

# **CROWN AGENCIES AND CORPORATIONS**

## 14.

### ATLANTIC LOTTERY CORPORATION INC. - FOLLOW-UP OF 1996 SHAREHOLDER'S AUDIT

#### BACKGROUND

**14.1** Our Report last year included a chapter on the results of our audit coverage of the Atlantic Lottery Corporation Inc. (ALC). That 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.

**14.2** 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 \$5.5 billion up to and including the fiscal year ended March 31, 1997. After prizes, commissions and other costs of approximately \$3.6 billion, ALC has distributed profits of \$1.85 billion to its shareholders, including \$733.8 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.

**14.3** 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."*

**14.4** In the fall of 1997, subsequent to ALC management's appearance before the Nova Scotia Legislature's Public Accounts Committee (PAC), we requested information from ALC on the status of action taken or planned for the specific recommendations included in our Report as a result of the 1996 Shareholder's Audit. Since certain of the recommendations in that report required shareholder involvement, we also sought information from the NSGC.

**14.5** The purpose of this chapter is to provide current information on ALC, the status of action taken or planned, and summary observations resulting from our follow-up.

#### RESULTS IN BRIEF

**14.6** The following highlights the principal observations from our review.

- Since last year's Report, progress has been made in implementing the recommendations. There still remains much to accomplish, particularly with regard to matters requiring agreement of the shareholders.
- The manner in which ALC's costs and profit are being allocated continues to result in certain shareholder provinces, in essence, subsidizing other jurisdictions. During the audit in 1996, by applying an alternative cost allocation methodology to ALC's 1995-96 results, we estimated that Nova Scotia's share of ALC's profit distribution could have been higher. Similar impacts could be anticipated each year until the issue is resolved.

- ALC's status as an agency of government has yet to be resolved. This matter should be 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. ALC's status as a Nova Scotia crown corporation has been resolved. It is not a Nova Scotia crown corporation under various Nova Scotia statutes.

## SCOPE OF REVIEW

**14.7** The objective of this review was to determine the action taken or planned by ALC and its shareholders related to the management and control of certain aspects of the Corporation's operations. We also wanted to provide updated background information and analysis on ALC and the results of its operations in order to support increased awareness and understanding.

**14.8** Our approach included discussions with ALC and NSGC representatives, and a review of available documentation, including ALC's Board and Audit Committee minutes, ALC's Annual Report and testimony to the PAC in Nova Scotia.

**14.9** We have not performed specific audit verification of the various representations provided to us, and provide no opinion on their completeness and accuracy.

## PRINCIPAL FINDINGS

### *Updated Background Information*

**14.10** Each of the Atlantic provinces 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., regarding 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.

**14.11** 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, except where a decision affects only one province. Another exception is changes to the methodology for allocation of profits to the shareholders, which require unanimous approval.

**14.12** 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).

**14.13** Last year's chapter included a significant amount of background information and analysis on ALC's organization and results. We have reproduced the following exhibits, most of which were included in last year's report, updated to reflect 1997 organizational changes, plans and operating results to March 31, 1997:

Exhibit 14.1 - Overall Governance, Accountability and Management Organization in 1997

Exhibit 14.2 - Corporate Mission and Key Objectives

Exhibit 14.3 - Summary of Results

Exhibit 14.4 - Summary of Operating Expenses

Exhibit 14.5 - Summary of Terminals and Sites

Exhibit 14.6 - Allocation of Gross Profit by Game Type

Exhibit 14.7 - Income from Video Lottery

Exhibit 14.8 - Video Lottery Receipts

Exhibit 14.9 - Profits Distributed

**14.14 *Organization Overview*** - ALC, through its Board of Directors, has operational and regulatory accountability relationships to each of the Atlantic provinces. Exhibit 14.1 on page 149 provides summary information on the governance, accountability and management organization for ALC's operations during 1997.

**14.15 *Corporate Mission and Key Objectives*** - ALC's response to our request for information on the status of action taken or planned indicates that a new Corporate strategic plan was approved by the Board on October 6, 1997. Exhibit 14.2 on page 150 includes ALC's updated mission statement and a summary of the Corporation's key objectives and related measures defined in the strategic plan. It is our understanding that the key objectives will be subject to further Board discussions.

**14.16 *Summary of ALC's Results*** - Exhibit 14.3 on page 151 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 video lottery program (VLP) and the "Gross ticket sales" from all other lottery programs.

**14.17 *Financial Control and Reporting*** - ALC's audited financial statements are presented to the Board and published in the Corporation's Annual Report. Exhibit 14.4 on page 152 provides a summary of the operating expenses by division, for the period 1993 to 1997, as reported in the audited financial statements. We have included an alternative break down of the operating expenses by category which is not disclosed in the audited financial statements.

**14.18 *Video Lottery Program (VLP)*** - Since the implementation of VLP 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. The following comments and information on the VLP 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.

**14.19 *Summary of terminals and sites*** - Exhibit 14.5 on page 153 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, 1997.

**14.20** *Allocation of gross profit by game type* - Exhibit 14.6 on page 154 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. Three years later in 1997 the VLP gross profit is 115% of the amount generated from ticket games. Since 1994, the VLP's contribution to gross profit had increased 77% from \$109 million to \$193 million. Ticket games' gross profit grew from \$142 million to \$167 million, an increase of about 18% during the same period.

**14.21** *Income from video lottery* - Exhibit 14.7 on page 155 provides the net video lottery receipts and the related expenses for each shareholder province for the year ended March 31, 1997. 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 the involvement of private sector coin-operators.

**14.22** *Compliance with VLT prize payout regulations* - Financial information was obtained from ALC to enable the preparation of a schedule showing "cash in" and "cash out" (which prior to 1995-96 were termed "gross video lottery receipts" and "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 14.8 on page 156.

**14.23** *Segmented Operations by Province* - ALC's annual report at March 31, 1997, page 22, included a summary of the results of segmented operations by province which shows the contributions that traditional and video lottery make to gross profit. These contributions were determined on the basis of the current profit allocation methodology and are not determined on a full cost basis. Management have indicated that this information will be provided on a more full cost basis in ALC's 1997-98 annual report. We have prepared Exhibit 14.9 on page 157, which provides a more detailed segmented analysis of the results for 1996-97 for ALC in total and Nova Scotia's share.

### ***Status of Action Taken or Planned***

**14.24** During the course of last year's 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 included various recommendations for consideration by the appropriate combination of ALC's management, Board, shareholders and/or shareholder provinces.

