

Loto-Québec – Action Plan to Follow up on KPMG Recommendations

Review of processes and prize payout procedures
Progress Report – March 2011



LOTO
QUÉBEC

| # | Improvements recommended by KPMG | Current Status | Target Date |
|---|---|--|---|
| 1 | <p><i>Implement measures proposed by Loto-Québec:</i></p> <ul style="list-style-type: none"> • Conduct an awareness campaign on the importance of signing tickets upon purchase. • Promote promotional material available on this subject (i.e. ticket signing) to retailers. • The message "Sign your ticket immediately" has been printed on terminal game tickets since August 23, 2007. It will also be printed on the next issue of instant and passive lottery tickets. • New terminals with a fixed 19-inch customer display screen will be installed by 2009 to ensure, among other things, better visibility of validation results. • Loto-Québec intends to implement auxiliary equipment to the terminal, called a "ticket checker," by the fall of 2008. | <p>Ongoing</p> <p>Ongoing</p> <p>Completed</p> <p>Completed New terminals with 19-inch consumer display screens have been installed at all retailers.</p> <p>Completed Ticket checkers have been installed at all retailers.</p> | <p>Since January 2008</p> <p>Since 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 according to which retailers may only validate tickets that have been signed by the consumer. | Completed | May 2009 |
| 3 | When ticket checkers are in place for all types of lotteries, we suggest that a campaign be conducted to raise consumer awareness. We also suggest that the rate of consumer use of ticket checkers be later assessed to determine whether controls could be relaxed or changed. | Completed Completed | April 2009 June 2009 |
| 4 | Carry out an ongoing campaign to raise public awareness on the importance for consumers to look at the consumer display screen and notice the musical notes that sound when a ticket is validated to check whether it is a winning ticket and the amount of the win. | Ongoing | Since February 2008 |

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| 5 | <p>"Prize payout and destruction" Procedure</p> <p><i>Implement measures proposed by Loto-Québec:</i></p> <ul style="list-style-type: none"> • The retailer should return the ticket, whether it is a winning ticket or not, to the consumer, along with the validation ticket. • Another document may be printed for the retailer's cash register reconciliation. In this way, the consumer who has signed his ticket can be sure that the ticket returned by the retailer is indeed his own. • For retailers without a terminal and the National Bank of Canada (NBC), Loto-Québec should: <ul style="list-style-type: none"> – Install terminals at all retailers and the NBC; or – Withdraw the right to reimburse winning tickets. | <p>Completed</p> <p>Completed</p> <p>Completed (since the NBC no longer offers prize payout services)</p> | <p>January 2008</p> <p>January 2008</p> <p>April 2008</p> |

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| 6 | <p>Group Purchase Forms</p> <p>Alter the Group Purchase Agreement Form to ensure that it cannot be changed by the retailer once completed. Technological solutions could be examined.</p> <p>Implement written procedures and rules on retailer responsibilities relating to Group Purchase Agreements.</p> | <p>Completed Formule groupe is now available for several products on all sales terminals. This new concept eliminates the need for a Group Purchase Agreement.</p> <p>Completed Loto-Québec no longer provides <i>Group Purchase Agreement Forms</i>. Loto-Québec's website now contains a section on how to form groups without Formule groupe.</p> | <p>November 2010</p> <p>November 2010</p> |
| 7 | <p>Statistics on retailer wins</p> <p><i>Implement measures proposed by Loto-Québec:</i></p> <ul style="list-style-type: none"> • Provided that a statistically valid methodology is available on the market, have an external research firm conduct a survey to measure the volume of lottery ticket purchases by retailers as compared to other players. An update should be made to verify the reliability of data over time. • Regularly monitor the frequency of retailer wins. An action plan (investigation plan) should be developed to deal with any abnormal cases that may occur (ratio higher than the Quebec norm). <p><i>Implement the following additional measure:</i></p> <ul style="list-style-type: none"> • The action plan to deal with abnormally frequent wins should be developed at the same time as the WPS decision tree (see Improvement #21). | <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 | Retailer Profile <i>Implement measure proposed by Loto-Québec:</i> <ul style="list-style-type: none">• Centralization of complaints and investigation results, and follow-up with complainant in the updated retailer register. | Completed | March 2008 |
| 9 | Record all hotline calls, prizes won by retailers and breaches of procedures in the updated retailer register. | Completed | June 2008 |
| 10 | Develop a decision tree to establish corrective measures to be implemented according to the retailer's violation profile and to better direct payout and investigation procedures. | Completed | May 2008 |

