

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**THE FOLLOW-UP AUDIT OF
"TOP TEN LOTTERY RISKS"
AT THE DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD (DCLB)**

OFFICE OF INTEGRITY AND OVERSIGHT



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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

MEMORANDUM

TO: Buddy Roogow, Executive Director
D.C. Lottery and Charitable Games Control Board

FROM: William J. DiVello, Executive Director
Office of Integrity and Oversight *William J. DiVello*

DATE: July 8, 2010

SUBJECT: Final Report on the Follow-Up Audit of "Top Ten Lottery Risks" at the District of Columbia Lottery and Charitable Games Control Board (No. OIO-10-1-14-DCLB)

Attached is the final report summarizing the results of the Office of Integrity and Oversight's (OIO) follow-up audit of "Top Ten Lottery Risks" at the District of Columbia Lottery and Charitable Games Control Board (DCLB).

Our report contains one recommendation for necessary action to correct the described deficiencies. We received a response to the draft report from the Executive Director of DCLB on June 23, 2010. The Executive Director's comments set forth planned corrective actions that should be responsive to the recommendation. The full text of DCLB's response is included at Exhibit B.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact Mohamad Yusuff, Director of Internal Audit, at (202) 442-8240 or me at (202) 442-6433.

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Chief of Staff, OCFO
Tracey Cohen, Chief Operating Officer, DCLB
Gwen Washington, Audit Coordinator, Executive Office, DCLB

**FINAL REPORT ON FOLLOW-UP
AUDIT OF "TOP TEN LOTTERY RISKS" AT THE
D. C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD (DCLB)**

TABLE OF CONTENTS

EXECUTIVE DIGEST i

INTRODUCTION 1

BACKGROUND 1

OBJECTIVES, SCOPE, AND METHODOLOGY 2

PRIOR AUDITS AND REVIEWS 3

FINDINGS AND RECOMMENDATIONS 4

FINDING 1: IMPLEMENTATION OF PAST RECOMMENDATIONS 4

EXHIBITS

**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM
 AUDIT** 7

**EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
 RESPONSE TO DRAFT REPORT** 8

EXECUTIVE DIGEST

OVERVIEW

The Office of Integrity and Oversight (OIO), Office of the Chief Financial Officer (OCFO), has completed a follow-up audit of "Top Ten Lottery Risks" identified at the 2005 North American Association of State and Provincial Lotteries (NASPL) Audit Subcommittee Conference. Our audit objectives were to review DCLB implementation of recommendations contained in our report entitled "Assessment Review of Top Ten Lottery Risks at the DCLB," dated August 1, 2007.

CONCLUSIONS

DCLB implemented 7 of the 10 recommendations contained in a prior OIO report, "Assessment Review of Top Ten Lottery Risks," dated August 1, 2007. Implementation of the three remaining recommendations is contingent upon changeover to the new gaming system. The prior report revealed that, while DCLB generally had a prevention strategy to mitigate risk, the agency's awareness methodology and procedures to address risk were deficient. Although our findings indicated that work remains to be done, we note evidence of improvement made by DCLB management.

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

We directed one recommendation to DCLB management for necessary action to implement the open recommendations contained in the previous OIO report. The Executive Director of DCLB provided a written response, dated June 23, 2010, to the draft of this report. We reviewed the DCLB's response and consider actions taken and planned to meet the intent of the recommendation. The full text of the DCLB's response is included at Exhibit B.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

INTRODUCTION

BACKGROUND

The "top ten" lottery risks identified at the 2005 North American Association of State and Provincial Lotteries (NASPL) Audit Subcommittee Conference were:

