

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

**AUDIT OF THE ACTIVITIES OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD'S CLAIMS
CENTER**

OFFICE OF INTEGRITY AND OVERSIGHT



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



Office of Integrity and Oversight

MEMORANDUM

TO: Buddy Roogow, Executive Director
DC Lottery & Charitable Games Control Board

FROM: Mohamad Yusuff, Interim Executive Director
Office of Integrity and Oversight

DATE: September 23, 2013

SUBJECT: Final Report on the Audit of the Activities of the District of Columbia Lottery and Charitable Games Control Board's Claims Center (**Report Number: OIO-13-01-12-DCLB**)

Attached is the report summarizes the results of the Office of Integrity and Oversight's (OIO) Audit of the Activities of the District of Columbia Lottery and Charitable Games Control Board (DCLB)'s Claims Center.

This report contains one finding and one recommendation, which if implemented, should correct the cited issues, strengthen internal controls and promote operational efficiency. The DCLB agreed with our finding and recommendation. We consider DCLB's corrective actions to be responsive to our recommendation. The full text of the DCLB's response is included as Appendix 1.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions on this report or need additional information, please call me at (202) 442-6433 or Tiong The, Audit Manager, at (202) 442-8294.

Attachments

cc: Kathy Crader, Chief Risk Officer, OCFO

**AUDIT OF THE ACTIVITIES OF THE DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD'S CLAIM CENTER**

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**AUDIT OF THE ACTIVITIES OF THE DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD'S CLAIM CENTER**

ACRONYMS

DCLB	District of Columbia Lottery and Charitable Games Control Board
FY	Fiscal Year
OIO	Office of Integrity and Oversight

EXECUTIVE SUMMARY

OVERVIEW

The Office of Integrity and Oversight (OIO) has completed an audit of the Activities District of Columbia Lottery and Charitable Games Control Board (DCLB) Claim Center for the period October 1, 2011 to March 31 2013. The objectives of this audit were to determine whether: (1) there are adequate controls over the claims activities at the Claim Center and Agent-Plus Locations; (2) the Claim Center is withholding the required federal and state income taxes from winning prizes; (3) the Claim Center is intercepting winnings for child support owed by winners; (4) the merchandise prizes distributed are properly supported; and (5) to perform an inventory of merchandise prizes. The audit was initiated as part of OIO fiscal year's (FY) 2013 annual plan.

CONCLUSIONS

We found that (1) there are adequate controls over the claims activities at the Claim Center and Agent-Plus Locations; (2) the Claim Center is in full compliance in withholding the required Federal and state income taxes; (3) the Claim Center is intercepting winnings for child support owed by winners. However, we found that the agency inventories for Promotional Items and Event Prizes are not centrally managed which resulted in inefficiency and a lack of accountability in the inventory management process. During the course of our audit, DCLB on June 17, 2013, issued Standard Operating Procedures requiring better management and accountability over promotional inventories.

SUMMARY OF RECOMMENDATION

We directed one recommendation to the DCLB management for necessary action to correct the described deficiency. Our recommendation is as follows:

- Fully implement the newly introduced inventory system and monitor for its effectiveness in inventory management and control.

MANAGEMENT RESPONSE AND OIO COMMENTS

OIO received a written response from the Executive Director of the DCLB on September 17, 2013, which agreed with our findings and recommendation. We noted that the DCLB has taken certain corrective actions to address the issues noted. We consider DCLB's corrective actions to be responsive to our recommendation. The full text of DCLB's response is included at Appendix 1.

INTRODUCTION

BACKGROUND

The Claims Center's core function is to process lottery players claims in a timely manner. The Claim Center is currently staffed with two permanent employees. However, on busy occasions or during "Big Wins," additional staff is assigned. The Claims Center served between 1649 and 2373 players monthly during the period October 2011 and March 2013.

Claimants can redeem awards up to \$599 at any agent location. Prizes \$600 or greater can be redeemed at the Agency's Claims Center or at any of the lottery's AgentPlus locations. The AgentPlus locations can process prizes up to \$5,000 only. The Claims Center is physically located at the Frank D. Reeves Municipal Center in the Lobby Level at 2000 14th Street NW, Washington, D.C. 20009. The Claims Center further maintains the security and safety of staff and claimants through an in-house security guard and security glass window during operating hours.

