

Assessment of AML Controls at River Rock Casino: Analysis of Cheques Issued 2014-2016

In September 2017, BCLC commissioned Ernst & Young LLP Canada (“EY”) to perform an analysis of cheques and patterns of play pertaining to a set of defined money-laundering typologies at River Rock Casino Resort during a three-year period from January 1, 2014 to December 31, 2016. This was a very extensive and labour-intensive analysis that involved analyzing the play that led to each cheque. BCLC received the final reports in March 2019 and has posted them here for the public.

BCLC commissioned the independent analysis following allegations in the media that patrons were coming into River Rock Casino with “dirty money”, buying casino chips, playing notionally, then cashing the chips in and receiving a cheque in return. BCLC wanted to know if there were instances when anti-money laundering controls had been compromised.

Based on EY’s analysis, BCLC is satisfied that there was no systemic pattern of money-laundering activity related to cheques being issued by River Rock Casino during the three-year period of 2014 to 2016.

BCLC requires its Casino Service Providers to clearly mark and track all payments by casino cheque as either “*Return of Gaming Funds – Not Gaming Winnings*” or as a payout of a “*Verified Win*” to make clear whether the funds are simply the return of the customer’s buy-in funds or the funds were acquired through gambling win(s). BCLC also has clear policies and controls on the issuance of casino cheques which includes a prohibition on the issuance of cheques for the return of initial buy-in funds for any amount over \$10,000.

EY analyzed every single cheque of \$10,000 or more related to table-game play which resulted in a total cheque population of 2,031 casino cheques issued at River Rock Casino. Of this total population, EY identified 49 cheques (2.4%) that had exceptions related to the issuance control procedures in place. EY’s analysis found that exceptions were the results of errors made by River Rock Casino. Primarily, the errors were for “*Verified Win*” cheques issued where the cheque amount also included part of a patron’s original buy-in. In one case, a “*Return of Gaming Funds*” cheque was issued, contrary to policy, where no gaming play was recorded.

The independent EY analysis found that no “*Verified Win*” cheques were issued without gaming activity observed on the same day and these were not issued in connection with any money-laundering typology red flags. Further, it found that two “*Return of Gaming Funds*” cheques issued had exceptions pertaining to the money-laundering typologies; however, in these instances BCLC had taken mitigation action in response.

BCLC then commissioned EY to undertake a further independent analysis of gaming activity relative to four defined sets of money-laundering typologies. This consisted of analyzing casino activity for the 28 patrons who received the 49 cheques that were identified with cheque issuance exceptions. Exceptions were noted for the typologies in respect of the 28 patrons, however in those cases BCLC had taken mitigating action against those players prior to the commissioning of the independent analysis. For instance, the patrons had either been put on conditions where they had to show proof of the source of their cash and some were barred from B.C. casinos.

Since the timeframe of EY’s analysis, from January 1, 2014 to December 31, 2016, BCLC has continued to enhance its anti-money laundering program to safeguard the industry from the ever-evolving risks of criminal activity. This includes a mandatory requirement that Casino Service Providers obtain a declaration and verified proof from the patron identifying the source of funds for all buy-ins of \$10,000 or more, and to record detailed information about where the customer obtained his/her buy-in funds. If it is not a legitimate source, the funds are refused and BCLC may submit a suspicious transaction report to law enforcement and federal and provincial regulators.

Scroll down to read in full EY’s “*Verified Win, Return of Funds, and Convenience Cheque Analysis*” and “*Anti-Money Laundering Typology Analysis*.”



Some information has been removed in the interests of
privacy, safety and corporate security

British Columbia Lottery Corporation

River Rock Casino Resort:

Verified Win, Return of Funds, and
Convenience Cheque Analysis

February 15, 2019

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Attention: K. Michael Stephens

15 February 2019

Cheque Analysis

Dear K. Michael Stephens:

Attached please find our report on the analysis requested by British Columbia Lottery Corporation ("BCLC") in relation to the following specific types of cheques issued by River Rock Casino Resort: Verified Win and Return of Fund Cheques issued for \$10,000 or more, and Convenience Cheques issued for more than \$10,000, from the period of January 1, 2014 to December 31, 2016. The report is pursuant to our engagement agreement dated October 10, 2017 and our scoping document dated May 4, 2018. As such, we do not express any conclusion on the policies, procedures, systems/software and practices at BCLC, River Rock Casino Resort, or any other BC Casino.

Very truly yours,

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Ernst & Young LLP, Canada



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1. Executive Summary

Ernst & Young LLP ("we") was engaged to provide assistance to Hunter Litigation Chambers (the "Firm") in connection with the Firm's provision of legal advice to British Columbia Lottery Corporation ("BCLC"). Our primary points of contact have been BCLC's General Counsel and Director Internal Audit.

The purpose of our analyses was to identify instances of cheques issued to patrons of River Rock Casino Resort ("River Rock") that were not supported by the Patron's gaming activity. The mandate questions that we were asked to address are detailed in Section 2.1 of this report ("Mandate Questions"). We performed procedures on all cheques issued by River Rock within the parameters described in Section 2.2 of this report. The defined terms included in the Mandate Questions, and throughout this report, are defined in Appendix A.

There were 2,031 cheques that met the parameters in Section 2.2 of this report. Of the 2,031 cheques analyzed, we identified 49 cheques where the question criteria was met. If a cheque met criteria for more than one of the Mandate Questions, it was only included in the following table one time. We noted the following observations:

Summary of Observations				
	Analysis Period			Total
	2014	2015	2016	
Sample Summary				
Number of Cheques Analyzed	682	629	720	2,031
Dollar Value of Cheques Analyzed	126,927,492	73,454,384	78,852,345	279,234,221
Summary of Observations				
Number of Cheques with Observations	21	6	22	49
% of Total Cheques Analyzed	3.08%	0.95%	3.06%	2.41%
Dollar Value of Cheques with Observations	2,524,400	536,000	3,858,700	6,919,100
% of Total Cheques Analyzed	1.99%	0.73%	4.89%	2.48%

Refer to Section 4 of this report for a detailed breakout of each observation type.

There was one instance of a cheque meeting the criteria for more than one of the Mandate Questions. As such, this cheque is included twice as an observation for both Mandate Question 1 and Mandate Question 4. The total number of cheques identified with observations, percentage of the total number of cheques analyzed, and the corresponding unsupported amounts are summarized in the table below:

Summary of Observations by Mandate Question – Unsupported Amount (\$)				
Question	Total # of Cheques with Observations			
	Cheques (#)	% of Sample (#)	Value of Cheques (\$)	Unsupported Amount (\$)
All Cheques				
1	1	0.05%	300,000	300,000
Verified Win Cheques				
2	35	2.43%	2,801,100	1,140,490
Return of Funds Cheques				
3	9	1.52%	3,510,000	3,510,000
4	5	0.84%	608,000	608,000
Convenience Cheques				
5	N/A	N/A	N/A	N/A

The observations noted in the above table can be summarized into the following three categories (as detailed in Section 4):

- ▶ **Cheque Issued without Play:**
 - ▶ 1 occurrence noted that represented \$300,000.
- ▶ **Verified Win Cheques issued in Excess of Verified Win Amount:**
 - ▶ 22 occurrences noted where partial or complete buy-ins appeared to be included in a Verified Win Cheque with unsupported amounts totaling \$598,910 (where the unsupported amount of the cheque was \$1,000 or more).
 - ▶ 10 occurrences noted where partial or complete buy-ins appeared to be included in a Verified Win Cheque with unsupported amounts totaling \$1,580 (where the unsupported amount of the cheque was less than \$1,000).
 - ▶ 9 occurrences noted where a Verified Win Cheque was issued for the Return of Funds that represented \$3,510,000.
- ▶ **Missing Documentation:**
 - ▶ 7 occurrences noted that represented \$848,000.

2. Engagement Scope

2.1 Mandate

BCLC requested that we analyze the following specific types of cheques issued by River Rock Casino Resort ("River Rock"): Verified Win and Return of Fund Cheques issued for \$10,000 or more, and Convenience Cheques issued for more than \$10,000¹, from the period of January 1, 2014 to December 31, 2016. BCLC requested that Verified Win Cheques were limited to cheques related to Table Game play only.

The purpose of our analyses was to identify instances of cheques issued to Patrons of River Rock that were not supported by the Patron's gaming activity. The Mandate Questions were specifically developed through consultations with BCLC's management and BCLC's Audit Committee. The Mandate Questions that BCLC asked us to address are as follows:

Mandate Question 1: Verified Win, Return of Funds, and Convenience ("All Cheques")

From the sample of cheques analyzed, were there cases observed where a Patron walked in to River Rock with cash and received a cheque without any casino play?