1. Players Misled - Players feel being misled by Lottery advertisement of prizes, when most of the big prizes already being won.
2. Lottery Not Paid – Lottery retailer agent went bankrupt and the lottery has no priority claim on the retailer's assets.
3. Winners Not Paid – (i) A player bought lottery tickets for a group and for himself. The drawing is held and a large jackpot has been declared. The player claimed that the winning ticket is from the ticket that he bought personally. The group disputed this claim and brought a lawsuit against the player and the lottery; (ii) A lottery retail agent claimed that the winning ticket presented by the player is not a winning ticket and claim the winning himself.
4. Consumers Cheated - A player is scammed by a confidence man into buying a bogus winning ticket.
5. Retailer Cheated - Agent's lottery terminal sales report is showing more sales than the actual sales (gaming software problem).
6. Drawing Not Fair/Random – (i) Drawing not being random or fair, e.g., the number "39" has been drawn in five of the last seven drawings; (ii) Human error identified during the drawing process, e.g., the drawing result during the test process is broadcasted to the public as the results of live drawing process.
7. Tickets Cannot be Sold - Lost sales because the agent's terminal is down due to telecommunication outages.
8. Internal Fraud - Lottery insider fraudulently claims the unclaimed lottery prize winnings before the expiration date.
9. Data Compromised - Lottery IT employee altered computer files to make non-winning scratch tickets into winning scratch tickets.
10. Wagers are Lost - Gaming System breakdown caused wagers to be not recorded in the gaming system.

INTRODUCTION

Recent notable lottery industry events related to the above mentioned risk since 2005 are:

1. "How lucky can you get? Lotto clerks uncovered – Datelines' undercover investigations reveal some dishonest lottery clerks," NBC News May 3, 2009.
2. "VA Professor's Class Action Lottery Lawsuit denied...." Associated Press, April 22, 2009.
3. "A 20 million lawsuit against the Indiana lottery for overstating prizes received class-action status early this month. In Virginia, Washington and Lee University business professor Scott Hoover is suing the state to compensate the people who spent \$85 million for already-claimed top prizes over a three year period. Virginia changed its policy a year ago and now ends scratch-off games after the last top prize is awarded, as do California, New York and Massachusetts...." Rocky Mountain News (a daily newspaper published in Denver, Colorado, United States from April 23, 1859, until February 27, 2009), July, 11, 2008.
4. "Investigation to probe who wins British Columbia Lottery prizes," Lottery Post, December 20, 2006.
5. "Canada lottery retailers win major prizes more than public," Lottery Post December 14, 2006.

Accordingly, the "Top Ten Lottery Risks" are still relevant today as they were in 2005, except that the risk probability of occurrence and negative publicity impact would vary from one state lottery to another depending on the current development of events related to the specific lottery.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our follow-up audit objectives were to determine whether DCLB implemented the recommendations contained in our report entitled, "Assessment Review of "Top Ten Lottery Risks at the DCLB," Report No. IA: DCLB: 2509-C14, dated August 1, 2007, in an effective and efficient manner. We followed-up on all ten findings and recommendations of the prior report.

To accomplish our objectives, we interviewed appropriate DCLB officials, reviewed DCLB operation policies and procedures on the identified risks, and evaluated the procedures for effectiveness and efficiency. In addition, we performed certain tests to determine whether the planned corrective actions were adopted, implemented, and complied with on a consistent basis.

INTRODUCTION

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDITS AND REVIEWS

Assessment Review of "Top Ten Lottery Risks at the DCLB," Report No. IA: DCLB:2509-C14, dated August 1, 2007. The primary objective of this assessment was to determine whether DCLB had mitigating controls in place for the "Top Ten" Lottery Risks noted at the 2005 NASPL Audit Subcommittee Meeting. Our assessment revealed that DCLB generally had a prevention strategy to mitigate the noted risks; however, the agency's awareness methodology¹ was deficient and procedures to address risk were insufficient. In its response, DCLB concurred with nine (9) of the 10 recommendations contained in the report. Although DCLB disagreed with one recommendation, it proposed an alternate resolution which satisfied the intent of the recommendation.