**14.25** As part of this follow-up review process we requested ALC and the Nova Scotia shareholder to provide us with summary representations of the status of action taken or planned in relation to the recommendations included in last year's Report. Appendix 14A to this chapter on page 158 lists our recommendations, organized under the major headings of last year's Report, together with the status comments received from ALC and the NSGC. ALC's initial response included in last year's chapter is entitled ALC 96, and the Corporation's responses during 1997 are titled ALC July/97 and ALC Nov/97 Update. The NSGC's comments are italicized, and are provided for those recommendations that required consideration by shareholders directly.

### ***Discussion of Significant Issues***

**14.26** *Profit Distribution* - The unanimous shareholder agreement, of November 15, 1976 and amended April 8, 1991, dictates the manner in which ALC's costs and profit are to be allocated and results in certain shareholder provinces, in essence, subsidizing other jurisdictions. We acknowledge

that action has commenced to correct this situation, with the NSGC's introduction of a motion to amend the profit allocation formula at the ALC shareholder meeting held on June 16, 1997.

**14.27** Using information for the 1995-96 fiscal year, we estimated that Nova Scotia's share of ALC's profit distribution could have been higher in that year if a fuller and fairer allocation of costs had been part of the approved profit distribution methodology. Similar impacts could be anticipated each year until the profit distribution methodology is revised.

**14.28** Further, the impact on profit distributions of the Board's decisions to enter into a long-term lease for the new head office space and the new retail terminal project will commence with the fiscal year ended March 31, 1998.

**14.29** *ALC's Status* - This has been a topic of significant research and discussion, and is yet to be resolved. We note that the focus has tended to be limited to ALC's status as a "crown corporation". It has been indicated that ALC is not a crown corporation under Section 70 of the Provincial Finance Act. However, we wish to emphasize that in Nova Scotia there are other categories or classifications for public sector entities that need to be considered as well (e.g., "agency of government" as defined in Section 2(1)(a) of the Auditor General Act, which is referred to in other statutes such as the Public Sector Compensation (1994-1997) Act; and "department" as defined in Section 2(e) of the Provincial Finance Act). Further, ALC's status needs to be formally clarified in order to determine the applicability to its operations of the various and differing statutory and administrative policy directives of the shareholder provinces.

**14.30** *Wage Restraint* - During ALC management's meeting with the Nova Scotia PAC on October 15, 1997, information was requested on recent year's compensation changes (i.e., economic and merit). In response to the inquiries by Committee Members, ALC management focussed solely on the data that was included in our 1996 Report. ALC management did not indicate to the PAC that the Corporation's Board had approved additional compensation increases that took affect in 1997-98. ALC's Board minutes of May and June 1997 indicate that economic and other increases to management and staff were approved for 1997-98. We raise this point as it relates to ALC's status as an "agency of government" under the Auditor General Act, a definition that is referred to directly in the applicability of the Public Sector Compensation (1994-1997) Act in Nova Scotia.

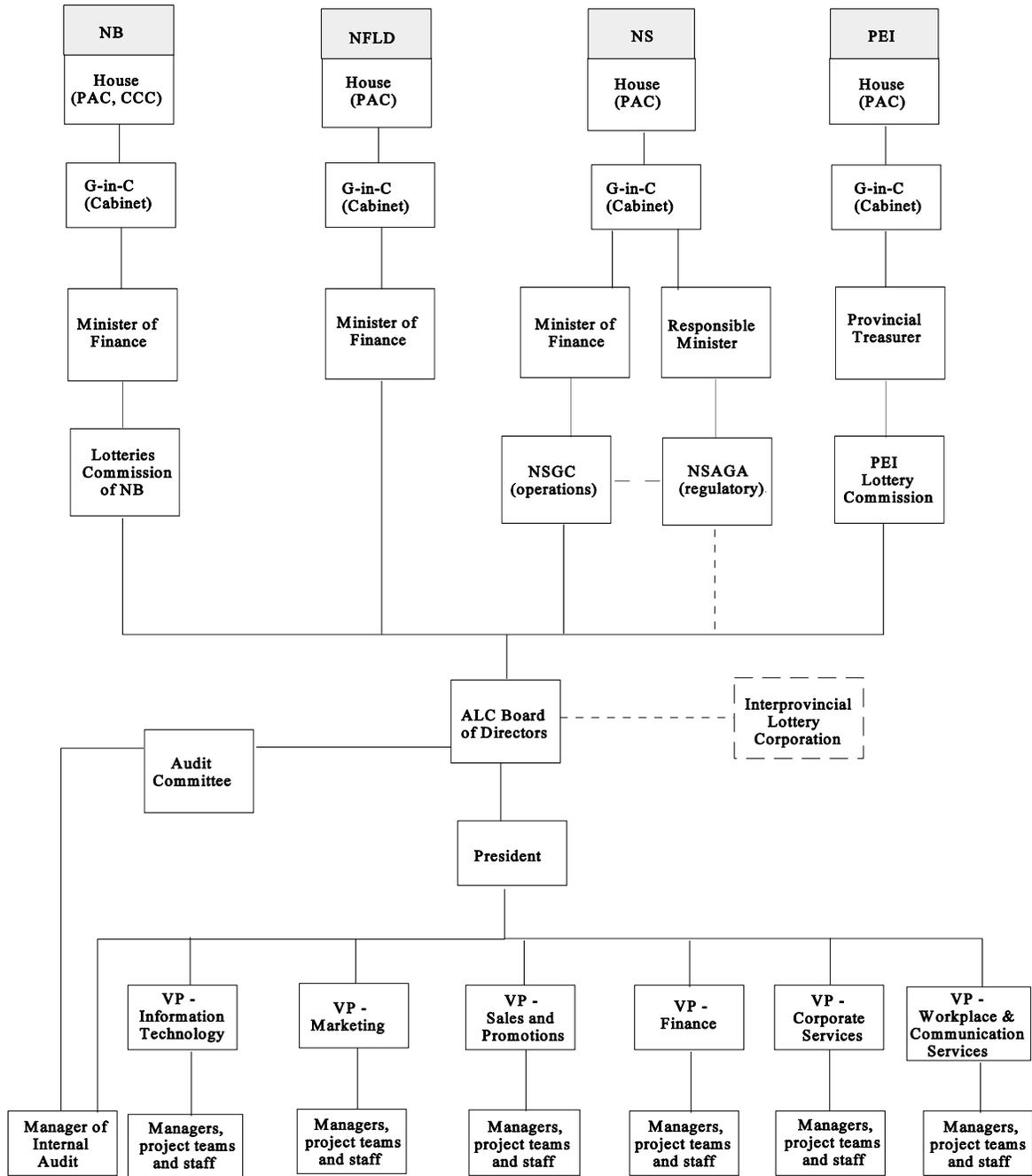
**14.31** *ALC's Annual Report* - Some of our recommendations to expand and improve ALC's Annual Report have been implemented, resulting in improved reporting for the year ended March 31, 1997. ALC's Annual Report included a number of representations. We wish to draw attention to the representation "We were pleased, though not surprised, when the report confirmed that ALC is a credible, accountable organization." (included on page 9 of ALC's Annual Report), which related to the shareholder's audit conducted jointly by the Auditors General of Nova Scotia and New Brunswick. This statement is not consistent with the overall conclusion resulting from the review and our Report clearly identifies the need for improved accountability and reporting by ALC.