Mandate Question 2: Verified Win Cheques

From the sample of cheques analyzed, were there cases observed where a patron received a verified win cheque for an amount that is not supported by a Cash Tracking Form, or does not reconcile to the Cash Tracking Form provided, documenting their play for that day, regardless if the buy-in was cash or not?

Mandate Question 3: Return of Funds Cheques

From the sample of cheques analyzed, were there cases observed where a Patron removed funds from a Patron Gaming Fund ("PGF") account and received a Verified Win Cheque without any casino play?

Mandate Question 4: Return of Funds Cheques

From the sample of cheques analyzed, were there cases observed where a PGF Patron deposited funds and subsequently received a Return of Funds Cheque with no gaming activity between the deposit and cheque request?

Mandate Question 5: Convenience Cheques

From the sample of cheques analyzed, were there cases observed where a Patron received a Convenience Cheque for an amount greater than \$10,000?

¹ Convenience Cheques are intended to be issued for \$10,000 or less and therefore only Convenience Cheques issued for more than \$10,000 were analyzed.

2.2 Defining the Sample

BCLC provided us with listings of cheques that met all of the following criteria:

- ▶ Issued from River Rock
- ▶ Issued as a Verified Win, Return of Funds, or Convenience Cheque
- ▶ Issued during the period of January 1, 2014 to December 31, 2016 ("Analysis Period")
- ▶ Issued for \$10,000 or more²
- ▶ Issued to PGF or non-PGF Patrons
- ▶ Related to play that occurred at a Table Game (applicable to Verified Win Cheques only)

BCLC represented that cheque listings were obtained from the sources described below. We did not perform procedures to independently validate the completeness of the sample of cheque data provided by BCLC.

Verified Win Cheques

BCLC represented that Verified Win Cheque data is captured within the s 15 system s 15 includes all Verified Win Cheques issued for the Analysis Period. The BCLC AML Team applied a filter to remove all cheques below \$10,000 in value and represent that the information is complete and accurate and that no information was redacted.

BCLC represented that s 15 does not specifically identify if cheques issued relate to Table Games, or slot/machine winnings. Therefore, the BCLC AML Team applied text filters to identify which cheques related to Table Games winnings or which related to slot/machine winnings. The BCLC AML Team communicated to us that there were some cheques that were not picked up by either text filter. In these cases, the BCLC AML Team manually reviewed the cheques to determine if they related to Table Games or slot/machine games.

Return of Funds Cheques

BCLC represented that Return of Funds Cheques were documented on a hardcopy cheque register for the Analysis Period. The BCLC Internal Audit Team manually reviewed the hardcopy cheque register and identified cheques which were issued for \$10,000 or more that were issued to PGF Patrons for Return of Funds that had been held in a PGF account. From the information provided by the River Rock Casino, the BCLC Internal Audit Team represents that the information is complete and accurate and that no information was redacted.

Convenience Cheques

The BCLC AML Team identified cheques issued during the Analysis Period for over \$10,000 based on the Convenience Cheque tracking documents manually maintained by the BCLC AML Team. The sample used for analysis is from the Convenience Cheque tracking sheet maintained by the BCLC AML Team. The BCLC AML Team and represents that the information is complete and accurate and that no information was redacted.

² Only Convenience Cheques over \$10,000 were analyzed. Convenience Cheques are intended to be issued for \$10,000 or less and therefore these cheques were excluded from the sample.

2.3 Limitations of Report and Restrictions of Use

This report was prepared for the Firm and BCLC pursuant to the terms of our Agreement dated October 10, 2017 (the "Agreement") and our scoping document dated May 4, 2018 (the "Scoping Document").

Under the Agreement and Scoping Document:

1. Data, documentation and information analyzed and used for the preparation of this report was made available to us by BCLC, upon our request. We have relied on the integrity, completeness, and accuracy of what was provided. As such, we relied on the accuracy of the data that was provided in the Manual ROF Cheque Register or s 15
2. This report is based on our procedures to the date of this report as described herein. In the event that further documents, data or other information become available that could impact our observations, we reserve the right, but will not be obligated, to analyze such records and reconsider and amend the observations set out in this report.
3. Our procedures were performed on a sample basis for River Rock. Our analyses should not be extrapolated, including to other properties or instruments.

This report was not written with the needs of parties other than the Firm and BCLC in mind and assumes a detailed understanding of BCLC and River Rock. Consistent with the terms of our Agreement and Scoping Document:

1. This report is intended to be read in its entirety. We caution against drawing conclusions from any part of the report in isolation.
2. Where our written consent is required for you to disclose our report to a third party, we will also require that third party to execute a letter substantially in the form of Appendix A of the Agreement. Without our prior written consent, you may not use or publish our report for any purpose not contemplated in our Agreement.

For clarity, we were not engaged to, and did not:

1. Perform a financial statement audit, review or compilation for the purpose of expressing an opinion on historical financial statements of BCLC in accordance with standards established by CPA Canada. Accordingly, we do not express such an opinion or any form of assurance.
2. Express any conclusions on BCLC or River Rock's policies, procedures, systems/software and practices. Additionally, we did not conduct any field work at River Rock as part of our procedures, and we did not interview any River Rock employees.
3. Perform an assessment of BCLC's compliance with the Federal Proceeds of Crime (Money Laundering) and Terrorist Financing Act ("PCMLTFA") or against applicable reporting requirements outlined by the Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC").
4. Perform procedures to consider or analyze the source of funds relating to the Buy-In Amounts used to calculate the Verified Win cheques, Return of Funds cheques, Convenience cheques, or the

source of funds relating to PGF Account deposits. The source of funds detail was not provided in the supporting documents.

3. Procedures

We designed procedures to address the Mandate Questions. The Mandate Questions relate to three different types of cheques – Verified Win Cheques, Return of Funds Cheques, and Convenience Cheques. Each of the three cheque types is issued for a different purpose, and therefore has different supporting documentation that is available. The procedures completed are outlined below.

At our direction, BCLC obtained supporting documentation from River Rock and entered prescribed data points into workbooks that we designed for our analyses. We analyzed the data captured by BCLC to identify cheques that required further analysis. In these cases, we analyzed the documentation and inputs provided by BCLC. We also performed quality control procedures on the inputs entered by BCLC Internal Audit and BCLC AML employees.

3.1 All Cheques

BCLC identified 2,031 cheques that met the sample description identified above. For these cheques, we obtained copies of the following supporting documentation from BCLC:

- ▶ Cheque Image
- ▶ Printout of the s LCT and CDR filing information
- ▶ If applicable, Cash Tracking Form
- ▶ If applicable, Casino Disbursement of Funds Form

Mandate Question 1: From the sample of cheques analyzed, were there cases observed where a Patron walked in to River Rock with cash and received a cheque without any casino play?

The following procedures were performed:

1. Identified the cheque and the type of cheque that was issued
2. For Verified Win Cheques, obtained a copy of the Cash Tracking Form prepared by River Rock to support if gaming activity had occurred
3. For Return of Funds Cheques, obtained a copy of the PGF Account Summary prepared by River Rock to support that the Patron had engaged in gaming activity
4. For Convenience Cheques, obtained a copy of the Cash Tracking Form prepared by River Rock to support that gaming activity had occurred
5. Analyzed the supporting document to identify if gaming activity had occurred

For purposes of Mandate Question 1, we did not recalculate the value of the cheque issued, or the purpose of why the cheque was issued. The focus was to identify if gaming activity had occurred.

3.2 Verified Win Cheques

BCLC identified 1,439 Verified Win Cheques that met the sample description identified above. For these cheques, we obtained the copies of the following supporting documentation from BCLC:

- ▶ Cheque Image
- ▶ Cash Tracking Form
- ▶ Casino Disbursement of Funds Form
- ▶ Printout of the s 15 LCT and CDR filing information

Mandate Question 2: From the sample of cheques analyzed, were there cases observed where a patron received a verified win cheque for an amount that is not supported by a Cash Tracking Form, or does not reconcile to the Cash Tracking Form provided, documenting their play for that day, regardless if the buy-in was cash or not?

The following procedures were performed:

1. Identified the cheque based on details located in s 15
2. Compared the cheque date to the Cash Tracking Form to support that the Cash Tracking Form relates to the cheque that was issued:
 - a. Where the cheque date was off by one day, we were informed that the form would relate to the cheque due to timing of gaming play. For example, a Patron who started gaming on May 6 at 11:50 pm and cashed out on May 7 at 2:30 am may have been issued a cheque dated May 6
3. Compared the value of the cheque with the value of the River Rock employee's calculated Verified Win Amount on the Cash Tracking Form
4. Where the Cash Tracking Form did not include a River Rock employee's calculation of the Verified Win, we compared the Cheque amount to the following sources:
 - a. Calculated Verified Win Amount on the Casino Disbursement of Funds Form
 - b. Chip movement on the Cash Tracking Form³

The printout of the s 15 LCT and CDR filing information was available for reference and reconciliation.

