



Office of Integrity & Oversight

**Government of the District
of Columbia, Office of the
Chief Financial Officer**

February 1, 2021

AUDIT OF INTERNAL CONTROLS OVER PURCHASE CARD USAGE AT THE OFFICE OF LOTTERY AND GAMING



Highlights

Highlights of Report 20-01-14 OLG, a report to the OLG Executive Director, Office of the Lottery and Gaming.

Why OIO Did This Audit

The Office of Integrity and Oversight (OIO) performed this audit of Internal Controls over the Purchase Card (PCard) Usage at the Office of Lottery and Gaming as part of OIO's oversight responsibilities. This audit was also included in the OIO FY 2020 Audit Plan due to the status of business operations.

What OIO Recommends

We provided the Office of Lottery and Gaming (OLG), Executive Director with three (3) recommendations that centered on strengthening internal controls. The recommendations include:

- Ensuring waiver requests are obtained from the Office of Contracting and Procurement (OCP) prior to making food purchases with the PCard, including promotional items.
- Ensuring promotional food purchases are accounted for in the Marketing budget.
- Updating procedures to include reconciling the PCard Transactions Log to JP Morgan's PCard Monthly Statements timely and monitoring the departmental budget.

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AUDIT OF INTERNAL CONTROLS OVER PURCHASE CARD USAGE AT THE OFFICE OF LOTTERY AND GAMING

What Did OIO Find

The Office of Lottery and Gaming (OLG) uses the Purchase Card (PCard) to procure items that further the mission of the agency. The OLG follows PCard guidance provided by the Office of Contracting and Procurement (OCP), in addition to internal procedures. Overall, the OLG is complying with purchase transaction limits, maintaining support and approvals for transactions, and using Certified Business Enterprise (CBE) vendors when feasible. However, there were three (3) instances of non-compliance with regulations as it relates to allowable purchases, as well as additional improvements needed to monitor and maintain the PCard budget and transaction log.

Unallowable Purchase Card Transactions

We identified three (3) instances of non-compliance with OCP and OLG's policies and procedures regarding food related purchases. Gift baskets were purchased for promotional events without obtaining a waiver from the OCP.

Monitoring of PCard Transaction and Budgets Require Improvement

OLG did not conduct monthly reconciliations between the Transaction Logs and the JP Morgan PCard monthly statements, as a result there were instances where the PCard Transaction Logs showed spending amounts that exceeded, or were not budgeted when compared with OLG's annual PCard budget at the department level. Due to a lack of monitoring and reconciliation, these discrepancies were not identified.

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



Office of Integrity and Oversight

TO: Beth Bresnahan, Executive Director
Office of Lottery and Gaming

FROM: Timothy Barry, Executive Director *Timothy Barry*
Office of Integrity and Oversight

DATE: February 1, 2021

SUBJECT: Audit of Internal Controls over the Purchase Card Usage at the Office of Lottery and Gaming (20-01-14 OLG)

This report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of Internal Controls over the Purchase Card Usage at the Office of Lottery and Gaming (OLG). The objectives of the audit were to: (1) determine whether effective internal controls are in place to ensure the OLG's Purchase Card Program is properly established, maintained, and operating in accordance with applicable laws, regulations, policies and procedures; (2) ensure effective and adequate oversight exists over purchase card transactions.

OIO provided three (3) recommendations to address the two (2) findings cited in the report. Your agency provided a written response to the Draft Report on January 25, 2021 and concurred with two (2) of the recommendations. The corrective actions planned and taken are responsive and meet the intent of the recommendations. Your agency did not concur with one (1) recommendation related to reconciliation and monitoring of the PCard transaction log for budget purposes; however, since the PCard Transaction Log is the tool used by the cardholder to monitor and manage the PCard budget and spending, it should be updated timely and reflect accurately the activity of the PCard Program. A copy of your response, in its entirety, is included as an Appendix to this report.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have questions, please contact me at (202) 442-6433.

