



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

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**OFFICE OF INTEGRITY AND OVERSIGHT**

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**January 2010**

**FINAL REPORT ON THE OPERATIONAL RISK  
ASSESSMENT UPDATE AT THE DISTRICT OF  
COLUMBIA LOTTERY AND CHARITABLE GAMES  
CONTROL BOARD (DCLB)**

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**Report No.: IA: DCLB: 2909-C09 -FOR OFFICIAL USE ONLY-**

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 (DCLB)

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

**DATE:** January 25, 2010

**SUBJECT:** Final Report on Operational Risk Assessment Update at the D.C. Lottery and Charitable Games Control Board (Report No: IA: DCLB: 2909-C09)

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Attached for your information and record is the final report on *Operational Risk Assessment Update at the D.C. Lottery and Charitable Games Control Board* (DCLB), prepared by the internal auditors of the Office of Integrity and Oversight (OIO).

Our assessment revealed DCLB's operational areas of potential vulnerabilities and three possible consequences or threats that may affect the DCLB's operations. We assigned a risk level of high, moderate, or low for each area of vulnerability to show the possible effect of damage if these threats were to occur.

Based on the results of our assessment, OIO plans to conduct several reviews and make appropriate recommendations to management in order to minimize/mitigate risks that were identified in this report, and have been outlined in our FY 2010 Annual Work Plan for DCLB. The plan includes developing those controls we believe would provide the level of protection appropriate for the risk associated with the agency's operations or activities.

In its response, DCLB made specific comments on all of the 29 review or audit topics proposed by OIO, and concurred with 23 of the report's suggested mitigation action plan topics; partially agreed with review topics No. 3, 16, and 22; and disagreed with three of the proposed topics (No. 2, 7, and 29). For the agreed risk mitigation action plan topics, we look forward to working closely with DCLB in implementing the suggested oversight action plan in the coming years. For the topics DCLB disagreed with or have comments on, we urge the agency to consider our evaluation of the agency response (see the respective sections of this report) and take the appropriate risk mitigation actions in its course of managing the Agency's enterprise-wide risk

management (ERM) strategies and processes. We attached a copy of the agency's entire response as Appendix 1 to this report.

We also note that ERM is a continuing process where circumstances and events in the future would demand the Agency to adopt specific mitigation/minimization strategy and processes to counter the noted risks. As in the past, OIO is looking forward to partnering with DCLB to mitigate/minimize those risks.

Should you have any questions or need additional information on the final report, please contact me at 442-6433.

**Attachments**

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia  
Lucille Dickinson, Chief of Staff, OCFO  
Angell Jacobs, Director of Operations, OCFO  
Kathy Crader, Chief Risk Officer, OCFO  
Charles Fultz, Internal Security Director, OIO  
Nelson A. Alli, Interim Director of Internal Audit, OIO  
Tony The, Audit Manager, OIO  
Gwen Washington, Audit Coordinator, DCLB

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**EXECUTIVE SUMMARY**

Pursuant to the 2009 annual work plan of the Office of Integrity and Oversight (OIO), the internal auditors of this office conducted an operational risk assessment update of the D.C. Lottery and Charitable Games Board (DCLB), covering the items identified below. The purpose of this review was to identify and prioritize areas of exposure to risk at the DCLB.

Risk Assessments are the means by which limited resources are allocated to areas of highest relative risk. Risk assessments of any types are a means of providing decision makers with information needed to understand factors that can negatively influence operations and outcomes and make informed judgements concerning the extent of actions needed to reduce risk.

**Results of Our Assessments**

During our review, a qualitative approach has been used by defining risk in more subjective and general terms such as **high, moderate or medium, and low**. In this regard, qualitative assessments depend more on the expertise, experience, and judgement of those conducting the assessment and the input of senior management officials being interviewed. The overall risk level using the three risk categories defined such as, risk of monetary loss, risk of productivity loss, and risk of loss of public/customer confidence.

| <b>DCLB OPERATIONS - Areas of Vulnerability</b>  | <b>OVERALL RISK LEVEL</b>   |
|--|---|
| <b>Gaming Operations</b> <ul style="list-style-type: none"> <li>➤ Contracted Gaming System Operations</li> <li>➤ Draw Division</li> <li>➤ Marketing Dept (incl. Communication)</li> <li>➤ Sales Department</li> <li>➤ Licensing &amp; Charitable Games Div.</li> </ul> | High Risk<br>Medium Risk<br>Medium Risk<br>Low Risk<br>Low Risk   |
| <b>Agency Management</b> <ul style="list-style-type: none"> <li>➤ Information Technology Dept</li> <li>➤ Customer Service Division (Incl. Claim Center)</li> <li>➤ Security Department</li> <li>➤ Support Services Division</li> <li>➤ Legal Dept</li> </ul>           | High Risk<br>High Risk<br><br>Medium Risk<br>Low Risk<br>Low Risk |
| <b>Financial Services: Treasury Operations</b> <ul style="list-style-type: none"> <li>➤ Claim Center (Back Office Support)</li> <li>➤ Cash Collection from Agents</li> </ul>   | High Risk<br>Medium Risk  |

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|   |   |
|---|---|
| <ul style="list-style-type: none"> <li>➤ Agent Commission &amp; IRS Reporting</li> </ul> <p><b>Financial Services: Accounting Operations</b></p> <ul style="list-style-type: none"> <li>➤ The Revenue Cycle (Operating)</li> <li>➤ The Expenditures Cycle (Operating)</li> <li>➤ The Expenditures Cycle (Other)</li> <li>➤ Other Balance sheet Items</li> </ul> | <p>Medium Risk</p><br><p>High Risk</p> <p>High Risk</p> <p>Medium Risk</p> <p>Medium Risk</p> |
|---|---|

**Recommended Actions Plan Needed To Minimize/Mitigate the Noted Risks**

Based on the results of our assessment, we recommend the DCLB management develop its own internal enterprise-wide risk management (ERM)/mitigation strategy and processes (such as risk self assessments), and the following oversight action plans in conjunction with OIO Internal Audit in order to minimize risk with the high risk factor. The plan includes those controls we believe would provide the level of protection appropriate for the risk associated with the operations or activity.

The internal audit department of the OCFO Office of Integrity and Oversight in consultation with the senior management of the DCLB should develop a comprehensive medium term audit plan for the agency, and conduct periodical or annual reviews of compliance with the organization's risk assessment requirements. The annual audit plan for the next three to four years should include but are not limited to the following reviews or audits:

**Gaming Operations**

- Review the timeliness of the project preparation and implementation of the new Gaming System Platform.
- Follow-up on the annual external auditors' report (SAS-70) on the LTE, Inc. Controls Placed in Operation and Tests of Operating Effectiveness – related to DCLB User Control Considerations as noted by the SAS-70 auditors.
- Review of the reconciliation processes of the On-Line Games and the Internal Control Systems.
- Review of Draw Division Business Continuity Plan Update and the effectiveness of Draw Division Standard Operating procedures.
- Review of the effectiveness and efficiency of the Revenue Enhancing projects such as the \$1/\$2 Raffle On-Line Game.
- Follow-Up Review of the internal control process over marketing and promotion events.
- Review the timelines of the preparation for the request for proposal of the Instant Tickets Production and Distribution Contract renewal.
- Follow-Up Review of Delehanty's Report on Evaluation of Scientific Games International Security Controls in the Development and production of Instant Tickets related to DCLB.
- Follow-Up Review of Agent Licensing and Renewal Process and Maintenance of Agent Data Files (including the effectiveness and efficiency of the multi-departmental Intranet

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- Share-Point tracking system on agent's "Excessive Cancellations", "Repeat NSF", and other "Non-Compliant" activities).
- Review of Licensing and Bonding Fees and Collateral Bond Refunds for the DCLB Charitable Games.

**Agency Management**

- Follow-up on the Information Technology Department Risk "Self Assessment" process (including Access & Security Controls, and Business Continuity and Contingency Plan).
- Feasibility study on possible areas of continuing audit and/or data analysis application at DCLB.
- Follow-up review of the Claim Center Operations (including the effectiveness and efficiency the implemented Lottery Winners Claims Processing System).
- Review the implementation of the Customer Service Complaints Database system for effectiveness and efficiency.
- Follow-Up Review of DCLB Policies & Procedures over Fraud Risk Associated w/Non-Payment of Players' Winnings.
- Review of Property Inventory and Disposal Internal Controls within the DCLB support Services.

**Financial Services**

- Review of DCLB Treasury Operations, including Billings, Cash collections from Agents (lottery proceeds, less prizes payments, agents' commission, and adjustments), etc, Back Office supports for the Claim Center, and IRS Reporting.
- Review of the Implementation of Work-Flows and Control Processes Documented/Recommended by the External Consultants.
- Review of the Revenues Cycle and the related Accounts Receivable Recording and Reporting Internal Controls.
- Follow-Up Review of Instant Ticket Inventory and Distribution Operations at the DCLB (including the effectiveness and efficiency for the enhanced Instant Tickets Reconciliation system and process).
- Review of the Gaming Expenditures Cycle and the related Accounts Payable Recording and Reporting Internal Controls.
- Review of the DCLB's Ticket Cancellation Process.
- Review of Yearly Agent Incentive Bonuses.
- Follow-Up Review of Other Expenditures and the Accounts Payable and Vendors Payments Cycle.
- Review of DCLB Bank Reconciliation Process.
- Review of the DCLB Employees' Payroll and Overtime.
- Follow-Up Review of Payments or Wire Transfers Made to Lottery Technology Enterprises, Inc. and MUSL.
- Follow-Up Review of Multi-State Lottery (MUSL) Reimbursable Travel and Related Expenses.

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- Review of DCLB Trust Fund.

The risk assessment/mitigation score ranking and the related risk assessment/mitigation matrix by functional areas are shown in the Exhibit 1 and 2 of this report.

**Recommended Oversight Mitigation Actions In Response to Identified High Risk Areas of Operations:**

In addition, based on the noted risk assessment/mitigation matrix and the related risk score ranking method (see Exhibit 1 for details - those areas of operations that are identified as being as high risks, are being given oversight **priorities**) our recommended immediate oversight mitigation actions are as follows:

**Gaming Operations:**

1. Contracted Gaming Systems Operations – Overall Risk Level deemed to be **High**. Specified risk identified: Transition of platform system could cause outages in customer-facing areas - oversight mitigation: review the timeliness of the new gaming system project implementation timeline. This oversight project therefore will be included in OIO FY 2010 Annual Work Plan.

**Agency Management:**

2. Customer Service Division (incl. the Claim Center front and back office operations) – Overall Risk Level deemed to be **High**. Specified risk identified: Manual processes in the Claims Center - oversight mitigation: Follow-up review of the Claim Center Operations (including the effectiveness and efficiency the implemented Lottery Winners Claims Processing System). This oversight project will be included in OIO FY 2010 Annual Work Plan.
3. Information Technology Department - Overall Risk Level deemed to be **High**. Specified risk identified: Significant controls &/or security gaps may exist at the IT Dept - oversight mitigation: Follow-up on the Information Technology Department Risk “Self Assessment” process (including Access & Security Controls, and Business Continuity and Contingency Plan). This oversight project therefore will be included in OIO FY 2010 Annual Work Plan.