3.3 Return of Funds Cheques

BCLC identified 592 Return of Funds Cheques that met the sample description identified above. For these cheques, we obtained the copies of the following supporting documentation from BCLC:

- ▶ Cheque
- ▶ Patron Profile Card
- ▶ Printout of the s 15 LCT and CDR filing information
- ▶ Patron Gaming Fund Large Cash Transaction, Foreign Exchange and Casino Disbursement of Funds Form
- ▶ If applicable, Cash Tracking Form

³ It was communicated to us that the chip movement on the Cash Tracking Form was to support the fact that gaming activity occurred. BCLC represented that the summary information written by hand on the Cash Tracking Form is the highest form of evidence. Therefore, we only relied on the chip movement when a summary on the Cash Tracking Form or a summary on the Casino Disbursement of Funds Form was not available. There were instances in which chip movement was tracked by denominations versus total dollar value and in these cases the totals from chip movement may not reconcile with amounts noted in summaries or disbursement of funds forms.

Mandate Question 3: From the sample of cheques analyzed, were there cases observed where a Patron removed funds from a Patron Gaming Fund ("PGF") account and received a Verified Win Cheque without any casino play?

The following procedures were performed:

1. Identified the cheques from the Manual ROF Cheque Register
2. Compared the cheque number, cheque type, date and amount per the copy of the cheque to the Manual ROF Cheque Register
3. Identified the type of cheque as an ROF Cheque, indicated by "Return of Patron Gaming Funds" or Verified Wine Cheque "Players Gaming Club Winnings"

Mandate Question 4: From the sample of cheques analyzed, were there cases observed where a PGF Patron deposited funds and subsequently received a Return of Funds Cheque with no gaming activity between the deposit and cheque request?

The following procedures were performed:

1. Identified the cheques from the Manual ROF Cheque Register
2. Compared the cheque number, date and amount per the copy of the cheque to the Manual ROF Cheque Register
3. Identified the transaction by withdrawal date and amount in the PGF Patron Profile Card and analyze the most recent deposit prior to the withdrawal/cheque date
4. Identified if there is gaming activity related to the most recent deposit prior to the withdrawal. If gaming activity exists, obtain a copy of the Cash Tracking Form

3.4 Convenience Cheques

Convenience Cheques are intended to be issued for \$10,000 or less. BCLC did not identify any Convenience Cheques that were above \$10,000.

Mandate Question 5: From the sample of cheques analyzed, were there cases observed where a Patron received a Convenience Cheque for an amount greater than \$10,000?

As there were no Convenience Cheques identified for an amount greater than \$10,000, no analysis was performed.

4. Observations

We noted that of the 2,031 cheques analyzed, we identified 49 cheques where the question criteria was met. If a cheque met criteria for more than one Mandate Question, it was only included in the following table one time. We noted the following observations:

Summary of Observations				
	Analysis Period			Total
	2014	2015	2016	
Sample Summary				
Number of Cheques Analyzed	682	629	720	2,031
Dollar Value of Cheques Analyzed	126,927,492	73,454,384	78,852,345	279,234,221
Summary of Observations				
Number of Cheques with observations	21	6	22	49
% of Total Cheques Analyzed	3.08%	0.95%	3.06%	2.41%
Dollar Value of Cheques with observations	2,524,400	536,000	3,858,700	6,919,100
% of Total Cheques Analyzed	1.99%	0.73%	4.89%	2.48%

The table above identifies the total number of unique cheques that we identified observations. The following tables identify the number of cheques for each question.

Summary of Observations by Mandate Question – Unsupported Amount (\$)					
Question	Total # of Cheques with Observations				
	Cheques (#)	% of Sample (#)	Value of Cheques (\$)	Unsupported Amount (\$)	
All Cheques					
1	From the sample of cheques analyzed, were there cases observed where a patron walked in to River Rock with cash and received a cheque without any casino play? (see Section 4.1)	1	0.05%	300,000	300,000
Verified Win Cheques					
2	From the sample of cheques analyzed, were there cases observed where a patron received a verified win cheque for an amount that is not supported by a Cash Tracking Form, or does not reconcile to the Cash Tracking Form provided, documenting their play for that day, regardless if the buy-in was cash or not? (see Section 4.2)	35	2.43%	2,801,100	1,140,490
Return of Funds Cheques					
3	From the sample of cheques analyzed, were there cases observed where a patron removed funds from a PGF account and received a verified win cheque without any casino play? (see Section 4.3)	9	1.52%	3,510,000	3,510,000
4	From the sample of cheques analyzed, were there cases observed where a PGF Patron deposited funds and subsequently received a return of funds cheque with no gaming activity between the deposit and cheque request? (see Section 4.3)	5	0.84%	608,000	608,000
Convenience Cheques					
5	From the sample of cheques analyzed, were there cases observed where a patron received a convenience cheque for an amount greater than \$10,000? (see Section 4.4)	N/A	N/A	N/A	N/A

There was one instance of a cheque meeting the criteria for more than one of the Mandate Questions. As such, this cheque is included twice as an observation for both Mandate Question 1 and Mandate Question 4.

4.1 All Cheques

Mandate Question 1

We analyzed 2,031 cheques in total. We noted one Return of Funds Cheque where there was no play noted and the source of the Buy-In was not noted on the Cash Tracking Form.

Question 1: Summary of Observations			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cash Tracking Form indicates no play	1	300,000	300,000
Total Cheques Analyzed	2,031	279,346,721	
Observations as % of Total Cheques Analyzed	0.05%	0.11%	0.11%

Of the cheques analyzed, there were cheques for which we were unable to determine if gaming play occurred due to missing tracking sheets. For these cheques, we were unable to form a conclusion and therefore have excluded these cheques from the observations for Mandate Question 1.

The cheques where we are missing Cash Tracking Forms are discussed later in this document.

4.2 Verified Win Cheques

Mandate Question 2

We analyzed 1,439 Verified Win Cheques. Of these cheques, we noted observations for Mandate Question 2 related to 35 cheques. We have segmented the observations into the following three categories:

- ▶ 22 cheques where the partial or complete Buy-In appeared to be included in Verified Win Cheque
- ▶ 10 cheques where we identified a difference (difference was less than \$1,000)
- ▶ 3 cheques where the Cash Tracking Form could not be located

The cheques are discussed in more detail below. The observations are summarized in the table below.

Question 2: Summary of Observations			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Partial or complete buy-in appeared to be included in Verified Win Cheque	22	1,899,000	598,910
Difference (difference was less than \$1,000)	10	362,100	1,580
Cash Tracking Form could not be located	3	540,000	540,000
Total	35	2,801,100	1,140,490
Total Cheques Analyzed	1,439	103,935,477	
Observations as % of Total Cheques Analyzed	2.43%	2.70%	1.10%

Cheques where Verified Win Cheque appears to include funds that are not a Verified Win

We noted 32 cheques where the Cash Tracking Form was provided, but the Verified Win Cheque was issued for an amount that was greater than the Verified Win recorded on the Cash Tracking Form. Of these cheques, we noted that 22 cheques had differences greater than \$1,000 and appeared to include a portion of the original Buy-In amount. The remaining 10 cheques had differences that were less than \$1,000 and appeared to have been rounded up when the cheque was issued. The cheques issued with observations are summarized below:

Cheques where Verified Win Cheque appears to include funds that are not a Verified Win			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Partial or complete buy-in appeared to be included in Verified Win Cheque	22	1,899,000	598,910
Difference (difference was less than \$1,000)	10	362,100	1,580

Cheques where Cash Tracking Form was Not Located

We noted 3 cheques where the Cash Tracking Form was not provided and the Verified Win Amount could not be corroborated. River Rock communicated to us that the Cash Tracking Forms were missing and could not be found. The cheques are summarized below:

Cheques where Verified Win Cheque appears to include funds that are not a Verified Win			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cash Tracking Form could not be located	3	540,000	540,000

Cheques where Cash Tracking Form did not have a Summary, but the Movement on Cash Tracking Form Supported the Verified Win Cheque

We noted instances where the Cash Tracking Form and the Casino Disbursement of Funds Form did not include a summary of the Cash-Out Amount, Buy-In Amount, and Verified Win Amount. However, we were able to perform alternative procedures using the chip movement recorded on the Cash Tracking Form. Therefore, we did not include these cheques as an observation. We noted 7 cheques for a total of \$378,700 that met this description.

Cheques where Cash Tracking Form was not required as Buy-In Amount was equal to or less than \$3,000

In the case where a Patron Buys-In for \$3,000 or less, River Rock does not require its employees to record gaming play on a Cash Tracking Form. We were unable to identify the Buy-In Amount. We noted 2 cheques for a total of \$25,200 that met this description.