cc: Jeffrey DeWitt, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCFO
Gwen Washington, Director of Resource Management, OLG
Craig Lindsey, Associate Fiscal Officer, OLG

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Abbreviations and Acronyms

APC	Agency Program Coordinator
AD	Agency Director
AO	Approving Official
ART	Agency Review Team
CH	Cardholder
DBO	Designated Billing Officer
JPMC	JP Morgan Chase
OCFO	Office of the Chief Financial Officer
OCP	Office of Contracting and Procurement
OFRM	Office of Finance and Resource Management, OCFO Government Operations Cluster
OLG	Office of Lottery and Gaming
OMA	Office of Management and Administration
OIO	Office of Integrity and Oversight
PCard	Purchase Card
PMO	Program Management Office, District Office of Contracts and Procurement
SOAR	Systems of Accounting and Reporting

Background

The District initiated a Purchase Card Program in 2000 to “increase the efficiency of District government programs by reducing paperwork and administrative costs for high volume, small dollar value purchases and to provide District employees with a customer centric purchasing tool that will enable them to perform their respective programmatic functions of government in an efficient, timely, and cost effective-manner.” The Mayor issued Mayoral Order 2005-56 on May 19, 2006, which mandated the use of Purchase Cards for items valued at \$2,500 or less. On April 1, 2014, Mayor’s Order 2014-067 increased the value of goods that may be purchased to \$5,000 or less and services valued at \$2,500 or less.

The District of Columbia Office of Contracting and Procurement (OCP) has the overall responsibility to oversee the District’s Purchase Card Program. OCP Policy No. 9000.02 Purchase Card Program Policy & Procedures effective September 2, 2014, govern the Purchase Card Program. These procedures are applicable to all participants as noted in Part I: A.3 on Applicability, “The Policies and Procedures shall apply to all Clusters, and components of OCP and to all executive agencies, boards and commissions under the District of Columbia Chief Procurement Officer’s jurisdiction, the Council of the District of Columbia, and independent agencies of the District government which elect, and are determined by OCP to be eligible, to participate in the Purchase Card (PCard) Program.” The OCP Procedures further states in Part II: A.2, General Agency Use Policy, “In addition to the requirements and limitations stated in the directive, each agency head, or his or her designee, may authorize additional conditions or limitations not in conflict with this directive, which may be necessary to accomplish the effective and economical use of the purchase card within the participating agency.”

The Office of Lottery and Gaming (OLG) adopted the OCP Policy No. 9000.02 Purchase Card Program Policy & Procedures and supplemented with agency specific Standard Operating Procedures (SOPs), *Utilizing the Agency’s Purchasing Card (PCard)*, (rev. February 15, 2018). The OLG SOP reiterates the transaction limits set forth by OCP and further states, the “Fiscal Office must project the agency’s needs for the year and authorize the Designated Billing Official (DBO) to encumber funds from the agency’s budget for use during the year. These funds will be encumbered, and agency funding attributes sent to the PCard Administrator in OFRM.”

The OLG has a Purchase Cardholder and a Travel Cardholder. To request a purchase, the OLG department personnel sends an e-mail request to the PCard Approving Official (AO) for items including,

but not limited to envelopes, supplies, and gift items for promotions. In addition to adhering to specific transaction limits, OCP requires District agencies to seek goods from a recognized Certified Business Enterprise (CBE) when feasible. An exception can be made when the item was not carried by CBE Contractors or the item is 12% cheaper than CBE's asking price. Once the request is approved, the designated OLG Cardholder will proceed with the purchase of the requested items upon receipt of the request (usually with the links to the appropriate purchasing information) and approval from the PCard AO.

The Cardholder documents all purchases in the PCard Transaction Log. The PCard Transaction Log keeps track of all the transactions and helps the cardholder to know whether there are funds available before approving any transactions. The PCard Transaction Log provides the year-to-date amount balances compared with the total budgeted amount received from the OLG Budget Analyst.