¹ Methods in place to make the DCLB aware that an unwanted event is occurring. Awareness methodologies include openness, continuous monitoring and identifying unwarranted activity.
Source: NASPL 2005 Audit Subcommittee Meeting.

FINDINGS

FINDING 1: IMPLEMENTATION OF PAST RECOMMENDATIONS

SYNOPSIS

DCLB implemented 7 of the 10 recommendations contained in a prior OIO report, entitled, "Assessment Review of Top Ten Lottery Risks," dated August 1, 2007. Implementation of the three remaining recommendations is contingent upon changeover to the new gaming system. The prior report revealed that, while DCLB generally had a prevention strategy to mitigate risk, the agency's awareness methodology and procedures to address risk were deficient. Although our findings indicated that work remains to be done, we note evidence of improvement made by DCLB management.

DISCUSSION

The Table I below provides an abbreviated version of the recommendations reviewed, the DCLB original response, and the current status of the recommendations.

TABLE I – RECOMMENDATIONS REVIEWED		
Intent of Recommendation	DCLB Response	Current Status of Recommendation
Recommendation 1: Provide written standard operating procedure (SOP) in dealing with major incident of misleading prizes advertisement complaints.	Agreed. Has implemented a new written SOP and new Complaints System - Intranet Quorum (IQ) System.	Our follow-up assessment found that DCLB had issued a revised SOP for handling customer complaints in May 2009. However, we noted that IQ System does not handle all complaints. However, the DCLB Complaints Database is to be upgraded so that complaints are entered into the system by the original receiver of the complaint. Current Status: Remains Open.
Recommendation 2: Provide written SOP when intelligence about agent's financial difficulties is noted.	Implemented a SOP for license renewal inspections, which address agents with possible financial difficulties.	DCLB has implemented the SOP -- whereby the Licensing Program Analysts take note of the level of merchandise available for sale in agent locations. In the event that the general level of inventories appear to be low or less than may be expected, the finding is documented and reported to the Chief of Licensing Department within two business days of completion of the inspection and shared with the relevant Financial Services Dept's personnel. Current Status: Closed.

FINDINGS

TABLE I – RECOMMENDATIONS REVIEWED

Intent of Recommendation	DCLB Response	Current Status of Recommendation
Recommendation 3: Provide written SOP in dealing with numerous and consistent players' complaints against a particular retailer regarding winnings not being paid.	Set forth an SOP on Complaints of Winners Not Paid.	Our follow-up assessment found that DCLB had implemented a general SOP for handling customer complaints. In addition, The DCLB has implemented the Claim Processing System which included in the Winners' Database for claimants processed at the claim center. Internal use of this database for analysis of winnings by questionable insiders has produced results that enable the Lottery to take pro-active steps that will mitigate/minimize the non-payments of players' winning through fraud. Current Status: Closed.
Recommendation 4: Provide written SOP for dealing with gaming software errors.	Developed a root-cause analysis SOP for gaming software errors.	Our follow-up assessment revealed that DCLB has instituted a root-cause analysis SOP for gaming software errors. Recent update to the Gaming System for the additional multi-state "Mega Millions" online game was implemented as scheduled and with no apparent issues noted. Current Status: Closed.
Recommendation 5: Provide written SOP for dealing with errors of drawing procedures.	The Draw Department now has standard operating procedures for dealing with errors of drawing procedures.	Our follow-up assessment found that a SOP exists for dealing with errors of drawing procedures. However, there is a current cost and benefits study being conducted to determine whether the Lottery should return to the Ball Drawing Process – if so, then the SOPs need to be changed to reflect this process. Current Status: Closed.
Recommendation 6: Establish an automated baseline measurement of outages that is reported to the agency's management so that quantifiable claim of liquidated damages could be made against the	DCLB is including telecommunication services & the related performance standards in the core gaming system requirements of its future gaming system platform.	Our follow-up assessment found that the new gaming system contract that was signed on March 31, 2010 has a telecommunication service level agreement where the vendor undertakes to guarantee that the communication network to be available 99.96% of the time. Current Status: Closed.
Recommendation 7: DCLB expands the scope of SAS-70 review to include tests of internal controls that mitigate the potential of unclaimed prizes fraud	Agreed.	No specific control objective to review the noted area of risk was added to the current SAS-70 scope of work. However, the new Gaming System Contract is due for implementation in FY 2011 and therefore new SAS-70 contract is also due to be effective at that time. Hence no direct review of internal controls for mitigating potential unclaimed prizes fraud was implemented at this time. Current Status: Remains Open. As noted above, awaiting the implementation of the new gaming system contract & hence the new SAS-70 contract.