## CONCLUDING REMARKS

**14.32** Action has been taken, or is in process or planned by ALC and its shareholders, to deal with many of the recommendations included in last year's Report. However, there remain significant issues to be fully dealt with by ALC and its shareholders, including those impacting on the economy and efficiency of ALC's activities and results as they relate to gaming in Nova Scotia.

*Exhibit 14.1*

**Overall Governance, Accountability and Management Organization in 1997**



**Exhibit 14.2****CORPORATE MISSION AND KEY OBJECTIVES**

(Source: ALC's 1997-2001 Strategic Plan)

**Mission**

*“The ALC is committed to being the shareholders’ agency of choice by managing profitable, entertaining lottery and gaming activities within the existing social and legal framework in Atlantic Canada.”*

<b>Key Objectives</b>	<b>To be Measured By</b>
<i>To achieve targeted growth through maintenance of existing products, development of new products and expansion into new channels of distribution.</i>	<ul style="list-style-type: none"> <li>- Revenue and profit growth</li> <li>- Percentage of growth from new products and new channels</li> </ul>
<i>To continually improve on ALC's efficiency, effectiveness and profit.</i>	<ul style="list-style-type: none"> <li>- Revenue and profit per employee</li> <li>- Operating costs in comparison to other lotteries</li> </ul>
<i>To continually improve on ALC's asset utilization.</i>	<ul style="list-style-type: none"> <li>- Profit per terminal</li> <li>- Rate of return on investment in new technology</li> </ul>
<i>To enhance shareholder relations.</i>	<ul style="list-style-type: none"> <li>- Shareholder satisfaction</li> </ul>
<i>To provide players with products that are enjoyable to play and conveniently available.</i>	<ul style="list-style-type: none"> <li>- Customer satisfaction with ALC products and retailer service</li> <li>- Players as a percentage of adult population</li> </ul>
<i>To provide our retailers with the service and support they require to give the best possible service to our players.</i>	<ul style="list-style-type: none"> <li>- Retailer satisfaction</li> <li>- Product availability</li> </ul>
<i>To be recognized as a responsible, trustworthy and innovative corporation.</i>	<ul style="list-style-type: none"> <li>- Public approval ratings</li> <li>- Media tracking scores</li> </ul>
<i>To ensure that internal processes meet changing customer needs.</i>	<ul style="list-style-type: none"> <li>- Availability of gaming and business systems</li> <li>- Percentage of sales from new products</li> <li>- New product introduction versus other lotteries</li> </ul>
<i>To foster a satisfying, challenging and motivating work environment with appropriate work tools and information that results in productive and contributing employees.</i>	<ul style="list-style-type: none"> <li>- Employee satisfaction (Work Environment Survey)</li> <li>- Employee turnover</li> </ul>

*Exhibit 14.3*

**Summary of Results as at March 31 (\$000)**  
(Source: ALC's audited and internal financial statements)

	<b>Total</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>	<b>Sub-total 1976 to 1992</b>
<b>Sales:</b>							
Gross ticket sales	\$4,184,887	\$ 454,244	\$ 436,781	\$ 409,406	\$ 370,037	\$ 346,995	\$2,167,424
Net video lottery receipts	<u>1,301,507</u>	<u>299,947</u>	<u>281,047</u>	<u>246,507</u>	<u>195,493</u>	<u>183,897</u>	<u>94,616</u>
	5,486,394	754,191	717,828	655,913	565,530	530,892	2,262,040
<b>Direct expenses:</b>							
Prizes on ticket sales	2,107,311	243,239	233,035	216,014	193,295	180,665	1,041,063
Commissions	801,896	139,738	131,708	122,805	112,357	111,724	183,565
- Regular lottery	383,723	32,922	31,916	29,335	26,380	24,686	131,668
- VLT site-holders	286,124	75,681	70,919	64,303	59,773	60,153	30,976
- VLT owners (coin operators)	132,049	31,135	28,873	29,166	26,204	26,885	20,921
Ticket printing	<u>119,382</u>	<u>10,938</u>	<u>9,461</u>	<u>9,272</u>	<u>8,318</u>	<u>9,092</u>	<u>72,301</u>
	<u>3,028,585</u>	<u>393,915</u>	<u>374,204</u>	<u>348,091</u>	<u>313,970</u>	<u>301,481</u>	<u>1,296,929</u>
Gross profit	2,457,805	360,276	343,624	307,822	251,561	229,411	965,111
<b>Operating expenses</b>	<u>497,365</u>	<u>54,666</u>	<u>51,325</u>	<u>51,079</u>	<u>42,012</u>	<u>40,676</u>	<u>257,607</u>
Operating profit	1,960,440	305,610	292,299	256,743	209,548	188,735	707,504
Interest and other income	<u>25,658</u>	<u>2,392</u>	<u>2,852</u>	<u>886</u>	<u>645</u>	<u>989</u>	<u>17,894</u>
	1,986,098	308,002	295,151	257,629	210,194	189,724	725,398
Less:							
- Government of Canada	56,434	3,635	3,565	3,525	3,584	3,444	38,681
- Goods and Services Tax	65,368	13,116	11,970	11,250	9,549	11,319	8,164
- Special commissions to non-profit organizations	3,781	209	220	260	254	302	2,536
- NS retailers bonus	<u>10,483</u>	<u>3,936</u>	<u>3,733</u>	<u>2,814</u>	-	-	-
	<u>136,066</u>	<u>20,896</u>	<u>19,488</u>	<u>17,849</u>	<u>13,387</u>	<u>15,065</u>	<u>49,381</u>
<b>Profit available for distribution</b>	<u>\$1,850,032</u>	<u>\$ 287,106</u>	<u>\$ 275,663</u>	<u>\$ 239,781</u>	<u>\$ 196,806</u>	<u>\$ 174,659</u>	<u>\$ 676,017</u>
<b>Profit allocation:</b>							
New Brunswick	\$ 559,602	\$ 87,026	\$ 82,031	\$ 63,902	\$ 57,412	\$ 47,236	\$ 221,995
Newfoundland	458,659	75,038	74,117	69,173	54,627	43,664	142,040
Nova Scotia	733,852	110,243	104,916	94,055	73,320	75,266	276,051
Prince Edward Island	<u>97,919</u>	<u>14,799</u>	<u>14,599</u>	<u>12,650</u>	<u>11,447</u>	<u>8,493</u>	<u>35,931</u>
	<u>\$1,850,032</u>	<u>\$ 287,106</u>	<u>\$ 275,663</u>	<u>\$ 239,781</u>	<u>\$ 196,806</u>	<u>\$ 174,659</u>	<u>\$ 676,017</u>

