

Chapter 12
Lotteries Commission of
New Brunswick/Atlantic Lottery
Corporation

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Lotteries Commission of New Brunswick / Atlantic Lottery Corporation

Background

12.1 The net income from Atlantic Lottery Corporation (ALC) to the Lotteries Commission of New Brunswick was \$82 million for the year ended 31 March 1996 (\$63.9 million for 1995). This source of income is significant to the Province.

12.2 We first dealt with our attempts to gain audit access to ALC in our 1994 Report. We reported that we were denied access and noted we were seeking advice as to whether ALC was a Crown agency. In our 1995 Report we discussed an April 1995 amendment to the Auditor General Act to clearly identify ALC as a Crown agency. We further reported that this amendment did not allow us direct audit access to ALC but provided us the opportunity to review the files of the external auditor appointed by the Corporation's shareholders. Section 8(3) of the Auditor General Act provides for this review process and the information to be made available to our Office.

12.3 The 1995 Report discussed our review of the files of ALC's external auditor for the year ended 31 March 1995. Our objective in this review was to satisfy ourselves that we could rely on the audit work they had done in order for them to express an opinion on the ALC financial statements.

12.4 During this file review we also requested information from the auditor and ALC on the Video Lottery Program. In our Report, we supplied background financial information on ALC, including a detailed statement of income from the Video Lottery Program. This financial information was provided on a comparative basis, by year, and in some instances by shareholder (i.e. by province). We also made one recommendation with respect to improved financial disclosure.

12.5 During the past year, there have been further developments on the audit access issue. In December 1995 the Auditor General of Nova Scotia was asked by the Nova Scotia Gaming Corporation (the Nova Scotia shareholder) "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." We agreed to participate with the Nova

Scotia Auditor General in this audit. We have also continued with follow-up reporting on a number of audit issues we noted previously.

Scope

12.6 We planned to undertake the following work for 1996:

- Participate in a broad-scope audit of ALC with the Office of the Auditor General of Nova Scotia.
- Review the working paper files of ALC's external auditor for the year ended 31 March 1996.
- Follow-up our 1995 report on video lottery to compare costs of an ALC managed program to a private sector model.
- Review the progress of the recommendations that we made in 1995.
- Address various matters of compliance and reporting.

Results in brief

12.7 **We are participating with our colleagues from the Office of the Auditor General of Nova Scotia in a joint audit of ALC. A separate report will be issued covering that audit.**

12.8 **The Lotteries Commission of New Brunswick should request that Atlantic Lottery Corporation provide information or schedules with the ALC financial statements showing the results of operations segmented by ticket games and the Video Lottery Program. The information should clearly show the gross profit from each type of game and should reconcile to the gross profit section of the annual financial statements.**

12.9 **The Lotteries Commission of New Brunswick should prepare an analysis of the comparative costs of the Video Lottery Program under an ALC operated model and the coin operator model prior to expiry of the existing arrangement with the coin operators at 31 March 2002.**

12.10 **As regulator of the gaming industry in New Brunswick, the Lotteries Commission needs to improve its reporting on the monitoring and enforcement of regulations. Specifically, this should include two key areas:**

- **obtaining a letter of representation from ALC providing assurance that it has fulfilled its responsibilities under provincial regulation;**
- **sufficient and appropriate reporting of its regulatory activity through the Lotteries Commission annual report.**

12.11 **The Lotteries Commission should request that ALC provide sufficient financial reporting on the Video Lottery Program to demonstrate compliance with the regulated payout percentages.**

12.12 **Commissioners serving on the regulatory body have a conflict of interest if they also serve as directors on ALC's board.**

Joint audit of Atlantic Lottery Corporation

12.13 By letter dated 15 December 1995, the Nova Scotia Gaming Corporation (NSGC) in its capacity as the Nova Scotia shareholder of 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.*” We contacted the Nova Scotia Auditor General and confirmed that we would participate with them in a joint audit of ALC. We were advised that there were no objections from their appointing authority, the NSGC, to our Office participating in this assignment.

12.14 Planning for this audit was completed in May 1996 and the on-site field work took place in July (two weeks) and September/October (two weeks) for a total of four weeks. One member of our staff assisted in the planning phase and two were part of the field work team. The Auditor General of Nova Scotia provided the majority of the field work team. The Auditors General of Newfoundland and Prince Edward Island served in an advisory capacity and have agreed to be involved in the file review and report clearing process.