FINDINGS

TABLE I – RECOMMENDATIONS REVIEWED

Intent of Recommendation	DCLB Response	Current Status of Recommendation
Recommendation 8: DCLB to implement the procedure of investigating repeat winners with the same personal identity as soon as possible.	Agreed.	Our follow-up assessment noted that the installation of the Claim Processing System and the related "Winners' Database" has led to a Lottery internal review of questionable repeat winners and further investigations by the Lottery Security Department and the OIO Internal Security Unit. Current Status: Closed.
Recommendation 9: DCLB expand the scope of SAS-70 review to include tests of internal controls that mitigate the potential of Scratch Ticket Alterations.	Agreed.	No specific control objective to review the noted area of risk was added to the current SAS-70 Scope of Work. However, the new Gaming System Contract is due for implementation in FY 2011 and therefore new SAS-70 contract is also due to be effective at that time. Hence no direct review of internal controls for mitigating potential unclaimed prizes fraud was implemented at this time. Current Status: Remains Open. As noted above, awaiting the implementation of the new gaming system contract & hence the new SAS-70 contract.
Recommendation 10: Provide written SOP in dealing with major incident of lost wagers due to gaming system failure.	Agreed	Our follow-up assessment found an SOP was promulgated. Current Status: Closed

Recommendation

- 1: We recommend that the Executive Director, DCLB take action to implement the open recommendations in the previous OIO report and provide the OIO with anticipated completion dates.

Management Comments and OIO Comments

As noted in DCLB's response, full implementation of the recommendation will take effect with the new gaming system planned for the first quarter of FY 2011. We find DCLB's planned action to be responsive to the recommendation. The full text of the DCLB response is included at Exhibit B.

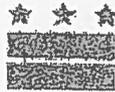
**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

Recommendations	Description of Benefits	Type of Benefit	Agency Reported Estimated Completion Date	Status²
1	Ensures that steps are taken to implement recommendations from previous OIO report.	Compliance and Internal Control	FY 2011	Open

² This column provides the status of a recommendation as of the report date. For final reports, "Open" means management, and the OIO agree on the action to be taken, but action is not complete. "Closed" means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management's response is used. "Unresolved" means that management has agreed to neither take the recommended action nor propose satisfactory alternative actions to correct the condition.

**EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
DC LOTTERY & CHARITABLE GAMES CONTROL BOARD**



TO: William J. DiVello, Executive Director
Office of Integrity and Oversight
Office of the Chief Financial Officer

FROM: 
Buddy Keogow
Executive Director

DATE: June 23, 2010

SUBJECT: Draft Report on the Follow-Up Audit of "Top Ten Lottery Risks"
(Report No. OIO-10-1-14-DCLB)

Introduction

This memo is in response to your Draft Report on the Follow-Up Audit of "Top Ten Lottery Risks" at the DC Lottery and Charitable Games Control Board (DC Lottery or DCLB) dated May 24, 2010. The original audit dated September 15, 2005 was a result of a list of lottery risks identified at the 2005 North American Association of State and Provincial Lotteries (NASPL) Audit Subcommittee conference. The DCLB requested that OIO conduct an audit of the DC Lottery to determine if we were prepared to address these risks.

