Re: The Twenty-Fifth Report of the Public Accounts Committee on the Examination of the Audited Financial Statements of the National Lotteries Control Board (NLCB) for the years 2008 to 2012 and the NLCB's expenditure and internal controls during this period.

Summary of the recommendations and responses to the Public Accounts Committee (PAC) are outlined below:

1. **Outstanding Audited Financial Statements**

   i. The NLCB should provide its outstanding financial statements to the Auditor Generals Department (AGD) by November 30, 2019;

   The Accounting Firm, PricewaterhouseCoopers, has submitted draft financial statements for the period 2012/2013 in November 2019. The remaining years are expected to be completed by March 2020. There were challenges encountered during the project, namely, reconciliation of the accounts receivable which has never been reconciled, reconciliation of payroll accounts, creditors and bad debt accounts. PwC has agreed to provide additional resources to expedite the process.

   ii. The NLCB should submit a report to Parliament containing a summary of the findings of PwC and an explanation of how it will be ensured that the errors committed do not reoccur by November 30, 2019;

   Completed and appended as ***Appendix I.***

   iii. The NLCB should provide the AGD with the requisite documentation as soon as it becomes available in June 2019 and report to Parliament to attest to having provided the documentation by November 30, 2019.

   The documentation will be provided upon receipt of the financial statements by the AGD and commencement of the audit.

2. **Strategic Plan**

   i. The NLCB should indicate to the Investments Division of the Ministry of Finance whether the Strategic Plan is fully supported by the Board by November 30, 2019.

   By letter dated July 2, 2019 the Board indicated that the strategic plan was accepted in the interest of time. ***Copy of letter is appended as Appendix II.***

   ii. The Ministry of Finance – Investments Division should report to Parliament on the creation a strategic plan review process to reduce the amount of time it takes to approve a plan by November 30, 2019.

   The Ministry of Finance will take into consideration the recommendation regarding the creation a strategic plan review process to reduce the amount of time it takes to approve a plan. However, at this time the State Enterprises Performance Monitoring Manual (SEPMM), July 2011, guidelines is still applicable for the review process of a strategic plan submitted to the Ministry.

3. **Internal Audit**

i. The NLCB should provide a status report on the recruitment of an audit manager by November 30, 2019.

The Board notes the recommendation of the Committee and this matter will be considered at the November 2019 Board Meeting.

4. **Agent Relations**

i. The NLCB should submit the following by November 30, 2019:

a) its policy for responding to reports of irregular practices by agents / terminal operators;

Reports of irregular practices, namely failure to make payouts to customers, are currently dealt with on a case by case basis. The NLCB notes the recommendation of the Committee and a policy will be developed to address irregular practices by agents.

b) a description of how the Board ensures that agents provide the relevant vendor information.

Agents employ vendors/operators. These operators undergo training by IGT. When operators register for training their personal information is captured and stored i.e. name, address, contact information. The NLCB has access to this information.

5. **Accounts Receivable**

i. The NLCB should provide Parliament with a full report on progress made in collecting debts since the implementation of the credit policy by November 30, 2019;

The Credit Policy was approved by the Board of the National Lotteries Control Board on January 24, 2019. The operationalization of this policy began in February 2019 with meetings of the Credit Committee. At these meetings the implications to the various departments were clearly defined and this resulted in the change in procedures of the Debtors Unit, which is responsible for collection of bad debt:

1) The procedure regarding defaulting agents who wish to have their agencies re-activated. The implementation of the enforcement of a 50% deposit of outstanding sums has resulted in thirty-five (35) new payment arrangements being made (February – October 2019). The initial liability of these defaulting agents was $3,215,337.00 of which down payments of $1,288,687.00 were *received, reducing the overall liability for which contracts were signed to $1,926,650.00 with weekly commitments of $57,535.00.*

2) *The policy also introduced an interest charge of 2% compounded monthly on outstanding debts, which agents are required to pay monthly, as well as a bond payment of $25,000.00 for new agents. As at September 30, 2019, $3.5 million was received by the NLCB.*

3) *Another procedural change occurred in the timeliness of correspondence to defaulting agents in the Bad and Doubtful Debt category. This is being so structured that follow up is easier and more effective.*