12.15 A report on this audit will be issued to the Nova Scotia Gaming Corporation under the signature of the Auditor General of Nova Scotia. The report will cover the audit work that has been performed with appropriate findings and recommendations. The report will be forwarded to each of the other three Atlantic Auditors General as well as the provincial lottery commissions or respective regulatory bodies in each province concurrently with its delivery to the NSGC. We have therefore restricted our comments on this joint audit for purposes of this Report.

Need for improved reporting by source of revenue

Net income from ALC is significant

12.16 New Brunswick’s share of net income from ALC in 1996 was \$82 million, an increase of \$18.1 million from the 1995 total of \$63.9 million. The income from ALC is significant to New Brunswick and has more than doubled since 1992, the first full year of the Video Lottery Program in our Province.

12.17 Exhibit 12.1 summarizes ALC’s statement of operations and the allocation of profit by province over the last five years. Because of the significance of this income source to the financial statements of both the Lotteries Commission of New Brunswick and the Province, we believe it is important that we continue to review the working paper files of ALC’s external auditor. In our file review for the year ended 31 March 1996, we determined we could rely on the work of ALC’s external auditors as it relates to our audit of the financial statements of the Lotteries Commission and the Province.

Two main revenue sources

12.18 Exhibit 12.1 shows ALC has two main sources of revenue, “Net video lottery receipts” and “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.

Exhibit 12.1

Atlantic Lottery Corporation Inc.
Statement of Operations and Allocation of Profit
(thousands of dollars)

	1996	1995	1994	1993	1992
Gross ticket sales	436,780	409,406	370,037	346,995	309,312
Net video lottery receipts	281,047	246,507	195,493	183,897	84,480
	<u>717,827</u>	<u>655,913</u>	<u>565,530</u>	<u>530,892</u>	<u>393,792</u>
Direct expenses					
Prizes on ticket sales	233,035	216,014	193,295	180,665	158,808
Commissions (wholesale and retail)	131,707	122,805	112,356	111,724	67,315
Ticket printing	9,461	9,272	8,318	9,092	8,729
	<u>374,203</u>	<u>348,091</u>	<u>313,969</u>	<u>301,481</u>	<u>234,852</u>
Gross profit	<u>343,624</u>	<u>307,822</u>	<u>251,561</u>	<u>229,411</u>	<u>158,940</u>
Operating expenses					
Marketing	8,694	8,757	5,230	6,389	6,302
Sales and promotion	7,108	7,519	6,543	6,221	5,312
Finance	2,105	2,053	2,042	1,760	1,745
Corporate services	7,276	7,011	6,171	6,530	5,929
Information systems	16,493	15,849	12,604	11,734	10,686
Depreciation	9,649	9,890	9,422	8,042	5,819
	<u>51,325</u>	<u>51,079</u>	<u>42,012</u>	<u>40,676</u>	<u>35,793</u>
Operating profit	292,299	256,743	209,549	188,735	123,147
Interest and other income	2,852	886	645	989	1,080
	<u>295,151</u>	<u>257,629</u>	<u>210,194</u>	<u>189,724</u>	<u>124,227</u>
Less:					
Payments to the Government of Canada	3,565	3,525	3,584	3,444	3,354
Goods and services tax	11,970	11,250	9,549	11,319	7,215
Special commission to non profits	220	260	254	302	444
Nova Scotia retailer bonus	3,733	2,814	-	-	-
	<u>19,488</u>	<u>17,849</u>	<u>13,387</u>	<u>15,065</u>	<u>11,013</u>
Profit for distribution	<u>275,663</u>	<u>239,780</u>	<u>196,807</u>	<u>174,659</u>	<u>113,214</u>
Allocation of profit:					
Lotteries Commission of New Brunswick	82,031	63,902	57,412	47,236	37,021
Province of Newfoundland	74,117	69,173	54,627	43,664	30,840
Nova Scotia Gaming Corporation	104,916	94,055	73,321	75,266	39,818
Prince Edward Island Lotteries Commission	14,599	12,650	11,447	8,493	5,535
	<u>275,663</u>	<u>239,780</u>	<u>196,807</u>	<u>174,659</u>	<u>113,214</u>

12.19 Using information received from ALC and its external auditor, we have carried out such an analysis in Exhibit 12.2. Exhibit 12.2 categorizes the direct expenses from the financial statements under the headings “Video Lottery” and “Ticket Games”. This allows us to determine a gross profit by game or program type.