**Financial Services:**

4. Financial Services (incl. the Operating Revenue/Expenditure Cycles) – Overall Risk Level deemed to be **High**. Specified risk identified: Multiple systems for financial accounting information increase potential fraud and increase risk of inaccuracies - oversight mitigation: Review of the Implementation of Work-Flows and Control Processes



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Documented/Recommended by the External Consultants. This oversight project will be included in OIO FY 2010 Annual Work Plan.

**AGENCY'S RESPONSE**

In its response, DCLB has made specific comments on all of the 29 review or audit topics proposed by OIO, and concurred with 23 of the report's suggested mitigation action plan topics; partially agreed with review topics No. 3, 16, and 22; and disagreed with three of the proposed topics (No. 2, 7, and 29). For the agreed risk mitigation action plan topics, we look forward to working closely with DCLB in implementing the suggested oversight action plan in the coming years. For the topics DCLB disagreed with or have comments on, we urge the agency to consider our evaluation of the agency response (see the respective sections of this report) and take the appropriate risk mitigation actions in its course of managing the agency's enterprise-wide risk management (ERM) strategy and processes. We have also attached a copy of the agency's entire response as Appendix 1 to this report.

We also note that ERM is a continuing process where circumstances and events in the future would demand the agency to adopt specific mitigation/minimization strategy and processes to counter the noted risks. As in the past, OIO is looking forward in partnering with DCLB to mitigate/minimize those risks.

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## **INTRODUCTION AND PURPOSE**

Pursuant to the 2009 annual work plan of the Office of Integrity and Oversight (OIO), the internal auditors of this office conducted an operational risk assessment update of the D.C. Lottery and Charitable Games Board (DCLB), covering the items identified below. The purpose of this review was to conduct a risk assessment and to identify and prioritize areas of exposure to risk at the D.C. Lottery and Charitable Games Control Board.

Risk Assessments are the means by which limited resources are allocated to areas of highest relative risk. Risk assessments of any types are a means of providing decision makers with information needed to understand factors that can negatively influence operations and outcomes and make informed judgements concerning the extent of actions needed to reduce risk.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

The primary objectives of this assessment review were to:

- Conduct risk assessment and to identify and prioritize areas of exposure to risk/threat that are currently facing the agency.
- Identify threats that could harm and adversely affect critical operations and assets. Threats include but not limited to intruders, criminals, disgruntled employees, terrorists, and natural disasters.
- Estimate the likelihood that such threats will materialize based on historical information and judgments of knowledgeable individuals.
- Identify and rank the value, sensitivity, and criticality of the operations and assets that could be affected should a threat materialize in order to determine which operations and assets are the most important.
- Identify cost-effective actions to mitigate or reduce the risk for both the DCLB and OIO.
- Document the operations of selected functions within the DCLB
- Document the results and develop an action plan.

To accomplish the objectives and gain an understanding of the DCLB operations, we reviewed pertinent agency records and associated data to corroborate actions planned by the DCLB to mitigate risks. We conducted interviews with key agency officials and reviewed DCLB prior years' audit findings and recommendations. In addition, we documented the following risk aspects (D&T recommendations to OIO dated June 9, 2009):

1. The date & result of the last audit.
2. Financial disclosures.
3. Potential loss impact and risk.
4. Requests by management/potential consulting engagements (discussion with DCLB senior management personnel).
5. Major changes in operations, systems and controls.
6. Stability or continuity of management.

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7. Significant business or volume changes.
8. Changes in governance structure.
9. Regulatory or government requirements.

## **BACKGROUND**

### **The Operations of Selected Functions within the DCLB**

Pursuant to a September 21, 1996, D.C. Financial Responsibility and Management Assistance Authority Order, the Chief Financial Officer of the District of Columbia is responsible for the operations and the staffing of the D.C. Lottery and Charitable Games Control Board (DCLB).

DCLB is an independent agency under the oversight of the Chief Financial Officer of the District of Columbia that was established in 1981 as an independent agency of the District of Columbia through the adoption of Public Law 3-172, the Law to legalize lotteries, daily numbers games, and bingo and raffles for charitable purposes in the District of Columbia. Public Law 3-172 originated in Initiative No. 6, which the voters adopted on November 4, 1980, and which provided for the conduct of daily numbers games and a lottery.

DCLB offers "Instant Ticket Games and On-Line Games" for sale to the public through licensed lottery agents and markets these products through advertising and promotions in the District of Columbia. Also, through its Charitable Games Division, DCLB licenses not-for-profit organizations to conduct raffles, bingo, or Monte Carlo night parties in the district for charitable and other Non-profit purposes.

The mission of DCLB is to generate revenues for the District's General Fund and regulate charitable games to support programs and services for the residents of the District of Columbia. DCLB achieves its mission by maximizing lottery sales and profits by administering legalized lotteries and online numbers games, and protecting the public against fraud and deception through effective management and regulation of lottery and charitable gaming activities in the District.

DCLB operates and conducts lotteries and authorizes the operation of Bingo, Raffle games, and Monte Carlo Night Parties in the District of Columbia in order to provide a sustained revenue source for vital city services and programs in the District of Columbia.

Program Operations for the DCLB reflects the development, design, distribution, and accounting for instant (scratch off) and on-line operations, ticket sales, and prize payouts. There are numerous instant games, and new games are constantly developed and deployed. On-line operations consist of draw type games including: Lucky Numbers, DC 4, DC 5, DC Daily 6, Powerball, Hot Lotto, and rapid draw games (KENO).

The Administrative Division of the DCLB has the responsibility of providing the management, staff and operating structure of all business, financial, regulatory, and gaming activities of all agency operations. This coordination is performed through seven responsibility

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centers/departments, which consist of Office of the Executive Director (including audit, contract procurement, and human resources liaison and coordination), Financial Services, Marketing (including Communication and Draw Operations), Sales, Information Technology, Resources Management (including Licensing and Charitable Games, Customer Services, Support Services and Security), and Legal Operations.

***Office of the Executive Director***

The Office of the Executive Director plans, administers, supervises and coordinates the entire operations of public gaming and charitable activities in accordance with provisions of D.C. Law 3-172, Section 2-2503. The Executive Director is responsible for the executive management and oversight of all departments and divisions, and direct reporting of the Chief Operating Officer (currently vacant), the Agency Fiscal Officer, and the Legal Counsel. The office also conducts coordination activities with other OCFO agencies in the functional field of contract procurement, human resources, and internal audit.

***The Executive Director***

- Oversees the Agency, provides executive leadership in establishing and effecting objectives related to the Agency's mission and has primary responsibility for all operations.
- Oversees, implements and authorizes all aspects of the Agency's programs, policies and procedures as it relates to revenue, sales goal achievement, marketing, game development, charitable gaming, licensing retailers and non profit organizations.
- Provides day-to-day operations, ensuring the effectiveness of the executive leadership team.
- Provides managerial expertise and guidance to facilitate accomplishment of the agency's mission, goals and objectives, effective program operations, innovations, management improvements and professional development.

***The Sales Department***

The Sales Department operational functions are:

- Develops and implements a strategic sales plan, including comprehensive support and incentive programs for agents.
- Promotes and sells instant games to agents; establishes, maintains and supports key accounts; solicits retailers to sell lottery products.
- Provides guidelines for retailer operations; monitors and inspects agent locations for compliance with statutes and rules.
- Trains agent and agent personnel to sell lottery products.
- Recommends and coordinates installation and removal of lottery property at agent locations.

***Marketing Department***

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The Director for Marketing reports to the Chief Operating Officer/Executive Director and also responsible for the executive management and oversight of the following divisions:

- Marketing Division
- Draw Division and
- Communication division

***The Marketing Division***

- The Marketing Division is a core component of the Marketing, Communications and Draw Department. The Division is responsible for all DCLB product positioning, creative design, advertising, research & analysis, consumer promotions and CRM/web based programs.
- Internally, the Marketing Division collaborates with the DCLB Executive Office, IT, Sales and Finance for new product development, gaming concepts and DCLB portfolio management in accordance with annual and long term goals for strategic revenue growth.
- Externally, the Marketing Division directs and serves as contract administrator for two full-service advertising agencies. These agencies support our needs for gaining access to media and communication outlets to include print, broadcast, cable, internet/web base services and out-of-home signage. These external vendors also serve to supplement our public relations, community outreach and sponsorship opportunities as necessary.

***The Draw Division***

The Draw Division is responsible for the twice daily draw of DCLB on-line games and the communication of the winning numbers to the on-line Gaming system vendor, and to the public through the news media. It is also responsible for the DCLB second chance drawings. In addition, it is responsible for the maintenance of the draw random number generators (RNGs) and their certification of good order.

***The Communication Division***

The Office of Communications is a division of the Marketing, Communications, and Draw Department and is responsible for communicating the initiatives of the D.C. Lottery & Charitable Games Control Board to its key constituencies including players, the community, elected officials, commuters, tourists, and the citizen benefactors of the District of Columbia. Additionally, the office strives to create greater visibility for the agency's work within the community and its charitable gaming activities.

***The Office of Resource Management***

The operations of the Office of Resource management include the following divisions/center:

- Licensing and Charitable Games Division.
- Customer Service & Claims Center Division

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- Security Division.
- Support Services Division.
- Resource Center (library).

***The Licensing and Charitable Games Division***

The Licensing and Charitable Games Division is responsible for the timely and efficient licensing of any person, firm, partnership, association, organization or corporation which meets the eligibility requirements to sell lottery tickets. In addition, pursuant to the D.C. Code §2-2523 (1994 Repl. Vol.), the division also review and approve license applications to conduct to conduct charitable games – i.e., bingo, raffles and Monte Carlo night parties.

***The Customer Service & Claims Center Division***

The Customer Services Division lists the following as their responsibilities:

- Agency point of contact for compliance with the Mayor's Customer Service Quality Assurance Program.
- Test and monitor agency compliance regarding phone, email, voicemail, and US mail, regarding etiquette, turnaround time, and other business requirements.
- Maintain and manage a centralized database for tracking and reporting all agency complaints from beginning to conclusion.
- Track correspondence in the IQ system and the Access database.
- Development and implementation of the agency fiscal year Customer Service Business Plan that consists of telephone, correspondence, face to face, and voicemail standards.
- Responsible for making sure that all agency staff are aware of guidelines for interactions with customers with Limited English Proficiency and how to provide service.
- Provide live telephone coverage for the agency main line and serve as support backup for department lines during core business hours.
- Efficiently manage and operate the Claims Center, processing prize payouts for on-line and instant games. Winning tickets of \$600 or more must be processed at the Claims Center.
- The Claims Center staff handles cancelled tickets, stolen tickets, paid tickets, altered tickets, non-winning tickets, and mutilated tickets, serving as the initial intake point and facilitating investigations by the Security Department, as required.
- Provide support to the Marketing Department for the Winner Awareness Program by taking photographs of winners whose prize amount is \$5,000 or more.