4) *The National Lotteries Control Board contracted a Collection Agency, Credit Chex Limited, to assist with the recovery of outstanding debts. Twenty-four (24) agents have been referred to the Legal Unit for their review and further action to Credit Chex Limited.*

The total debt collected for the period 2018/2019 was $8.6 Million.

ii. The NLCB should submit a status report on the collection of the remaining 20% of outstanding tax monies from agents and describe the measures taken against those who did not pay, by November 30, 2019;

The remaining 20% of outstanding tax monies from agents has not been collected. The NLCB will be taking action to suppress these and other agents with outstanding sums.

iii. The NLCB should inform Parliament of the following by November 30, 2019:

a. <u>the name of the debt collection agency retained;</u>

The NLCB has recently retained Credit Chex Ltd as a first phase in its debt collection efforts. Other agencies may be included in later phases.

b. <u>a timeline for the fulfilment of that agency's work.</u>

The agency is expected to provide monthly updates on its work. The efforts made and debt collected is to be assessed quarterly to identify whether other measures are needed.

6. Risk Management

i. The NLCB should provide a timeline for the development, approval and implementation of its Risk Management Policy by November 30, 2019;

The sample enterprise wide Risk Management Policy has been submitted to the NLCB's Board. The Board notes the recommendations of the Committee with regard to the enterprise wide Risk Management Policy.

ii. The NLCB should submit a report including the measures implemented to ensure that its games do not facilitate money laundering or the financing of terrorism and indicating whether any such irregularities have ever been detected and how they were dealt with, by November 30, 2019.

The National Lotteries Control Board developed and implemented an Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) Compliance Policy in accordance with Regulation 7 of the Financial Obligation Regulations. The policy consists of a complete set of measures and monitoring mechanisms which the NLCB has implemented to mitigate the risk of the Organization and its products being used as a vehicle for Money Laundering or the Financing of Terrorism. The NLCB's Compliance Policy was previously approved by the Financial Intelligence Unit (FIU) of Tobago and Tobago via letter dated August 7, 2014, however, it is presently being reviewed and amended to facilitate the following:

a) Amendments to the AML/ CFT Laws of Trinidad and Tobago;

b) Revision of policies and procedures as it pertains to addressing deficiencies which were highlighted in the recently completed AML/CFT Risk Assessment. Upon completion and approval by the Board of the NLCB, a copy of the policy would be forwarded to the FIU and the updated policies and procedures will be communicated to Management, Staff and Agents through various training sessions.

The AML/CFT Compliance Department, which was formed in October 2017, has been working closely with the FIU, providing any information requested and attending the necessary awareness sessions. The department continues to closely monitor player activity and has not noted any irregularities for the year 2019 to date.

7. <u>The NLCB's Relationship with International Gaming Technology (IGT)</u>

i. The NLCB should provide a detailed breakdown of the fee structure for payments made to IGT by November 30, 2019;

IGT's fee structure is based on total lottery sales per 12-month period:

Up to $1B – 6.00%
For the next $0.5B (greater than $1B) – 6.25%
For the next $0.5B (greater than $1.5B) – 6.50%
For amounts surpassing $2B – 6.75%

IGT also receives reimbursement for marketing expenses. For 2018/2019 the following payments were made to IGT:

- *Service Fees - $203.3M*
- *Marketing expenses - $37.0M*

ii. The NLCB should indicate the following by November 30, 2019;

a) the timeline for the start and completion of the 2021 RFP process, the likely competitors to IGT and how they could contribute to enhancing the NLCB's work;

The Board is currently examining the implementation of a 2021 RFP process. The Board has considered the possibility of likely competitors, who are interested in participating in such a tender, given the NLCB's annual revenue and required services. It is expected that a more competitive supplier could result in an annual saving of 50% on existing commission fees, as it is expected that other service providers may be willing to participate at 3.0% commission given the NLCB's current annual revenue of some TT$3.0 Billion. Additionally, it is expected that with a competitive supplier, reimbursable expenses will accrue to the supplier and not to the NLCB. This will result in a greater percentage of profits being paid back into the Consolidated Fund.

b) the rationale for not opening the tendering process to other service providers;

