

Pages 1 through 25 redacted for the following reasons:

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AUDIT REPORT

BCLC
Anti Money Laundering Compliance Regime Audit
GPEB File # COMM-7092
January 1, 2012, to December 31, 2012

EXECUTIVE SUMMARY

An audit of BCLC's Anti Money Laundering Compliance Regime was conducted to verify compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA), Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) guidelines, and the Gaming Control Act and Regulation.

The scope of the audit included a review of BCLC's anti money laundering compliance regime including organizational structure and responsibilities, risk assessment, training, record keeping and client identification, and reporting. The effectiveness of the regime as demonstrated through gaming facility audits conducted throughout the audit period was also reviewed. Procedures were performed on a test basis.

One repeat issue was identified during the course of the audit: BCLC's interpretation and implementation of **FINTRAC Interpretation Notice No. 4 (August 31, 2009) The "24-Hour Rule"**. An example clarifying the difference between BCLC's interpretation and GPEB's understanding of FINTRAC's directive is included below.

AUDIT OBJECTIVES

The objectives of the audit were to:

- Verify compliance with FINTRAC guidelines applicable to BCLC within its gaming facilities;
- Verify compliance with FINTRAC guidelines applicable to BCLC regarding reporting of large cash transactions and suspicious transactions;
- Verify compliance with the Gaming Control Act (GCA) and Regulation (GCR).

AUDIT SCOPE

A risk assessment was performed to identify areas to be reviewed. Specific fieldwork was performed in the following areas:

- FINTRAC compliance regime;
- FINTRAC record keeping systems;
- FINTRAC reporting systems.

AUDIT PROCEDURES

Fieldwork was performed throughout the audit period (January 1, 2012, to December 31, 2012), at BCLC gaming facilities. Audit work was also conducted at BCLC's corporate offices in Vancouver, BC, at the end of the audit period. Audit procedures were conducted on a test basis to provide reasonable assurance of compliance. Auditors performed on-site compliance work through observation, interview and testing. Substantial additional testing was performed off-site through the review of records and training materials provided by service providers and BCLC.

A sample made up of 303 Large Cash Transaction Reports (LCTRs) resulting from buy-ins, disbursements and foreign exchanges occurring during the period January 1, 2012, to December 31, 2012, was reviewed for compliance with FINTRAC requirements. A sample of 79 Suspicious Transaction Reports (STRs) occurring during the period January 1, 2012, to November 30, 2012, was also reviewed for compliance with FINTRAC requirements.

FINDINGS

Details of the issues resulting from the audit procedures are discussed below:

- 1) **FINTRAC Guideline 4: Implementation of a Compliance Regime, Section 7 Ongoing Compliance Training** states, in part, "If you have employees, agents or other individuals authorized to act on your behalf, your compliance regime has to include training. This is to make sure that all those who have contact with clients, who see client transaction activity, who handle cash or funds in any way or who are responsible for implementing or overseeing the compliance regime understand the reporting, client identification and record keeping requirements. This includes those at the 'front line' as well as senior management." Section 7 also states, in part, "Standards for the frequency and method of training, such as formal, on-the-job or external, should be addressed. New people should be trained before they begin to deal with clients. All should be periodically informed of any changes in anti-money laundering or anti-terrorism legislation, policies and procedures, as well as current developments and changes in money laundering or terrorist activity financing schemes particular to their jobs. Those who change jobs within your organization should be given training as necessary to be up-to-date with the policies, procedures and risks of exposure to money laundering or terrorist financing that are associated with their new job."

BCLC currently requires all new employees to complete training prior to commencing work on the gaming floor. Employees are also required to be retrained within two years of having last successfully completed training. Training is delivered in two ways - online or classroom instruction. For the purposes of this review the 2012 BCLC Anti Money Laundering Training online course was reviewed. The same material is used when delivering classroom instruction. The training is designed to be completed in approximately one hour and includes familiarization with anti money laundering terms, a review of regulatory bodies and their functions, applicable legal acts and regulations, legal requirements within gaming facilities, examples of attempted money laundering and suspicious transaction scenarios, duties as a gaming employee including record keeping, identification, and reporting requirements. The training package also includes questions and answers (no marks) to test and reinforce

knowledge as employees make their way through the material. Training ends with a multiple choice test. Twenty questions are randomly selected from a pool of 30 questions. Employees must achieve a mark of 70% in order to successfully complete the course. Employees that do not pass must retake the test until it is passed. A review of the online and classroom training materials determined the current training material is sufficient to prepare employees re: anti money laundering and suspicious transactions.