Annually, OLG's PCard Budget Attributes are loaded in the District's System of Accounting and Reporting (SOAR) and the Office of Finance and Resource Management (OFRM) draws down on the OLG PCard budget when the actual PCard transactions take place and journalizes the monthly expenditures in SOAR. When OLG receives the Intra-District Billing Report (including the JP Morgan Monthly PCard statements), the OLG Finance department reviews the transactions in SOAR to ensure it agrees to the amount on the PCard statement.

The District's Bank Partner is JP Morgan Chase (JPMC). JPMC's system, PaymentNet, provides card transaction data and reports. On a biweekly basis, the AO obtains and reviews the transaction folders (hard copy) from the cardholder containing the transaction supporting documentation such as the email approval, the proof of funding availability, the goods/services receipts, the invoice, and the PCard payment receipt and compares the hard copies to the transactions noted in PaymentNet and approves the transactions in the system. .

Monthly, the OLG PCard Agency Review Team (ART) holds a meeting to review purchases of the agency. The ART team is comprised of the Agency Director (AD) or designee, the Agency Fiscal Officer (AFO), Agency Program Coordinator (APC), Approving Official (AO), Cardholder (CH), and the Designated Billing Official (DBO). They meet once a month to carry out their responsibilities and submit the meeting sign-in sheet to the OCP Program Management Office (PMO), as required by the (OCP)

Policies and Procedures. The ART reviews the monthly transactions by comparing the Cardholder's hard copy transaction folders with the JPMC PCard monthly statement for sufficiency of the documentation provided and to ensure there were approvals and receipts for the purchases.

Objectives, Scope, and Methodology

The objectives of the audit were to: (1) determine whether effective internal controls are in place to ensure the OLG's Purchase Card Program is properly established, maintained, and operating in accordance with applicable laws, regulations, policies and procedures; (2) ensure effective and adequate oversight exists over Purchase Card transactions. The audit covered the period October 1, 2018 through March 24, 2020.

In order, to achieve our objectives, we requested and obtained the OLG PCard SOPs. We interviewed the relevant OLG officials and performed our walkthrough of the OLG PCard systems and process to understand how OLG ensures compliance with the OCP's Policies and Procedures and its own SOPs. We noted that the OLG Purchase Card Program has never been audited before; therefore, there are no open recommendations.

We requested and obtained the agency's PCard Transaction Logs for the period of October 2018 through March 2020 as well as the JPMC summary statements for the period. Utilizing the Random Number Generated by the ACL data analysis software, we selected a random sample of 60 transactions. We also scanned the PCard Transaction Log and selected ten (10) large or unusual transactions to increase the sample size to 70.

We requested and obtained the supporting documentation for sample PCard transactions to determine compliance with CBE requirements, approvals, and the transaction complied with the budget and transaction limits set forth. Additionally, we compared the PCard Transaction Log to the JPMC and agency department budget.

This performance audit was conducted 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 1

Unallowable Purchase Card Transactions

OLG used the District PCard to purchase restricted items totaling \$1,083.76. OCP PCard Policy and Procedures Part II Section C. 2 pg. 25– lists food and foodstuffs as a prohibited item and requires a waiver request be submitted and approved by OCP to purchase such unallowable items. However, OLG did not obtain a waiver for the purchases; therefore, OLG is in non-compliance with the PCard procedures.

In addition to a statistical sample of purchase card transactions for the audit period, OIO scanned the Transaction Log and selected an additional ten (10) transactions that warranted further review. Of the ten (10) transactions, we identified three (3) purchases related to prohibited items. The transactions included:

Table 1: Unallowable Purchases

Date	Description	Vendor	Amount
11/27/19	Holiday Gift Basket - Holiday Promotional Event	Wine Country Gift Baskets	\$150.00
11/27/19	Holiday Gift Basket - Holiday Promotional Event	Gourmet Gift Baskets	\$599.96
11/27/19	Holiday Gift Basket - Holiday Promotional Event	Gift Tree	\$333.80
TOTAL			\$1,083.76

Source: PCard Transaction Log

A review of the supporting documentation indicated the gift baskets, which contained food, were purchased on behalf of the Marketing Department for a Holiday event held for lottery players without obtaining the required waiver as outlined in OCP’s PCard Policy and Procedures Part II Section C. 2 pg. 25.