4.3 Return of Funds Cheques

Mandate Question 3

We analyzed 592 Return of Funds Cheques. Of these cheques, we noted observations for Mandate Question 3 related to 9 cheques. The cheques are discussed in more detail below. The total unsupported value of these cheques is \$3,510,000. The observations are summarized in the table below:

Question 3: Summary of Observations			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cheques where Verified Win Cheque was issued for ROF amount	9	3,510,000	3,510,000
Total Cheques Analyzed	592	175,298,744	
Observations as % of Total Cheques Analyzed	1.52%	2.00%	2.00%

Cheques where Verified Win Cheque was issued for ROF amount

We noted 9 cheques where a PGF Patron had requested a Return of Funds Cheque. The cheque was listed in the Return of Funds Cheque register. However, the cheque was written on a Verified Win Cheque. In these instances, the Verified Win Amount is not supported. The cheques are summarized below:

Cheques where Verified Win Cheque was issued for ROF amount			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cheques where Verified Win Cheque was issued for ROF amount	9	3,510,000	3,510,000

Mandate Question 4

We analyzed 592 Return of Funds cheques. Of these cheques, we noted observations for Mandate Question 4 related to 5 cheques. The cheques are discussed in more detail below. The total unsupported value of these cheques is \$608,000. The observations are summarized in the table below:

Question 4: Summary of Observations			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cash Tracking Form indicates no play	1	300,000	300,000
Cheque copy and supporting documentation could not be located	3	250,000	250,000
Cash Tracking Form could not be located	1	58,000	58,000
Total	5	608,000	608,000
Total Cheques Analyzed	592	175,298,744	
Observations as % of Total Cheques Analyzed	0.84%	0.35%	0.35%

Cash Tracking Form indicates that no play occurred

The Cash Tracking Form notes that the Patron bought in but did not play. The funds were subsequently issued as an ROF cheque. The cheque is summarized below:

Cash Tracking Form indicates that no play occurred			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cash Tracking Form indicates no play	1	300,000	300,000

Cheque copy and supporting documentation could not be located

River Rock communicated to BCLC that these cheques were not issued as ROF cheques and were not withdrawn by the Patron. They indicated that the cheques were voided and re-issued as a Buy-In for a Table Game. In 2014, cheques were issued to move money from the PGF Account to a table for a Buy-In. We requested a copy of the voided cheque, or a copy of the cheque that was used to transfer money to the table for a Buy-In. River Rock was not able to provide copies of a voided cheque or of a cheque used for a Buy-In. The cheques are summarized below:

Cheque copy and supporting documentation could not be located			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cheque copy and supporting documentation could not be located	3	250,000	250,000

Cash Tracking Form could not be located

The Patron Card indicated that gaming activity existed, but the Cash Tracking Form could not be located. As a result, we could not corroborate that gaming activity actually occurred. The cheque is summarized below:

Cash Tracking Form could not be located			
	# of Cheques	Total Value of Cheques (\$)	Unsupported Amount (\$)
Cash Tracking Form could not be located	1	58,000	58,000

Cheques where Cash Tracking Form could not be located, but other supporting documentation indicates play occurred

We noted an instance where the Cash Tracking Sheet Form could not be located to identify that play occurred prior to the withdrawal of the ROF cheque. However, we were able to use alternative procedures to exclude this as an observation by referencing other supporting documentation such as cash tracking forms for prior sessions of play associated with cheques issued prior to this one. The additional support analyzed indicated that play was associated to the ROF cheque issued. Therefore, we did not include this cheque as an observation. We noted one cheque for a total of \$1,000,000 that met this description.

4.4 Convenience Cheques

Mandate Question 5

There were no Convenience Cheques identified by BCLC that were written for over \$10,000 at River Rock within the Analysis Period. Convenience Cheques are intended to be issued for \$10,000 or less and BCLC did not identify any Convenience Cheques that were above \$10,000.

5. Summary

Of the 2,031 cheques analyzed, we identified 49 cheques where one or more of the Mandate Questions' criteria was met. As noted in Section 4 of this report, these 49 cheques accounted for \$6,919,100 of the \$279,234,221 in total value of cheques. The observations noted in this report can be summarized into the following three categories:

- ▶ **Cheque Issued without Play:**
 - ▶ 1 occurrence noted that represented \$300,000.
- ▶ **Verified Win Cheques issued in Excess of Verified Win Amount:**
 - ▶ 22 occurrences noted where partial or complete buy-ins appeared to be included in a Verified Win Cheque with unsupported amounts totaling \$598,910 (where the unsupported amount of the cheque was \$1,000 or more).
 - ▶ 10 occurrences noted where partial or complete buy-ins appeared to be included in a Verified Win Cheque with unsupported amounts totaling \$1,580 (where the unsupported amount of the cheque was less than \$1,000).
 - ▶ 9 occurrences noted where a Verified Win Cheque was issued for the Return of Funds that represented \$3,510,000.
- ▶ **Missing Documentation:**
 - ▶ 7 occurrences noted that represented \$848,000.



Appendices

Appendix	Appendix description
Appendix A	Defined Terms

A. Defined Terms

In writing our report, we used specific terms. For the purposes of this report, the following terms have been used:

- ▶ Patron: An individual who is a customer of a casino and utilizes the establishment for gambling purposes. Patrons are assigned a unique subject ID ("SID") once a Business Relationship has been established.
- ▶ PGF Patron: A Patron who has opened a Patron Gaming Fund ("PGF") account at the casino.
- ▶ PGF account: An account opened at the casino for a Patron where the Patron can deposit funds for the purpose of gaming. The account can only be opened with a minimum amount of CAD 10,000 in Sourced funds in the form of a bank draft. The PGF Patron can withdraw funds from their PGF account at any point as a Buy-In or a Return of Funds Cheque.
- ▶ Table Game: Casino games conducted on a table and operated by one or more live dealers. Players enter a game by sitting (or standing) at the table and placing their bets on that table, in accordance with the rules of the game. Tables are identified using a table number coded using various acronyms, such as MDB and MEZB. Gaming activity for Table Games, or rated play, is tracked using a Cash Tracking Form (see term below).
- ▶ Buy-In Amount ("Buy-In"): The amount of cash, chips or cheques that a Patron uses to initiate gaming activity. Note that there can be more than one Buy-In amount related to one occurrence of gaming activity.
- ▶ Cash-Out Amount ("Cash-Out"): The total amount of chips or cash that a Patron takes to the cage when they finish gaming in order to cash out.
- ▶ Verified Win Amount ("Verified Win"): The net positive gaming activity for a Patron, equal to the total Table Game Cash-Out amount less the total Buy-In amount.

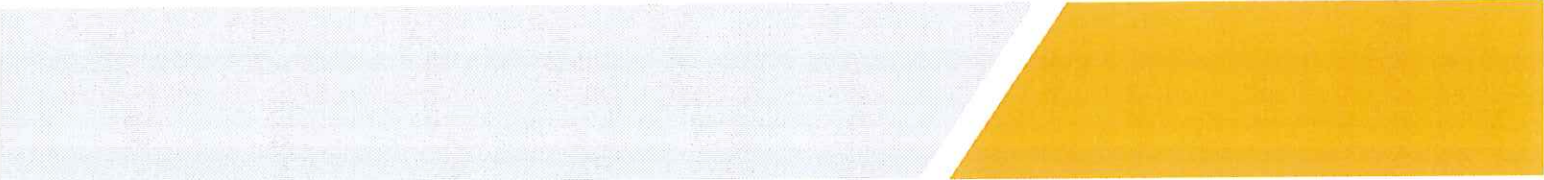
For the purposes of this report, cheques issued to gaming Patrons have been categorized into the following categories:

- ▶ Verified Win Cheque: Issued to any Patron as a result of gaming activity where the Patron wins money from the casino. The amount of the cheque is not to exceed the amount of gaming winnings for the recorded session(s) prior to Cash-Out (e.g., total Cash-Out amount less the Buy-In amount).
- ▶ Convenience Cheque: Issued to any Patron for redemption of chips valued at CAD 10,000 or less. The cheque is issued as a convenience to Patrons so they do not have to carry cash or chips out of the casino. PGF Patrons do not have a limit on how many Convenience Cheques can be issued, whereas non-PGF Patrons are only allowed up to CAD 10,000 a week.

- ▶ Return of Funds ("ROF") Cheque: Issued to a PGF Patron for a return of funds that have been deposited in the PGF account, either sourced from a deposit from an external source or a deposit from a result of gaming play.