Prior to the Fourth Amendment of the NLCB/IGT Agreement as entered into on July 27, 2011 the NLCB did not have a specific provision in its contract regarding the institution of an RFP, and cooperation by IGT during and after completion of the RFP process. The Fourth Amendment ended November 3, 2012 and was extended until March 12, 2014. By the Fifth Amendment, dated March 11, 2014, the NLCB and IGT entered into an extension of the agreement, until expiry of the term, identified by the Fifth Amendment as expiring March 11, 2021. A review of documents from 2012-2014 indicates that IGT would have led discussions on any RFP process considered by the NLCB and would have offered the NLCB a counter proposal in 2014 which resulted in the Fifth Amendment. Upon entry into the Fifth Amendment, it was noted that IGT was unwilling to engage in other discussions. It was also noted that the Board should seek professional advice in conducting such negotiations in the future.

c) whether an analysis was conducted to determine if the services received from IGT were in line with international industry best standards.

The NLCB began a benchmarking exercise, examining its current contract against national lotteries contracts in other markets. The initial assessment has shown that reimbursable expenses are rarely paid out and commission fees are typically half of what the NLCB currently pays under its existing contract.

8. <u>Illegal Gambling and the NLCB's Market Share</u>

i. The NLCB should describe the metrics used to measure the success of its initiatives to curb illegal gambling over the past year and explain how successful its efforts have been according to these metrics by November 30, 2019;

The NLCB's Play Whe Combative Campaign has been geared at advising the public of illegal Play Whe and its negative impact on society. The NLCB also continues to cooperate with the police, in their investigations relating to illegal Play Whe. The NLCB's measures in both regards are primarily informational and cooperative.

ii. The NLCB should consider expanding its illegal gambling public information campaign beyond traditional media to include social media, which would increase the reach of the campaign, and report to Parliament by November 30, 2019.

Following the PAC hearing, the NLCB has since established its social media presence on the following forums: Facebook, Instagram, Twitter and YouTube and are managing them in-house. Discussions are also being held with select brand ambassadors to spearhead the anti-illegal gambling campaigns that are being developed by the Marketing Department.

9. Mobile Gaming

i. The NLCB should provide Parliament with a timeline for the start and completion of the necessary feasibility study of the expansion of the functionalities of the NLCB Mobile App to include gaming, by November 30, 2019.

The NLCB takes note of the Committee's recommendations and will continue to examine its Act, other legislative provisions, the business environment for mobile gaming in Trinidad and Tobago and the existing capabilities of the NLCB Mobile App. The NLCB is aware of the value of mobile gaming and will make all efforts in this regard.

10. Document Management

i. The NLCB should report to Parliament on the much needed establishment of a centralized unit for enterprise-wide physical and digital records management. This should specify the software to be used, its cost as well as the results anticipated, and be submitted by November 30, 2019.

NLCB's Secretariat Section is the centralized unit responsible for records management. While each section is currently managing its related records, this function will eventually reside with the Secretariat Section. With a central documents management system, the Secretariat personnel can provide the necessary records management required and the proper training to ensure staff comply with NLCB's Records Management Policy. This Policy will be reviewed and updated.

Microsoft SharePoint and Dynamics 365 are currently utilized for emails and sponsorship processing. There will be no additional cost for development as this would be done in-house. The Secretariat personnel have already been trained while I.T. personnel will provide training in the use of the in-house application built on SharePoint.

Anticipated results include:

- *One standard for managing records used in all sections*
- *A central database where all records are entered and managed*
- *A Records Management Unit that has oversight on all documents*
- *More efficient and productive records managers*
- *Efficient filing and retrieval of records*
- *Ensure the integrity and continuity of managed records*
- *Compliance with regulatory retention and disposal of records policies*

11. Sponsorships and Donations

The NLCB should submit the following by November 30, 2019:

a) the reason for authorizing sponsorships and donations applications based on a simple majority;

The simple majority was established by the Sponsorships Policy of 2006. A draft policy is awaiting review and approval of the Board.

b) the reason for making 2 large sum donations to one entity in FY 2018;

This sum was paid to the TTFA in 2018 in 2 tranches of $1 million each. This was implemented by a contract entered into by the NLCB's previous Board of 2016. The contract ends in 2020.

c) a full copy of its Revised Sponsorships Policy;

By Board meeting of October 31, 2019, the Board revised the Sponsorship Policy, thereby allowing the Sponsorship Committee to approve sponsorships at a value of $10,000.00 and below. The Sponsorship Committee is required to submit monthly reports of such approved sponsorships to the Board for ratification; and sponsorship in excess of $10,000.00 up to $150,000.00 for approval. This will be incorporated in the revised Sponsorship Policy.

d) an account of whether non-compliance by applicants with sponsorships terms and conditions was ever detected and the steps taken to deal with this issue.