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| 11 | <p>Diligent Background Check of Retailers</p> <p>A criminal and civil background check of individuals applying to become retailers should be conducted before issuing a retailer number. The result of this search should be documented in the retailer's profile.</p> <p>The request for a retailer number should include the retailer's date of birth for search purposes.</p> | <p>Completed</p> <p>Completed</p> | <p>May 2008</p> <p>May 2008</p> |
| 12 | <p>Exception Report</p> <p>Electronically monitor (in real time) validation terminals and assess the possibility of implementing an automatic system to identify unusual retailer practices that may require investigation.</p> | <p>Phase 1 (give investigators the tools to detect unusual practices): completed</p> <p>Phase 2 (install tools to detect events that may indicate retailer fraud or abuse in the Lottery sales network electronic transactions log). Completed</p> | <p>January 2009</p> <p>March 2010</p> |
| 13 | <p>Preventive Controls</p> <p>A protocol should be implemented to require that any preventive control used by Loto-Québec not be revealed to anyone else, including retailers and wholesalers.</p> | <p>Completed</p> | <p>December 2008</p> |
| 14 | <p>Incentives</p> <p>Strengthen current procedures to encourage retailers or their employees to send in to Loto-Québec or the wholesaler all comments relating to ticket security, validation or prize payout.</p> | <p>Completed</p> | <p>June 2008</p> |

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| 15 | <p>Payment Delegation</p> <p>Review and document the relevance of current levels of payout delegation, according to the prize structure, that Loto-Québec is prepared to accept as reasonable delegation.</p> | <p>Completed</p> <p>All retailers may payout prizes of \$600 or less.</p> | <p>April 2008</p> |
| 16 | <p>Verifications by the Winner Payout Section (WPS)</p> <p>Preliminary steps will need to be implemented at the Winner Payout Section (WPS) to ensure that the "correct" winner is paid, even for wins under \$5,000 (see Improvement #21).</p> <p>Moreover, when the NBC calls for payment authorization, it should follow the same procedures as for WPS for prizes above the retailer's limit, even if the rules state that the NBC must pay the ticket holder. Otherwise, dishonest retailers could circumvent the procedures by claiming a prize directly from the NBC.</p> <p>Verification procedures should be improved to corroborate the date of purchase and validation of a ticket.</p> | <p>Completed</p> <p>Deployment of the decision tree.</p> <p>Completed</p> <p>The NBC no longer offers prize payout services.</p> <p>Completed</p> | <p>March 2008</p> <p>March 2008</p> <p>March 2008</p> |

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| 17 | <p>Adequate tools for the Winner Payout Section (WPS)</p> <p>Establish necessary management activities to enable WPS to consult employee names in retailer employee registers, Loto-Québec and affiliates' employee registers, as well as wholesaler name registers before making a payout.</p> <p>Using the new terminals, assess whether retailers and their employees should be required to take <i>e-learning</i> training before a confidential access code to operate a terminal is issued. This would allow employee names to be automatically recorded in an electronic register.</p> <p>For retailers who do not have the new terminals and are therefore excluded from the <i>e-learning</i> option, we suggest that a message be sent through regular terminal communications asking that the names and contact information of such retailers' employees be given to the wholesaler and that this list be updated regularly.</p> | <p>Completed</p> <p>Completed Currently, over 41,000 learners have successfully completed the required annual training.</p> <p>Completed</p> | <p>March 2008</p> <p>April 2008</p> <p>May 2008</p> |

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| 18 | Give Winner Payout Section (WPS) employees access to historical information on all previously won prizes, specifically the name, address, date and amount won, in order to better manage winner follow-up. | Completed | March 2008 |
| | This system should also generate an automated search of all available registers: retailers, retailer employees, wholesalers, Loto-Québec and affiliate's employees. | Completed Except for names of retailer employees that are recorded in the register as the new terminals are brought on line. See Point 17. | March 2008 |
| 19 | Change the Retailer Number Request Form to include the retailer's personal contact information. | Completed | June 2008 |
| 20 | Inform retailers, retailers' employees, wholesalers and Loto-Québec and affiliate employees that they are required to identify themselves (i.e. indicate their relationship to Loto-Québec) when claiming a prize at the WPS. | Completed | December 2007 |

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| 21 | Provide better guidance to Winner Payout Section (WPS) employees regarding the operations policy that currently relies too heavily on the clerk's judgement. | Completed | February 2008 |
| | Consequently, establish a working committee to develop a decision tree, including investigative procedures, to guide WPS employees when paying out prizes. This step requires the involvement of a number of Loto-Québec departments, including Legal Services, the Investigations unit and WPS. | Completed | November 2007 |
| | The decision tree should take into account all currently available and future information, such as complaints about retailers, name registers (retailers and their employees, employees of Loto-Québec, its affiliates and wholesalers), the hotline, the history of prizes won and retailer violations of procedures. | Completed | March 2008 |
| | In addition, the questionnaire used for prizes over \$10,000 should be revised to include, among other things, a question to verify whether the winner is a wholesaler, as well as other, more specific questions in order to reduce the risk of paying the "wrong" winner. | Completed | March 2008 |
| 22 | <p>Proof of ID</p> <p>Loto-Québec should define which photo IDs are acceptable for prize claims from WPS.</p> | Completed Acceptable IDs are: driver's permit, health insurance card or passport. | March 2008 |
| 23 | <p>Technical Training</p> <p>All WPS clerks who meet with winners of \$5,000 prizes and up should also be given training in basic interview techniques.</p> | Completed | February 2008 |

