

# Loto-Québec – Action Plan Further to KPMG recommendations

Review of prize payment processes and procedures  
Progress Report – October 2009



LOTO  
QUÉBEC

| # | Areas for improvement recommended by KPMG   | Current Status   | Target Date   |
|---|---|--|---|
| 1 | <p><i>Implement measures proposed by Loto-Québec</i></p> <ul style="list-style-type: none"> <li>• Create an awareness campaign focused on the importance of endorsing tickets upon purchase.</li> <li>• Promote available endorsement-related informational material to retailers.</li> <li>▪ A message reminding consumers to endorse their tickets upon purchase has appeared on online lottery tickets since August 23, 2007. This message will also be indicated on instant and passive lottery tickets printed in the future.</li> <li>▪ New game terminals equipped with 19-inch consumer displays will be installed by 2009 and, among other features, will make validation results more readily visible.</li> <li>▪ Starting in the fall of 2008, Loto-Québec plans to introduce a “ticket verifier” peripheral to game terminals.</li> </ul> | <p>Ongoing</p> <p>Ongoing</p> <p>Completed</p> <p>Completed<br/>The new terminals with 19-inch consumer displays have been installed in all retail stores.</p> <p>Completed<br/>Ticket checkers have been installed in all retail stores</p> | <p>Starting in January 2008</p> <p>Starting in January 2008</p> <p>March 2008</p> <p>April 2009</p> <p>April 2009</p> |

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| 2 | Loto-Québec should implement a procedure whereby retailers would only validate tickets that have been consumer-endorsed.   | Implementation once new terminal and verifier installation has been completed. | May 2009                    |
| 3 | Once ticket verification units are installed for all types of lotteries, we suggest a consumer awareness campaign be initiated.<br><br>We also suggest that a follow-up assessment be carried out on consumer rate of ticket verifier use to determine if controls should be reduced or changed. | Completed<br><br>Completed   | April 2009<br><br>June 2009 |
| 4 | Carry out a recurrent public awareness campaign focused on the importance of consumers watching the display and listening to the tones played during ticket validation to know if a ticket is a winner, and the amount won.  | Ongoing  | February 2008               |

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| 5 | <p><b>Prize payment and ticket destruction procedure</b></p> <p><i>Implement measures proposed by Loto-Québec</i></p> <ul style="list-style-type: none"> <li>▪ The retailer must return the winning or non-winning ticket to the consumer along with the validation slip.</li> <li>▪ Another copy of the document can be printed for the purposes of retailer transaction conciliation. In this way, a consumer who has endorsed his ticket will be certain that the ticket returned by the retailer is indeed his ticket.</li> <li>▪ For retailers not equipped with terminals and for the National Bank of Canada, Loto-Québec should either: <ul style="list-style-type: none"> <li>– Install terminals at all retailer and National Bank locations, or</li> <li>– Withdraw prize payout rights</li> </ul> </li> </ul> | <p>Completed</p> <p>Completed</p> <p>Completed (since NBC no longer offers prize payment services)</p> | <p>January 2008</p> <p>January 2008</p> <p>April 2008</p> |

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| 6 | <p><b>Group Form</b></p> <p>Modify the Group Agreement Form to improve security features and ensure that retailers cannot make changes to completed forms. Technological solutions should be examined.</p> <p>Implement written procedures and rules concerning retailer responsibilities with respect to group agreements.</p>   | <p>A technological solution has been recommended. Computerized development is underway.</p> <p>Once the technological solution has been implemented.</p> | <p>Winter 2010</p> <p>To be determined</p>               |
| 7 | <p><b>Statistics on retailer wins</b></p> <p><i>Implement measures proposed by Loto-Québec</i></p> <ul style="list-style-type: none"> <li>▪ Inasmuch as statistically valid methodology exists on the market, employ an outside research firm to conduct a survey to measure retailer ticket purchase volume as compared to other players. Updates should be made to verify the reliability of the data over the time.</li> <li>▪ Conduct a regular follow-up on the frequency of wins by retailers. Develop an action/investigation plan for cases when abnormality (a ratio exceeding the Québec norm) is detected.</li> </ul> <p><i>Implement the following additional measure:</i><br/>The abnormal winning frequency action plan should be established at the same time as the Prize Payment Department (PPD) decision tree (see area for improvement 21).</p> | <p>Underway</p> <p>Completed</p> <p>Completed</p>  | <p>December 2009</p> <p>March 2008</p> <p>March 2008</p> |