As part of our analysis, we looked at copies of the following types of financial instruments and documents prepared during gaming days at River Rock:

- ▶ Cheque: A written order to pay a stated sum from the drawer's account to the addressee. BCLC's cheques can be printed by a computer or written by hand.
- ▶ Cash Tracking Form: The form that is used by casino staff to track Patrons who buy in with CAD 3,000 or more at a Table Game. The form is used to track details such as what table and seat position the Patron is playing at, date of play, Cash-Out amount, Buy-In amount and a calculation of the Verified Win amount. These are handwritten records in which play may be recorded as a sum of the activity in CADs or by specific chip values where each chip color has a corresponding denomination.
- ▶ Casino Disbursement of Funds: The form that is used by casino staff to track all cash disbursements conducted at the cage post gaming activity, as well as Verified Win Cheque issuances. The Casino Disbursement of Funds Form is filled out by a cage employee when a Patron has approached the cage to perform a Cash-Out transaction.
- ▶ Patron Gaming Fund Large Cash Transaction, Foreign Exchange and Disbursement Record ("PGF Record"): The form that is used by casino staff to track deposits and withdrawals to a PGF account that includes the date, amount and source of the funds or type of withdrawal, respectively. The source of the deposits can be external (e.g., bank draft) or internal (e.g., redeposit from gaming activity at the casino), and the type of withdrawal can be a Buy-In used to initiate gaming activity through the purchase of chips at the cage, a direct table transaction or a Return of Funds Cheque that is used to take money outside of the casino.
- ▶ s 15 s 15 system used by BCLC and its service providers to manage the documentation of activities and transactions to adhere to compliance and reporting requirements.
- ▶ s 15 LCT Printout: A printout of a Large Cash Transaction Report ("LCTR") from s 15 LCTRs are entered and tracked in s 15 . LCTRs are sent to FINTRAC when a casino receives CAD 10,000 or more within 24 hours from or on behalf of the same individual or entity. The LCTR contains Buy-In amounts, PGF account deposits, and disbursement details and amounts.
- ▶ PGF Account Detail: Statement of a Patron's PGF account deposits and withdrawals from account opening to close.
- ▶ s 15 An electronic tracking and reporting system that balances transactions to cash at the end of each day.s 15 includes all cheques issued for the period of January 1, 2014 to December 31, 2016.
- ▶ Manual ROF Cheque Register: River Rock tracked ROF Cheques issued to Patrons on a manual handwritten register. This register was used to determine the population of ROF cheques to be reviewed by EY during the scope period.



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privacy, safety and corporate security

British Columbia Lottery Corporation

**River Rock Casino Resort:
Anti-Money Laundering
Typology Analysis**

February 15, 2019

PRIVILEGED AND CONFIDENTIAL





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Suite 2100 – 1040 West Georgia Street
Vancouver, BC, V6E 4H1
Attention: K. Michael Stephens
Job Title: Officer

15 February 2019

Anti-money laundering Analysis

Dear K. Michael Stephens:

Attached please find our report requested by outside counsel for British Columbia Lottery Corporation ("BCLC") to analyze patterns of transaction and gaming activity at River Rock Casino Resort ("River Rock") that reflect money laundering typologies. This analysis was prepared to the attention of the Firm, privileged and confidential in nature, for a sample of transactions conducted by 28 Patrons for the period of January 1, 2014 through December 31, 2016. The report is pursuant to our engagement agreement dated October 10, 2017 and our scoping document dated November 2, 2018. We do not express any conclusion on the policies, procedures, systems/software and practices at BCLC, River Rock Casino Resort, or any other BC Casino.

Very truly yours,

Ernst & Young LLP, Canada



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1. Executive Summary

Ernst & Young LLP (“EY”) was engaged to provide assistance to Hunter Litigation Chambers (the "Firm") in connection with the Firm’s provision of legal advice to British Columbia Lottery Corporation (“BCLC”). Our primary points of contact have been the Firm, BCLC’s General Counsel and Director of Internal Audit.

The purpose of our work was to analyze patterns of transactions and gaming activity at River Rock Casino Resort (“River Rock”) reflected the money laundering typologies defined below. This analysis was conducted for 28 Patrons who were the recipients of the 49 cheques marked with issuance exceptions in EY’s *Verified Win, Return of Funds, and Convenience Cheque Analysis* report between January 1, 2014 and December 31, 2016. EY performed investigation procedures on a sampled selection of the selected Patrons’ player gaming fund (“PGF”), cage and Table Games transaction activity as well as the Patrons’ due diligence files.

The sampled assessment period (“Analysis Period”) consisted of the Patrons’ s 15 after the 49 casino cheques with exceptions were issued by River Rock. Forty-eight of the 49 cheques marked with issuance exceptions, were issued without s 15 flagging for any of the four AML typologies discussed below. One of the 49 cheques was issued as a result of an Unsourced buy-in. Two of the 553 cheques¹ identified for the 28 Patrons for the Analysis Period had exceptions pertaining to the AML typologies discussed below. Of the two cheques with exceptions, one was funded from a Sourced PGF Buy-In and the other was the Unsourced Buy-In cheque as discussed above.

EY’s analysis considered whether cheques, s 15 pertaining to the following money laundering typologies: (1) placement and layering of funds; (2) structuring of transactions; (3) suspicious currency exchanges or use of other financial instruments; and (4) integration of funds. Additionally, the analysis covers if mitigating factors were applied to Patron and the types of mitigating factors. EY did not, however, assess the effectiveness of the mitigating factors applied. Please find the summary of this analysis below:

Summary of Exceptions – Typology Type			
Money Laundering Typology	Analysis of 28 Patrons		
	# of Patrons with Exceptions	% of Patrons with Exceptions	% of Patrons with Exceptions who BCLC applied mitigating factors
Typology 1 - Placement and Layering through PGF Accounts or the Casino’s System Funds placed or entered into the casino’s system, s 15	10	36%	100%
Typology 2 - Structuring The division of cash or casino value instruments s 15	0	0%	

¹ All 49 cheques selected from the Analysis Period were assessed as part of the 553 cheque population identified

Typology 3 - Currency Exchange or other Financial Instruments			
Patrons use of foreign currency services or other financial instruments (e.g. travelers cheques, casino cheques) § 15	0	0%	
Typology 4 - Integration of Funds			
Patrons use of PGF accounts or cash Buy-Ins at the cage or Table Games that take place § 15	19	68%	100%

EY’s analysis did not identify red flags or patterns through our assessment of the 28 Patrons for typology 2 (structuring) and typology 3 (currency exchange or other financial instruments). The findings and mitigating factors for typology 1 and typology 4 are covered in greater detail below.

1.1 Typology 1 - Placement and Layering through PGF Accounts or the Casino's System

The purpose of this typology analysis was to identify patterns of activity through rated play or other transaction activity at the casino that exhibit money laundering red flags for placement and layering through the Patron's PGF account or through the casino's operational departments (e.g. cage, Table Games). This typology consists of when funds are *placed* or entered into the casino system, s 15

Under this typology, s 15

Red flags for placement and layering activity within the casino include, but are not limited to, the following:
s 15

For all ten Patrons who demonstrated patterns of placement and layering behaviour, EY's analysis identified that the behaviour was associated to Cash Out transactions for s 15

. EY identified two instances for one Patron where cheque issuances exhibited red flags for the placement or layering of funds s 15

In one instance, the Patron conducted an Unsourced cash Buy-In, gamed and cashed out s²² winnings. s 15

. The Patron did not Cash Out s²² initial Buy-In and these chips appear to have been held at the casino. Upon s²² return on the following gaming day, the Patron decided to Cash Out the chips for a return of funds cheque and no gaming activity was noted for this day. Although the original source of funds was Unsourced for the issuance of the return of funds cheque, the initial cash Buy-In did appear to be used during the prior day's gaming activity. In the other instance, the Patron deposited Sourced funds, made up of a bank draft, into s²² PGF account and withdrew half of s²² deposit as a return of funds cheque without any gaming activity attributed to that portion of the deposit. The remaining part of the bank draft deposit was used for gaming activity that day. The transactions analyzed as part of the Analysis Period for the other 27 Patrons did not yield any cheque issuances that were reflective of placement and layering behaviours or scenarios.

² EY's analysis consisted of a risk-based approach for assessing Patron activity which included addressing the population of the casino cheques issued for each Patron. While EY received records for PGF transactions, cheque activity and rated play, EY sampled specific days that had transactions associated to cheque issuances that were previously marked with an exception, occurred around dates of recorded suspicious activity, large cash buy-ins and large verified win amounts compared to the buy-in. For these gaming days, EY received additional documentation including: Cash Tracking Forms, Casino Disbursement of Funds Forms, copies of regulatory reports and PGF Records.