***The Security Division***

- The Mission of the D.C. Lottery & Charitable Games Control Board (DCLB) Security Division is to provide an operating environment at headquarters and at the Claim Center, which will allow DCLB staff to conduct business in a " Safe and Secure manner."

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- It is also the Security Division's mission to support DCLB staff, our agents and customers by acting as a resource for crime prevention advice and by investigating allegations of misconduct.
- The mission will be carried out by using a combination of Security and Safety Systems, Proactive Security Programs and Procedures and a trained, professional Security Staff.

***The Support Services Division***

- The Support Services Division provides the major support services for the DCLB and is responsible for the administrative functions of the organization; exercises control over fleet and facilities management; receiving functions, supplies, furnishings, office equipment, and postal and courier services.
- In addition, the Division is also responsible for the imprest fund (petty cash) and the Support Services staff members are fully cross-trained to perform all Support Services functions.

***Office of the DCLB Agency Fiscal Officer (Financial Services Department)***

The Agency Fiscal Officer (AFO) manages and directs the Financial Services Department and ensures the safeguard of agency assets. The AFO also provides for adequate internal controls, forecasts spending, disburses funds, provides financial reports, manages the external audits, collects cash from agents, monitors agent fiscal responsibility, manages the claim center financial functions and the instant ticket accounting and billing function. The AFO also reviews the fiscal aspects of all game designs, including odds computations and compatibility with existing budgetary constraints. The Financial Services Department is responsible for the financial and budgetary programs of the agency. It plans, develops and administers the comprehensive accounting, treasury, and budgeting function.

***The Information Technology Department***

The Information Technology Department's main operations are:

- Maintain a secure reliable information technology infrastructure that ensure Agency operations
- Manage service-quality and deliver on-time
- Optimize IT process and lower cost
- Improve business unit productivity and profitability
- Develop effective decision support systems

The IT department listed its Strategic IT Service portfolio as:

- The Gaming System and the related vendor relations management.
- Internal Control and Financial Systems application support services.
- Technology Infrastructure management.

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The IT department also conducted the following initiatives:

- Business Intelligence/Data Warehouse application developments.
- Enterprise Architecture/Security Management.
- Process Management.

***The Legal Department***

The legal Department provides legal counsel and representation to the agency concerning all legal matters, including without limitation federal and District gambling and lottery law, and other kinds of civil and administrative litigation.

**Financial Disclosures and Noted Results of Previous Audits (External and Internal)**

The latest audited financial statements were signed by RAFFA & Co on January 2009 and expressed clean opinions on the financial statements, internal controls, and compliance with laws and regulations. However, the external auditors issued a management comment letter, dated February 2009, noted that:

1. Occurrence of undocumented overtime authorization (not material).
2. Rent payments not recorded on straight-line amortization (not material).
3. Deposit in transit at year end not recorded accounts receivable (not material).
4. No comprehensive accounting policy and procedures manual (DCLB hired a consultant to compile an accounting policy and procedures manual).

The latest attestation Statement of Auditing Standard 70 (SAS 70) report on the contracted on-line gaming systems done by Deloitte & Touche (D&T) on December 2, 2008, expressed a clean opinion. However, D&T issued a management comments letter on December 11, 2008, noted that:

1. Malfunctioning electronic badges not revoked in electronic key card system restricting access to the data center (not material).
2. Several operator errors resulted from failure to properly complete steps documented on the production checklists.
3. Failure to restrict programmer access to the production environment of the LTE Stratus Instant System.

Delehanty Consulting LLC was engaged by DCLB to review the vendor's (Scientific Games Inc. (SGI)) security controls in the development and production of instant tickets and issued a report dated May 25, 2009, which noted:

1. Contract management and problem tracking.
2. Reconstruction analysis, tracking, segregation of duties and secure communications.
3. Protective marking on all working papers and customer specifications.
4. Notification of shipment and delivery.



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For FY 2009, OIO staff performed its assignment according to the annual work plan and issued the following reports (draft or final):

1. Final Report on the Accounts Payable and Vendor Payments at the DCLB
2. Final Report on the Review of Internal Controls Process over Marketing and Promotion Events at DCLB
3. Final Report on Review of DCLB Policies & Procedures Over Fraud Risk Associated w/Non-Payment of Players' Winnings
4. Final Report on the Follow-up Review of Instant Tickets Inventory and Distribution at DCLB
5. Draft Report on the Facilitation of the DCLB Information Technology (IT) Department's Risk Self Assessment

**Major Business Development s at DCLB for FY 2009**

The following is a summary of the lottery revenues, expenses and change of net assets extracted from the DCLB's audited financial statements and management's discussion and analysis for the years ended September 30, 2008, 2007, 2006, and the projected 2009 numbers (extracted from the June 30, 2009 Monthly Financial Statements):

**DCLB  
Summary of Revenue & Expenses  
and Changes in Net Assets+**

|  | Years Ended September 30 |                |                |                 |
|--|--------------------------|----------------|----------------|-----------------|
|  | 2008<br>\$'000           | 2007<br>\$'000 | 2006<br>\$'000 | 2009*<br>\$'000 |
| Operating revenues:                              |                          |                |                |                 |
| Gaming revenues                                  | 252,721                  | 256,824        | 266,391        | 249,800         |
| Operating expenses:                              |                          |                |                |                 |
| Prizes   | 135,060                  | 145,338        | 146,687        | 134,750         |
| Other  | 47,921                   | 46,999         | 47,220         | 50,900          |
| Total operating expenses:                        | 182,981                  | 192,337        | 193,907        | 185,650         |
| Operating income                                 | 69,740                   | 64,487         | 72,484         | 64,150          |
| Non-operating revenues -<br>interest & dividends | 628                      | 940            | 1,375          | 1,200           |
| Income before transfers                          | 70,368                   | 65,427         | 73,859         | 65,350          |
| Transfers to the District's<br>General Fund      | (70,425)                 | (65,375)       | (73,800)       | (65,350)        |
| Change in net assets                             | (57)                     | 52             | 59             | 0               |

+ = Source - DCLB audited financial statements & MD&A.

\* = Source - DCLB Monthly Financial Statements for the period ending 6/30/09,  
Projected year ending numbers.

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As noted from the above statistics, revenues and net transfers are in a declining trend due to the general economic recession, old gaming system, and saturated distribution channels.

Commitments to Dr. Gandhi's challenge in response to the privatization team findings and recommendations (extracted from the DCLB speech at the 9/7/09 Quarterly Staff Meeting):

- Increase revenue and net transfers by:
  1. Creating an internet membership subscriptions project.
  2. Enabling more lottery sales – ITVMs in government's buildings.
  3. Harnessing OCFO communication Medias.
  4. New instant games – increases in vending machines and medias exposures.
  5. Creating weekly raffle game - \$1/\$2 price points – prizes \$10,000.00.

**Preliminary Risk Assessment on DCLB done by the DC Chief Risk Officer (8/11/09)**

The following risk assessments were extracted from the DC Chief Risk Officer's OCFO Risk Dashboard (as of 8/11/09):

1. Transition of platform system could cause outages in customer-facing areas as well as decreased levels of support/ response time by vendor (key contact/source – Jay Young). The residual risk is rated as **High**. The rating rationale - the current vendor is being replaced in 15 months. DCLB has already seen a significant decrease in contractor support. The impact would be machines at retail sites not allowing players to play reducing revenue.
2. Manual processes in the Claims Center (key contact/source – Jay Young). The residual risk is rated as **Medium**. The rating rationale - manual processes are risky, but this area faces multiple audits throughout the year.
3. Multiple systems for financial accounting information increase potential fraud and increase risk of inaccuracies (key contact/source – Jay Young). The residual risk is rated as **Medium**. The rating rationale – none was offered.

**RESULTS OF OUR ASSESSMENTS**

During our review, a qualitative approach will be used by defining risk in more subjective and general terms such as **high, moderate or medium, and low**. In this regard, qualitative assessments depend more on the expertise, experience, and judgement of those conducting the assessment.

Risk Assessments is the means by which limited resources are allocated to areas of highest relative risk. Risk assessments of any types are a means of providing decision makers with information

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needed to understand factors that can negatively influence operations and outcomes and make informed judgements concerning the extent of actions needed to reduce risk.

To ensure a consistent approach throughout our assessments, we identified categories for ranking risk assessments, which covers specific elements that must be addressed. These elements include DCLB operational areas of potential vulnerabilities and three possible consequences or threats that may affect the DCLB operations. We then assigned a risk level of high, moderate, or low for each area of vulnerability to show the possible effect of damage if the threat were to occur. Using a matrix to assist our analysis of risk as shown in the table below (risk assessed by functional areas, and the corresponding internal controls oversight reviews that could minimize or mitigate the noted risks):

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**RISK ASSESSMENT MATRIX**

| Areas of vulnerability   | Risk of monetary loss |   |   | Risk of productivity Loss |   |   | Risk of loss of public/customer confidence |   |   |
|--|-----------------------|---|---|---------------------------|---|---|--|---|---|
|  | H                     | M | L | H                         | M | L | H  | M | L |
| <b>GAMING OPERATIONS</b>   |                       |   |   |                           |   |   |  |   |   |
| <b>Contracted Gaming System Operations</b><br>- provides on-line lottery services to the gaming public through retail agent terminals and main source of revenue for the Lottery to achieve targeted transfer amount to the District General Fund. Lottery Games are such as, Lucky Numbers, DC Four, DC Five, KENO, Hot Lotto, Powerball and Instant Games. Lottery in the process of acquiring new gaming system contract. | X                     |   |   | X                         |   |   | X  |   |   |
| <b>Draw Division</b> of the marketing Dept is responsible for providing the public with first-hand information on lottery winning numbers through live drawings.   |                       | X |   |                           | X |   |  | X |   |
| <b>Marketing Department (incl. the Communication Division):</b> - provide advertising and promotional information to the public, and avail themselves of the entertainment value offered by the DC Lottery.  |                       | X |   |                           | X |   |  | X |   |
| <b>Sales Department:</b> - provide sales goals and retail development services to Lottery Retail Agents. With partnership developed with the retailers, serves as business partner and consultant to the retailer, distribution, and promoting the Lottery's products to achieve maximum sales.  |                       |   | X |                           |   | X |  |   | X |
| <b>Licensing and Charitable Games:</b> - provide licensing and regulatory compliance services to existing and prospective Lottery Retail Agents and Non-profit charitable organizations.   |                       |   | X |                           |   | X |  |   | X |