*Exhibit 14.4*

**Summary of Operating Expenses (\$000)**  
(Source: ALC's audited and internal financial statements)

	1997		1996		1995		1994		1993	
<b>Expense by Division, Per Financial Statements</b>										
Marketing	\$ 9,055	16.6%	\$ 8,694	16.9%	\$ 8,757	17.1%	\$ 5,230	12.4%	\$ 6,394	15.7%
Sales and Promotion	8,226	15.0%	7,601	14.8%	7,984	15.6%	7,028	16.7%	6,658	16.4%
Finance	2,318	4.2%	2,108	4.1%	2,058	4.0%	2,048	4.9%	1,760	4.3%
Corporate Services	8,238	15.1%	7,511	14.7%	7,218	14.1%	6,334	15.1%	6,667	16.4%
Information Systems	<u>26,829</u>	49.1%	<u>25,412</u>	49.5%	<u>25,062</u>	49.1%	<u>21,372</u>	50.9%	<u>19,197</u>	47.2%
Total	<u>\$ 54,666</u>	100.0%	<u>\$ 51,325</u>	100.0%	<u>\$ 51,079</u>	100.0%	<u>\$ 42,012</u>	100.0%	<u>\$ 40,676</u>	100.0%
<b>Expense by Category</b>										
Salaries & benefits	\$ 16,622	30.4%	\$ 15,391	30.0%	\$ 14,175	27.8%	\$ 12,242	29.1%	\$ 11,226	27.6%
Depreciation	9,504	17.4%	9,649	18.8%	9,890	19.4%	9,422	22.4%	8,042	19.8%
Advertising	6,500	11.9%	5,962	11.6%	6,277	12.3%	3,673	8.7%	5,275	13.0%
Market development	897	1.6%	998	1.9%	991	1.9%	824	2.0%	461	1.1%
Communication										
material	553	1.0%	656	1.3%	543	1.1%	509	1.2%	665	1.6%
General services	2,233	4.1%	2,214	4.3%	2,356	4.6%	1,581	3.8%	0	0.0%
Professional services	209	0.4%	180	0.4%	173	0.3%	279	0.7%	2,345	5.8%
Occupancy cost	1,813	3.3%	1,438	2.8%	1,618	3.2%	1,334	3.2%	1,220	3.0%
Office supplies	526	1.0%	510	1.0%	678	1.3%	879	2.1%	788	1.9%
Vehicle leasing	359	0.7%	56	0.1%	0	0.0%	0	0.0%	0	0.0%
Rent of equipment	84	0.2%	74	0.1%	133	0.3%	139	0.3%	218	0.5%
Equipment &										
maintenance	3,757	6.9%	3,598	7.0%	3,528	6.9%	2,315	5.5%	2,839	7.0%
Telecommunications	5,977	10.9%	5,545	10.8%	4,943	9.7%	4,358	10.4%	3,830	9.4%
Travel & vehicle	1,993	3.7%	1,867	3.6%	1,775	3.5%	1,655	3.9%	1,750	4.3%
Retail sales support	2,128	3.9%	1,808	3.5%	2,184	4.3%	1,267	3.0%	879	2.2%
Human resources	267	0.5%	185	0.4%	346	0.7%	316	0.8%	124	0.3%
Training	377	0.7%	327	0.6%	330	0.6%	428	1.0%	218	0.5%
Bad debt	92	0.2%	100	0.2%	234	0.5%	102	0.2%	170	0.4%
Other	<u>775</u>	1.4%	<u>767</u>	1.5%	<u>905</u>	1.8%	<u>689</u>	1.6%	<u>626</u>	1.5%
Total	<u>\$ 54,666</u>	100.0%	<u>\$ 51,325</u>	100.0%	<u>\$ 51,079</u>	100.0%	<u>\$ 42,012</u>	100.0%	<u>\$ 40,676</u>	100.0%

*Exhibit 14.5*

**Summary of Terminals and Sites  
For the Year Ended March 31, 1997**  
(Source: ALC & ALC's internal financial statements)

	Total	NB	Nfld	NS	PEI
<b>Regular Lottery</b>					
Gross Sales	\$ 454,244,000	\$ 109,650,000	\$ 147,434,000	\$ 172,652,000	\$ 24,508,000
Retailer Commissions*	\$ 36,858,000	\$ 8,280,000	\$ 9,865,000	\$ 16,850,000	\$ 1,863,000
Average Number of On-Line Terminals	3,228	844	1,107	1,125	153
Average per On-line Terminal					
- Gross Sales	\$ 140,720	\$ 129,917	\$ 133,183	\$ 153,469	\$ 160,187
- Retailer Commissions	\$ 11,418	\$ 9,810	\$ 8,911	\$ 14,978	\$ 12,176
<b>Video Lottery</b>					
Total Cash In	\$ 923,558,000	\$ 287,971,000	\$ 222,802,000	\$ 374,307,000	\$ 38,478,000
Net VLT Receipts (Net Sales)	\$ 299,947,000	\$ 116,274,000	\$ 60,793,000	\$ 106,007,000	\$ 16,873,000
Siteholder Commission	\$ 75,681,000	\$ 27,156,000	\$ 15,151,000	\$ 29,396,000	\$ 3,978,000
Average Number of VLTs	9,623	3,728	2,240	3,026	629
Average Number of Siteholders	2,932	1,614	491	585	242
Average Cash In					
- Per VLT	\$ 95,974	\$ 77,245	\$ 99,465	\$ 123,697	\$ 61,173
- Per Site	\$ 314,992	\$ 178,421	\$ 453,772	\$ 639,841	\$ 159,000
Average Net VL Receipts (Net Sales)					
- Per VLT	\$ 31,170	\$ 31,189	\$ 27,140	\$ 35,032	\$ 26,825
- Per Site	\$ 102,301	\$ 72,041	\$ 123,815	\$ 181,209	\$ 69,723
Average Siteholder Commission					
- Per VLT	\$ 7,865	\$ 7,284	\$ 6,764	\$ 9,714	\$ 6,324
- Per Site	\$ 25,812	\$ 16,825	\$ 30,857	\$ 50,249	\$ 16,438

