



News Release

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Alcohol and Gaming Commission of Ontario Not Transparent about Its Operations: Auditor General

(TORONTO) Ontario's gaming, alcohol, and cannabis oversight function lacks operational transparency on its financial and regulatory activities, states Auditor General Bonnie Lysyk in her *2020 Annual Report* tabled today in the Legislature.

This is the first time the Office has audited the operations of the Alcohol and Gaming Commission of Ontario (AGCO). The agency regulates the alcohol, gaming, horse-racing and private cannabis retail sectors in Ontario and oversees about 78,500 licensees across the four sectors.

The Auditor General concluded the AGCO does not have strong processes and systems in place to effectively carry out its regulated activities across the four sectors. Compliance officials have significant autonomy to select which establishments to inspect and did not document the rationale for their selections. The report also states AGCO's performance measures do not focus on regulatory compliance.

"Despite the fact that the AGCO receives subsidies and spends about \$86 million annually, we found that the AGCO, contrary to a government directive, does not produce and publish audited financial statements," Lysyk said. "We were surprised to learn it is the only regulatory government agency in Ontario to not publish such an important accountability document."

Among the concerns raised were the lack of action on an increase in suspicious transaction reports at casinos and inventory controls over recreational cannabis sold in retail stores.

"At the time of our audit, the AGCO had identified money laundering as a major risk in casinos and recognized it had gaps in its regulatory processes, but it had not developed a plan to address those gaps," Lysyk said.

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Read the report at www.auditor.on.ca

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Background and Other Findings:

- The AGCO has 614 full-time equivalent staff and spent \$86 million in 2019/20 to regulate about 78,500 licensees and registrants across four sectors.
- AGCO is not self-sufficient and relies on taxpayer subsidies to regulate the sectors. Between 2015/16 and 2019/20, subsidies provided by the Ministry of Attorney General total \$26.8 million. Only costs incurred to regulate the gaming sector are fully recovered from the sector itself through fees collected and cost recoveries.
- From 2017 to 2019, suspicious transaction reports at casinos increased 19% to 3,722, but the value of suspicious transactions reported doubled to \$340 million. Despite having OPP officers positioned in casinos to oversee gaming integrity and to investigate potential money-laundering activities, the AGCO seized cash on only four occasions and barred 38 individuals from attending Ontario casinos during the same period.
- In 2015, the AGCO's Report on Unregulated Internet Gaming in Ontario estimated that there were approximately 2,200 illegal gaming websites accessible to Ontarians, operated by 745 companies. However, at the time of the audit, the AGCO had not taken any action to discourage or reduce illegal online gaming.
- A proposed government plan to bring internet gaming into the legal market by establishing a subsidiary corporation of the AGCO to be responsible for conducting and managing internet gaming could put AGCO in conflict with its regulatory role.
- Most recreational cannabis sold in the province continues to be sold illegally. Despite the legalization of cannabis in October 2018, the illegal sale of recreational cannabis accounted for about 80 per cent of cannabis sales in the province in 2019/20.
- The AGCO is not properly monitoring the movement of recreational cannabis in retail stores. From Sept 2019 to July 2020 cannabis stores reported destroying 5,477 units of cannabis products and having 84,228 fewer units on hand than recorded in their inventory systems. The AGCO had no assurance that these units were not lost, stolen or diverted.
- Compliance officers are not following the advice of the AGCO's risk-based inspection model showing that non-compliance in the alcohol sector is greater on the weekend but rather are still concentrating the majority of their inspections on weekdays.
- In February 2020, 686 electronic gaming machines on casino floors were not using the OLG's gaming management system, meaning that these machines could not be monitored remotely by the AGCO and were vulnerable to the risk of software tampering that could affect payout odds.