There have been no known instances of non-compliance with sponsorship applicants. The NLCB will continue to monitor these relationships to ensure that recipients of sponsorship funds comply with the terms of any contracts or other agreements as entered into with the NLCB.

12. Fraud and Whistleblowing Policies

i. The NLCB should provide a timeline for the approval and implementation of its Internal Fraud and Whistleblowing policies by November 30, 2019;

The Internal Fraud and Whistleblowing policies are in draft form for review and input. It is anticipated that the said policies would be approved by December 2019 for implementation in January 2020.

ii. The NLCB should report to Parliament on the implementation of background checks for prospective employees and non-disclosure agreements for staff by November 30, 2019;

Prospective employees are required to present a certificate of character; reference checks from the previous place of employment are also undertaken. The employment letter has a confidentiality clause that all short-term employees sign to. Contracts of employment also contain confidentiality clauses as a part of the contract of employment. The NLCB notes the recommendations of the Committee and will seek to implement non-disclosure agreements accordingly.

iii. The NLCB should report to Parliament on the establishment of a set of ethical conduct benchmarks to be applied enterprise-wide by November 30, 2019.

The NLCB has not established a set of ethical conduct benchmarks but the Committee's recommendation is noted.

13. Conflicts of Interest

i. The NLCB should provide a timeline for the preparation of a Conflict of Interest Policy and the estimated cost of this undertaking by November 30, 2019;

The Conflict of Interest policy will be prepared on or before December 31, 2019. There is no cost associated with the drafting of the policy.

ii. The NLCB should provide a description of how the Board vets applicants for funding to ensure that it is a transparent process based on identified criteria and that applicants have no unethical link with its decision-makers and influencers;

When an application is received by the Sponsorship Department, a check on the website of the Companies Registry is done to determine if the applying entity is registered and active. There are also reference notes from previous applications that are considered in determining whether the organization was a previous applicant and if there any concerns or issues. Also, an AML/CFT compliance programme is used to check on the status of applicants.

iii. The NLCB should update Parliament on the outcome of ongoing investigations and legal proceedings once they are concluded.

The NLCB notes the recommendations of the Committee and will be guided by its Line Ministry in this matter.

14. Legal Staff

i. The Ministry of Finance should prioritize assisting the NLCB to recruit more legal staff and a progress report in this regard should be submitted to Parliament by November 30, 2019.

The Ministry of Finance noted the organization structure of the NLCB does not provide for a Legal Department. NLCB had indicated that two Attorneys-at-Law were engaged on contract as follows:

1) The Corporate Secretary, for the period June 3, 2017 to June 2, 2020;

2) A Legal Advisor, under a Service Provider contract with the NLCB from January 2, 2019 to January 1, 2020. An extension of the contract for the Legal Adviser was approved by the Board at its meeting in October 2019 for two (2) additional years.

In 2013, a Manpower Audit was conducted at the NLCB and one of the proposals made was for the NLCB to establish a Legal Department with the Lead being a Senior Legal Officer (reporting directly to the Deputy Director) and the support staff consisting of a Legal Officer II and a Paralegal.

NLCB indicated that the Manpower Audit was submitted to the Public Management Consulting Division (PMCD) for their attention and onward transmission to the Ministry of Finance. NLCB informed that the follow up with PMCD indicated that the document had been misplaced when the Division relocated from Chaguanas to Port of Spain in 2016. NLCB was awaiting approval from GORTT so that the proposals could be implemented. Approval of the Manpower audit was not communicated to the NLCB and there was no implementation.

A copy of NLCB'S Manpower Audit was submitted to the Ministry's Human Resource Department for review and comments.