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**RISK ASSESSMENT MATRIX**

| Areas of vulnerability  | Risk of monetary loss |   |   | Risk of productivity Loss |   |   | Risk of loss of public/customer confidence |   |   |
|---|-----------------------|---|---|---------------------------|---|---|--|---|---|
|   | H                     | M | L | H                         | M | L | H  | M | L |
| <b>AGENCY OPERATIONS</b>  |                       |   |   |                           |   |   |  |   |   |
| <b>Information Technology:</b> - operates and coordinates the automated information systems of the DCLB. Maintains the telecommunications networks and internal control system, on-line gaming system through liaisons with the various contract vendors such as Lottery Technology Enterprises, Inc. (LTE).  | X                     |   |   | X                         |   |   | X  |   |   |
| <b>Customer Service incl. the Claim Center</b> - process claims, prize payouts, income tax withholdings, and delinquent child support collections.  | X                     |   |   | X                         |   |   | X  |   |   |
| <b>Security Department:</b> - develops and manages the security programs including investigations, facilities security, resource protection and administrative security. Investigates complaints from the public and all reports and allegations of criminal activities such as stolen tickets, and also to protect the public against fraud, deception and overcharge. |                       | X |   |                           | X |   |  | X |   |
| <b>Support Services:</b> - provides and maintains vehicles to the Lottery personnel for business purposes only. Manages office leases, space planning, utility maintenance, capital construction, packing, furniture relocation, motor car pool, and preventive maintenance schedules (PMs).  |                       |   | X |                           |   | X |  |   | X |
| <b>General Counsel: Legal Services</b> - provides legal advice and representation to the agency concerning all legal matters. Monitors compliance with the federal and local laws and regulations, civil and administrative litigation.   |                       |   | X |                           |   | X |  |   | X |

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**RISK ASSESSMENT MATRIX**

| Areas of vulnerability | Risk of monetary loss |   |   | Risk of productivity Loss |   |   | Risk of loss of public/customer confidence |   |   |
|------------------------|-----------------------|---|---|---------------------------|---|---|--|---|---|
|                        | H                     | M | L | H                         | M | L | H  | M | L |

| <b>FINANCIAL OPERATIONS</b>   |   |   |  |   |   |  |   |   |  |
|---|---|---|--|---|---|--|---|---|--|
| <b>Treasury Operations:</b>   |   |   |  |   |   |  |   |   |  |
| ➤ <b>Claim Center - back office supports for the process of claims, prize payouts, income tax withholdings, and delinquent child support collections.</b>   | X |   |  | X |   |  | X |   |  |
| ➤ <b>Collection from Agents - deposit checks for agents, bonding fees, collateral bond and refunds.</b>   |   | X |  |   | X |  |   | X |  |
| ➤ <b>Transmit Agent Commission Earned and IRS reporting</b>   |   | X |  |   | X |  |   | X |  |
| <b>Accounting Operations:</b>   |   |   |  |   |   |  |   |   |  |
| ➤ <b>The Revenue Cycle (on-line &amp; instant tickets) &amp; the related Accounts Receivable/Receipts - track sales (by game) daily from LTE and ticket returned, and compare to ICS report. Posting on-line daily sales and liabilities, collect collateral bond from charitable games. Collect money for NSF from Agent after treasury sweep agent account on Tuesday. Process LTE invoice and verify WCC ticket sales.</b> | X |   |  | X |   |  | X |   |  |
| ➤ <b>The Expenditure Cycle (operating: on-line &amp; instant tickets) &amp; the related Accounts Payable/Payments - verify all information on claims forms, validation of prizes, agents commissions(by games) against payments, and reconciles checks made to banks for taxes, annuity payment and MUSL that monitors Powerball and HOT Lotto, and refund.</b>   | X |   |  | X |   |  | X |   |  |

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**RISK ASSESSMENT MATRIX**

| Areas of vulnerability   | Risk of monetary loss |   |   | Risk of productivity Loss |   |   | Risk of loss of public/customer confidence |   |   |
|--|-----------------------|---|---|---------------------------|---|---|--|---|---|
|  | H                     | M | L | H                         | M | L | H  | M | L |
| <p>➤ <b>The Expenditure Cycle (other direct &amp; administrative costs) &amp; the related Accounts Payable/Payments -</b> verify all information on against payments, and reconciles checks made to banks for expenditures such as contractor fees, advertising, payroll, etc.</p> |                       | X |   |                           | X |   |  | X |   |
| <p>➤ <b>Other Balance Sheet Items -</b> recording and reporting of other balance sheet items such as fixed assets, restricted investments, etc.</p>  |                       | X |   |                           | X |   |  | X |   |

**Legend**

**H = High Risk**  
**M = Medium Risk**  
**L = Low Risk**

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**RECOMMENDED ACTIONS PLAN NEEDED TO MINIMIZE/MITGATE THE NOTED RISKS**

Based on the results of our assessment, we recommend that the DCLB management develop its own internal enterprise-wide risk management (ERM)/mitigation strategy and processes (such as risk self assessments), and the following oversight action plans in conjunction with OIO Internal Audit Unit in order to minimize those risk indicated as high risk factors. The plan includes those controls we believe would provide the level of protection appropriate for the risk associated with the operations or activity.

The Internal Audit Unit of the OCFO Office of Integrity and Oversight in consultation with the DCLB senior management should develop a comprehensive medium term audit plan for the DCLB, and conduct periodical or annual reviews of compliance with the organization's risk assessment requirements. The annual audit plan for the next three or four years should include but are not limited to the following reviews or audits:

**Gaming Operations**

1. Review the timeliness of the project preparation and implementation of the new Gaming System Platform.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward to working with DCLB in the execution of the review.

2. Follow-up on the annual external auditors' report (SAS-70) on the Lottery Technology Enterprises (LTE), Inc. Controls Placed in Operation and Tests of Operating Effectiveness – related to DCLB User Control Considerations as noted by the SAS-70 auditors.

**Agency's Response**

DCLB disagrees that a follow-up is necessary. DCLB has followed-up with LTE on the SAS-70 audit and believes no action plan is necessary as exhibited by the results of the latest Deloitte & Touche (D&T) SAS 70 Type II Audit report, dated November 13, 2009.

**OIO Auditor Evaluation**

As mentioned in the review topic above, the suggested review is **not** about the LTE's Controls Placed in Operation and Tests of Operating Effectiveness, but the proposed review is to **focus** on **DCLB User Control Considerations** in which the relative effectiveness and significance of specific controls at LTE and their effect on assessments on control risk at the DC Lottery are



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dependent on their interaction with internal control and other factors present at the DC Lottery, and as noted out by Deloitte & Touche in their SAS-70 report, D&T have performed no procedures to evaluate the effectiveness of internal control at the DC Lottery.

3. Review of the reconciliation processes of the On-Line Games and the Internal Control Systems.

**Agency's Response**

DCLB disagrees with the finding that the reconciliation process of the On-Line Games and ICS processes are ineffective. The ICS systems utilize auto-balancing features that prevent non-reconciled transaction from entering the system. However, DCLB agrees a review of the reconciliation of the Oracle General Ledger processes is needed.

**OIO Auditor Evaluation**

OIO accepts the agency explanation noted above and looks forward to DCLB's cooperation in the implementation of a review of the reconciliation of the Oracle General Ledger processes.

4. Review of Draw Division Business Continuity Plan Update and the effectiveness of Draw Division Standard Operating procedures.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

5. Review of the effectiveness and efficiency of the Revenue Enhancing projects such as the \$1/\$2 Raffle On-Line Game.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

6. Follow-Up Review of the internal control process over marketing and promotion events.

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**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

7. Review the timelines of the preparation for the request for proposal of the Instant Tickets Production and Distribution Contract renewal.

**Agency's Response**

DCLB disagrees to the necessity of a review. The preparation of the Request for Proposal for the Instant Tickets Production and Distribution Contract renewal started in November 2009 with the Office of Contracts & Procurement (OCP). OCP has already initiated the process for DCLB's review of its option to extend the current contract with Scientific Games.

**OIO Auditor Evaluation**

OIO accepts the agency's explanation noted above and will not perform a formal review on the mentioned topic.

8. Follow-Up Review of Delehanty's Report on Evaluation of Scientific Games International Security Controls in the Development and production of Instant Tickets related to DCLB.

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

9. Follow-Up Review of Agent Licensing and Renewal Process and Maintenance of Agent Data Files (including the effectiveness and efficiency of the multi-departmental Intranet Share-Point tracking system on agent's "Excessive Cancellations", "Repeat NSF", and other "Non-Compliant" activities).

**Agency's Response**

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DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

10. Review of Licensing and Bonding Fees and Collateral Bond Refunds for the DCLB Charitable Games.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

**Agency Management**

11. Follow-up on the Information Technology Department Risk "Self Assessment" process (including Access & Security Controls, and Business Continuity and Contingency Plan).

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

12. Feasibility study on possible areas of continuing audit and/or data analysis application at DCLB.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

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13. Follow-up review of the Claim Center Operations (including the effectiveness and efficiency the implemented Lottery Winners Claims Processing System).

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

14. Review the implementation of the Customer Service Complaints Database system for effectiveness and efficiency.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

15. Follow-Up Review of DCLB Policies & Procedures over Fraud Risk Associated w/Non-Payment of Players' Winnings.

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

16. Review of Property Inventory and Disposal Internal Controls within the DCLB support Services.

**Agency's Response**

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Attached is DCLB's SOP regarding Record Retention. Please advise if this responds to the finding.

**OIO Auditor Evaluation**

OIO has read the attached agency SOP and looks forward to reviewing the internal controls of Property Inventory and Disposal to determine whether the controls as noted in the SOP were properly enforced.

**Financial Services**

17. Review of DCLB Treasury Operations, including Billings, Cash collections from Agents (lottery proceeds, less prizes payments, agents' commission, and adjustments), etc, Back Office supports for the Claim Center, and IRS Reporting.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

18. Review of the Implementation of Work-Flows and Control Processes Documented/Recommended by the External Consultants.

**Agency's Response**

DCLB retained the services of an accounting firm that has prepared a draft Accounts Payable Manual. Additional changes are being made by the Finance Department and the manual is expected to be completed by September 30, 2010.

**OIO Auditor Evaluation**

OIO accepts the agency's explanation noted above and will not perform a formal review on the mentioned topic until the agency has completed the amended manual.

19. Review of the Revenues Cycle and the related Accounts Receivable Recording and Reporting Internal Controls.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

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DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

20. Follow-Up Review of Instant Ticket Inventory and Distribution Operations at the DCLB (including the effectiveness and efficiency for the enhanced Instant Tickets Reconciliation system and process).

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

21. Review of the Gaming Expenditures Cycle and the related Accounts Payable Recording and Reporting Internal Controls.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

22. Review of the DCLB's Ticket Cancellation Process.

**Agency's Response**

Attached is DCLB's Problem Ticket Standard Operating Procedure. Please advise whether or not this document addresses the audit finding.