The DCLB initially submitted a response to the draft audit on December 15, 2005. The DCLB submitted a second response on April 9, 2007 (attached). In this current audit, OIO has acknowledged that 7 of the 10 recommendations have been implemented by DCLB. Below are our responses to the follow-up audit related to the Top Ten Lottery Risks and the remaining 3 recommendations.

EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD RESPONSE TO DRAFT REPORT

If you have any questions, please do not hesitate to contact me.

OIG Findings:

1. Provide written standard operating procedure (SOP) in dealing with major incident of misleading prizes advertisement complaints.

- *OIG Current Status of Recommendation:* Our follow-up assessment found that DCLB had issued a revised SOP for handling customer complaints in May 2009. However, we noted that IQ System does not handle all complaints. However, the DCLB Complaints Database is to be upgraded so that complaints are entered into the system by the original receiver of the complaint.

DCLB Response:

Not all complaints are handled through the IQ system. The IQ system is primarily a correspondence tool that the majority of our customers will use to send their queries or questions to our agency website "Contact Us." Consequently, all customer questions get transmitted to the agency Intranet Quorata (IQ) system. We may get a complaint through the IQ system; however, it is very sporadic. The IQ system is a help desk application system provided and maintained by the District of Columbia Government.

The DC Lottery is engineering a new customer contact complaints system that will be a single system for all staff to make use of within DCLB. The new customer contact complaints system will be an upgrade over the existing correspondence tool/complaints system. The new contact complaints system will be:

1. A portal based system.
2. Users will be able to type verbiage directly into the system.
3. All information in the customer contact complaints system is visible agency wide.
4. Alleviates re-entry of duplicate information into system.

The system will completed and rolled out to the agency by the 4th quarter of 2010.

OIG Findings:

2. DCLB expands the scope of SAS-70 review to include tests of internal controls that mitigate the potential of unclaimed prizes fraud.

- *OIG Current Status of Recommendation:* No specific control objective to review the noted area of risk was added to the current SAS-70 scope of

**EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT**

work. However, the new gaming system contract is due for implementation in FY 2011 and therefore [a] new SAS-70 contract is also due to be effective at that time. Hence no direct review of internal controls for mitigating potential unclaimed prizes fraud was implemented at this time.

DCLB Response:

As noted in OIG's current status, the new gaming system contract will not take effect until FY '11, specifically November 23, 2010. At that time, the DCLB will have another SAS-70 contract that will address controls for mitigating potential unclaimed prizes fraud.

OIG Findings:

3. DCLB expand the scope of SAS-70 review to include tests of internal controls that mitigate the potential of Scratch Ticket Alterations.

o OIG Current Status of Recommendation: No specific control objective to review the noted area of risk was added to the current SAS-70 Scope of Work. However, the new Gaming System Contract is due for implementation in FY 2011 and therefore [a] new SAS-70 contract is also due to be effective at that time. Hence no direct review of internal controls for mitigating potential [of Scratch Ticket Alterations].

DCLB Response:

As noted in OIG's current status, the new gaming system contract will not take effect until FY '11, specifically November 23, 2010. At that time, the DCLB will have another SAS-70 contract that will address controls for mitigating potential unclaimed prizes fraud.

EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DC LOTTERY & CHARITABLE GAMES CONTROL BOARD



TO: Sebastian Lorige, Executive Director
Office of Integrity and Oversight
Office of the Chief Financial Officer

FROM: Jeannette A. Michael
Executive Director

DATE: April 9, 2007

SUBJECT: Draft Report on the Assessment Review of the "Top Ten Lottery Risks"
(Report No. IA:DCLB:2509-C14)

Introduction

This memo is in response to your Draft Report dated September 15, 2005 on the Assessment of "Top Ten Lottery Risks" at the DC Lottery and Charitable Games Control Board (DC Lottery or DCLB). Pursuant to a list of lottery risks identified at the 2005 North American Association of State and Provincial Lotteries (NASPL) Audit Subcommittee conference, I requested that OIO conduct an audit of the DC Lottery to determine if we are prepared to address these risks.