It is important to note that no cash is maintained at the Claims Center. All monetary prize winnings are paid by check. Claims are processed via electronic means and checks are printed within minutes of validating tickets and prizewinners' data input. In addition, the Claim Center distributes promotional items to players that visit the Center. The Claims Center Chief submits a request for marketing items to DCLB headquarters. He transports such supplies to the Claim Center for distribution and returns any undistributed items. DCLB headquarters also carried an inventory of event prizes, such as: sports team autographed merchandise, gift cards, and coupons.

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of this audit were to determine whether: (1) there are adequate controls over the claims activities at the Claim Center and Agent-Plus Locations; (2) the Claim Center is withholding the required federal and state income taxes from winning prizes; (3) the Claim Center is intercepting winnings for child support owed by winners; (4) the merchandise prizes distributed are properly supported; and (5) to perform an inventory of merchandise prizes.

SCOPE AND METHODOLOGY

Our audit covered claims for the fiscal years 2012 and 2013 (through March 2013). To accomplish our objectives, we interviewed the Chief of the Claims Center, relevant personnel from finance and information technology departments; we selected a random statistical sample of 60 claims (winning prizes), and examined the supporting documentation for selected claims from a stratified population of 470; we reviewed applicable standard operating policies and

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procedures as it relate to claims; we visited an AgentPlus location and examined supporting documentation related to claims processed by the AgentPlus retailers. In addition, we performed an inventory count on undistributed event prizes on hand and examined supporting documents for prizes distributed.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDING AND RECOMMENDATION

FINDING: INVENTORY MANAGEMENT FOR PROMOTIONAL ITEMS AND EVENT PRIZES

SYNOPSIS

We observed the physical inventory of event prizes and promotional items at the DCLB headquarters. However, we were unable to conduct an inventory count for the promotional items, and there was no readily available information about the inventory beginning balances. This was because the inventory items are maintained in several locations, and many employees are involved in managing the items. As a result, the agency's inventory management process lacked proper transparency and accountability; inventory maintenance appeared unorganized, with a risk of unaccounted inventory items.

DISCUSSION

The agency budget for promotional items in FY 2012 and 2013 totaled \$110,000 for each year. The total actual expenditures for FY 2012 were \$95,671, and FY 2013 (through March 2013) \$80,912. Inventory items were not centrally located for either promotion items or event prizes. During the audit we noted that the various items were kept in different offices including the basement at DCLB. Each sales/marketing program manager is responsible for safeguarding and tracking the respective event prizes and related inventory. In the case of social media event prizes the supporting documentation needed to establish the beginning inventory balance was not readily available for review, and the contractor had to be contacted for the information. This was due to the project manager having left DCLB. Based on the audit, we noted that event prizes for the Lottery, as a whole, is not tracked and controlled by the agency.

Furthermore, we were unable to conduct a physical inventory count of the promotional items such as, pens, water bottles, hats, T-shirts etc. Prior to June 17, 2013, the promotional items would be delivered to the Administrative Assistant in the Department of Resource Management for safekeeping. Items were stored in multiple locations in the DCLB main building at Martin Luther King Avenue, SE. Sales Agent would make a request to the Sales Director for promotional items, but we found that there was no documentation tracking the inventory. For reordering purposes, an item count was performed to determine how many of a particular item(s) were needed. However, we noted that since June 2013, DCLB has started a project to centralize the inventory of prizes and promotional items for a more effective and efficient inventory management system.

DCLB newly issued (June 17, 2013) Standard Operating Procedures calls for inventory of the items used for promotional purposes in the Communications, Marketing, Sales and Charitable Games Division to be organized, accounted for, maintained and updated.

FINDING AND RECOMMENDATION

Recommendation

We recommend that the Executive Director, DCLB:

1. Fully implement the newly introduced inventory system and monitor for its effectiveness in inventory management and control.