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| 8  | <b>Retailer Profile</b><br><i>Implement measures proposed by Loto-Québec</i> <ul style="list-style-type: none"><li>Centralize complaints, investigation results and complainant follow-up results in the current retailer register.</li></ul> | Completed      | March 2008  |
| 9  | Post calls to the emergency line, prizes won by retailers and procedural infractions in the current retailer register.  | Completed      | June 2008   |
| 10 | Develop a decision tree to establish corrective measures to be taken based on the retailer's delinquency profile and to better manage payment and investigation procedures.   | Completed      | May 2008    |

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| 11 | <b>Diligent review of retailers</b>  |  |                                       |
|    | <p>Verification to determine if a candidate wishing to become a retailer has a criminal or court record could be conducted prior to issuing a retailer number. The results of this background check should be documented in the retailer profile.</p> <p>The request for a retailer number should include the retailer's birth date to allow for this check.</p> | <p>Completed</p> <p>Completed</p>  | <p>May 2008</p> <p>May 2008</p>       |
| 12 | <b>Exception Report</b>  |  |                                       |
|    | <p>Electronically monitor (in real time) the validation terminals and assess the possibility of implementing an automated system to identify unusual retailer practices that require investigation.</p>  | <p>Phase 1: (Provide investigators with the tools needed to uncover unusual practices): completed</p> <p>Phase 2 (Install tools to detect, in the electronic transaction log of the Lottery Sales Network, all events that may be a sign of fraud or abuse by a retailer): in analysis to determine priorities</p> | <p>January 2009</p> <p>March 2010</p> |
| 13 | <b>Preventive Controls</b>   |  |                                       |
|    | <p>There should be a protocol requiring that no preventive controls at Loto-Québec be divulged to anyone, including retailers and wholesalers.</p>   | Completed  | December 2008                         |
| 14 | <b>Incentives</b>  |  |                                       |
|    | <p>Reinforce the current process to create an incentive for retailers and their employees to transmit comments related to ticket security, validation and prize payment to Loto-Québec or their wholesaler, when feasible.</p>   | Completed  | June 2008                             |

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| 15 | <p><b>Delegation of Payment</b></p> <p>Review and document the appropriateness of current payment delegation levels that Loto-Québec is prepared to accept as reasonable, based on prize structure.</p>   | Completed<br>(All retailers can pay prize amounts of \$600 or less.)  | April 2008  |
| 16 | <p><b>Prize Payment Department Verifications</b></p> <p>Preliminary steps should be implemented within the PPD to ensure that the “real” winner is being paid, even in the case of wins under \$5,000 (refers to area for improvement 21).</p> <p>Moreover, when the National Bank calls for a payment authorization, it should be subject to the same procedures as those of the PPD for prizes in excess of the retailer limit, even if the regulations stipulate that the National Bank must pay the holder. If not, unscrupulous retailers could circumvent the procedures by claiming a prize directly at the National Bank.</p> <p>Verification procedures should be improved in order to corroborate a ticket’s date of purchase and validation.</p> | <p>Completed,<br/>(Implementation of the decision tree)</p> <p>Completed<br/>(The NBC no longer offers a prize payment service.)</p> <p>Completed</p> | <p>March 2008</p> <p>March 2008</p> <p>March 2008</p> |

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| 17 | <b>Adequate Tools for the Prize Payment Department (PPD)</b>  |   |             |
|    | Implement necessary management procedures so that the PPD can consult the registers of employees of retailers, Loto-Québec and its subsidiaries, as well as the register of wholesaler names, prior to prize payment occurring.   | Completed   | March 2008  |
|    | With the new terminals, assess the feasibility of:<br>Making e-learning training mandatory for retailers and their employees in order to obtain a confidential access code for operating the terminal. In this way, employee names could automatically be posted to an electronic register.                           | Completed<br>At this time, over 41,000 learners have successfully completed mandatory annual training | April 2008  |
|    | For retailers not equipped with the new terminal and who are consequently excluded from the <i>e-learning</i> option, we propose asking (through regular terminal messages) that employee names and personal information be first submitted to their wholesalers and subsequently kept up to date on a regular basis. | Completed   | May 2008    |