OLG officials advised OIO they did not obtain a waiver for the gift baskets because they were not for the benefit of District employees and were for a promotional event. However, in correspondence dated September 25, 2018 related to the purchase of a food related promotional item, OCP indicated that OLG required a waiver for food related promotional items and should report these types of purchases in a specific line item within the Marketing budget; however, this was not implemented.

To confirm the waiver requirement, OIO contacted the OCP PCard PMO office and they stated, “the purchase of food is prohibited on the Purchase Card. An approved waiver is required prior to making a purchase. The purchase of alcohol is strictly prohibited on the Purchase Card. Even though these are considered promotional items, a waiver should have been submitted.”

Recommendation: We recommend the Executive Director, Office of Lottery and Gaming:

1. Ensure the Purchase Card requestors and approvers understand PCard prohibited items and request a waiver for prohibited items prior to purchase.
2. Ensure there is a specific funding/budget established for promotional food/marketing purchases.

MANAGEMENT RESPONSE AND OIO COMMENTS

Management Response (Recommendation 1)

OLG agreed with the recommendation and noted in their response that “there was a misunderstanding about the purchase of food item to use as marketing second chance prize. Henceforth, Management will ensure that the policy is clear and followed for all instances and waivers are requested as required.”

OIO Comment:

The corrective actions taken by OLG are responsive and meet the intent of the recommendation.

Management Response (Recommendation 2)

OLG concurred with the recommendation and noted that, “Management will ensure that there is a specific funding/budget established for promotional food/marketing purchases in the FY 2023 budget formulation cycle.”

OIO Comment:

The planned corrective actions are responsive and meet the intent of the recommendation.

Finding 2: Monitoring of Purchase Card Transactions and Budget Requires Improvement

We noted the monitoring of PCard transactions and the annual PCard departmental budget requires improvement. Specifically, we noted:

- Differences in the monthly totals recorded in the PCard Transaction Log compared to the JPMC statements in six (6) of the 18 months reviewed; and the
- PCard Transaction Log exceeded the PCard budgeted amounts at the department level.

Sound accounting practices require organizations conduct reconciliations at regular intervals to check for errors and/or fraudulent/irregular activities and monitoring of the budget to ensure funds are available throughout the year. However, the differences between the PCard Transaction Log and JPMC statements were not identified due to the lack of a reconciliation and monitoring at the department level.

While OLG did not exceed their annual budget at the summary level, there should be adequate monitoring and reconciliation to ensure that financial information accurately reflects the activity within the departments.

Reconciliation of the PCard Transaction Log to the PCard JPMC Monthly Statements

The PCard Transaction Logs were not reconciled to the JPMC monthly statements. OIO compared the PCard Transaction Log to the JPMC statements and noted the following differences:

**Table 2: Differences in the JP Morgan Statements to the PCard Transaction Log
For the Period October 1, 2018-March 24, 2020**

Month	Monthly Total per PCard Transaction Log	Monthly JPMC Statements	Difference
10/31/2018	\$ 10,454.68	\$ 7,326.28	\$ (3,128.40)
03/31/2019	7,507.37	7,436.48	(70.89)
07/31/2019	10,318.29	10,316.29	(2.00)
08/31/2019	7,636.91	7,686.91	50.00
12/31/2019	8,353.37	8,353.35	(0.02)
03/31/2020	5,798.97	5,906.72	107.75
Difference			(3,043.56)

Source: OIO

OLG officials reviewed the material exceptions identified and provided evidence to account for the differences. The differences were not identified by the ART Team because their review consists of comparing the hard copy transaction documents to the JPMC statements instead of the PCard Transaction Log.

As the PCard Transaction Log is the main source used to monitor and manage the PCard budget and spending, it should be updated and reflect the activity of the PCard Program and include any updates or changes to the expenditures based on the JPMC statements. This will also assist the PCard holder in ensuring that the OLG has an accurate account of the available balance.