A review of BCLC training records generated February 5, 2013, indicated the “registration status” for three of 5,623 employees working at 36 gaming sites as “unknown” rather than “completed” or “passed”.

Note: Nine employees were listed as not having completed retraining within the prescribed two year period; however, all nine employees identified were also listed as on leave or having not worked at the site for some time. Comments indicated the employees will be required to complete training prior to returning to the gaming floor.

BCLC Response:

BCLC conducted a further review to determine why BCLC training records indicated the “registration status” for the three[3] gaming employees as “unknown” rather than “completed” or “passed”. BCLC identified the following three[3] gaming employees whose status was classified as “unknown”;

- s.22 - The report given to GPEB shows she spent 158 minutes on the course however the status was not updated. This was a software recording issue in the BCLC learning system which occurs on occasion. BCLC IT are currently engaged in rectifying this anomolie. Records indicate that s.22 had in fact completed the training at the time of GPEB audit.
- s.22 - BCLC review indicates that s.22 completed the training on Feb. 5th, the day of GPEB audit.
- s.22 - This employee’s position at Chances Dawson Creek is that of a s.22 . As such there is no requirement for him to take the AML course.

2) FINTRAC Guideline 6F: Record Keeping and Client Identification for Casinos, Sections 3.2, 3.6 and 3.10 specifies record keeping requirements for large cash transactions.

During gaming facility audits, GPEB auditors observe and interview gaming facility staff and review records to determine their level of understanding regarding identifying and reporting large cash transactions and suspicious transactions. A review of GPEB audit reports for 17 gaming facilities audited during the period reviewed determined no exceptions regarding record keeping and client identification for large cash transactions (CDN\$10,000).

BCLC Response: We note that there were no exceptions.

3) **FINTRAC Guideline 7A: Submitting Large Cash Transaction Records to FINTRAC Electronically, Section 3.2** requires reports to be sent to FINTRAC within 15 calendar days after transactions occur.

A review of a sample of 303 Large Cash Transaction records determined no exceptions regarding reporting to FINTRAC within 15 calendar days after transactions occurred.

A review of GPEB audit reports for 17 gaming facilities audited during the period reviewed determined one exception where a report was submitted to FINTRAC more than 15 calendar days after the transaction occurred:

Gaming facility: Chances Mission

LCT#: 20120011948

Date of transaction: March 17, 2012 (ID not produced, jackpot not awarded)

Date ID produced: March 22, 2012 (jackpot awarded)

Date LCT entered into iTrak: April 12, 2012

Date LCT reported and accepted by FINTRAC: April 16, 2012

Days to report: March 22, 2012, to April 16, 2012 = 25 days

BCLC Response:

BCLC and its Service Providers are committed to the timely reporting of all large cash transactions. BCLC Investigators conduct daily reviews of all large cash transactions to ensure appropriateness, timeliness and accuracy of reporting. Upon being notified by the GPEB auditor BCLC determined that the patron did not produce valid identification on March 17, 2012 therefore his jackpot was delayed. Although the patron returned on March 22, 2012 [5 days after the date of the transaction] and presented valid identification, the gaming facility omitted to create and file the electronic LCT within the requisite 15 day period. This was simply an oversight on their part. This large cash disbursement was reported to Fintrac on April 12, 2012 and processed by Fintrac on April 16, 2012.

