



Alcohol and Gaming Commission of Ontario 2020 Value-for-Money Audit

Why We Did This Audit

- Although we have audited the gaming sector before, our Office has never audited the operations of the Alcohol and Gaming Commission of Ontario (AGCO).
- The AGCO's responsibilities have expanded in recent years. In April 2016, it became the regulator of the horse-racing industry. In October 2018, the AGCO also became responsible for regulating the cannabis retail stores.

Why It Matters

- 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: alcohol, gaming, horse racing and cannabis retail stores.
- If the alcohol, gaming, horse racing and cannabis sectors are not regulated effectively, they can contribute to significant social and health care costs such as addictions, violence and criminal activity.

What We Found

- The 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 the Attorney General totalled \$26.8 million. Only costs incurred to regulate the gaming sector are fully recovered from the sector itself through fees collected and cost recoveries.
- The AGCO does not produce and publish audited financial statements. All other regulatory government agencies in Ontario that are board-governed produce audited financial statements as required under a government directive.
- Under a new proposed government plan to bring illegal gaming operators into the legal market, the AGCO would have both regulatory responsibilities and operational/revenue-generating responsibilities through its subsidiary, which could be perceived as a conflict of interest.
- From 2017 to 2019, suspicious transaction reports at casinos increased 19% to 3,722, and the value of suspicious transactions reported doubled to \$340 million. Over the same period, 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.
- In February 2020, before the COVID-19-related shutdown, 686 electronic gaming machines on the casino floors were not using the OLG's gaming management system, which means that these machines could not be monitored remotely by the AGCO and were vulnerable to software tampering affecting payout odds.
- The AGCO is not properly monitoring the movement of recreational cannabis in retail stores. From September 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.
- The AGCO made little use of mystery shoppers at cannabis retail stores between August 2019 and March 2020, even though 26 new stores opened in that period.
- The AGCO pays significantly more for the use of mystery shoppers at grocery stores (for liquor purchases) and cannabis stores, compared with how much the LCBO pays—\$119 versus up to \$25 per visit.
- Compliance officials were not rotated among licensees but rather stayed in the regions to which they were initially assigned to continue to oversee the same establishments.
- During the COVID-19 shutdown, from March 23 to June 17, compliance staff mostly worked remotely and conducted most inspections over the telephone, by video call or from their car without entering the establishment.

Conclusions

- The AGCO does not have strong processes and systems in place to effectively carry out its regulatory activities across the four sectors. The AGCO's publicly reported performance measures focus largely on turnaround times and client satisfaction, with little measurement of its effectiveness as a regulator.
- The AGCO does not have assurance that its compliance activities are focused on the higher risk establishments. Compliance officials have significant autonomy to select which establishments to inspect and did not document the rationale for selections.
- The AGCO's operations and financial reporting lack public accountability and transparency. Specifically, the AGCO does not produce audited financial statements, and there is little measurement of its effectiveness as a regulator.

Read the report at www.auditor.on.ca