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| 18 | Initially, provide Prize Payment Department employees with access to historical information on all prizes that have been won, including names, addresses, dates and amounts, in order to better track winners.   | Completed   | March 2008    |
|    | At a later date, the system should allow for automated searches through the registers of retailers, retailer employees, wholesalers and Loto-Québec and its subsidiaries.  | Completed (except for retailer employees who will be added to the register as new terminal installation takes place)<br>See item 17 | March 2008    |
| 19 | Modify the retailer number request form to add the retailers' personal information.  | Completed   | June 2008     |
| 20 | Advise retailers and their employees, wholesalers, and employees of Loto-Québec and its subsidiaries that they are required to identify themselves (indicate their relationship to Loto-Québec) when claiming a prize from the Prize Payment Department. | Completed   | December 2007 |

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| 21 | Enhance Prize Payment Department employee supervision with respect to operational policy that currently leaves to much latitude to agent assessment.   | Completed   | February 2008 |
|    | Consequently, set up a working committee to establish a decision tree that includes investigative procedures to guide PPD employees before they issue a payment. This step necessitates the involvement of individuals at many levels of the corporation including legal and investigative services and the PPD.               | Completed   | November 2007 |
|    | The decision tree should take into account both currently available and future information such as complaints about retailers, name registers (retailers and their employees, employees of Loto-Québec, its subsidiaries and wholesalers), the emergency line, history of prizes won and any retailer violations of procedure. | Completed   | March 2008    |
|    | In addition, the questionnaire for prizes in excess of \$10,000 should be revised to include, among others, a question to verify whether the winner is a wholesaler and to formulate questions that are more specific to reduce the risk of not making payment to the "right" winner.  | Completed   | March 2008    |
| 22 | <p><b>Identification</b></p> <p>Loto-Québec should stipulate which ID cards will be acceptable when claiming a prize from the PPD.</p>   | Completed<br>(A Driver's Licence, Medicare card or Passport are acceptable pieces of ID.) | March 2008    |
| 23 | <p><b>Technical Training</b></p> <p>All Prize Payment Department agents who deal with winners of prize amounts of \$5,000 or more should complete interview technique basic training.</p>  | Completed   | February 2008 |

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| 24 | <p><b>1-800 Number</b></p> <p><i>Implement the measure proposed by Loto-Québec, i.e.:</i></p> <ul style="list-style-type: none"> <li>The Customer Service telephone number is to appear on the back of all instant lottery tickets printed after July 3, 2007.</li> </ul> <p><i>Implement the following other measures:</i></p> <ul style="list-style-type: none"> <li>Ensure that the 1-800 Customer Service number also appears in passive (drawing) and online lottery tickets.</li> <li>Indicate the 1-800 Customer Service number and e-mail address on each terminal in clear view of consumers and retailers.</li> <li>Telephone agents for the 1-800 line should be available during a longer period each day. Outside of business hours, a message should refer the consumer to the Internet site for the purposes of filling out an online complaint form.</li> <li>A voice mailbox should be available to enable consumers to leave a message outside of regular business hours.</li> <li>The Customer Service Department's e-mail address should be posted in the "Contact Us" section of Loto-Québec's home page along with the 1-800 phone number.</li> </ul> | <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> | <p>November 2007</p> <p>May 2008</p> <p>December 2007</p> <p>December 2007</p> <p>December 2007</p> <p>November 2007</p> |