Exhibit 12.2

Atlantic Lottery Corporation Inc.
Allocation of gross profit by game type
(thousands of dollars)

	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

12.20 This exhibit illustrates the significant growth of the Video Lottery with respect to its contribution to the gross profit of ALC. Video Lottery’s contribution to gross profit in 1994 was approximately 77% of the amount generated from Ticket Games. Two years later in 1996 Video Lottery’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%. Video Lottery has become the largest contributor to ALC’s bottom line. We believe it would be better disclosure if these gross profit figures were directly available to the members of the Legislative Assembly.

12.21 We were interested in how some of the other lotteries in Canada presented details on their various lottery programs. We noted that both the Alberta and Manitoba lotteries organizations show ticket lottery programs and video lottery programs in separate schedules in their annual reports. Direct expenses are also allocated to each of the two main programs - ticket games and video lottery. Alberta makes an additional disclosure by comparing gross revenue from each ticket program to budget.

12.22 We made the following recommendation in our 1995 Report:

We recommend that our shareholder, the Lotteries Commission of New Brunswick, direct the Atlantic Lottery Corporation Inc. to provide a detailed statement to the Legislative Assembly each year showing the results of operations of each lottery scheme carried out by ALC. The statement should include gross sales, prize expense, and net income by game. Results should be available on a province-by-province basis.

12.23 The Commission has not yet implemented this recommendation. We believe schedules by program would provide important information to the shareholders and the members of Legislative Assembly. The Standing Committee on Crown Corporations would benefit from having additional information relative to the two significant streams of income identified in the financial statements of ALC.

12.24 We recommend the Lotteries Commission direct ALC to provide schedules segmenting the gross profit portion of the statement of operations by program type in its annual financial statements.

Video lottery program - two models in use

12.25 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 12.3 shows the average number of video lottery terminals (VLTs) by province for the years ended 31 March 1996 and 31 March 1995. It is based on figures provided by ALC showing month end VLT counts. Exhibits 12.4 and 12.5 provide a comparison of the net video lottery receipts and the related expenses for each province for the two most recent years.

Exhibit 12.3

Average number of VLTs by province

	1996	1995
Nova Scotia	2,753	2,304
New Brunswick	3,588	3,338
Prince Edward Island	621	563
Newfoundland	2,084	1,812
Total	9,046	8,017

Exhibit 12.4

*Atlantic Lottery Corporation**Income from video lottery**Year ended 31 March 1996**(thousands of dollars)**Source: ALC & ALC's external auditor*

	Total	N.B.		P.E.I.		N.S.		Nfld.	
	\$	\$	% Net	\$	% Net	\$	% Net	\$	% Net
Net Video Lottery Receipts	281,047	107,301		16,175		99,183		58,388	
Direct costs:									
Retailer Commission	70,919	25,060	23.35	3,813	23.57	27,506	27.73	14,540	24.90
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 licence fees	1					-	0.00	1	0.00
Financing	770					436	0.44	334	0.57
G.S.T.	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

Exhibit 12.5

*Atlantic Lottery Corporation
Income from video lottery
Year ended 31 March 1995
(thousands of dollars)
Source: ALC & ALC's external auditor*

	Total	N.B.		P.E.I.		N.S.		Nfld.	
	\$	\$	% Net	\$	% Net	\$	% Net	\$	% Net
Net Video Lottery Receipts	246,507	91,698		14,723		90,360		49,726	
Direct costs:									
Retailer Commission	64,303	25,699	28.03	3,467	23.55	25,842	28.60	9,295	18.69
Operator Commission	29,166	25,699	28.03	3,467	23.55				
Ticket costs	137					88	0.10	49	0.10
Gross profit	152,901	40,300	43.95	7,789	52.90	64,430	71.30	40,382	81.21
Operating expenses:									
Salaries and benefits	1,268					682	0.75	586	1.18
Depreciation - vehicles	135					72	0.08	63	0.13
Depreciation - terminals	6,624					4,338	4.80	2,286	4.60
Terminal movement	18					6	0.01	12	0.02
Occupancy costs	173					107	0.12	66	0.13
Equipment & maintenance	827					533	0.59	294	0.59
Video lottery software	442					283	0.31	159	0.32
Vehicles and travel	86					33	0.04	53	0.11
Bad debts	116					16	0.02	100	0.20
Meetings	4					2	0.00	2	0.00
Video lottery licence fees	1					1	0.00	-	-
Financing	1,236					805	0.89	431	0.87
G.S.T.	6,614	3,621	3.95	427	2.90	1,768	1.96	798	1.60
Terminal write offs	577					498	0.55	79	0.16
Total operating expenses	18,121	3,621	3.95	427	2.90	9,144	10.12	4,929	9.91
Income from video lottery	134,780	36,679	40.00	7,362	50.00	55,286	61.18	35,453	71.30