Of the ten Patrons whose transactions exhibited red flags for placement and layering through Unsourced chip Cash Outs, BCLC took mitigating action between January 1, 2014 and December 31, 2016 for these ten Patrons through the application of transaction limitations, monitoring controls and/or reported transaction activity to Financial Transactions and Reports Analysis Centre of Canada (“FINTRAC”). These mitigating factors and controls included:

- **Internal Incident Reports s 15** – BCLC filed reports either internally or with FINTRAC, respectively, for all ten patrons involving the exchange of cash or chips between two or more Patrons
- **Cash conditions** – BCLC implemented controls preventing four of the ten Patrons from making Buy-Ins s 15
- **Banning** – BCLC banned two of the ten Patrons from gaming at any of the BCLC casino locations. One of the two Patrons was banned following a s 15 incident

Summary of Analysis – Typology One		
Total # of Patrons (#)	BCLC mitigating factors applied (Includes s 15 cash restrictions, banning etc.) (#)	% of BCL / Patrons (%)
10	10	100%

³ The imposition of cash restrictions for these Patrons was made by BCLC prior to January 10, 2018, when British Columbia regulators put into place a rule that mandates that high rollers must verify the source of their funds if they seek to buy CAD 10,000 or more in chips over a 24-hour period.

1.2 Typology 4 - Integration of Funds

The purpose of this typology analysis was to identify patterns and red flags associated to the integration of funds through the casino. This typology is identified through the Patron's use of financial instruments when transacting through their PGF accounts or through the value and volume of cage or Table Game transactions involving cash. The analysis covered the Patrons' value and volume of Buy-Ins over the Review Period, the types of Buy-Ins that were made, the level of gaming activity identified in the Patrons' rating history, verified wins the Patron had from gaming activity and any employment and due diligence documentation BCLC maintained on file for the Patrons.

Red flags for integration scenarios may include, but are not limited to, the following:
s 15

EY's analysis identified that 19 of the 28 Patrons exhibited one or more of the red flags noted above pertaining to the integration of funds into the casino's systems. s 15

Of the 19 Patrons whose transaction activity yielded red flags for the integration of funds, BCLC took mitigating action between January 1, 2014 and December 31, 2016 on these 19 Patrons through applying transaction limitations, monitoring controls and/or reporting the activity of the Patrons to FINTRAC. These mitigating factors and controls included:

- **Internal Incident Reports** s 15 – BCLC filed reports either internally or with FINTRAC, respectively, for large cash Buy-Ins s 15 for all 19 Patrons
- **Cash conditions** – BCLC implemented controls preventing ten of the 19 Patrons from making Buy-Ins s 15
- **Banning** – BCLC banned two of the 19 Patrons from gaming at any of the BCLC casino locations. One of the two Patrons was banned for being considered undesirable.

Summary of Analysis – Typology Four		
Total # of Patrons	BCLC mitigating factors (Includes s 15 , cash restrictions, banning of Patron, etc.)	% of BCL / Patrons
(#)	(#)	(%)
19	19	100%

⁴ The imposition of cash restrictions for these Patrons was made by BCLC prior to January 10, 2018, when British Columbia regulators put into place a rule that mandates that high rollers must verify the source of their funds if they seek to buy CAD 10,000 or more in chips over a 24-hour period.

2. Engagement Scope

2.1 Mandate

BCLC requested that we analyze the patterns of transaction and gaming activity at River Rock for 28 Patrons who received the 49 cheques marked with issuance exceptions in EY's *Verified Win, Return of Funds, and Convenience Cheque Analysis* report between January 1, 2014 and December 31, 2016 for the money laundering typologies defined below. The Analysis Period consisted of a sample of the Patrons' player rating history, casino transaction activity and due diligence records for six months prior to and six months after the cheques with issuance exceptions, but not to exceed the Analysis Period. The Analysis Period was determined for each Patron independently.

The purpose of our analysis was to identify patterns of activity and behaviours that demonstrates red flags for the below defined money laundering typologies. The typologies to be assessed were agreed upon through consultations with BCLC's Internal Audit department and BCLC's Audit Committee.

Typology 1: Placement and Layering through PGF Accounts or the Casino's System

Funds placed or entered into the casino's system, s 15

Typology 2: Structuring

The division of cash or casino value instruments conducted in a series of smaller value instruments (less than CAD 10,000) s 15

Typology 3: Currency Exchange or other Financial Instruments

Patron's use of foreign currency services or other financial instruments (e.g. traveler's cheques, casino cheques) for Buy-Ins at the cage or Table Games, or as deposits into the Patron's PGF account, s 15

Typology 4: Integration of Funds

Patron's use of PGF accounts or cash Buy-Ins at the cage or Table Games s 15



2.2 Defining the Sample

The Patron's selected for analysis were identified from the 49 cheques issued by River Rock and marked with issuance exceptions in EY's *Verified Win, Return of Funds, and Convenience Cheque Analysis* report. The cheques were issued to 28 Patrons whose associated gaming activity was assessed from a contextual standpoint across the Analysis Period unique to each Patron and against the determined money laundering typologies.

The primary component of the work performed included s 15

Additionally, BCLC provided EY with s 15

For Patrons with more extensive cheque activity, EY took a risk-based approach for assessing the activity which included s 15

2.3 Limitations of Report and Restrictions of Use

This report was prepared for the Firm and BCLC's general counsel pursuant to the terms of our Agreement dated October 10, 2017 (the "Agreement") and our scoping document dated November 2, 2018 (the "Scoping Document").

This report does not constitute legal opinion or advice. This report has been prepared solely for the use of BCLC. BCLC shall be responsible for any further use of this report. We assume no responsibility or liability in connection with access to this report by parties other than BCLC. This report, or any part thereof or any reference thereto or any quotation thereto in relation to EY, may not be distributed or in any way published or to be used for any other purposes (unless expressly stated in this report) without our prior written consent.

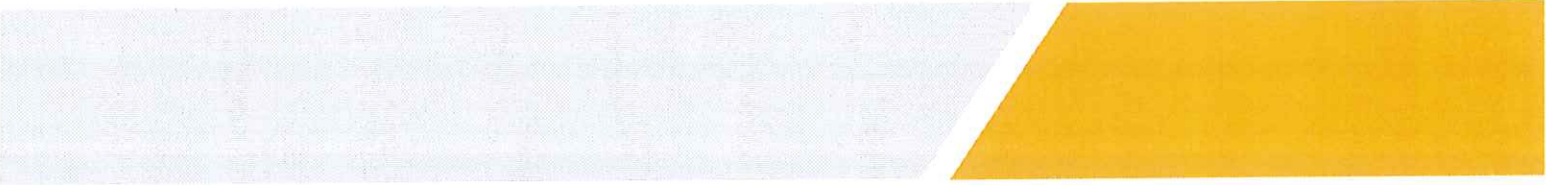
This report summarizes our observations based on the scope of work specified in the engagement letter. It is possible that further work may have identified additional observations and/or modified or clarified the observations covered in this report. Accordingly, we disclaim any liability whatsoever in relation to any loss or damage arising out of or in connection with any reliance on this report (or any part thereof) by BCLC, the Firm, or any other third party. We reserve the right to amend and modify the findings. Notwithstanding this, we have no obligation to update this report.

Under the Agreement and Scoping Document:

1. Data, documentation and information analyzed and used for the preparation of this report was made available to us by BCLC, upon our request. We have relied on the integrity, completeness and accuracy of what was provided. As such, we relied on the accuracy of the data that was provided in the Patron player rating history or cash transaction forms.
2. This report is based on our procedures conducted up to the date of this report and as described herein. In the event that further documents, data or other information become available that could impact our observations, we reserve the right, but will not be obligated, to analyze such records and reconsider and amend the observations set out in this report.
3. Our procedures were performed on a sample basis for River Rock. Our analyses should not be extrapolated, including to other properties, Patrons or instruments.

This report was not written with the needs of parties other than the Firm and BCLC in mind and assumes a detailed understanding of BCLC and River Rock. Consistent with the terms of our Agreement and Scoping Document:

1. This report is intended to be read in its entirety. We caution against drawing conclusions from any part of the report in isolation.
2. Where our written consent is required for you to disclose our report to a third party, we will also require that third party to execute a letter substantially in the form of Appendix A of the Agreement. Without our prior written consent, you may not use or publish our report for any purpose not contemplated in our Agreement.



For clarity, we were not engaged to, and did not:

1. Perform a financial statement audit, review or compilation for the purpose of expressing an opinion on historical financial statements of BCLC in accordance with standards established by CPA Canada. Accordingly, we do not express such an opinion or any form of assurance.
2. Express any conclusions on BCLC or River Rock's policies, procedures, systems/software and practices. Additionally, we did not conduct any field work at River Rock as part of our procedures, and we did not interview any River Rock employees.
3. Perform an assessment of BCLC's compliance with the Federal Proceeds of Crime (Money Laundering) and Terrorist Financing Act ("PCMLTFA") or against applicable reporting requirements outlined by FINTRAC.

3. Procedures

We designed procedures to analyze the gaming documentation, due diligence records and regulatory filings over the Analysis Period of each of the 28 Patrons who were the recipients of the 49 cheques issued by River Rock and marked with issuance exceptions in EY's *Verified Win, Return of Funds, and Convenience Cheque Analysis* report during the Analysis Period. The procedures completed are outlined below.