\*Includes Nova Scotia Bonus Commission of \$3,936,000

*Exhibit 14.6*

<b>Allocation of Gross Profit by Game Type (\$000)</b> (Source: ALC & ALC's external auditor)						
	<b>1997</b>			<b>1996</b>		
	<b>Video Lottery</b>	<b>Ticket Games</b>	<b>Total</b>	<b>Video Lottery</b>	<b>Ticket Games</b>	<b>Total</b>
Gross ticket sales	\$ -	\$ 454,244	\$ 454,244	\$ -	\$ 436,780	\$ 436,780
Net video lottery receipts	<u>299,947</u>	<u>-</u>	<u>299,947</u>	<u>281,047</u>	<u>-</u>	<u>281,047</u>
	<u>299,947</u>	<u>454,244</u>	<u>754,191</u>	<u>281,047</u>	<u>436,780</u>	<u>717,827</u>
Direct expenses						
Prizes on ticket sales	-	243,239	243,239	-	233,035	233,035
Commissions*	106,816	32,922	139,738	99,792	31,915	131,707
Ticket printing	<u>253</u>	<u>10,685</u>	<u>10,938</u>	<u>231</u>	<u>9,230</u>	<u>9,461</u>
	<u>107,069</u>	<u>286,846</u>	<u>393,915</u>	<u>100,023</u>	<u>274,180</u>	<u>374,203</u>
Gross profit	<u>\$ 192,878</u>	<u>\$ 167,398</u>	<u>\$ 360,276</u>	<u>\$ 181,024</u>	<u>\$ 162,600</u>	<u>\$ 343,624</u>
	54%	46%	100%	53%	47%	100%
	<b>1995</b>			<b>1994</b>		
	<b>Video Lottery</b>	<b>Ticket Games</b>	<b>Total</b>	<b>Video Lottery</b>	<b>Ticket Games</b>	<b>Total</b>
Gross ticket sales	\$ -	\$ 409,406	\$ 409,406	\$ -	\$ 370,037	\$ 370,037
Net video lottery receipts	<u>246,507</u>	<u>-</u>	<u>246,507</u>	<u>195,493</u>	<u>-</u>	<u>195,493</u>
	<u>246,507</u>	<u>409,406</u>	<u>655,913</u>	<u>195,493</u>	<u>370,037</u>	<u>565,530</u>
Direct expenses						
Prizes on ticket sales	-	216,014	216,014	-	193,295	193,295
Commissions*	93,469	29,336	122,805	85,976	26,380	112,356
Ticket printing	<u>137</u>	<u>9,135</u>	<u>9,272</u>	<u>158</u>	<u>8,160</u>	<u>8,318</u>
	<u>93,606</u>	<u>254,485</u>	<u>348,091</u>	<u>86,134</u>	<u>227,835</u>	<u>313,969</u>
Gross profit	<u>\$ 152,901</u>	<u>\$ 154,921</u>	<u>\$ 307,822</u>	<u>\$ 109,359</u>	<u>\$ 142,202</u>	<u>\$ 251,561</u>
	50%	50%	100%	43%	57%	100%

\*Excludes Nova Scotia Bonus Commissions of 1997 - \$3,936; 1996 - \$3,733; 1995 - \$2,814 and 1994 - \$0

**Exhibit 14.7**

<b>Income from Video Lottery</b>									
<b>For the Year Ended March 31, 1997 (\$000)</b>									
(Source: ALC & ALC's external auditor)									
	Total	N.B.		P.E.I.		N.S.		Nfld.	
		%		%		%		%	
Net video lottery receipts	\$ 299,947	\$ 116,274	100	\$ 16,873	100	\$ 106,007	100	\$ 60,793	100
Direct costs									
Retailer commission	75,682	27,157	23.35	3,978	23.57	29,396	27.73	15,151	24.92
Coin-operator commission	31,134	27,156	23.35	3,978	23.57				
Ticket costs	253					161	0.15	92	0.15
Gross profit	192,878	61,961	53.29	8,917	52.85	76,450	72.12	45,550	74.92
Operating expenses									
Salaries and benefits	1,577					804	0.76	773	1.27
Depreciation - vehicles	111					63	0.06	48	0.08
Depreciation - terminals	5,777					3,626	3.42	2,151	3.54
Terminal movement	1					1	0.00	-	0.00
Occupancy costs	198					78	0.07	120	0.20
Vehicle leasing	94					47	0.04	47	0.08
Equipment & maintenance	573					335	0.32	238	0.39
Video lottery software	432					274	0.26	158	0.26
Vehicles and travel	298					123	0.12	175	0.29
Bad debts	33					13	0.01	20	0.03
Meetings	2					1	0.00	1	0.00
Financing	452					243	0.23	209	0.34
GST	7,842	3,824	3.29	481	2.85	2,276	2.15	1,261	2.07
Terminal write offs	(69)					1	0.00	(70)	(0.11)
Administrative recovery	(595)					(595)	(0.56)	-	0.00
Total operating expenses	16,726	3,824	3.29	481	2.85	7,290	6.88	5,131	8.44
Income from video lottery	\$ 176,152	\$ 58,137	50.00	\$ 8,436	50.00	\$ 69,160	65.24	\$ 40,419	66.49

Note: Shaded areas represent jurisdictions using coin operators.

*Exhibit 14.8*

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

	New Brunswick		Prince Edward Island		Nova Scotia		Newfoundland		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>1996 - 1997</b>										
Cash In	287,971	100.0	38,478	100.0	374,307	100.0	222,802	100.0	923,558	100.0
Cash Out	171,697	59.6	21,605	56.1	268,300	71.7	162,009	72.7	623,611	67.5
Net Sales	116,274	40.4	16,873	43.9	106,007	28.3	60,793	27.3	299,947	32.5
<b>1995 - 1996</b>										
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
<b>1994 - 1995</b>										
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
<b>1993 - 1994</b>										
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
<b>Totals - four years</b>										
	933,986	100.0	138,290	100.0	1,256,655	100.0	703,487	100.0	3,032,418	100.0
	538,907	57.7	77,121	55.8	896,340	71.3	497,056	70.7	2,009,424	66.3
Net Video Lottery Receipts	395,079	42.3	61,169	44.2	360,315	28.7	206,431	29.3	1,022,994	33.7

*Exhibit 14.9*

**Profits Distributed**  
**Year Ended March 31, 1997 (\$000)**  
 (Source: ALC's audited and internal financial statements)