Video lottery program introduced in 1990

12.26 When the Video Lottery Program began in New Brunswick it required an amendment to the Lotteries Act in the Legislative Assembly of New Brunswick. Bill 86 was presented on 9 November 1990. The stated purpose of the bill was to:

- enable the Atlantic Lottery Corporation to introduce the Video Lottery Program;
- enable third party involvement in the program (the New Brunswick Coin Machine Operators Association Inc.); and
- provide for the making of regulations.

12.27 The third party coin operators are the actual owners of the machines. They are compensated for their involvement in the program through a “commission” on net video lottery receipts. The commission has changed over time. Data on the division of net video lottery receipts between the government, the coin operators and the siteholders is shown in Exhibit 12.6.

Exhibit 12.6

Division of net video lottery receipts

Source: Regulation 90-142, agreement with NBCMOA

	Coin Operator %	Site Holder %	Government %
December 1990 - 31 March 1993	35	35	30
1 April 1993 - 30 September 1993	31	31	38
1 October 1993 - 31 March 1994	30.5	30.5	39
1 April 1994 - 31 March 1995	30	30	40
1 April 1995 - 31 March 1997	25	25	50
1 April 1997 - 31 March 1998	24	24	52
1 April 1998 - 31 March 1999	24	23	53
1 April 1999 - 31 March 2002	24	22	54

12.28 The reader will note the government’s share began increasing on 1 April 1993. The increase in the government share to 50% effective 1 April 1995 was debated in the Legislative Assembly in February 1995. A portion of the debate follows.

Member’s Question: Madam Speaker, I, too, have a question for the Minister of Finance. In his budget, he indicated an increase of 25% in lottery revenues. I presume that does not just reflect the urge of New Brunswickers to get to the machines and put in more money. Is the minister now changing the formula that exists between the Province of New Brunswick and the coin operators, who are in the middle, and the site holders?

Minister’s Response: Madam Speaker, yes.

Member’s Question: I understand the formula is now 50/25/25. In the minister’s deliberations, did he consider the idea of buying out the middleman, as was done in Nova Scotia, and therefore allow a little more to stay in the hands of the site holders? . . .

Minister’s Response: Madam Speaker, we look at all options when we make decisions, but the decision to involve the private sector in our video lottery program was made in recognition of the fact that there was a rather large illegal

industry out there. We wanted to make certain that we would be able to clean that up, and we have, unlike some other jurisdictions which are still experiencing that problem, even though their program is sponsored and operated by the government.

We look at all options, but in our view, involving the private sector does provide that initiative. It provides for small businesses and a network of people out there who have an interest in making certain that no illegal industry crops up. It has worked very well for us.

Comparison of coin operator model to ALC model

12.29 This debate raised the issue of comparison of the New Brunswick program to that in Nova Scotia. In order to assess which model is the most economical, one would have to attempt to compare ALC's costs of operation to the commissions accruing to the coin operators. To do this, we have made two key assumptions. The first is that ALC would be prepared to manage the program for New Brunswick if it were asked to do so. The second is that the present ALC operating costs in Nova Scotia can be allocated on a "per VLT" basis in order to estimate operating costs for New Brunswick.

12.30 Exhibit 12.7 shows the comparative costs using the Nova Scotia VLT costs for the year ended 31 March 1996 as per Exhibit 12.4 and 31 March 1995 as per Exhibit 12.5. The NB figures have been projected in the shaded column ("NB Projected") by multiplying each of the "N. S. Actual" costs by the ratio of the number of New Brunswick VLTs to Nova Scotia VLTs (i.e. 3588/2753 for 1996 and 3338/2304 for 1995 as per Exhibit 12.3).