**OIO Auditor Evaluation**

OIO has read the attached agency SOP and looks forward to reviewing the internal controls of the Ticket Cancellation Process and the related Problem Ticket Issues to determine whether the controls as noted in the SOP were properly enforced.

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23. Review of Yearly Agent Incentive Bonuses.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

24. Follow-Up Review of Other Expenditures and the Accounts Payable and Vendors Payments Cycle.

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

25. Review of DCLB Bank Reconciliation Process.

**Agency's Response**

DCLB agrees to the review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

26. Review of the DCLB Employees' Payroll and Overtime.

**Agency's Response**

Although this information is already part of the CAFR audit, DCLB agrees to the review.

**OIO Auditor Evaluation**

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DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

27. Follow-Up Review of Payments or Wire Transfers Made to Lottery Technology Enterprises, Inc. and MUSL.

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

28. Follow-Up Review of Multi-State Lottery (MUSL) Reimbursable Travel and Related Expenses.

**Agency's Response**

DCLB agrees to the follow-up review.

**OIO Auditor Evaluation**

DCLB's planned action is responsive to the issue identified, and when fully implemented should satisfy the intent of our recommendation. We look forward in working with DCLB in the execution of the review.

29. Review of DCLB Trust Fund.

**Agency's Response**

DCLB disagrees to the necessity of a review because there is no longer a miscellaneous DCLB Trust for the deposit of agent bonding fees.

**OIO Auditor Evaluation**

OIO accepts the agency explanation noted above and will not perform a formal review on the mentioned topic.

The risk assessment/mitigation score ranking and the related risk assessment/mitigation matrix by functional areas are shown in the Exhibit 1 and 2 of this report.



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**Recommended Oversight Mitigation Actions In Response to Identified High Risk Areas of Operations:**

Based on the noted risk assessment/mitigation matrix and the related risk score ranking method (see Exhibit 1 for details - those areas of operations that are identified as being high risks are being given oversight **priorities**) our recommended immediate oversight mitigation actions are as follows:

**Gaming Operations:**

1. Contracted Gaming Systems Operations – Overall Risk Level deemed to be **High**. Specified risk identified: Transition of platform system could cause outages in customer-facing areas - oversight mitigation: review the timeliness of the new gaming system project implementation timeline. This oversight project therefore will be included in OIO FY 2010 Annual Work Plan.

**Agency Management:**

2. Customer Service Division (incl. the Claim Center front and back office operations) – Overall Risk Level deemed to be **High**. Specified risk identified: Manual processes in the Claims Center - oversight mitigation: Follow-up review of the Claim Center Operations (including the effectiveness and efficiency the implemented Lottery Winners Claims Processing System). This oversight project will be included in OIO FY 2010 Annual Work Plan.
3. Information Technology Department - Overall Risk Level deemed to be **High**. Specified risk identified: Significant controls &/or security gaps may exist at the IT Dept - oversight mitigation: Follow-up on the Information Technology Department Risk “Self Assessment” process (including Access & Security Controls, and Business Continuity and Contingency Plan). This oversight project therefore will be included in OIO FY 2010 Annual Work Plan.

**Financial Services:**

4. Financial Services (incl. the Operating Revenue/Expenditure Cycles) – Overall Risk Level deemed to be **High**. Specified risk identified: Multiple systems for financial accounting information increase potential fraud and increase risk of inaccuracies - oversight mitigation: Review of the Implementation of Work-Flows and Control Processes Documented/Recommended by the External Consultants. This oversight project will be included in OIO FY 2010 Annual Work Plan.

For the related agency’s responses and OIO auditor’s evaluation on the noted high risk areas, please see comments on review topics No. 1, 11, 13, and 18 of the previous section.

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**EXHIBIT 1**

**Exhibit 1:** Risk Assessment/Mitigation Matrix – By Score Ranking – 6 pages

**RISK  
ASSESSMENT/MITIGATION  
MATRIX - BY SCORE  
RANKING**

| Areas of vulnerability  | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   |
|---|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|
|   | L                     | I | L                         | I | L  | I |              |                 |   |
| Transition of platform system could cause outages in customer-facing areas - oversight mitigation: review the timeliness of the new gaming system project implementation timeline.  | 3                     | 3 | 3                         | 3 | 3  | 3 | 5            | 23              | H |
| Manual processes in the Claims Center - oversight mitigation: Follow-up review of the Claim Center Operations (including the effectiveness and efficiency the implemented Lottery Winners Claims Processing System).  | 2                     | 3 | 3                         | 3 | 3  | 3 | 4            | 21              | H |
| Multiple systems for financial accounting information increase potential fraud and increase risk of inaccuracies - oversight mitigation: Review of the Implementation of Work-Flows and Control Processes Documented/Recommended by the External Consultants. | 2                     | 3 | 2                         | 3 | 2  | 3 | 5            | 20              | H |
| Revenue enhancing projects could fail - oversight mitigation: review the effectiveness & efficiency of revenue enhancing project executions & management.   | 2                     | 3 | 2                         | 2 | 2  | 3 | 5            | 19              | H |

Exhibit 1

|  |   |   |   |   |   |   |   |    |   |
|--|---|---|---|---|---|---|---|----|---|
| Significant controls &/or security gaps may exist at the IT Dept - oversight mitigation: Follow-up on the Information Technology Department Risk "Self Assessment" process (including Access & Security Controls, and Business Continuity and Contingency Plan). | 2 | 3 | 2 | 3 | 2 | 3 | 4 | 19 | H |
| Not all suspicious activities related to the non-payment of players' winnings are reported to the Security Dept - oversight mitigation: Follow-Up Review of DCLB Policies & Procedures Over Fraud Risk Associated w/Non-Payment of Players' Winnings.            | 2 | 3 | 2 | 2 | 3 | 3 | 3 | 18 | H |
| Unforeseen events could prevent Lottery drawings - oversight mitigation: review of Draw Division Business Continuity Plan  | 2 | 3 | 2 | 2 | 2 | 3 | 3 | 17 | H |
| Ineffective & inefficient customers complaints systems - oversight mitigation: Review the implementation of the Upgraded Customer Service Complaints Database system for effectiveness and efficiency.   | 1 | 2 | 2 | 3 | 2 | 3 | 3 | 16 | H |
| Occurrence of undocumented overtime authorization noted by the external auditors - oversight mitigation: Review of the DCLB Employees' Payroll and Overtime.   | 3 | 2 | 2 | 1 | 3 | 2 | 3 | 16 | H |
| Control gaps may exist on the bank reconciliation process - oversight mitigation: • Review of DCLB Bank Reconciliation Process   | 1 | 3 | 2 | 2 | 2 | 2 | 3 | 15 | M |

|  |   |   |   |   |   |   |   |    |   |
|--|---|---|---|---|---|---|---|----|---|
| Planned corrective actions on the controls of Instant Tickets Inventory & Distribution are not effective and efficient - oversight mitigation: follow-up review.   | 2 | 2 | 3 | 2 | 1 | 2 | 3 | 15 | M |
| Agents that have non-complaint history are granted renewal license oversight mitigation: Follow-Up Review of Agent Licensing and Renewal Process and Maintenance of Agent Data Files (including the effectiveness and efficiency of the multi-departmental Intranet Share-Point tracking system on agent's "Excessive Cancellations", "Repeat NSF", and other "Non-Compliant" activities). | 2 | 2 | 1 | 2 | 2 | 2 | 4 | 15 | M |
| Reconciliation processes between the On-Line Gaming System and the Internal Control System are ineffective and/or inefficient - oversight mitigation: review the   | 2 | 3 | 1 | 2 | 2 | 2 | 2 | 14 | L |
| Control gaps may exist on treasury operations - oversight mitigation: Review of DCLB Treasury Operations, including Billings, Cash collections from Agents (lottery proceeds, less prizes payments, agents commission, adjustments), etc, Back Office supports for the Claim Center, and   | 1 | 2 | 3 | 2 | 2 | 2 | 2 | 14 | L |
| The Request for Proposal (RFP) on the Instant Tickets Production & Distribution Contract Renewal are not done properly or on a timely basis - oversight mitigation: review the process and timelines for the Instant Tickets RFP.  | 1 | 3 | 2 | 2 | 1 | 2 | 3 | 14 | L |

Exhibit 1

|   |   |   |   |   |   |   |   |    |   |
|---|---|---|---|---|---|---|---|----|---|
| Control gaps may exist in the Lottery revenue cycle and the related accounts receivable - oversight mitigation: Review of the Revenues Cycle and the related Accounts Receivable Recording and Reporting Internal Controls.               | 1 | 3 | 2 | 2 | 1 | 2 | 3 | 14 | L |
| Control gaps may exist in the Lottery gaming expenditures and the related accounts payable - oversight mitigation: Review of the Gaming Expenditures Cycle and the related Accounts Payable Recording and Reporting Internal Controls.    | 2 | 3 | 2 | 2 | 1 | 1 | 3 | 14 | L |
| Assumed DCLB User Controls on the Gaming System may not be in place or ineffective - oversight mitigation: follow-up review on the annual external auditors' report (SAS-70) on controls Placed in Operations and test for effectiveness. | 2 | 2 | 1 | 2 | 1 | 2 | 4 | 14 | L |
| Planned corrective actions over marketing & promotion events internal controls are not effective and efficient - oversight mitigation: follow-up review.  | 2 | 2 | 2 | 2 | 1 | 2 | 2 | 13 | L |
| Controls over charitable games may not be effective - oversight mitigation: Review of Licensing and Bonding Fees and Collateral Bond Refunds for the DCLB Charitable Games.   | 1 | 2 | 1 | 1 | 2 | 2 | 3 | 12 | L |
| Planned corrective actions on the control findings noted in the Delehanty Report are not being implemented properly - oversight mitigation: follow-up review.   | 1 | 1 | 1 | 2 | 1 | 2 | 4 | 12 | L |

Exhibit 1

|  |   |   |   |   |   |   |   |    |   |
|--|---|---|---|---|---|---|---|----|---|
| Control gaps may exist in the DCLB's Ticket Cancellation Process - oversight mitigation: Review of the DCLB's Ticket Cancellation Process.   | 1 | 2 | 2 | 2 | 1 | 2 | 1 | 11 | L |
| Controls gaps may exist in areas such as Gaming System suspicious logons - oversight mitigation: Feasibility study on possible areas of continuing audit and/or data analysis application at DCLB (e.g., implementation of Lottery Log Analyzer).                      | 1 | 1 | 2 | 2 | 1 | 2 | 2 | 11 | L |
| Planned corrective actions on the controls of other direct & administrative costs and the related accounts payable are not effective and efficient - oversight mitigation: follow-up review of Other Expenditures and the Accounts Payable and Vendors Payments Cycle. | 2 | 2 | 1 | 2 | 1 | 1 | 1 | 10 | L |
| Internal controls on agents incentive bonuses may not be effective & efficient - oversight mitigation: Review of Yearly Agent Incentive Bonuses internal   | 1 | 2 | 1 | 1 | 1 | 2 | 2 | 10 | L |
| Controls over the DCLB Trust fund may not be effective - oversight mitigation: Review of DCLB Trust Fund.  | 1 | 2 | 1 | 1 | 1 | 2 | 2 | 10 | L |
| Property inventory and disposals control gaps may exist - oversight mitigation: Review of Property Inventory and Disposal Internal Controls within the DCLB support Services.  | 1 | 1 | 1 | 2 | 1 | 2 | 1 | 9  | L |

Exhibit 1

|  |   |   |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|---|---|
| Planned corrective actions on the controls of Payments or Wire Transfers Made to Lottery Technology Enterprises, Inc. and MUSL are not effective and efficient - oversight mitigation: follow-up review. | 1 | 2 | 1 | 1 | 1 | 2 | 1 | 9 | L |
| Planned corrective actions on the controls of Multi-State Lottery (MUSL) Reimbursable Travel and Related Expenses are not effective and efficient - oversight mitigation: follow-up review.              | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 8 | L |

Lowest possible score (L)  
 Highest possible score (H)  
 Mid point (M)

|  |  |    |  |  |  |  |  |  |
|--|--|----|--|--|--|--|--|--|
|  |  | 7  |  |  |  |  |  |  |
|  |  | 23 |  |  |  |  |  |  |
|  |  | 15 |  |  |  |  |  |  |

L = Likelihood  
 I = Impact  
 Management score = 5 is highest & 1 is lowest.