Atlantic Lottery Corporation	Regular Lottery	%	Video Lottery	Total
<b>Sales</b>				
Gross ticket sales	\$ 454,244		\$ -	\$ 454,244
Net video lottery receipts	<u>-</u>		<u>299,947</u>	<u>299,947</u>
	454,244		299,947	754,191
Prizes on ticket sales	<u>243,239</u>		<u>-</u>	<u>243,239</u>
<b>Net Sales</b>	<u>211,005</u>	100	<u>299,947</u>	<u>510,952</u>
<b>Allocated expenses</b>				
Commissions	32,922		106,816	139,738
Ticket printing	10,685		253	10,938
Operating expenses	45,188		9,478	54,666
Interest and other income	(1,797)		(595)	(2,392)
Payments to Government of Canada	3,635		-	3,635
Goods and Services Tax	<u>5,273</u>		<u>7,843</u>	<u>13,116</u>
	95,906	100	123,795	219,701
Special commissions to non-profit organizations	209		-	209
Nova Scotia retailer bonus	<u>3,936</u>		<u>-</u>	<u>3,936</u>
<b>Total allocated expenses</b>	<u>100,051</u>		<u>123,795</u>	<u>223,846</u>
<b>Profit distributed to shareholders</b>	<u>\$ 110,954</u>	100	<u>\$ 176,152</u>	<u>\$ 287,106</u>

Nova Scotia Share	Regular Lottery	%	Video Lottery	Total
<b>Sales</b>				
Gross ticket sales	\$ 172,652		\$ -	\$ 172,652
Net video lottery receipts	<u>-</u>		<u>106,007</u>	<u>106,007</u>
	172,652		106,007	278,659
Prizes on ticket sales	<u>89,966</u>		<u>-</u>	<u>89,966</u>
<b>Net Sales</b>	<u>82,686</u>	39.2	<u>106,007</u>	<u>188,693</u>
<b>Allocated expenses</b>				
Commissions	12,914		29,396	42,310
Ticket printing	4,193		161	4,354
Operating expenses and distributions (net)	<u>20,471</u>		<u>7,290</u>	<u>27,761</u>
	37,578	39.2	36,847	74,425
Special commissions to non-profit organizations	89		-	89
Nova Scotia retailer bonus	<u>3,936</u>		<u>-</u>	<u>3,936</u>
<b>Total allocated expenses</b>	<u>41,603</u>		<u>36,847</u>	<u>78,450</u>
<b>Profit distributed to Nova Scotia</b>	<u>\$ 41,083</u>	37.0	<u>\$ 69,160</u>	<u>\$ 110,243</u>

## Appendix 14A

**ATLANTIC LOTTERY CORPORATION - FOLLOW-UP REVIEW OF  
1996 SHAREHOLDER'S AUDIT**

Recommendations for Consideration	Status of Action Taken or Planned
<p><b>Compliance with Statutory and Policy Requirements</b></p> <p>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.</p>	<p><b>ALC 96</b> - ALC believes it is in compliance with shareholder provincial requirements. ALC responds in a timely fashion to any information requests or directives from shareholders.</p> <p><b>ALC July/97</b> - None required, except to respond to shareholder directives and information requests.</p> <p><i>NSGC 97 - Where policies of the four shareholder provinces are the same, the policies are followed by ALC, for example the Atlantic Procurement Agreement. Where differences exist they are reviewed on a case by case basis.</i></p>
<p><b>Inter-Provincial Agreements</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>- establishing a set of guiding principles or values to support the interpretation and implementation of the agreements;</li> <li>- 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;</li> <li>- changes necessary to the profit distribution methodology in order to ensure the allocation of costs and results are fair and equitable; and</li> <li>- sunset clauses on selected aspects of the arrangements, so that they will be subject to periodic review and updating.</li> </ul>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - Profit distribution methodology based on Nova Scotia's proposal is being reviewed with board members.</p> <p>An independent economic benefit study, to include a review of profit distribution methodology, will be conducted. RFP award is planned for May 1997 with report by late August 1997.</p> <p>The strategic planning process commenced in fall 1996 and continues to date with Board reporting by August 25, 1997.</p> <p><b>ALC Nov/97 Update</b> - The Board and Shareholders continue to deal with profit distribution methodologies.</p> <p>Economic Benefit Study has been received. Additional information is being prepared.</p> <p>The Strategic Plan was presented to and approved at the October 6, 1997 Board meeting.</p> <p><i>NSGC 97 - NSGC has undertaken a full review of corporate governance issues related to ALC, including NSGC's role as a shareholder of ALC and ALC's role as agent for NSGC. This includes a review of all agreements, bylaws and relevant statutes and regulations.</i></p>

Recommendations for Consideration	Status of Action Taken or Planned
<p>2. (Continued)</p>	<p><i>ALC has improved information and reporting in 1997 and continues to evaluate further disclosure for 1998. Also, NSGC's annual and quarterly financial statements, which are tabled in the legislature, are more detailed than ALC's.</i></p> <p><i>Changes to the profit distribution methodology were proposed by NSGC at the June 16, 1997, ALC shareholder meeting. A decision has yet to be made on this issue although further discussions are upcoming.</i></p>
<p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - None required, except to respond to shareholder directives and information requests.</p> <p>ALC is currently aware of at least three decisions that state that ALC is NOT a crown corporation. These are:</p> <ul style="list-style-type: none"> <li>- Freedom of Information Act</li> <li>- Official Languages Act</li> <li>- Pension Benefits Act</li> </ul> <p><b>ALC Nov/97 Update</b> - Draft memorandum of ALC counsel requested by Board at October 6, 1997 meeting.</p> <p><i>NSGC 97 - The definition of a crown corporation depends on each province's specific legislation.</i></p> <p><i>NSGC has requested its own counsel to advise on the legal status of ALC under Nova Scotia law and has requested that ALC counsel also review the issue.</i></p>
<p><b>Corporate Mission</b></p> <p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - The ALC strategic plan is being updated. Board reporting is planned for August 25, 1997.</p> <p><b>ALC Nov/97 Update</b> - The ALC Strategic Plan was approved by the Board October 6, 1997.</p>
<p>5. The Corporation's mission statement should be formally approved by the shareholder provinces.</p>	<p><b>ALC 96</b> - ALC's mission statement has been approved by its Board of Directors and will be reaffirmed at the next annual shareholders' meeting.</p> <p><b>ALC July/97</b> - To have the mission statement reaffirmed at the next annual shareholders' meeting on June 16, 1997.</p> <p><b>ALC Nov/97 Update</b> - The ALC Strategic Plan was approved October 6, 1997.</p>