FINTRAC Guideline 7A: Submitting Large Cash Transaction Records to FINTRAC Electronically, Section 3.2 also states, in part, “Do not make a large cash transaction report to FINTRAC if the cash is received from a financial entity ... Financial entities include those listed in Schedule I or II of the Bank Act. These include Canadian and authorized foreign financial banks with respect to operations in Canada.” **FINTRAC Guideline 8A, Section 3.2** also states, in part, “... you have to report incoming and outgoing international electronic funds transfers (EFTs) of \$10,000 or more to FINTRAC....”

BCLC currently reports to FINTRAC deposits to and withdrawals from Patron Gaming Fund (PGF) accounts. Instructions regarding the reporting of these transactions are included in anti money laundering training materials as well as BCLC Casino and CGC Standards, Policies and Procedures documents. (PGF accounts are offered to patrons by some service providers in an effort to reduce the amount of cash entering and leaving gaming facilities and to

enhance patron safety.) Currently, all transfers of funds are being conducted between service providers and Canadian financial institutions. Therefore, BCLC is currently reporting PGF transactions not required to be reported under FINTRAC guidelines. Note: s.13

BCLC Response:

BCLC agrees with GPEB comments that we may be over reporting to Fintrac in the area of PGF accounts. BCLC does so out of an abundance of caution to ensure compliance with not only Fintrac guidelines but also its Provincial regulator the Gaming Policy and Enforcement Branch who sanctioned/approved the use of these accounts under very stringent guidelines. The PGF reporting process is presently under review in consideration of this recommendation.

- 4) **FINTRAC Interpretation Notice No. 4 (August 2009) The “24-Hour Rule”** states, in part, “You ... have to submit an LCTR if you conduct two or more cash transactions of less than \$10,000 each within 24 consecutive hours of one another ... that add up to \$10,000 or more....” “The 24-hour rule applies if you as a reporting entry know ... that the transactions were made within 24 consecutive hours of each other....” The Interpretation Notice includes a number of examples to explain how LCTRs are to be calculated. The examples illustrate situations where individual amounts may be included in more than one LCTR. A review of BCLC LCTRs determined that this procedure is not being followed when determining whether an LCTR should be created and reported to FINTRAC. Therefore BCLC is underreporting LCTRs to FINTRAC, e.g.:

LCT #	Date & Time	Amounts	Reported by BCLC	FINTRAC Minimum Requirement	Description
20120015912	s.22				

Note: This is a repeat finding. GPEB Audit and Compliance Division has confirmed its understanding of **FINTRAC Interpretation Notice No. 4 (August 31, 2009) The “24-Hour**

Rule” with FINTRAC. BCLC has indicated it believes its method of calculating LCTRs meets FINTRAC guidelines. This issue remains unresolved.

BCLC Response:

BCLC recognizes that this has been a repeat finding over the past three years however BCLC continues to wait for clarification of the “24 Hour Rule” in the Department of Finance Consultation Paper dated December 2011 entitled “Strengthening Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime.” To date the method by which BCLC calculates LCTRS has not been questioned by Fintrac. As such BCLC would like to defer this particular observation by GPEB until clarification can be received of the 24 hour rule in the consultation paper prior to taking any definitive action in this area.

- 5) **FINTRAC Guideline 3A: Submitting Suspicious Transaction Reports to FINTRAC Electronically, Section 3.2** states, in part, “Once you have determined that there are reasonable grounds to suspect that the transaction or attempted transaction is related to a money laundering or terrorist financing offence, your report, including all required and applicable information, must be sent within 30 calendar days. This 30-day reporting time limit begins when you or any one of your employees first detects a fact about a transaction that constitutes reasonable grounds to suspect that it is related to the commission of a money laundering or terrorist financing offence.”

A review of a sample of 79 Suspicious Transaction Reports for the period January 1, 2012, to November 30, 2012, determined all reports were appropriately submitted within the prescribed time frame.

BCLC Response: We note that there were no exceptions.

CONCLUSION

BCLC has acknowledged the exceptions in this report and has provided responses indicating issues have been addressed as noted. BCLC has requested to defer any definitive action pertaining to the “24-Hour Rule” until it has received clarification re: this issue.

Commercial Gaming Audit
Audit and Compliance Division
May 9, 2013

DISTRIBUTION LIST

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