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| 25 | <p><b>Call Recording</b></p> <p>Calls to the Customer Service Department should be recorded. The Investigations Department should sample calls on a regular basis to ensure that they were all transferred correctly.</p>  | Completed  | February 2008   |
| 26 | <p><b>Technical Training</b></p> <p><i>Implement measures proposed by Loto-Québec, i.e.:</i><br/>Finalize written procedures for processing complaints and develop training for Customer Service agents to be offered by the Investigations Department on a regular basis.</p> <p><i>Additional written procedures measures:</i></p> <ul style="list-style-type: none"> <li>▪ Request the Investigations Department to comment on written procedures.</li> <li>▪ Plan for an updating mechanism.</li> <li>▪ Review the expressions “incidents” and “complaints” since there is some confusion between the two.</li> <li>▪ Inventory all possible severity 1 and 2 cases so as not to leave category choice to agents’ discretion. Avoid having any cases of the same nature appearing in more than one severity category.</li> </ul> | <p>Completed</p> <p>Completed</p> <p>Ongoing</p> <p>Completed</p> <p>Completed</p> | <p>March 2008</p> <p>March 2008</p> <p>March 2008</p> <p>March 2008</p> <p>March 2008</p> |

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| 27 | <p><b>Following Up Complaints</b></p> <p><i>Implement measures proposed by Loto-Québec, i.e.:</i></p> <ul style="list-style-type: none"> <li>Centralize complaints along with the results of investigations and consumer follow-ups in the current retailer register. This information should be conserved for a longer period of time than 18 months.</li> </ul> | Completed      | March 2008  |
|    | <p><i>Implement the following other measure:</i></p> <ul style="list-style-type: none"> <li>The Customer Service Department should consult the central computerized register when a new complaint is submitted in order to locate any prior grievances concerning the same retailer.</li> </ul>   | Completed      | March 2008  |
| 28 | <p><b>Following Up Recommendations</b></p> <p>All suggested corrective measures concerning any particular retailer should be centralized and responsibility for following up on these measures should be defined in the job description of a Loto-Québec employee.</p>  | Completed      | May 2008    |
|    | <p>Written proof of the notice sent to the retailer and any measures taken should also be transmitted to the appropriate responsible individual within the corporation. This measure could subsequently be the subject of an audit by Loto-Québec's Internal Auditing Department.</p>   | Completed      | July 2008   |
| 29 | <p><b>Investigation Protocol</b></p> <p>Finalize the interview questionnaire for prizes in excess of \$10,000 won by retailers or their employees, employees of Loto-Québec and its subsidiaries, or by wholesalers (Also refers to area for improvement 21 related to the implementation of a decision tree within the Prize Payment Department).</p>            | Completed      | March 2008  |
| 30 | <p>Define standard investigation procedures for each possible type of fraud.</p>  | Completed      | March 2008  |

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| 31 | <p><b>Limits on Investigative Rights</b></p> <p>Modify Loto-Québec's directives to include a clause requiring retailers to collaborate with Loto-Québec investigators and transmit this directive to all retailers.</p>  | Completed                              | June 2008                                 |
| 32 | <p><b>Management of Business Risks</b></p> <p>Mandate an independent party to review the business risks (identification, assessment and management), and ensure that this individual will have all necessary power to challenge risk definition and controls currently in place at Loto-Québec. The individual should be a member of a major committee, such as:</p> <ul style="list-style-type: none"> <li>– The committee established in April 2007 comprised of certain members of Loto-Québec's senior management team</li> <li>– Working subcommittees to be created at Loto-Québec to follow up on and implement means in areas for improvement selected by the Corporation</li> </ul> | Completed                              | November 2007                             |
| 33 | <p>Implement an action plan (with time limits and follow-up) for the working subcommittees created to follow up on and implement the improvement strategies, with formal presentation of all points to be made to the President and Chief Executive Officer of Loto-Québec.</p>  | Completed                              | November 2007                             |
| 34 | <p>Provide a clear explanation of the difference between operational policy, administrative processes and procedures. Ensure that administrative processes and procedures are connected to operational policy.</p> <p>Update operational policies, administrative processes and procedures in the light of new recommendations or areas for improvement that will be selected by Loto-Québec.</p>  | <p>Completed</p> <p>In development</p> | <p>December 2007</p> <p>November 2009</p> |
| 35 | <p><b>Ticket Security</b></p> <p>Obtain independent outside expertise on physical site security in order to understand the potential risks of a break-in on the printer's premises, and assure regular follow-up.</p>  | Completed                              | October 2008                              |