At our direction, BCLC obtained supporting documentation from River Rock and incorporated prescribed data points into Patron analysis write-ups that we designed for our analyses.

3.1 Documentation

The sample of 49 cheques, issued at River Rock, were determined to be issued to 28 unique Patrons. BCLC identified 553 cheques⁵ that met the sample description for the scope of this analysis and within the defined Analysis Period for the activity associated to the 28 Patrons selected. We obtained copies of the following supporting documentation related to each cheque issuance from BCLC:

s 15

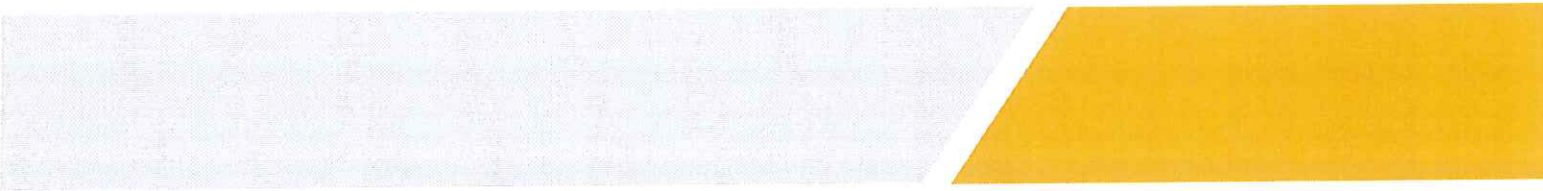
Additionally we obtained copies of the following supporting documentation from BCLC for the determined Analysis Period for each of the 28 Patrons:

s 15

The following general procedures were performed that are applicable to all typology assessed:

s 15

⁵ The 553 cheques include Verified Win and Return of Fund Cheques issued for CAD 10,000 or more related to Table Game play only.



Typology 1: Placement and Layering through PGF Accounts or the Casino's System

The following additional procedures were performed specific to the analysis performed to address typology one:
s 15

Typology 2: Structuring

The following additional procedures were performed specific to the analysis performed to address typology two:
s 15

Typology 3: Currency Exchange or other Financial Instruments

The following additional procedures were performed specific to the analysis performed to address typology three:
s 15



s 15

Typology 4: Integration of Funds

The following additional procedures were performed specific to the analysis performed to address typology four:
s 15

4. Observations

Twenty-eight Patrons' transactional activity was analyzed and selected based on a sample of 49 cheques marked with issuance exceptions in EY's *Verified Win, Return of Funds, and Convenience Cheque Analysis* report that were issued by River Rock during the Analysis Period. The Analysis Period consisted of s 15

. The Analysis Period consisted s 15

We noted an aggregate of 553 cheques for the 28 Patrons over each unique Patron Analysis Period. If a Patron met criteria through our analysis that cheques, s 15

to the following money laundering typologies: (1) placement and layering of funds; (2) structuring of transactions; (3) suspicious currency exchanges or use of other financial instruments; and (4) integration of funds, it has been included in the following table:

Summary of Exceptions – Typology Type			
Money Laundering Typology	Analysis of 28 Patrons		
	# of Patrons with Exceptions	% of Patrons with Exceptions	% of Patrons with Exceptions who BCLC applied mitigating factors
Typology 1 - Placement and Layering through PGF Accounts or the Casino's System Funds placed or entered into the casino's system, such as s 15	10	36%	100%
Typology 2 - Structuring The division of cash or casino value instruments s 15	0	0%	
Typology 3 - Currency Exchange or other Financial Instruments Patrons use of foreign currency services or other financial instruments (e.g. travelers cheques, casino cheques) s 15	0	0%	
Typology 4 - Integration of Funds Patrons use of PGF accounts or cash Buy-Ins at the cage or Table Games s 15	19	68%	100%

4.1 Typology 1 - Placement and Layering through PGF Accounts or the Casino's System

The purpose of this typology analysis was to identify patterns^s 15

Red flags for placement and layering activity within the casino include, but are not limited to, the following:
s 15

For all ten Patrons who demonstrated patterns of placement and layering behaviour, EY's analysis identified that s 15

Some examples include:

s 15

EY identified two instances for one Patron where cheque issuances exhibited s 15

In the first instance, the Patron conducted a cash Buy-In, gamed and cashed out^{s22} winnings of CAD 81,500 in a Verified Win cheque. s 15

⁶ EY's analysis consisted of a risk-based approach for assessing Patron activity which included addressing the population of the casino cheques issued for each Patron. While EY received records for PGF transactions, cheque activity and rated play, EY sampled specific days that had transactions associated to cheque issuances that were previously marked with an exception, occurred around dates of recorded suspicious activity, large cash buy-ins and large verified win amounts compared to the buy-in. For these gaming days, EY received additional documentation including: cash tracking slips, cash disbursement forms, copies of regulatory reports and PGF Record.

s 15
 did appear to be used during the prior day's gaming activity.

this initial Buy-In

The second instance occurred when the same Patron deposited a bank draft into s²² PGF account for CAD 2,000,000 s 15

The two instances involved one transaction made with Unsourced funds before it was converted into a casino cheque and the second with Sourced funds which were partially converted into a casino cheque. Both cheques were issued as Return of Funds cheques. The transactions analyzed as part of the Analysis Period for the other 27 Patrons did not yield any cheque issuances that were reflective of placement and layering behaviours or scenarios.

s 15

labeled the Patron as a person of interest or a high risk Patron and placed them on a watch list or banned the Patron.

Of the ten Patrons whose transactions exhibited s 15

BCLC took mitigating action between January 1, 2014 and December 31, 2016 for all ten Patrons. Those mitigating factors for the ten Patrons include:

- **Internal Incident Report**s 15 – BCLC filed reports either internally or with FINTRAC, respectively, for all ten patrons s 15
- **Cash conditions** – BCLC implemented controls preventing four of the ten Patrons from making Buy-Ins with Unsourced cash or “un-sourced or borrowed’ chips”
- s 15
- **Banning** – BCLC banned two of the ten Patrons from gaming at any of the BCLC casino locations with one of the two Patron banned s 15

Summary of Analysis – Typology One		
Total # of Patrons	BCLC mitigating factors applied (Includes s 15 cash restrictions, banning etc.)	% of BCL / Patrons
(#)	(#)	(%)
10	10	100%

⁷ The imposition of cash restrictions for these Patrons was made by BCLC prior to January 10, 2018, when British Columbia regulators put into place a rule that mandates that high rollers must verify the source of their funds if they seek to buy CAD 10,000 or more in chips over a 24-hour period.

4.2 Typology 2 - Structuring

The purpose of this typology analysis was to identify patterns of activity through s 15

Red flags for structuring activity within the casino include, but are not limited to, the following:
s 15

EY's analysis did not identify any red flags for structuring for the transaction activity assessed for the 28 Patrons.

Summary of Analysis – Typology Two		
Total # of Patrons	BCLC mitigating factors applied	% of BCL / Patrons
(#)	(#)	(%)
0	0	0%

4.3 Typology 3 - Currency Exchange or other Financial Instruments

s 15

The analysis covered the Patron's type of financial product used for Buy-Ins and to fund the Patron's PGF account over the Analysis Period and the level of gaming activity identified in the Patron's rating history.

Red flags for currency exchange or other financial instrument used to obscure the source of funds scenarios may include, but are not limited to, the following:

s 15

EY's analysis did not identify any red flags associated to the execution of any foreign currency exchanges or exchange of other financial instruments to obscure the source of funds for the 28 Patron.

Summary of Analysis – Typology Three		
Total # of Patrons	BCLC mitigating factors	% of BCL / Patrons
(#)	(#)	(%)
0	0	0%

4.4 Typology 4 - Integration of Funds

The purpose of this typology analysis was to s 15

Red flags for integration scenarios may include, but are not limited to, the following:
s 15

EY's analysis identified that 19 of the 28 Patrons exhibited one or more of the red flags noted above pertaining to the integration of funds into the casino's systems. EY did not identify any activity associated with Patrons funding their PGF accounts from multiple financial institutions nor any integration red flags that involved the use of cheque deposits. Some examples of what EY did identify include:

s 15

In order to address and mitigate this behaviour, if exhibited by any Patrons, BCLC utilized several controls by applying
s 15

BCLC could also implement cash restrictions on the Patron, not allowing him or s 22 to Buy-In with "un-sourced" cash (cash without a bank or ATM withdrawal slip) or "un-sourced or borrowed' chips," label the Patron as a person of interest or a high risk Patron and placed them on a watch list or banned the Patron.

