
**PHASE TWO
FOLLOW-UP REPORT ON
LOTTERIES YUKON**

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Preface

This report is a phase two follow-up report on the status of actions taken by departmental management to implement the audit recommendations contained in the report on the audit of Lotteries Yukon.

The regular reports we present to Audit Committee on our internal audits provide information about how well the government is performing against its own yardstick—its own objectives, legal requirements, and other relevant standards. We report what is working well and what needs improvement.

The objective of a follow-up assignment is to report on whether departments or managers have taken actions to implement the audit recommendations of previously released audit reports. An audit follow-up is an integral part of good management, and is a shared responsibility of departmental management officials and auditors. Corrective action taken by management on specific findings and recommendations is essential to improving the effectiveness and efficiency of government operations. To be effective, each department or agency should establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems should provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

Government Audit Services' approach to a follow-up audit involves two phases.

In phase one, which is usually carried out a year after a report has been issued, we obtain information and assurance from departments as to the status of the corrective actions taken to implement the audit recommendations. The scope of the follow-up in this phase is limited to interviews and document gathering.

In phase two, which is the basis of this report, we typically carry out the follow-up two years or longer after a report has been issued undertaking an additional step of selecting certain recommendations for audit testing and sampling of transactions to validate the assertions made by management.

After the completion of our follow-ups in either phase one or two, we then report on whether progress has been satisfactorily made to address our audit recommendations. We also draw conclusions on all of the follow-up work done on the previous audit report subject to examination.

PHASE 2 - FOLLOW-UP REPORT ON LOTTERIES YUKON

Retailer fraud in the lottery business had received a lot of media attention across Canada in 2007-08. It was determined that an internal audit could address whether this issue was prevalent in the Yukon, as well as examining the existing governance and/or reporting relationships between the Yukon Lottery Commission, Lotteries Yukon Office, Government of Yukon and the Western Canada Lottery Corporation (WCLC). This audit was part of the internal audit plan for 2007-08. A report on the audit of Lotteries Yukon was released in 2008.

The objective of the audit was to assess Lotteries Yukon business practices and systems of internal control over the conduct and management of public lotteries in Yukon. The audit identified six opportunities to improve the governance structure and internal controls within the operations of the Lotteries Yukon Office.

KEY EVENTS SINCE OUR PHASE 1 - FOLLOW-UP REVIEW IN 2009

A phase one follow-up review was undertaken in the summer of 2008. Feedback from management indicated that four of the six recommendations were implemented in full and two were partially complete. One of two partially completed audit recommendations was expected to be implemented by the end of 2009 and the other was scheduled for completion in 2010-11.

SUMMARY

We were able to confirm the completion of three of six audit recommendations. The remaining three recommendations are at the closing stages of completion. The first of these is the need to clarify the responsibilities of the general manager for the day-to-day management and administration of the Lotteries Yukon office. The second is the requirement for a stronger governance relationship between the Yukon Lottery Commission and Yukon government. The third recommendation pertains to the need for a shared service agreement between the departmental service provider and the Lotteries Yukon Office.

Senior management remains committed to the full implementation of the three outstanding audit recommendations. There are no indications at this final follow-up stage that the objectives will not be pursued and achieved in due course. Highlighted in the attached appendix is the status on four of six audit recommendations that we selected for review in our Phase 2 follow-up audit.

CONCLUSION

We are satisfied with the progress taken so far by the Yukon Lottery Commission, Lotteries Yukon Office and Yukon government in implementing our audit recommendations.

APPENDIX STATUS ON SELECT AUDIT RECOMMENDATIONS

ROLE OF CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER

Recommendation#1: *The responsibility for the day-to-day management and administration of Lotteries Yukon should be clarified including the role and reporting relationship of the General Manager so as to enable the Lotteries Yukon and the Commission to operate effectively under a clear governance structure.*

A principal finding of the audit report identified that the general manager was expected to take direction from and be accountable to both the commission and the Government of Yukon. This dual accountability, in our view, had the potential for conflicting direction. As a result, we recommended the need to clarify the responsibility for the day-to-day management and administration of Lotteries Yukon including the role and reporting relationship of the general manager.

Shortly after the issuance of our audit report, the roles and responsibilities of the Chair and Vice-Chair were agreed by motion at the Yukon Lottery Commission policy meeting of October 3 and 4, 2008. As well, the Commission put forward their view of the general manager's role at their meeting in October 2008. It does not appear that there was any consultation with government prior to putting this view forward. Consequently, the reporting role of the general manager has not yet been articulated through consultation with both the government and the commission in mind, and the current situation still creates the potential for conflicting direction.

Any formal understanding of the responsibilities for the day-to-day management of the Lotteries Yukon Office including the role of the general manager will be determined through the completion of a governance agreement and shared services agreement, which are discussed below. The general manager and deputy minister responsible for the Yukon Lottery Commission should continue to work in good faith while keeping the lines of communication open and transparent.

Status: **Audit recommendation has been partially implemented and actions to date indicate no further follow-up is required.**

FORMAL AGREEMENT BETWEEN THE GOVERNMENT AND THE COMMISSION

Recommendation#2: *The government and the Commission should make it a priority to conclude a Protocol Agreement to clarify the governance structure and set out the expectations of both parties.*

In April 2009 a protocol agreement was drafted by the Yukon Lottery Commission, but was not officially signed off. The requirement was re-visited by new management later in 2009. It was still agreed that there was a need for a better understanding of Lotteries Yukon and the commission's mandate and the relationship with the Government of Yukon. However, there is no legal requirement for a protocol agreement and the re-examination of this issue has concluded that this may not be the most appropriate vehicle for determining governance arrangements and expectations.

Advice is currently being sought from the Department of Justice with support from the Policy and Communications Branch for Lotteries Yukon, as to the most appropriate content for a governance based understanding between the parties, their relationships and expectations. The advice and policy work will provide the groundwork for the development of a governance agreement. The term protocol agreement is no longer being used so as to avoid any confusion with the mandated protocol agreements required by the Yukon Housing and Liquor Corporations.

According to the general manager, the most realistic timeline for the completion of a governance agreement is September 2011.

Status: **Audit recommendation has been partially implemented and actions to date indicate no further follow-up is required.**

SHARED SERVICES AGREEMENT

Recommendation#3: *Lotteries Yukon and the Department of Community Services should establish a formal written shared services agreement.*

Originally it was intended that a shared service agreement would be established in 2009-10. A re-organization in spring 2009 resulted in the Department of Community Services separating from the Yukon Lottery Commission and a new shared service group including Lotteries Yukon, Yukon Liquor Corporation and Yukon Housing Corporation was established.

The general manager has confirmed that a draft shared service agreement has been developed by senior management and is under review.

Status: **Audit recommendation has been partially implemented and actions to date indicate no further follow-up is required.**

AGREEMENT WITH THE WESTERN CANADA LOTTERY CORPORATION (WCLC)

Recommendation#4: *The Yukon government in consultation with the Commission should renegotiate its agreement with the Western Canada Lottery Corporation.*

The existing affiliate agreement between the commission and WCLC, establishing the commission as the territorial marketing organization, was signed in 1989 and it was agreed that modernization of the agreement would be beneficial. The general manager has confirmed that the WCLC intends to review the agreement with the Yukon Lottery Commission along with other affiliate agreements (retailer agreement) in early 2011. In the meantime, the general manager with assistance and legal advice from Justice is preparing the commission's position on these agreements when the WCLC review takes place.

Status: **Audit recommendation has been implemented in full.**