Agency Response

DCLB concurred with OIO's recommendation, and indicated that they have fully implemented the new standard operating procedures for the inventory management system.

OIO Comment

DCLB corrective actions are responsive to our recommendation.

OTHER MATTERS

CLAIMS CENTER

During the audit period October 1, 2011 to March 31, 2013, the Claim Center processed a total of 7,650 claim checks. We identified a sample from a population of 470 checks comprising claim checks that were \geq \$5,001. We selected a statistical random sample of 60 claim checks using the ACL sampling application with a 95% confidence level, 5% materiality level, and zero rate of expected deviation.

We tested the selected sample to determine the following attributes: (i) adequate supporting documentation for claims; (ii) compliance with DCLB claims procedures; (iii) compliance with District of Columbia tax withholding laws; (iv) compliance with federal tax withholding laws; and (v) compliance with District of Columbia child support enforcement laws.

The results of our test sample of 60 claim checks revealed without exception that DCLB has been in full compliance with Federal and District tax laws including agency policies and procedures.

AGENTPLUS RETAILERS

As part of gaining an understanding of claims processing, we visited one of the ten AgentPlus Retailers. The AgentPlus Retailers were developed to provide better customer service to players in regards to having multiple locations to claim winnings and more agents to sell tickets. Also, Agent plus locations can process claims between \$600 and \$5,000, whereas, a regular lottery retail sales agent can process claims only up to \$599.

During our visit to the AgentPlus Retailer store, we noted that the lottery was well advertised and all signs and banners were clearly visible from both outside and inside of the store. We also noted that the retailer had attendants to operate the lottery photon terminals and assist players where needed.

We understand that one of the ways that DCLB monitors the AgentPlus Retailers is by reviewing supporting documentation for claims processed by the AgentPlus Retailers on a weekly basis and communicating the results of the review to the Retailer. The supporting documentation is reviewed for each claim for completeness, accuracy and whether the agent complied with DCLB's claims procedures. If the documentation is incomplete or inaccurate DCLB Claim Center Chief communicates with the Retailer to resolve issue by calling, visiting or writing. Depending on issue and frequency, action can include referring agent to the Advisory Retail Group. The members of this group include the Chief Operating Officer, the General Counsel, Director of Resource Management, Agency Fiscal Officer, Financial Specialist, Senior Investigator from Security, Chief of Claims, Chief of Information Technology and the Executive Assistant for further action. The Advisory Retail Group considers the agent issue(s) and informs

OTHER MATTERS

the Executive Director who determine whether the agent is suspended, penalized, or a combination of monetary penalty with suspension.

No issues were noted in this area based on our visit to the retailer location, interviews and review of the claims process.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

No	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status ¹
1	Fully implement the newly introduced inventory system and monitor for its effectiveness in inventory management and control.	Internal Control	9/2/2013	Closed

¹ 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 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 neither to take the recommended action nor propose satisfactory alternative actions to correct the condition.

APPENDIX 1: DCLB's MANAGEMENT RESPONSE

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



TO: Mohamad Yusuff, Interim Executive Director
Office of the Chief Financial Officer
Office of Integrity and Oversight

FROM: *BR*
Buddy Roogow, Executive Director
DC Lottery & Charitable Games Control Board

DATE: September 16, 2013

SUBJECT: Audit of the Activities of the District of Columbia Lottery & Charitable Games Control Board's (DCLB) Claims Center (**Report No. OIO-13-01-12-DCLB**)

Introduction

This memo is in response to your Draft Report on the Audit of the Activities of the DCLB's Claim Center dated August 27, 2013. The report identified one recommendation.

OIO Findings – The agency inventories for promotional items and event prizes are not centrally managed which resulted in inefficiency and a lack of accountability in the inventory management process:

• *OIO Recommendations:*

Fully implement the newly introduced inventory system and monitor for its effectiveness in inventory management and control.

DCLB Response:

DCLB agrees with OIO's recommendation and has implemented the new standard operating procedures.

cc: Esther Sawyer, Auditor, Office of Integrity and Oversight
Tiong Thé, Auditor, Office of Integrity and Oversight