12.31 The projected cost savings by operating under the ALC model are considerable. We recognize that there may be limitations to our assumption that all ALC operating costs in Nova Scotia can be allocated on a "per VLT" basis. For example, some costs such as salaries and vehicle costs may be more directly related to the number of sites versus the number of machines. We point out, however, that the projected savings range of \$16.7 million to \$19 million is so large that it is difficult to dispute that savings would occur. In the debate of February 1995, the Minister stated "we look at all options when we make decisions." Looking at all options could mean that the Lotteries Commission had a comparative cost-benefit analysis supporting the option chosen. We were not provided with any calculations from the Commission which would negate our calculations of savings.

12.32 The government has entered into a multi-year agreement with the New Brunswick Coin Machine Operators Association Inc. which may prevent any immediate change in the method of operation. Under this agreement, the commissions paid to the operators will decline slightly

until the agreement expires in 2002. The slight increase in the Province's share would not begin to offset the \$19 million in projected savings.

12.33 We recommend that the Lotteries Commission of New Brunswick prepare a full-cost analysis of alternative methods of operating the Video Lottery Program. This analysis should be prepared prior to the expiry of the agreement with the New Brunswick Coin Machine Operators Association in 2002.

Exhibit 12.7

*Atlantic Lottery Corporation
Cost Comparison for Video Lottery Program
Coin Operator Model to ALC Operated Model
Years ended 31 March 1996 & 1995
(thousands of dollars)*

	1996		1995	
	N.B.	N.S.	N.B.	N.S.
	Projected	Actual	Projected	Actual
Ticket costs	189	145	127	88
Salaries and benefits	911	699	988	682
Depreciation - vehicles	104	80	104	72
Depreciation - terminals	4,778	3,665	6,286	4,338
Terminal movement	17	13	9	6
Occupancy costs	130	100	156	107
Vehicle leasing	4	3	-	-
Equipment and maintenance	390	299	772	533
Video lottery software	500	384	410	283
Vehicles and travel	138	106	48	33
Bad debts	35	27	23	16
Meetings	4	3	3	2
Video lottery licence fees	-	-	1	1
Financing	568	436	1,166	805
Terminal write offs	30	23	721	498
Total operating expenses	7,799	5,983	10,816	7,464
Actual operator commission	25,060		25,699	
GST paid on operator commission	1,765		1,810	
Total operator commission	26,825		27,509	
Projected savings using ALC model	19,026		16,693	

Issues of compliance

Demonstrating compliance with prize payout regulation

12.34 In our 1995 Report we provided a schedule showing gross video lottery receipts, prize expense and the resultant net video lottery receipts, which agreed with the financial statements of ALC. This schedule compared amounts for three years by province. One of our main interests in presenting this information was to check if the prize payouts were in

compliance with the section 6(h) of Regulation 90-142 under the Lotteries Act of New Brunswick. The section states that a video gaming device “shall be programmed to award as prizes not less than eighty per cent, and not more than ninety percent, *of the money it accepts.*” (*emphasis ours*)

12.35 This year we requested 1995-96 financial information from ALC to enable us to update this schedule. Results for the last four years are shown in Exhibit 12.8. You will note that the description of the amounts has changed. Gross Video Lottery Receipts is now described as “Cash In” and Prize Expense is now described as “Cash Out.”

12.36 “Cash In” (\$838 million in 1995-96) is the total cash which all players collectively have put into the machines and “Cash Out” (\$557 million in 1995-96) is what all the players have collectively taken out. ALC advised us that in order to verify compliance with section 6(h) of Regulation 90-142 under the Lotteries Act of New Brunswick you would have 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.

Exhibit 12.8

*Atlantic Lottery Corporation Inc.**Video Lottery Receipts**(thousands of dollars)**Source: ALC & ALC's external auditor*

	New Brunswick		Prince Edward Island		Nova Scotia		Newfoundland		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
<u>1995 - 1996</u>										
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
<u>1994 - 1995</u>										
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
<u>1993 - 1994</u>										
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
<u>1992 - 1993</u>										
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
<u>Totals - four years</u>										
	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

12.37 We referred to the annual report of the Manitoba Lotteries Corporation in paragraph 12.21. This annual report contains a schedule which shows “dollars deposited” (cash in) and “dollars cashed out”, as well as “dollars played” and “dollars won.” It appears that “dollars played” and “dollars won” are credits played and credits earned converted into dollars as a uniform measurement base. The schedule reconciles the revenue from subtracting “dollars cashed out” from “dollars deposited” to the revenue from “dollars played” less “dollars won.” In presenting this information the Manitoba Lotteries Corporation is able to demonstrate average payout for the total program. The schedule also presents payout

percentages for each video lottery game type. Our discussions with ALC indicate it has the information and the technology to provide this type of improved disclosure to the Lotteries Commission of New Brunswick.

