North America do not provide this level of detail in their annual reports.
R23	Shareholders have looked at this from time to time and will continue to do so. This will be again reviewed as part of the conduct of the economic benefit study.
R24	Commission rates are established nationally by ILC or, in Atlantic Canada, by the shareholders.
R25	When the ALC Board approved the IT strategic plan, they also directed that an independent audit be conducted by an outside firm on IT subsequent to the implementation of the strategic plan. This will be done. Other audit coverages have either been done or are being considered.
R26	While ALC is not subject to the requirements of the Atlantic Procurement Agreement, the Board instructed ALC on March 7, 1994, to incorporate, wherever possible, the general intent of the Agreement into its procurement policies.
R27	ALC is currently doing this.
R28	The procedures were changed in 1993 and are documented in the new purchasing policies. Contract review and evaluations have been and continue to be documented.
R29	See R21, R23
R30	This will be considered.