Of the 19 Patrons whose transaction activity yielded red flags for the integration of funds, BCLC took mitigating action between January 1, 2014 and December 31, 2016 on all 19 Patrons. Those mitigating factors for the 19 Patrons include:

- **Internal Incident Reports s 15** – BCLC filed reports either internally or with FINTRAC for large cash Buy-Ins with low denomination bills as well as unknown source of funds for all 19 Patrons
- **Cash conditions** – BCLC implemented controls preventing ten of the 19 Patrons⁸ from making Buy-Ins with Unsourced cash or "un-sourced or borrowed chips"

⁸ The cash condition controls was implemented for all ten Patrons before the legislation requiring cash conditions for Patrons who bring in over CAD 10,000 was enacted in January 2018.

s 15

- **Banning** – BCLC banned two of the 19 Patrons from gaming at any of the BCLC casino locations. One of the two Patrons was banned for being considered undesirable.⁹

Summary of Analysis – Typology Four		
Total # of Patrons (#)	BCLC mitigating factors (Includes s 15 cash restrictions, banning of Patron, etc.) (#)	% of BCL / Patrons (%)
19	19	100%

⁹ The total number of Patrons s 15

is 18.



Appendices

Appendix	Appendix description
Appendix A	Defined Terms

A. Defined Terms

In writing our report, we used specific terms. For the purposes of this report, the following terms have been used:

- ▶ **Patron:** An individual who is a customer of a casino and utilizes the establishment for gambling purposes. Patrons are assigned a unique subject ID (“SID”) once a Business Relationship has been established.
- ▶ **Business Relationship:** A relationship established between the casino and a client to conduct financial transactions or provide services related to those transactions. A Business Relationship is established when a Patron has opened a Patron Gaming Fund (“PGF”) account or has conducted two or more transactions or activities through the casino, for which the patron’s identity needs to be verified.
- ▶ **PGF Patron:** A Patron who has opened a Patron Gaming Fund (“PGF”) account at the casino.
- ▶ **PGF account:** An account opened at the casino for a Patron where the Patron can deposit funds for the purpose of gaming. The account can only be opened with a minimum amount of CAD 10,000 in Sourced funds in the form of a bank draft. The PGF Patron can withdraw funds from their PGF account at any point as a Buy-In or a Return of Funds Cheque.
- ▶ **Table Game:** Casino games conducted on a table and operated by one or more live dealers. Players enter a game by sitting (or standing) at the table and placing their bets on that table, in accordance with the rules of the game. Tables are identified using a table number coded using various acronyms such as MDB and MEZB. Gaming activity for table games, or rated play, is tracked using a Cash Tracking Form (see term below).
- ▶ **Buy-In Amount (“Buy-In”):** The amount of cash, chips or cheques that a Patron uses to initiate gaming activity. Note that there can be more than one Buy-In amount related to one occurrence of gaming activity.
- ▶ **Cash Out Amount (“Cash Out”):** The total amount of chips or cash that a Patron takes to the cage when they finish gaming in order to cash out.
- ▶ **Verified Win Amount (“Verified Win”):** The net positive gaming activity for a Patron, equal to the total Table Game Cash-Out Amount less the total Buy-In Amount.
- ▶ **Sourced:** Funds that can be traced back to their origin (e.g. bank draft can be traced back to the bank from which it was issued).
- ▶ **Unsourced:** Funds where the source of money cannot be verified, i.e. the origin of the funds cannot be tied back to legal activity as there is no paper trail
- ▶ **Minimal Gaming:** A money laundering scenario that involves a Patron making a large buy-in for chips, but gambling very little before leaving a Table Game and cashing out. Generally associated with the placement and layering stages of the money laundering lifecycle.
- ▶ **Chip Walking:** A money laundering scenario that involves a Patron who leaves the gaming floor with a large volume of chips without any offsetting chip redemptions or chip buy-ins made at another Table Game and who fails to return with those chips on subsequent gaming days during a gaming trip. Failing to convert chips back to cash is considered suspicious as the chips may be passed as a form of currency to mask their source for illicit purposes.

- ▶ Chip Passing: A money laundering scenario that involves a Patrons who may pass a large quantity of chips to another patron in an apparent effort to conceal the original ownership and source of the chips.

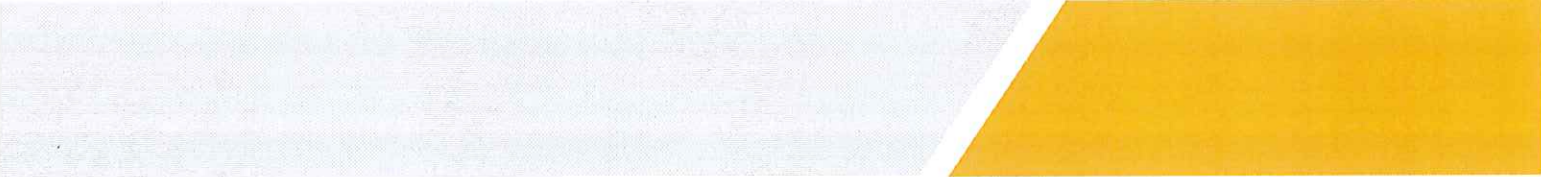
For the purposes of this report, cheques issued to gaming Patrons have been categorized into the following categories:

- ▶ Verified Win Cheque: Issued to any Patron as a result of gaming activity where the Patron wins money from the casino. The amount of the cheque is not to exceed the amount of gaming winnings for the recorded session(s) prior to cash-out (e.g. total cash out amount less the buy in amount).
- ▶ Convenience Cheque: Issued to any Patron for redemption of chips valued at CAD 10,000 or less. The cheque is issued as a convenience to Patrons so they do not have to carry cash or chips out of the casino. PGF patrons do not have a limit on how many Convenience Cheques can be issued whereas non PGF Patrons are only allowed up to CAD 10,000 a week.
- ▶ Return of Funds (“ROF”) Cheque: Issued to a PGF Patron for a return of funds that have been deposited in the PGF account, either sourced from a deposit from an external source or a deposit from a result of gaming play.

As part of our analysis, we looked at copies of the following types of financial instruments and documents prepared during gaming days at River Rock.

- ▶ Cheque: A written order to pay a stated sum from the drawer's account to the addressee. BCLC's cheque can be printed by a computer or written by hand.
- ▶ Cash Tracking Form: Form that is used by casino staff to track patrons who buy-in with CAD 3,000 or more at a Table Game. The form is used to track details such as what table and seat position the Patron is playing at, date of play, Cash Out amount, Buy-In amount, and a calculation of the Verified Win amount. These are handwritten records in which play may be recorded as a sum of the activity in CADs or by specific chip values where each chip color has a corresponding denomination.
- ▶ Casino Disbursement of Funds: Form that is used by Casino staff to track all cash disbursements conducted at the cage post gaming activity as well as Verified Win Cheques issuance. The Casino Disbursement of Funds form is filled out by a cage employee when a Patron has approached the cage to perform a Cash-Out transaction.
- ▶ Patron Gaming Fund Large Cash Transaction, Foreign Exchange and Disbursement Record (“PGF Record”): Form that is used by casino staff to track deposits and withdrawals to a PGF Account, that includes the date, amount, and source of the funds or type of withdrawal, respectively. The source of the deposits can be external (e.g. bank draft) or internal (e.g. re-deposit from gaming activity at the Casino) and the type of withdrawal can be a buy-in used to initiate gaming activity through the purchase of chips at the cage, a direct table transaction, or can be a Return of Funds Cheque which is used to take money outside of the casino.
- ▶ s 15 s 15 system used by BCLC and its service providers to manage the documentation of activities and transactions to adhere or compliance and reporting requirements.
- ▶ s 15 LCT Printout: A print out of a Large Cash Transaction Report (“LCTR”) from s 15 . LCTR's are entered and tracked in s 15 . LCTRs are sent to FINTRAC when a casino receives CAD 10,000 or more within 24 hours from by or on behalf of the same individual or entity. The LCTR form contains Buy-In amounts, PGF account deposits and disbursement details and amounts.

- ▶ Internal incident report: An internal report made by BCLC regarding suspicious or potentially suspicious activity occurring in or related to the casino
- ▶ Patron's Player Rating History: A history of the Patron's table gaming activity that includes, but is not limited to the date, minutes played, cash buy-in, chip buy-in, average bet, player's win/loss, walk with amount and table location. The history is created when the Patron uses their loyalty card to "check in" when table gaming.
- ▶ Suspicious Transaction Reports ("STRs"): A report created by BCLC and sent to FINTRAC about suspicious or potentially suspicious activity occurring in or related to the casino
- ▶ PGF Account Detail: Statement of a Patron's PGF account deposits and withdrawals from account opening to close.
- ▶ s 15 An electronic tracking and reporting system that balances transactions to cash at the end of each day.s 15 includes all cheques issued for the period of January 1, 2014 to December 31, 2016.
- ▶ Manual ROF Cheque Register: River Rock Casino tracked ROF cheques issued to Patrons on a manual hand written register. This register was used to determine the population of RPF cheques to be reviewed by EY during the scope period.



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