Recommendations for Consideration	Status of Action Taken or Planned
<p><b>Accountability to the Legislature</b></p> <p>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.</p>	<p><b>ALC 96</b> - ALC is considering enhancements to its annual report.</p> <p>ALC's annual report is widely distributed and is available to all on request. ALC will consider an even wider distribution.</p> <p>Tabling of reports in Legislatures is a shareholder decision.</p> <p><b>ALC July/97</b> - The Public Relations department intends to develop a government relations program that will include the development of regular communication elements to keep shareholders informed of the operations of the Atlantic Lottery Corporation. The information gathered from the strategic planning team responsible for shareholder relations will be a source of ideas for developing the program.</p> <p>Additional disclosure discussed at the June 16, 1997 Board meeting. The Board agreed to the level of disclosure for the 1996-97 Annual Report. Disclosure for the 1997-98 Annual Report is to be considered at that time.</p> <p><b>ALC Nov/97 Update</b> - The Public Relations department is in the process of identifying objectives and resource requirements for the government relations program. It will be submitted through the budget process, for consideration by the Board.</p> <p><i>NSGC 97 - Additional disclosure was provided for the fiscal 1997 financial statements. Also, distribution of the annual report was increased.</i></p> <p><i>ALC has improved information and reporting in 1997 and continues to evaluate further disclosure for 1998. Also, NSGC's annual and quarterly financial statements, which are tabled in the legislature, are more detailed than ALC's.</i></p>
<p><b>Corporation's Annual Report</b></p> <p>7. ALC's annual report distribution should be expanded, including tabling or deemed tabling in the Legislature on a timely basis.</p>	<p><b>ALC 96</b> - ALC is considering enhancements to its annual report.</p> <p>ALC's annual report is widely distributed and is available to all on request. ALC will consider an even wider distribution.</p> <p>Tabling of reports in Legislatures is a shareholder decision.</p> <p><b>ALC July/97</b> - The Public Relations department has already expanded its distribution list for the Annual Report to ensure the appropriate ministers and other government officials receive the report.</p>

Recommendations for Consideration	Status of Action Taken or Planned
<p>7. (Continued)</p>	<p>Additional disclosure discussed at the June 16, 1997 Board meeting. The Board agreed to the level of disclosure appropriate for the 1996-97 Annual Report. Disclosure for the 1997-98 Annual Report is to be considered at that time.</p> <p><i>NSGC 97 - NSGC's annual and quarterly financial statements, which are tabled in the legislature, are more detailed than ALC's.</i></p>
<p>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:</p> <ul style="list-style-type: none"> <li>- financial and other information on the Corporation's plans and performance against its strategic goals/objectives and its approved annual budget, with an appropriate emphasis on results compared to planned outcomes;</li> <li>- 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.</li> <li>- 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</li> <li>- appropriate per capita (i.e., per adult population) information and trends re: sales results and targets.</li> </ul>	<p><b>ALC 96</b> - ALC is considering enhancements to its annual report.</p> <p>ALC's annual report is widely distributed and is available to all on request. ALC will consider an even wider distribution.</p> <p>Tabling of reports in Legislatures is a shareholder decision.</p> <p><b>ALC July/97</b> - ALC is dealing with external auditors and others in considering enhancements to its annual report. The Finance department is dealing with external auditors and the Board in bringing forth both short-term fixes and more long-term planning required to deal with reporting issues that cannot be dealt with in the short term.</p>
<p><b>Board of Directors</b></p> <p>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.</p>	<p><b>ALC 96</b> - The Board believes the Board structure and complement are appropriately constituted.</p> <p><b>ALC July/97</b> - None; unless and until management receives Board direction. Revised bylaws were approved by the Board in October 1992.</p> <p><i>NSGC 97 - NSGC has undertaken a full review of corporate governance issues related to ALC, including NSGC's role as a shareholder of ALC and ALC's role as agent for NSGC. This includes a review of all agreements, bylaws and relevant statutes and regulations.</i></p>

Recommendations for Consideration	Status of Action Taken or Planned
<p>10. The Board should ensure that appropriate comprehensive standards governing Board, management, and staff behavior are adopted for ALC.</p>	<p><b>ALC 96</b> - ALC has these in place and continues to enhance such standards in keeping with appropriate national corporate standards of ethics.</p> <p><b>ALC July/97</b> - An outside ethics consultant has been engaged to provide services in the following areas:</p> <ol style="list-style-type: none"> <li>1) document review</li> <li>2) ethics code development</li> <li>3) sniff test</li> </ol> <p><b>ALC Nov/97 Update</b> - A Code of Ethics was approved by the Board October 6, 1997</p>
<p>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).</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - Action has preceded the AG's report and recommendations as per ALC response. Also, the ALC Board has implemented "closed sessions" as a standard Board agenda item without attendance of management and the recording secretary.</p>
<p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - As noted in Recommendation #11, a recording secretary now attends Board meetings. This should enhance controlling and following up on status of action taken or planned as a result of Board decisions or requests. A follow up report is also generated. Also, Internal Audit is investigating software solutions for tracking and monitoring of recommendations. If appropriate, the software solutions will be shared with the President's office/recording secretary.</p> <p><b>ALC Nov/97 Update</b> - Several software solutions have been sourced and will be sampled and tested before committing to any one source.</p>

Recommendations for Consideration	Status of Action Taken or Planned
<p><b>Overall Management Control Framework</b></p> <p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - Corporate strategic planning is currently underway. ALC has engaged the firm of Coopers &amp; Lybrand to provide services for this planning. Board involvement is recommended.</p> <p>An update was handed out to the Board on June 9, 1997. The Strategic Plan will be further discussed with the Board at the August 25, 1997, meeting.</p> <p><b>ALC Nov/97 Update</b> - The Corporate Strategic Plan was approved by the Board October 6, 1997.</p>
<p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - Refer to 13 and ALC Response under 15.</p>
<p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - Refer to 13 and above response.</p>
<p>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.</p>	<p><b>ALC 96</b> - ALC has a multi-year strategic planning process in place; however, the Board prefers to approve budgets on an annual basis.</p> <p><b>ALC July/97</b> - As noted in 13, 14, 15, ALC is currently undergoing strategic planning exercises with the assistance of Coopers &amp; Lybrand.</p> <p><b>ALC Nov/97 Update</b> - The Strategic Plan was approved by the Board October 6, 1997.</p> <p><i>NSGC 97 - Strategic planning is being conducted which will help to ensure, among other things, the adequacy of the information presented to the Board.</i></p> <p><i>The comprehensive budget process is under review at ALC. The process involves long term planning by the Board of Directors; translating this information into goals for management; and determining how these goals will be measured.</i></p>
<p>17. ALC's financial statement disclosure of total divisional operating expenses should include depreciation expense.</p>	<p><b>ALC 96</b> - This recommendation will be considered.</p> <p><b>ALC July/97</b> - Recommendation has been implemented.</p>