The DCLB initially submitted a response to the draft audit on December 15, 2005. Subsequently, OIO staff met with DCLB staff to discuss the responses. It became apparent that DCLB staff did not quite understand the issues raised by OIO. For the next year, staff continued to discuss the issues raised in the draft report. During this time, DCLB operations and staff changed. Within the last six months, we have been able to get back on track with responses to the draft report.

EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT

The DC Lottery agrees with most of OIG's findings and recommendations. I have a staff person who is charged with ensuring that the DCLB responses are implemented.

If you have any questions, please do not hesitate to contact me.

OIG Findings and Recommendations:

1. *No Written Procedures to Respond to Complaints of Misleading Prizes Advertisement*

- *Recommended Action: DCLB should have a written procedure to respond to complaints of misleading prizes advertisement. Players' complaints should come to the Customer Service Department that would channel the complaints to the Legal Department for coordination and further action.*

DCLB Response:

Management agrees with the recommendation and has implemented a new written Standard Operating Procedure (SOP) and a new Complaints Coding System for handling, documenting, and tracking complaints using the Intranet Quorum (IQ) System. (See attached.) Our Customer Service Department is primarily responsible for tracking and monitoring the disposition of all complaints, including complaints of misleading prizes advertisement.

OIG Findings and Recommendations

2. *No Written Standard Operating Procedures on Noted Agent's Financial Difficulties.*

- *Recommended Action: We recommend that DCLB implement standard operating procedures that ensure early actions needed to be taken to minimize the Lottery's financial exposures when the Lottery obtained intelligence about agent's financial difficulties.*

DCLB Response:

Amounts owed to the Lottery are an ordinary business risk. An escrow deposit of \$250 is enough for the average retailer. The Lottery Fund Reserve should protect the Lottery from large retailer's financial difficulties. NSF reserve is currently at \$1 million level and it is the external auditors' recommendation to recognize the reserve as additional revenue. DCLB will build the reserve again when needed.

**EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT**

Notwithstanding the above procedures, the Charitable Games & Licensing Department has implemented a SOP for license renewal inspections, which address agents with possible financial difficulties. (See attached.) The procedures require that the first line of defense entail constant monitoring by the Sales and Licensing Department. Currently, the Sales Department tells the Financial Specialist, Mike Brown, about suspected agent's financial trouble. Also the gaming software does limit the agent's maximum sales capacity.

OIO Findings and Recommendations

3. *No Written Procedures to Respond to Complaints of Winnings not Paid.*

◦ Recommended Action: *We recommend that DCLB implement a formal (and written) standard operating procedure to respond to numerous and consistent players' complaints against a particular retailer regarding winnings not being paid.*

DCLB Response:

Management does not agree with the above recommendation. Lottery policy is to let the court decide about winning disputes and will deposit the disputed winning amount to an escrow account decided by the Court. The Lottery should not be involved with the disposition of lottery winnings. Jay Young states that compliance with MUSL regulations on lottery winnings should be an adequate mitigation strategy. DCLB should not be involved with the disposition of winnings.

Notwithstanding the above stance, the DCLB has instituted an SOP on Complaints of Winnings Not Paid. (See attached.)

OIO Findings and Recommendations

4. *No Written Standard Operating Procedures for Dealing with Gaming Software Errors.*

◦ Recommended Action: *We recommend that DCLB draft written standard operating procedures to deal with gaming software error occurrence.*

DCLB Response:

DCLB agrees with the above recommended action and as of October 2005 has developed a Root-cause Analysis SOP for gaming software errors. (See attached)

**EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT**

OIO Findings and Recommendations:

5. *No Standard Operating Procedure for Dealing with Errors of Drawing Procedures.*

- Recommended Action: *DCLB should have written procedures to respond to incidents of human errors occurring during the drawing process.*

DCLB Response:

Management agrees with the above recommended action and the Draw Department now has standard operating procedures for dealing with errors of drawing procedures. (See attached.)