Reconciliation with the PCard Annual Budget by Department

In addition to the discrepancies between the PCard Transaction Log and the JPMC statements, we also noted the departmental expenditures exceeded the OLG's Departmental Budget Plan for FY 2019¹, by department. When OIO compared the FY 2019 PCard budget to the Transaction Log and sorted the purchases by departmental index, we noted the budget was exceeded in multiple departments as shown in Table 3.

Table 3: FY 2019 Actual Expenditures Exceeded Annual Budget by Department

Departmental Budget	FY 2019 P-Card Budget	FY 2019 Y-T-D Totals per Transactions Log	Annual Department Budget Exceeded - Y/N
Agency Management Programs			
91010--Human Resources	0.00	0.00	N
91015--Executive Direction	130,000.00	9,181.03	N
91030--Property and Fleet	17,600.00	16,419.38	N
91040--Information Technology	0.00	27,289.22	Y
91050--Financial Services	0.00	0.00	N
91060--Legal Services	5,500.00	8,311.67	Y
91075--Security	0.00	7,368.53	Y
91080--Communications	30,000.00	0.00	N
TOTAL	183,100.00	68,569.83	
Gaming Operations Programs			
96200--Marketing	25,000.00	30,787.56	Y
96300--Trade Development (Sales)	0.00	2,916.98	Y
96400--Draw Division	0.00	0.00	N
96500--Licensing and Charitable Games	1,000.00	10,291.58	Y
96600--Information Technology (Games)	0.00	0.00	N
96700--Claim Center	5,000.00	0.00	N
TOTAL	31,000.00	43,996.12	
GRAND TOTAL	214,100.00	112,565.45	N

Source: OIO

¹ We did not perform a budget to actual comparison in FY 2020 as the fiscal year had not ended during our field audit.

The Finance Department's Budget Analyst does review the PCard Budget before year-end; however, the Finance Department relies on the PCard holder to know if a department is in jeopardy of exceeding their budget by monitoring the Transaction Log. Ensuring the PCard Intra-District budget is properly allocated to departments will reduce the risk of overspending at the department level.

Recommendation: We recommend the Executive Director, Office of the Lottery and Gaming:

3. Update the OLG PCard Standard Operating Procedures to include requirements to:
 - reconcile its P-Card Transaction Log to its JP Morgan's Monthly Statements on a timely and regular basis;
 - utilize the PCard Transaction Log to keep track of the PCard funding availability by department before committing to the requested PCard expenditure.

MANAGEMENT RESPONSE AND OIO COMMENTS

Management Response (Recommendation 3)

OLG disagreed with the recommendation and noted in their response that "the Lottery PCard Team meets on a monthly basis to verify PCards transactions and attest to the validity and accuracy of the charges. The record documents used to substantiate the validity and accuracy of those charges are the purchase request, the matching invoice and the JP Morgan record of the charge. It is the Lottery's belief that the PCard Transaction Log is not an official or necessary document to complete the task, and the use of it, is simply at the discretion of the PCard Team."

The budgets are prepared by departments; however, the consolidated spending authority is by agency. The Lottery believes it is most appropriate that the expenses are charged to the correct department's budget. The Lottery spent \$112,565 of its \$214,100 PCard budget in FY 2019. The Lottery embraces continuous improvement and efficiency and will review the use and necessity of the Log.

OIO Comment:

The PCard Transaction Log is the tool used by the cardholder to monitor and manage the PCard budget and spending; therefore, it should be updated timely and reflect accurately the activity of the PCard Program. This is consistent with the OCP PCard Policy Part 1, Section C, 4. L whereby

the Cardholder is required to maintain balances of card purchases to avoid overspending delegated limits and available budget. We urge the OLG to reconsider our recommendations to avoid the risk of non-compliance with the noted OCP PCard policy.