Recommendations for Consideration	Status of Action Taken or Planned
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.	<p><b>ALC 96</b> - This has been implemented.</p> <p><b>ALC July/97</b> - Recommendation has been implemented.</p>
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.	<p><b>ALC 96</b> - This recommendation will be considered.</p> <p><b>ALC July/97</b> - The Board did not include this in the 1996-1997 Annual Report, but it has been implemented for Board reporting and will be further considered for the 1997-1998 Annual Report.</p>
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.	<p><b>ALC 96</b> - ALC has always placed emphasis on the internal audit function and will continue to do so.</p> <p><b>ALC July/97</b> - Internal Audit is preparing formal annual plans and investigating our audit universe for more long-range planning.</p> <p>Internal Audit will be seeking audit requests (short and long term) from the Audit Committee and senior management.</p> <p>Impact on resources, to include the use of outside resources, will be brought forward to the Audit Committee for consideration.</p> <p><b>ALC Nov/97 Update</b> - Internal Audit's short term plans and staffing resources were reported to the Audit Committee meeting October 27, 1997.</p>
<p><b>Video Lottery Program</b></p> <p>21. ALC should provide schedules segmenting the gross profit portion of the statement of operations by program type in its annual financial statements.</p>	<p><b>ALC 96</b> - ALC will implement this recommendation in this year's annual report.</p> <p><b>ALC July/97</b> - Recommendation has been implemented.</p>

Recommendations for Consideration	Status of Action Taken or Planned
<p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - The implications of this recommendation are being investigated. Including the following:</p> <ol style="list-style-type: none"> <li>1) KPMG letter dated April 3, 1997</li> <li>2) VLP outstanding issues - IT effort required to pursue the recommendation.</li> </ol> <p>LOG #26007: GAA is required to reconcile credits played/won to cash in/cash out. Current processes do not support this requirement. This log is a request for System Development to look at effort to modify processes to support this.</p> <p>IMPACT: A recent review by the NS Auditor General recommends that these values be reconciled and reported on ALC's financial statements. This cannot be done without system changes.</p> <p>STATUS: A meeting was held on April 14, 1997 where the issues around reconciliation of these values was discussed. After this discussion, Systems Development was tasked to size some potential changes to assist in this matter and the impacted user groups (GAA &amp; Hotline) were asked to look at the impact on their current processes.</p> <p>A follow-up meeting was held on April 21, 1997 where the findings were discussed. It was determined at this meeting that more analysis around the potential solutions from Systems Development would be looked at further and also that we would determine if the number of exceptions that would require reconciliation would be too great to be handled using a manual reconciliation procedure. The results of these analysis are expected by the end of the week (Apr. 25).</p> <p><b>ALC Nov/97 Update</b> - Work on the project continues with anticipated implementation within the fiscal year.</p>

Recommendations for Consideration	Status of Action Taken or Planned
<p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - An RFP has been issued (limited by Board of Directors to four accounting firms; only one response was received) for an economic benefit study to include a review of the profit allocation methodology. The RFP requires a final report by August 25, 1997.</p> <p>Profit distribution methodology based on Nova Scotia's proposal is being reviewed with board members.</p> <p><b>ALC Nov/97 Update</b> - Economic Benefit Study has been received and reviewed by the Board. Additional information is being prepared.</p> <p>The Board and Shareholders are continuing to review profit distribution methodologies.</p>
<p>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.</p>	<p><b>ALC 96</b> - Commission rates are established nationally by ILC or, in Atlantic Canada, by the shareholders.</p> <p><b>ALC July/97</b> - None, except to respond to shareholder directives and/or announcements.</p> <p><i>NSGC 97 - Current agreement with the Nova Scotia Lounge and Beverage Room Association ends April 1, 1998 and will be reviewed by NSGC at that time.</i></p>
<p><b>Information Technology (IT)</b></p> <p>25. The management and control of ALC's information technology systems and resources should be subjected to additional and comprehensive audit coverage.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - As part of its planning, Internal Audit has identified the need for comprehensive audit coverage of IT systems and resources.</p> <p>A relatively new one person Internal Audit IT resource was created, more may be required.</p> <p>Internal Audit recommends, in <u>addition</u> to the Board directive noted under "ALC Response", an annual audit of IT conducted, in cooperation with Internal Audit, by an outside source. This is in keeping with the practices of other lottery jurisdictions.</p> <p><b>ALC Nov/97 Update</b> - Internal Audit plans and staffing resources were reported to the Audit Committee at the October 27, 1997 meeting.</p>

Recommendations for Consideration	Status of Action Taken or Planned
<p><b>Procurement</b></p> <p>26. ALC should prepare standard reports of its procurement activity in a manner consistent with the Atlantic Procurement Agreement, Section 9.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - The Atlantic Lottery Corporation will prepare a quarterly report for the information of the Board of Directors in a manner consistent with the Atlantic Procurement Agreement, Section 9.</p> <p><b>ALC Nov/97 Update</b> - Recommendation has been implemented.</p>
<p>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.</p>	<p><b>ALC 96</b> - ALC is currently doing this.</p> <p><b>ALC July/97</b> - ALC is constantly evaluating its list of exceptions. Procurement maintains a short list of exceptions. Telecommunications is on this list. IT has stated, "We have begun to source Telecom Services competitively and will continue to do so in a controlled manner, in order to not adversely affect the integrity/reliability of mission critical services and to maintain the leverage of bulk purchasing."</p>
<p>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.</p>	<p><b>ALC 96</b> - 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.</p> <p><b>ALC July/97</b> - To enhance the documentation, Purchasing is in the process of developing a template that will be used for contract reviews and evaluations. This template will be implemented by the end of July 1997.</p> <p><b>ALC Nov/97 Update</b> - Recommendation has been implemented.</p>

Recommendations for Consideration	Status of Action Taken or Planned
<p><b>Allocations to Shareholders</b></p> <p>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.</p>	<p><b>ALC 96</b> - See 21, 23</p> <p><b>ALC July/97</b> - Finance is constructing the framework to provide for reporting of results separately for traditional and video lottery programs. This includes the allocation of employee and employee related expenses and an examination of all other operating expenses to determine which can be recorded directly to video lottery and which should be allocated and on what basis.</p> <p><b>ALC Nov/97 Update</b> - An initial segregation of results has taken place effective October, 1997 separating Traditional and Video Lottery activity at a corporate level. The next phase of full cost reporting is to further segment these two categories into the four provinces. This will involve both expenses that are directly attributable to a single shareholder province and allocation of common operating expenses and other overheads. Although we are limited in our resources to accomplish this, we are confident it will take place before the end of this fiscal year. This will allow for a more full cost disclosure of programs by province in the 1997-98 annual report.</p>
<p>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.</p>	<p><b>ALC 96</b> - This will be considered</p> <p><b>ALC July/97</b> - Refer to 23 and 29. An economic benefit study, including profit allocation methodology review, is to be conducted with a final report target date of August 25, 1997.</p> <p>Finance has taken steps to look at cost allocations. Resource implications will have to be considered in Finance and in other departments and divisions.</p> <p><b>ALC Nov/97 Update</b> - see Recommendation 29</p>