**FINAL REPORT ON  
OPERATIONAL RISK ASSESSMENT UPDATE AT THE  
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**EXHIBIT 2**

**Exhibit 2:** Risk Assessment/Mitigation Matrix – By Functional Areas – 8 pages

**RISK  
ASSESSMENT/MITIGATION  
MATRIX BY FUNCTIONAL  
AREAS**

| Areas of vulnerability  | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   |       | Planned in    | Recomm ended Annual Cycle |
|---|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|-------|---------------|---------------------------|
|   | L                     | I | L                         | I | L  | I |              |                 |   |       |               |                           |
| <b>GAMING OPERATIONS</b>  |                       |   |                           |   |  |   |              |                 |   |       |               |                           |
| <b>Contracted Gaming System Operations</b>  |                       |   |                           |   |  |   |              |                 |   |       |               |                           |
| Transition of platform system could cause outages in customer-facing areas - oversight mitigation: review the timeliness of the new gaming system project implementation timeline.  | 3                     | 3 | 3                         | 3 | 3  | 3 | 5            | 23              | H | FY 10 | N/A           |                           |
| Assumed DCLB User Controls on the Gaming System may not be in place or ineffective - oversight mitigation: follow-up review on the annual external auditors' report (SAS-70) on controls Placed in Operations and test for effectiveness. | 2                     | 2 | 1                         | 2 | 1  | 2 | 4            | 14              | L | FY 11 | Every 3-5 Yrs |                           |
| Reconciliation processes between the On-Line Gaming System and the Internal Control System are ineffective and/or inefficient - oversight mitigation: review the reconciliation processes.  | 2                     | 3 | 1                         | 2 | 2  | 2 | 2            | 14              | L | FY 11 | Every 3-5 Yrs |                           |
| <b>Draw Division</b>  |                       |   |                           |   |  |   |              |                 |   |       |               |                           |
| Unforeseen events could prevent Lottery drawings - oversight mitigation: review of Draw Division Business Continuity Plan   | 2                     | 3 | 2                         | 2 | 2  | 3 | 3            | 17              | H | FY 11 | Every 1-2 Yrs |                           |

**RISK  
ASSESSMENT/MITIGATION  
MATRIX BY FUNCTIONAL  
AREAS**

| Areas of vulnerability   | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   | Planned in | Recomm ended Annual Cycle |
|--|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|------------|---------------------------|
|  | L                     | I | L                         | I | L  | I |              |                 |   |            |                           |
| <b>Marketing Department</b>  |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Revenue enhancing projects could fail - oversight mitigation: review the effectiveness & efficiency of revenue enhancing project executions & management.  | 2                     | 3 | 2                         | 2 | 2  | 3 | 5            | 19              | H | FY 10      | Every 1-2 Yrs             |
| Planned corrective actions over marketing & promotion events internal controls are not effective and efficient - oversight mitigation: follow-up review.   | 2                     | 2 | 2                         | 2 | 1  | 2 | 2            | 13              | L | FY 11      | N/A                       |
| <b>Sales Department:</b>   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| The Request for Proposal (RFP) on the Instant Tickets Production & Distribution Contract Renewal (expired in FY 10) are not done properly or on a timely basis - oversight mitigation: review the process and timelines for the Instant Tickets RFP. | 1                     | 3 | 2                         | 2 | 1  | 2 | 3            | 14              | L | FY 10      | N/A                       |
| Planned corrective actions on the control findings noted in the Delehanty Report are not being implemented properly - oversight mitigation: follow-up review.  | 1                     | 1 | 1                         | 2 | 1  | 2 | 4            | 12              | L | FY 10      | N/A                       |

**RISK ASSESSMENT/MITIGATION MATRIX BY FUNCTIONAL AREAS**

| Areas of vulnerability   | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   |       | Planned in    | Recommended Annual Cycle |
|--|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|-------|---------------|--------------------------|
|  | L                     | I | L                         | I | L  | I |              |                 |   |       |               |                          |
| <b>Licensing and Charitable Games:</b>   |                       |   |                           |   |  |   |              |                 |   |       |               |                          |
| Agents that have non-complaint history are granted renewal license oversight mitigation: Follow-Up Review of Agent Licensing and Renewal Process and Maintenance of Agent Data Files (including the effectiveness and efficiency of the multi-departmental Intranet Share-Point tracking system on agent's "Excessive Cancellations", "Repeat NSF", and other "Non-Compliant" activities). | 2                     | 2 | 1                         | 2 | 2  | 2 | 4            | 15              | M | FY 11 | Every 2-3 Yrs |                          |
| Controls over charitable games may not be effective - oversight mitigation: Review of Licensing and Bonding Fees and Collateral Bond Refunds for the DCLB Charitable Games.  | 1                     | 2 | 1                         | 1 | 2  | 2 | 3            | 12              | L | FY 12 | Every 3-5 Yrs |                          |

| <b>AGENCY MANAGEMENT</b>   |   |   |   |   |   |   |   |    |   |       |              |  |
|--|---|---|---|---|---|---|---|----|---|-------|--------------|--|
| <b>Information Technology:</b>   |   |   |   |   |   |   |   |    |   |       |              |  |
| Significant controls &/or security gaps may exist at the IT Dept - oversight mitigation: Follow-up on the Information Technology Department Risk "Self Assessment" process (including Access & Security Controls, and Business Continuity and Contingency Plan). | 2 | 3 | 2 | 3 | 2 | 3 | 4 | 19 | H | FY 10 | Every 1-2Yrs |  |

**RISK  
ASSESSMENT/MITIGATION  
MATRIX BY FUNCTIONAL  
AREAS**

| Areas of vulnerability  | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   | Planned in | Recomm ended Annual Cycle |
|---|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|------------|---------------------------|
|   | L                     | I | L                         | I | L  | I |              |                 |   |            |                           |
| Controls gaps may exist in areas such as Gaming System suspicious logons - oversight mitigation: Feasibility study on possible areas of continuing audit and/or data analysis application at DCLB (e.g., implementation of Lottery Log Analyzer). | 1                     | 1 | 2                         | 2 | 1  | 2 | 2            | 11              | L | FY 11      | Every 3-5 Yrs             |
| <b>Customer Service incl. the Claim Center</b>  |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Manual processes in the Claims Center - oversight mitigation: Follow-up review of the Claim Center Operations (including the effectiveness and efficiency the implemented Lottery Winners Claims Processing System).                              | 2                     | 3 | 3                         | 3 | 2  | 3 | 3            | 19              | H | FY 10      | N/A                       |
| Ineffective & inefficient customers complaints systems - oversight mitigation: Review the implementation of the Upgraded Customer Service Complaints Database system for effectiveness and efficiency.  | 1                     | 2 | 2                         | 3 | 2  | 3 | 3            | 16              | H | FY 11      | N/A                       |

**RISK  
ASSESSMENT/MITIGATION  
MATRIX BY FUNCTIONAL  
AREAS**

| Areas of vulnerability  | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   | Planned in | Recomm ended Annual Cycle |
|---|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|------------|---------------------------|
|   | L                     | I | L                         | I | L  | I |              |                 |   |            |                           |
| <b>Security Department:</b>   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Not all suspicious activities related to the non-payment of players' winnings are reported to the Security Dept - oversight mitigation: Follow-Up Review of DCLB Policies & Procedures Over Fraud Risk Associated w/Non-Payment of Players' Winnings.   | 2                     | 3 | 2                         | 2 | 3  | 3 | 3            | 18              | H | FY 10      | N/A                       |
| <b>Support Services:</b>  |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Property inventory and disposals control gaps may exist - oversight mitigation: Review of Property Inventory and Disposal Internal Controls within the DCLB support Services.   | 1                     | 1 | 1                         | 2 | 1  | 2 | 1            | 9               | L | FY 12      | Every 3-5 Yrs             |
| <b>FINANCIAL SERVICES</b>   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| <b>Treasury Operations:</b>   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| ➤ Claim Center - back office supports:  |                       |   |                           |   |  |   |              |                 |   |            |                           |
| ➤ Cash Collection from Agents:  |                       |   |                           |   |  |   |              |                 |   |            |                           |
| ➤ Transmit Agent Commission Earned and IRS reporting:   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Control gaps may exist on treasury operations - oversight mitigation: Review of DCLB Treasury Operations, including Billings, Cash collections from Agents (lottery proceeds, less prizes payments, agents commission, adjustments), etc, Back Office supports for the Claim Center, and IRS Reporting. | 1                     | 2 | 3                         | 2 | 2  | 2 | 2            | 14              | L | FY 12      | Every 3-5 Yrs             |