12.38 We stated earlier in this chapter that there are two main components to ALC's operations, namely ticket games and the Video Lottery Program, and that a separate statement or schedule should be prepared for each. A schedule for the Video Lottery Program could report information similar to that published by the Manitoba Lotteries Corporation. In our opinion, this would be better disclosure. It would demonstrate to the reader the Program's compliance with the payout regulation.

12.39 We recommend that our shareholder, the Lotteries Commission of New Brunswick, direct the Atlantic Lottery Corporation to provide a detailed statement on the video lottery program reconciling the results of operations to the payout percentages specified in provincial regulation 90-142.

*Reporting on compliance
with other regulations*

12.40 Section 16(1) of the Lotteries Act grants authority for creating regulations on various gaming matters. Two key regulations have been made to date: Regulation 83-170, cited as the Atlantic Lottery Regulation and Regulation 90-142 cited as the Video Lottery Scheme Regulation. The Atlantic Lottery Regulation sets out various responsibilities of ALC for administering various ticket lottery schemes. The Video Lottery Scheme Regulation establishes responsibilities of the Commission and ALC for various regulatory matters relating to the Video Lottery Program.

12.41 The Lotteries Commission of New Brunswick is the body responsible to ensure these regulations are complied with. In this respect Section 12 of the Act notes "the cost of administering this Act shall be paid by the Commission", indicating the Commission is indeed the regulator and is ultimately responsible for monitoring compliance and enforcing regulation.

12.42 Given the inter-relationship between ALC and the Lotteries Commission with respect to the Act and regulations, and given the Commission's role as overall regulator of both video and ticket games, it is important that there be appropriate coordination and reporting of regulatory activity. We expected, for instance, that the Lotteries Commission of New Brunswick would have on file some form of annual report or declaration from ALC that would provide the Commission with assurance of what ALC had done to ensure compliance with the Act and regulations. We were advised that the Lotteries Commission of New Brunswick does not request or receive such a report.

12.43 We recommend that the Lotteries Commission of New Brunswick request the Atlantic Lottery Corporation to provide an annual letter of representation providing assurance that ALC is

complying with the relevant portions of the Lotteries Act and regulations relating to the various lottery programs.

12.44 We noted in our review of the Lotteries Commission annual report for 1994-95 (the latest available at the time of our audit) that the report contains very few details on how the Commission has fulfilled its own regulatory responsibilities. The provincial annual report policy states that “agencies should give a clear account of goals, objectives and performance indicators.” In our opinion, for a regulatory agency such as the Commission, this would probably entail an organized account of the procedures in place and the activities performed in monitoring and enforcing regulation. The letter of representation from ALC could form one part of the reporting.

12.45 **We recommend that the Lotteries Commission provide a clear account of its regulatory goals and objectives in each annual report. Further it should develop and report performance indicators with respect to monitoring and enforcement of regulations.**

Conflict of interest

12.46 The respective roles of the Lotteries Commission of New Brunswick and the ALC under the Act and regulations raise another interesting point. The Commission consists of three members - the Minister of Finance and two deputy ministers appointed by the Lieutenant-Governor in Council. This has been the practice since the Lotteries Act was proclaimed in 1976. The Commission, as a shareholder of ALC, is entitled to appoint two directors to the ALC Board. Traditionally the same two deputy ministers serving on the Commission represent New Brunswick on the Board of ALC.

12.47 We believe this practice creates the potential of a significant conflict of interest. The Commission is the regulatory body for both ticket and video lottery schemes. ALC, on the other hand, can be viewed as the body which conducts and manages the major lottery activities in the Province. It does not seem proper that the three commissioners of the regulatory body should appoint two of their number to sit on the board of ALC, the manager of games. A loss of objectivity through a blurring of the regulator/manager roles could lead to a questioning of their conduct or decisions on the respective boards.

12.48 **We recommend that the commissioners appointed to the Lotteries Commission of New Brunswick and the directors of ALC appointed by the Commission not be the same individuals. Further, the respective directors and the commissioners should be unrelated.**