EXHIBIT A: Summary of Recommendations and Benefits

No.	Recommendation	Type of Benefit	Agency Reported Estimated Completion Date	Status ²
1	Ensure the Purchase Card requestors and approvers understand PCard prohibited items and request a waiver for prohibited items prior to purchase.	Compliance	01/26/2021	Closed
2	Ensure there is a specific funding/budget established for promotional food/marketing purchases.	Compliance	12/31/2021	Open
3	<p>Update the PCard Standard Operating Procedure to require OLG:</p> <ul style="list-style-type: none"> Reconcile its P-Card Transaction Log to its JP Morgan's PCard Monthly Statements on a timely and regular basis. Utilize the PCard Transaction Log to keep track of the PCard funding availability by department before committing to the requested PCard expenditure. 	Improve Operational Effectiveness & Internal Controls	Disagreed	Closed

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

APPENDIX A:

AGENCY RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF LOTTERY AND GAMING



MEMORANDUM

TO: Timothy Barry, Executive Director
Office of Integrity and Oversight

FROM: Beth Bresnahan, Executive Director *Beth Bresnahan*
Office of Lottery and Gaming

DATE: January 25, 2021

RE: OLG Response to Report No. 20-01-14 OLG (AUDIT OF INTERNAL
CONTROLS OVER PURCHASE CARD USAGE)

I would like to extend my thanks to you and Office of Integrity and Oversight (OIO) staff for its thorough work and transparent processes in auditing the internal controls over the OLG's purchase card ('P-Card') usage.

The OLG team responsible for these areas of operation and I have reviewed the report and recommendations, and have provided responses below.

We are always available for further discussion, if needed.

Recommendation: We recommend the Executive Director, Office of Lottery and Gaming:

1. Ensure the Purchase Card requestors and approvers understand P-Card prohibited items and request a waiver for prohibited items prior to purchase.
2. Ensure there is a specific funding/budget established for promotional food/marketing purchases.

Lottery Response:

Management concurs with the finding.

Recommendation #1 was previously implemented and has been followed in the past. There was a misunderstanding about the purchase of food items to use as marketing second chance prize. Management will ensure that the policy is clear and followed for all instances and waivers are requested, as required. Management will implement Recommendation #2 in the FY 2023 budget formulation cycle.

Recommendation: We recommend the Executive Director, Office of the Lottery and Gaming:

3. Update the OLG P-Card Standard Operating Procedures to include requirements to reconcile its P-Card Transaction Log to its JP Morgan's Monthly Statements on a timely and regular basis;

Utilize the P-Card Transaction Log to keep track of the P-Card funding availability by department before committing to the requested P-Card expenditure.

Lottery Response:

Management does not concur with the finding.

The Lottery P-Card Team meets on a monthly basis to verify P-Card transactions and attest to the validity and accuracy of the charges. The record documents used to substantiate the validity and accuracy of those charges are the purchase request, the matching invoice and the JP Morgan record of the charge. It is the Lottery's belief that the P-Card Transaction Log is not an official or necessary document to complete the task, and the use of it is simply at the discretion of the P-Card Team. However, it is also the Lottery's contention that a reconciliation happens. The Log contains the amounts billed on invoices and sometimes include taxes or other prohibited charges. The reconciliation takes place when the Lottery verifies that only the valid charges are paid. There is no risk of overspending in these instances because the practice of including these charges on the Log will actually result in underspending.

The system of record for available budget authority is S.O.A.R. The departmental P-Card budgets are provided to the P-Card Team at execution of the budget and the P-Card amounts are captured in S.O.A.R. Fiscal year budgets are prepared over a year in advance of execution year and some flexibility for real-time occurrences are made within S.O.A.R. The Lottery operates as close to the level of detail budgeted, however, if necessary, uses the same flexibility granted by S.O.A.R. The budgets are prepared by departments; however, the consolidated spending authority is by agency. The Lottery believes it is most appropriate that the expenses are charged to the correct department's budget. The Lottery spent \$112,565 of its \$214,100 P-Card budget in FY 2019. That amounted to a savings of \$101,535 or 47% of the P-Card budget. The Lottery embraces continuous improvement and efficiency and will review the use and necessity of the Log.