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| 24 | <p>I-800 Number</p> <p><i>Implement the measure proposed by Loto-Québec::</i></p> <ul style="list-style-type: none"> The Customer Service number will be indicated on the back of instant lottery tickets printed as of July 3, 2007. <p><i>Implement other measures as follows:</i></p> <ul style="list-style-type: none"> Ensure that the I-800 Customer Service number is also indicated on passive lottery tickets (i.e. draws) and terminal game tickets. Indicate the I-800 Customer Service number as well as the Customer Service e-mail address on each terminal in full view of consumers and the retailer. A I-800 operator should be available for a longer period and, outside operating hours, a message should direct the consumer to the website so he may fill out an online complaint form. Outside operating hours, a voice messaging system should be available for consumers to leave a message. The Customer Service e-mail address should be located in the "Contact Us" section of Loto-Québec's home page, in addition to the I-800 Customer Service telephone number. | <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> | <p>November 2007</p> <p>November 2007</p> <p>December 2007</p> <p>December 2007</p> <p>December 2007</p> <p>November 2007</p> |

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| 25 | <p>Call Logging</p> <p>Log all calls to Customer Service. The Investigations unit should review the log, on a test basis, to ensure that all calls have been correctly referred.</p> | Completed | February 2008 |
| 26 | <p>Technical Training</p> <p><i>Implement the measure proposed by Loto-Québec:</i></p> <ul style="list-style-type: none"> Finalize written procedures for handling complaints and deploying training regularly given by the Investigations unit to Customer Service clerks. <p><i>Additional measures regarding written procedures:</i></p> <ul style="list-style-type: none"> Ask the Investigations unit for comments on written procedures. Develop a procedure for updates. Review the terms "incidents" and "complaints" as there is some confusion between them. Make an inventory of all possible severity level 1 and 2 cases to remove any ambiguity as to which level clerks should select. Avoid listing cases of the same nature in both severity levels 1 and 2. | <p>Completed</p> <p>Completed</p> <p>Ongoing</p> <p>Completed</p> <p>Completed</p> | <p>March 2008</p> <p>March 2008</p> <p>Ongoing</p> <p>March 2008</p> <p>March 2008</p> |

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| 27 | <p>Complaint Follow-Up</p> <p><i>Implement the measure proposed by Loto-Québec:</i></p> <ul style="list-style-type: none"> Centralize complaints as well as results of investigations and follow-up with consumers in the updated retailer register. This information should be kept for a longer period than 18 months. <p><i>Implement the following additional measure:</i></p> <ul style="list-style-type: none"> When a new complaint is received, Customer Service should consult the electronic register where complaints are centralized in order to take into account any previous complaints about the same retailer. | <p>Completed</p> <p>Completed</p> | <p>March 2008</p> <p>March 2008</p> |
| 28 | <p>Follow-Up on Recommendations</p> <p>All suggested corrective measures regarding a particular retailer should be centralized, and the responsibility for following up on such corrective measures should be assigned to a Loto-Québec employee.</p> <p>Written evidence of the notice sent to the retailer or the measure implemented should also be provided to that employee. This measure should then be verified by Loto-Québec's Internal Audit Department.</p> | <p>Completed</p> <p>Completed</p> | <p>May 2008</p> <p>July 2008</p> |
| 29 | <p>Investigation Protocol</p> <p>Finalize the interview questionnaire for prizes over \$10,000 won by retailers or their employees, employees of Loto-Québec, its affiliates and wholesalers. See also the Improvement relating to the establishment of a WPS decision tree (Improvement #21).</p> | <p>Completed</p> | <p>March 2008</p> |
| 30 | <p>Define standard investigation standards for each possible type of fraud.</p> | <p>Completed</p> | <p>March 2008</p> |

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| 31 | <p>Limited Right to Investigate</p> <p>Change Loto-Québec guidelines to include a clause requiring retailers to cooperate with Loto-Québec investigators and communicate this requirement to all retailers.</p> | Completed | June 2008 |
| 32 | <p>Business Risk Management</p> <p>Mandate an independent third party to assess business risks (identification, evaluation and management) and ensure that this person is authorized to question the risks and controls currently identified at Loto-Québec. This person should be a member of important committees, including:</p> <ul style="list-style-type: none"> – The committee established in April 2007 that brings together certain members of Loto-Québec's top-level management. – Sub-committees created at Loto-Québec to follow up on and implement improvements selected by Loto-Québec. | Completed | November 2007 |
| 33 | <p>Implement an action plan (with timeline and follow-up) for sub-committees created to follow up on and implement improvements, including formal reporting on all points to the President and CEO of Loto-Québec.</p> | Completed | November 2007 |
| 34 | <p>Provide a clear explanation of the difference between an operational policy, administrative processes and procedures. Ensure that administrative processes and procedures are linked to the operational policy.</p> <p>Update operational policies, administrative processes and procedures following new recommendations or improvements selected by Loto-Québec.</p> | <p>Completed</p> <p>Completed</p> | <p>December 2007</p> <p>November 2009</p> |
| 35 | <p>Ticket Security</p> <p>Obtain independent outside expertise to assess the physical security of printing installations and potential risks of intrusions; ensure regular follow-up.</p> | Completed | October 2008 |