OIO Findings and Recommendations

6. *No Baseline Measurement for Dealing with Telecommunication Outages.*

- Recommended Action: *We recommend that DCLB establish an automated baseline measurement of outages that is reported to the agency's management so that quantifiable claims of liquidated damages could be made against the contractor.*

DCLB Response:

This finding was related to the lack of performance standards and liquidated damages for telecommunication outages under the former Verizon contract. That particular contract expired in August 2006 and telecommunication services continued under an existing GTECH contract, which also lacks the necessary contractual language for the assessment of liquidated damages.

DCLB is including telecommunication services in the core gaming system requirements of its future gaming system platform. The RFP for the future gaming system is under development and will contain the necessary performance standards and liquidated damages clauses, and more specifically, the requirement to baseline the telecommunication service.

OIO Findings and Recommendations

7. *SAS-70 Procedures did not include Tests of Internal Controls that Mitigate Potential Unclaimed Prizes Fraud.*

- Recommended Action: *We recommend that DCLB expand the scope of SAS-70 review to cover the above mentioned fraud risk.*

**EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT**

DCLB Response:

DCLB agrees that an annual review of vulnerability in these areas is required. However, internal controls outside the existing Scope of Work will require a new contract. The current contract has an additional two Option Years before expiration, at which time DCLB will expand the SOW to address internal controls that mitigate potential unclaimed prize fraud. Additionally, DCLB's COTR will request that the Office of Contracts modify the current contract bilaterally to include these internal controls for the next Option Years. The COTR will work with the Contracting Officer to resolve this issue on or before July 1, 2007.

OIO Findings and Recommendations

8. *Procedure to Investigate Winners with the same SSN has not been Implemented.*

- a. Recommended Action: *We recommend that DCLB implement the procedure of investigating repeat winners with the same personal identity as soon as possible.*

DCLB Response:

DCLB agrees with the recommended action. DCLB's Security Department has implemented Standard Operating Procedures for investigating repeat winners with the same personal identity. (See attached.)

OIO Findings and Recommendations

9. *SAS-70 Procedures did not include Tests of Internal Controls that Mitigate the Possibility of Scratch Tickets Alterations.*

- b. Recommended Action: *We recommend that DCLB expand the scope of SAS-70 review to cover the above mentioned fraud risk.*

DCLB Response:

DCLB agrees that an annual review of vulnerability in these areas may be required. However, the fact that the Scratch Ticket service is under a separate contract and serviced by a different vendor, mitigates the risk that LTI personnel can alter Scientific Games' files to make non-winning scratch tickets into winning tickets.

DCLB will investigate expanding the SOW for future SAS-70s to include testing internal controls related to scratch ticket fraud. In addition, DCLB will research Best-Practices for SAS-70s for sub-service organizations, like Scientific Games' scratch ticket services. The COTR will work with the Contracting Officer to resolve this issue on or before July 1, 2007.

**EXHIBIT B: D.C. LOTTERY AND CHARITABLE GAMES CONTROL
BOARD RESPONSE TO DRAFT REPORT**

OIG Findings and Recommendations

10. *No Written Standard Operating Procedures to Deal with Lottery's Lost Wagers Due to Gaming System Failure.*

- *Recommended Action: We recommend that DCLB implement a standard (and written) operating procedure to deal with incidents of lost wagers due to gaming system failure.*

DCLB Response:

DCLB agrees with this finding and the IT Department is developing an SOP that will identify incidents of lost wagers. The SOP, which will be completed by April 30, 2007, will call for notifying the Lottery's Executive Office, Finance and Legal Departments for resolution.