**RISK  
ASSESSMENT/MITIGATION  
MATRIX BY FUNCTIONAL  
AREAS**

| Areas of vulnerability  | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   | Planned in | Recomm ended Annual Cycle |
|---|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|------------|---------------------------|
|   | L                     | I | L                         | I | L  | I |              |                 |   |            |                           |
| <b>Accounting Operations:</b>   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Multiple systems for financial accounting information increase potential fraud and increase risk of inaccuracies - oversight mitigation: Review of the Implementation of Work-Flows and Control Processes Documented/Recommended by the | 2                     | 3 | 2                         | 3 | 2  | 3 | 3            | 18              | H | FY 10      | N/A                       |
| <b>&gt; The Revenue Cycle (on-line &amp; instant tickets) &amp; the related Accounts Receivable:</b>  |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Control gaps may exist in the Lottery revenue cycle and the related accounts receivable - oversight mitigation: Review of the Revenues Cycle and the related Accounts Receivable Recording and Reporting Internal Controls.             | 1                     | 3 | 2                         | 2 | 1  | 2 | 3            | 14              | L | FY 11      | Every 3-5 Yrs             |
| Planned corrective actions on the controls of Instant Tickets Inventory & Distribution are not effective and efficient - oversight mitigation: follow-up review.  | 2                     | 2 | 3                         | 2 | 1  | 2 | 3            | 15              | M | FY 11      | N/A                       |
| <b>&gt; The Expenditure Cycle (operating: on-line &amp; instant tickets):</b>   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Control gaps may exist in the Lottery gaming expenditures and the related accounts payable - oversight mitigation: Review of the Gaming Expenditures Cycle and the related Accounts Payable   | 2                     | 3 | 2                         | 2 | 1  | 1 | 3            | 14              | L | FY 12      | Every 3-5 Yrs             |
| Control gaps may exist in the DCLB's Ticket Cancellation Process - oversight mitigation: Review of the DCLB's Ticket Cancellation Process.  | 1                     | 2 | 2                         | 2 | 1  | 2 | 1            | 11              | L | FY 12      | Every 3-5 Yrs             |

**RISK  
ASSESSMENT/MITIGATION  
MATRIX BY FUNCTIONAL  
AREAS**

| Areas of vulnerability   | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   | Planned in | Recomm ended Annual Cycle |
|--|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|------------|---------------------------|
|  | L                     | I | L                         | I | L  | I |              |                 |   |            |                           |
| Internal controls on agents incentive bonuses may not be effective & efficient - oversight mitigation: Review of Yearly Agent Incentive Bonuses internal   | 1                     | 2 | 1                         | 1 | 1  | 2 | 2            | 10              | L | FY 11      | Every 3-5 Yrs             |
| ➤ The Expenditure Cycle (other direct & administrative costs) & the related Accounts Payable/Payments:   |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Control gaps may exist on the bank reconciliation process - oversight mitigation: Review of DCLB Bank Reconciliation Process   | 1                     | 3 | 2                         | 2 | 2  | 2 | 3            | 15              | M | FY 11      | Every 2-3 Yrs             |
| Planned corrective actions on the controls of other direct & administrative costs and the related accounts payable are not effective and efficient - oversight mitigation: follow-up review of Other Expenditures and the Accounts Payable and Vendors Payments Cycle. | 2                     | 2 | 1                         | 2 | 1  | 1 | 1            | 10              | L | FY 12      | Every 3-5 Yrs             |
| Occurrence of undocumented overtime authorization noted by the external auditors - oversight mitigation: Review of the DCLB Employees' Payroll and Overtime.   | 3                     | 2 | 2                         | 1 | 3  | 2 | 3            | 16              | H | FY 10      | N/A                       |
| Planned corrective actions on the controls of Payments or Wire Transfers Made to Lottery Technology Enterprises, Inc. and MUSL are not effective and efficient - oversight mitigation: follow-up review.   | 1                     | 2 | 1                         | 1 | 1  | 2 | 1            | 9               | L | FY 12      | N/A                       |



**RISK ASSESSMENT/MITIGATION MATRIX BY FUNCTIONAL AREAS**

| Areas of vulnerability  | Risk of monetary loss |   | Risk of productivity Loss |   | Risk of loss of public/customer confidence |   | Mgn Priority | Score and level |   | Planned in | Recomm ended Annual Cycle |
|---|-----------------------|---|---------------------------|---|--|---|--------------|-----------------|---|------------|---------------------------|
|   | L                     | I | L                         | I | L  | I |              |                 |   |            |                           |
| Planned corrective actions on the controls of Multi-State Lottery (MUSL) Reimbursable Travel and Related Expenses are not effective and efficient - oversight mitigation: follow-up review. | 1                     | 1 | 1                         | 1 | 1  | 2 | 1            | 8               | L | FY 12      | N/A                       |
| ➤ Other Balance Sheet Items:  |                       |   |                           |   |  |   |              |                 |   |            |                           |
| Controls over the DCLB Trust fund may not be effective - oversight mitigation: Review of DCLB Trust Fund.   | 1                     | 2 | 1                         | 1 | 1  | 2 | 2            | 10              | L | FY 12      | Every 3-5 Yrs             |

Lowest possible score  
 Highest possible score  
 Mid point

|  |  |    |  |  |  |  |  |  |  |  |  |
|--|--|----|--|--|--|--|--|--|--|--|--|
|  |  | 7  |  |  |  |  |  |  |  |  |  |
|  |  | 23 |  |  |  |  |  |  |  |  |  |
|  |  | 15 |  |  |  |  |  |  |  |  |  |

L = Likelihood; High=3; Medium=2; Low=1.  
 I = Impact; High=3, Medium=2; Low=1.

**FINAL REPORT ON  
OPERATIONAL RISK ASSESSMENT UPDATE AT THE  
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**APPENDIX 1**

**Appendix 1: 14 pages**

1. Agency Response (6 pages)
2. Problem Ticket SOP(5 pages)
3. Record Retention Policy (3 pages)

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



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

**FROM:** Buddy Roogow  
Executive Director

A handwritten signature in black ink, appearing to read 'BR'.

**DATE:** January 11, 2010

**SUBJECT:** Draft Report on Operational Risk Assessment Update at the D.C. Lottery and Charitable Games Control Board (Report No. IA:DCLB:2909-C09)

**Introduction**

This memo is in response to your Draft Report dated December 3, 2009 on the Operational Risk Assessment at the DC Lottery and Charitable Games Control Board (DC Lottery or DCLB). The Office of Integrity and Oversight (OIO) has recommended that an action plan be implemented to minimize/mitigate the following noted risks:

**Gaming Operations:**

1. *Review the timeliness of the project preparation and implementation of the new Gaming System Platform.*

**DCLB Response:**

**DCLB agrees to the review.**

2. *Follow-up on the annual external auditors' report (SAS-70) on the LTE, Inc. Controls Placed in Operation and Tests of Operating Effectiveness—related to DCLB User Control Considerations as noted by the SAS-70 auditors.*

DCLB Response:

**DCLB disagrees that a follow-up is necessary. DCLB has followed-up with LTE on the SAS-70 audit and believes no action plan is necessary as exhibited by the results of the latest Deloitte & Touche SAS 70 Type II Audit report, dated November 13, 2009.**

3. *Review of the reconciliation processes of the On-Line Games and Internal Control Systems.*

DCLB Response:

**DCLB disagrees with the finding that the reconciliation process of the On-Line Games and ICS processes are ineffective. The ICS systems utilize auto-balancing features that prevent non-reconciled transaction from entering the system. However, DCLB agrees a review of the reconciliation of the Oracle General Ledger processes is needed.**

4. *Review of Draw Division Business Continuity Plan Update and the Effectiveness of Draw Division Standard Operating Procedures.*

DCLB Response:

**DCLB agrees the review.**

5. *Review of the Effectiveness and Efficiency of the Revenue Enhancing Projects such as the \$1/\$2 Raffle On-Line Game.*

DCLB Response:

**DCLB agrees to the review.**

6. *Follow-Up Review of the Internal Control Process over Marketing and Promotion Events.*

DCLB Response:

**DCLB agrees to the follow-up review.**

7. *Review of the Timelines of the Preparation for the Request for Proposal of the Instant Tickets Production and Distribution Contract renewal.*

DCLB Response:

**DCLB disagrees to the necessity of a review. The preparation for the Request for Proposal of the Instant Tickets Production and Distribution Contract renewal started in November 2009 with the Office of Contracts & Procurement (OCP). OCP has already initiated the process for DCLB's review of its option to extend the current contract with Scientific Games.**

8. *Follow-Up Review of Delehanty's Report on Evaluation of Scientific Games International Security Controls in the Development and Production of Instant Tickets related to DCLB.*

DCLB Response:

**DCLB agrees to the follow-up review.**

9. *Follow-Up Review of Agent Licensing and Renewal Process and Maintenance of Agent Data Files (including the effectiveness and efficiency of the multi-departmental Intranet Share-Point Tracking System on Agent's "Excessive Cancellations", "Repeat NSF" and other "Non Compliant" activities).*

DCLB Response:

**DCLB agrees to the follow-up review.**

10. *Review of Licensing and Bonding Fees and Collateral Bond Refunds for the DCLB Charitable Games.*

DCLB Response:

**DCLB agrees to the review.**

Agency Management:

11. *Follow-up on the Information Technology Department Risk "Self Assessment" Process (including Access & Security Controls and Business Continuity and Contingency Plan).*

DCLB Response:

**DCLB agrees to the follow-up review.**

12. *Feasibility Study on Possible Areas of Continuing Audit and/or Data Analysis Application at DCLB.*

DCLB Response:

**DCLB agrees to the follow-up review.**

13. *Follow-up Review of the Claim Center Operations (including the effectiveness and efficiency of the implemented Lottery Winners Claims Processing System).*

DCLB Response:

**DCLB agrees to the follow-up review.**

14. *Review the Implementation of the Customer Service Complaints Database system for effectiveness and efficiency.*

DCLB Response:

**DCLB agrees to the follow-up review.**

15. *Follow-up Review of DCLB Policies & Procedures over Fraud Risk Associated with Non-Payment of Players' Winnings.*

DCLB Response:

**DCLB agrees to the follow-up review.**

16. *Review of Property Inventory and Disposal of Internal Controls within the DCLB Support Services.*

DCLB Response:

**Attached is DCLB's SOP regarding Record Retention. Please advise if this responds to the finding.**

Financial Services:

17. *Review of DCLB Treasury Operations including Billings, Cash Collections from Agents (lottery proceeds, less prizes payments, agents' commission and adjustments), etc., Back Office supports for the Claim Center and IRS Reporting.*

DCLB Response:

**DCLB agrees to the review.**

18. *Review of the Implementation of Work-Flows and Control Processes Documented/Recommended by the External Consultants.*

DCLB Response:

**DCLB retained the services of an accounting firm that has prepared a draft Accounts Payable Manual. Additional changes are being made by the Finance Department and the manual is expected to be completed by September 30, 2010.**

19. *Review of the Revenues Cycle and the related Accounts Receivable Recording and Reporting Internal Controls.*

DCLB Response:

**DCLB agrees to the review.**

20. *Follow-Up Review of Instant Ticket Inventory and Distribution Operations at the DCLB (including the effectiveness and efficiency for the enhanced Instant Tickets Reconciliation system and process).*

DCLB Response:

**DCLB agrees to the follow-up review.**

21. *Review of the Gaming Expenditures cycle and the related Accounts Payable Recording and Reporting Internal Controls.*

DCLB Response:

**DCLB agrees to the review.**

22. *Review of the DCLB's Ticket Cancellation Process.*

DCLB Response:

**Attached is DCLB's Problem Ticket Standard Operating Procedure. Please advise whether or not this document addresses the audit finding.**

23. *Review of Yearly Agent Incentive Bonuses.*

DCLB Response:

**DCLB agrees to the review.**

24. *Follow-Up Review of Other Expenditures and the Accounts Payable and Vendors Payments Cycle.*

DCLB Response:

**DCLB agrees to the follow-up review.**

25. *Review of DCLB Bank Reconciliation Process.*

DCLB Response:

**DCLB agrees to the review.**

26. *Review of DCLB Employees' Payroll and Overtime.*

DCLB Response:

**Although this information is already part of the CAFR audit, DCLB agrees to the review.**

27. *Follow-Up Review of Payments or Wire Transfers Made to Lottery Technology Enterprises, Inc. and MUSL.*

DCLB Response:

**DCLB agrees to the follow-up review.**

28. *Follow-Up Review of Multi-State Lottery (MUSL) Reimbursable Travel and Related Expenses.*

DCLB Response:

**DCLB agrees to the follow-up review.**

29. *Review of DCLB Trust Fund.*

DCLB Response:

**DCLB disagrees to the necessity of a review because there is no longer a miscellaneous DCLB Trust for the deposit of agent bonding fees.**

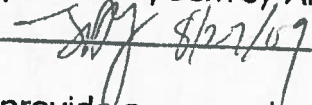


**TITLE:** Problem Ticket SOP

**Original Issue Date:** March 14, 2007 **Revision Dates:** July 9, 2008, April 21, 2009 and August 18, 2009

**Number of Pages:**

**SOP Authors:** Kerry Scott, Michael Morton, Kevin Lynch, Michael Brown, Ridgely Bennett, Jeffrey Anderson and Ann McPherson

**Approval:**  8/22/09

**Purpose:** To provide a comprehensive policy for the processing, investigation and resolution of **Problem Tickets** presented for validation.

**Definition:** A **Problem Ticket** is one that cannot be validated through the normal lottery validation system. They are categorized as follows:

1. An instant ticket that was not properly activated by an agent.
2. An on-line ticket that has been inadvertently or erroneously cancelled or validated by an agent, but the player retains possession of the ticket.
3. A ticket that is NOT mutilated to the point where it is not readable and attempts at validation fails. This type of ticket will require reconstruction before validation can be executed.
4. A ticket that has been reported lost or stolen.
5. A ticket that is missing serial, pack or virn numbers.
6. A ticket that has a printing error.

**Claim Methods:** A lottery claim can be made in person or by mail. If the claim is sent by mail, the Customer Service Representative ( CSR) will complete the claim form and indicate on the signature line – " Mail-In Claim ". A letter will be sent to the claimant acknowledging receipt of the claim and advising as to what procedures will take place before the claim can be completed.

**Procedures:**

**Claim Center:**

1. A claim form will be completed by the claimant and reviewed by a Customer Service Representative (CSR). The claimant will receive the pink copy. Mail -in claims will be processed as stated above in the description of " Claim Methods ".
2. The CSR will inform the claimant that the **Problem Ticket** will be sent to the Lottery Security Department for investigation.
3. If the problem ticket involves ticket reconstruction, the Instant Ticket Reconstruction SOP will be used to process this type of case and the claimant advised as to what has to take place.
4. The CSR will open a complaint workflow in IQ with claimant information and related notes.
5. The CSR will send the original ticket and claim form documents to the Lottery Security Department, after making copies for the Claim Center File. The Lottery Security Department investigation will be conducted as outlined in the Security Department section of this SOP.
6. In the investigation, Security will check with Sales, Finance, IT and other departments as appropriate. Once the ticket has been investigated by the Lottery Security Department, a Report of Investigation will be forwarded through the Legal Department for review and comment and then to the Executive Director or his designee for review and approval. Upon the Executive Director's or his designee's approval, final results and the original claim form will be forwarded to the Chief of Customer Service, who will then forward the documents to the Finance Department for check processing. The Finance Department's role in this process is outlined in the Finance Department section of this SOP.
7. The Executive Director or his designee either approves or disapproves payment. All correspondence to the customer will be generated by the Chief of Customer Service.
8. The claimant will be notified by the CSR as to the outcome of the investigation. If payment has been authorized, the CSR will contact the claimant and make arrangements for the check to be picked up or mailed. The CSR will contact the claimant no later than five (5) working days upon receipt of the original complaint to provide a status report.

9. Copies of all of the incident documents will be forwarded by the Chief of Customer Service to Legal, Sales, Licensing and the Security Department for reference and further action if needed.
10. Once the case is closed in IQ, all relevant case information will be filed at the Claim Center.

**Security Department:**

1. When the Lottery Security Department is notified regarding a **Problem Ticket**, the complainant will be interviewed and a statement taken and all documents received will be reviewed. An investigator and case number will be assigned and the information will be entered into the Customer Service IQ Tracking System.
2. Unless otherwise indicated or warranted by the nature of the case, the investigator will travel to an agent's location to conduct an interview.
3. The investigator will request a Transaction Master Information Report ( TMIR ) from Lottery Technology Enterprise ( LTE ), using the TMIR request form signed by the Chief of Security.
4. The completed TMIR request form will be delivered to the Lottery IT Department, who will forward the request to LTE.
5. LTE will notify the investigator when the report is ready for pick-up.
6. The TMIR Report, along with other investigative information will be used to prepare a Report of Investigation ( ROI ). This report will include all relevant facts and background; other departmental input where indicated; have a timeline; be clearly written and quote applicable rules.
7. Copies of the ROI will be shared with the Customer Service, Finance and Licensing Departments and filed in the Security Department.
8. If the case involves a ticket that needs to be reconstructed, a request will be made to Scientific Games by our authorized reconstruction personnel – Ann McPherson and Cheryl Malone to have this work performed, with a copy sent to the Chief of Security. No further action will be taken on this type of case

until reconstruction of the ticket has been completed. Once that process has been completed, the authorized requestors will notify the Chief of Security that the reconstruction has been completed, and forward a copy of the completed reconstruction to him.

**Executive Director:**

1. The Executive Director upon receipt of a request for payment from the Chief of Customer Service, will review the supporting documentation and authorizations before proceeding to authorize payment of the claim. Note: Where the total dollar value of the claim does not exceed \$50.00, the Financial Specialist is authorized to settle the claim.

**Finance Department:**

1. Upon receipt of a request for payment from the Chief of Customer Service, the Agency's Fiscal Officer will review the supporting documentation and authorizations for accuracy before proceeding to approve the request.
2. The Agency's Fiscal Officer submits the request for payment to Operations Accountant for check processing. The supporting claim information is reviewed for accuracy.
3. Operating Accountant, if necessary, adjusts agent's lottery account or takes whatever action is required to complete the transaction.
4. Operating Accountant using the Instant Prosys System prints check at the DCLB Claim Center.

**Licensing Department:**

1. Documents relating to the case will be forwarded to the Licensing Department, once the case has been concluded.

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2. The **Problem Ticket** information will become a part of the agent's file for consideration upon license renewal.

**Title:** Record Retention

**Original Issue Date:** 10/4/05

**Revision Date:** 3/23/07

**No. of Pages:** 2

**SOP Author:** Frances Kingsberry/Support Services

**Approval:** \_\_\_\_\_

**Purpose:** Pursuant to the guidelines set forth in the District of Columbia Records, the DCLB record retention schedule is to provide disposition standards based on a survey of the specific records created and maintained in the various offices within the agency.

The Support Services Department is responsible for the coordination of the Request for Transfer of Records to a Retention facility for archival purposes and the destruction of records, as set forth by the guidelines in the DC General Records Schedules.

- I. Compile Information regarding files
  - a. Interview each department liaison who is responsible for records management
  - b. Verify the organizational position with the Executive Director and director of Resources Management
  - c. Assemble and compile the record schedule based on the types of files listed on each schedule submitted to the Support Services Department.
  
- II. Inventory of Records
  - a. Develop an index of the files with a description
    1. Administrative – time and attendance (universal), vehicle utilization i.e. specific file as it relates to Support Services under Fleet Management).
    2. Chronological files – files which relate to the program activity.
    3. Historical – Records that have been previously appraised as a permanent record and approved for transfer to the D. C. Archivist:  
Office of Documents  
1300 Naylor Court  
Washington, DC 20004

- III. Records for Destruction
- a. Prepare a Destruction Certificate
  - b. Submit the Destruction Certificate for review to the Support Services Department
  - c. Obtain approval from the Manager requesting the destruction
  - d. Obtain approval from the Executive Director to destroy documents
  - e. Support Services maintains the completed copy of the signed request of the Destruction Certificate.

- IV. Request for Transfer to a Facility
- a. Form created by Support Services to request transfer to a storage site or the Office of Documents
  - b. Authorization by Manager
  - c. Approval by the Executive Director
  - d. Acknowledgment of receipt by D. C. Archivist
  - e. Copy maintained in the Support Services Department
  - f. The Support Services Department coordinates the transfer of documents to a records storage site.
    - i. Schedule transfer date to the Office of Documents {or other site}
    - ii. Prepare labels for box
    - iii. Maintain Index of files sent to storage in the Support Services Department
    - iv. Prepare a transfer request [see copy of attached form]
    - v. Receive acknowledgement of receipt from transfer site
    - vi. Distribute completed copy of acknowledgement of receipt to Security.
    - vii. Maintain original signature of acknowledgement of receipt of files in Support Services.
    - viii. The division requesting the transfer gets a completed copy.
1. The records retention scheduled should be annotated to reflect the changes for submission to the Office of Documents.

- V. Packing of Records for Transfer to the Office of Documents or a storage site
  - a. If the records are scheduled, pack the files in the original filing order
  - b. After packing the files, prepare a box list of the files in each box.
  - c. The transferring of permanent records should be annotated with the date of the records.
  - d. The Support Services Department coordinates the transfer of documents to the Office of Documents or to the records storage site.
  
- VI. Request to Amend the Records Retention Schedule
  - a. When a records retention schedule is amended to show additions or deletions from the Schedule.
    - i. The records retention scheduled should be annotated to reflect the changes for submission to the Office of Documents.
    - ii. Approval by the Manager
    - iii. Approval by the Executive Director
    - iv. Transmitted to the Office of Documents for review and approval by the D. C. Records Disposition Committee.
    - v. Copy of proposed scheduled maintained in the Support Services Department.
  
- VII. Access or Retrieval of Records from the Office of Documents
  - a. Schedule an appointment to view the records (if it is a DCLB record)
  - b. Complete the Office of Documents Reference Request Form (sample attached).
  - c. If a record other than a DCLB document is requested for removal, the originating Agency of the record must be contacted.
  - d. The D. C. Office of Records receives and processes your reference request form based on the availability of staff.