

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

**AUDIT OF THE DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD OPERATIONS**

OFFICE OF INTEGRITY AND OVERSIGHT



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



Office of Integrity and Oversight

MEMORANDUM

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

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

DATE: May 29, 2013

SUBJECT: Final Report on the Audit of the District of Columbia Lottery & Charitable Games Control Board (DCLB) Operations (**Report Number: OIO-11-02-28-DCLB**)

Attached is the final report summarizing the results of the Office of Integrity and Oversight's (OIO) Audit of the District of Columbia Lottery & Charitable Games Control Board (DCLB) Operations. This audit is part of OIO's continuous audit coverage of the DCLB's activities.

This report contains three findings and seven recommendations, which if implemented, should correct the cited issues, strengthen internal controls and promote operational efficiency. The DCLB generally agreed with our findings and recommendations except for Finding 3. We noted that the DCLB has taken, or is in the process of taking, certain corrective actions to address the issues, including Recommendation 6 for Finding 3. We consider DCLB's corrective actions to be responsive to our recommendations. The full text of the DCLB's response is included as Appendix 1.

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

Attachments

cc: Kathy Crader, Chief Risk Officer, OCFO

**Audit of the District of Columbia Lottery and Charitable Games Control Board
Operations**

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**Audit of the District of Columbia Lottery and Charitable Games Control Board
Operations**

ACRONYMS

CRS	Cash Reconciliation Sheet
DCLB	District of Columbia Lottery and Charitable Games Control Board
District	Government of the District of Columbia
DCRA	Department of Consumers and Regulatory Affairs
DCMR	District of Columbia Municipal Regulations
GAO	U.S. Government Accountability Office
FY	Fiscal Year
MUSL	Multi-State Lottery Association
NSF	Non-Sufficient Funds
OCFO	Office of the Chief Financial Officer
OIO	Office of Integrity and Oversight

EXECUTIVE DIGEST

OVERVIEW

The Office of Integrity and Oversight (OIO) has completed an audit of the District of Columbia Lottery and Charitable Games Control Board (DCLB) operations for the period October 1, 2011 to April 30, 2012. The audit was initiated as part of OIO's fiscal year 2013 annual plan.

CONCLUSIONS

We found that the internal controls for the DCLB Licensing and Draw Departments needed significant improvements. Specifically, our testwork revealed that retail sales agents licensing folders were missing required supporting documentation; that the Licensing Department is inadequately staffed to meet its required monitoring functions. We also found that the Finance Department was not enforcing compliance of the agency's non-sufficient funds policies against defaulted retail sales agents. In addition, we found that the Draw Department and the Marketing Department did not have adequate segregation of duties. We also identified instances where the policies and procedures were not properly implemented.

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

We directed seven recommendations to the DCLB management for necessary action to correct the described deficiencies. Our recommendations center, in part, on:

- Enforcing current policies and procedures to ensure that the DCLB is compliant and accountable for following their own policies and procedures.
- Establishing and implementing action plans for enforcing non-sufficient funds violations by retail sales agents.
- Enforcing current policies and procedures to ensure that the DCLB maintain supporting documentation in their licensing folders.
- Allocating sufficient staff to the licensing department.

MANAGEMENT RESPONSE AND OIO COMMENTS

OIO received a written response from the Executive Director of the DCLB on May 10, 2013, which generally agreed with our findings and recommendations except for Finding 3. We noted that the DCLB has taken, or is in the process of taking, certain corrective actions to address the noted issues including Recommendation 6 for Finding 3. We consider DCLB's corrective actions to be responsive to our recommendations. The full text of DCLB's response is included at Appendix 1.

INTRODUCTION

BACKGROUND

The District of Columbia Council established the Lottery and Charitable Games Control Board, also known as the District of Columbia Lottery Board (DCLB), with the passage of DC Act 3-172 in 1982. DCLB is an independent agency of the District, and the Office of the Chief Financial Officer (OCFO) provides oversight of DCLB. DC Act 3-172 requires that DCLB make a monthly remittance to the D.C. General Fund of the revenues from sales less operating expenses, prizes/winnings and a contribution to a reserve fund of ≤ 2 percent of the estimated annual prize payments. Individual game sales for comparative six-month period showed an increase of \$10,963,505 (8 percent) in DCLB's total lottery ticket sales over the same six-month period in the prior year. **Table 1** provides additional detail on the sales by individual product line for the comparable periods.

**Table 1: Individual Game Sales for Comparative Six Month Periods
October 1, 2010 to April 30, 2011 and October 1, 2011 to April 30 2012**

GAMES	April 30, 2011	April 30, 2012
Instant	\$33,957,400	\$35,182,900
DC Three	31,616,502	31,167,172
DC Four	38,856,093	39,174,261
Fast Play	415,157	3,191,814
Powerball	8,204,381	9,769,685
Mega Million	5,758,657	7,624,363
Keno	6,270,279	7,303,427
Hot Lotto	2,154,053	1,638,124
DC Five	7,215,790	8,437,989
DC Daily Six*	480,045	-0-
Race2Riches	1,525,180	3,927,307
Total	\$136,453,537	\$147,417,042

Source: DCLB Sales Department

Note: * This game was discontinued for FY 2012 due to lack of player interest and declining sales trend over the previous four years.

DCLB is a member of the Multi-state Lottery Association (MUSL). MUSL has approximately 34 members and administers various multi-state lottery games such as Power Ball and Hot Lotto. MUSL members remit a portion of their Power Ball and Hot Lotto revenues to MUSL for prize payments and administrative expenses for running the respective games. MUSL allows the members to combine their resources and sales to offer larger jackpots. The individual lottery organizations retain the profits. These profits are used to provide funding for the projects approved by the state's legislative body, which authorize and fund the lottery organizations.

As part of its lottery operations, DCLB oversees the licensing and operations of charitable gaming activities as part of its function. These activities include licensing and supervising such games as bingo, raffles, Las Vegas nights, etc. operated by local churches and other charitable organizations. While DCLB does provide staffing and other resources to this portion of its mission, a significant portion of its resources are devoted to the DC Lottery operations.

INTRODUCTION

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of this audit were to determine the: (1) effectiveness and efficiency of agency operations; (2) establishment of adequate internal controls to safeguard funds from fraud, waste and abuse, (3) relevance and reliability of information is maintained; and (4) validity, propriety and compliance of contracts with the Government of the District of Columbia's applicable laws and regulations and the DCLB policies and procedures.

SCOPE AND METHODOLOGY

The audit covers DCLB operations for the period October 1, 2011 to April 30, 2012. To accomplish our objectives, we interviewed various DCLB department heads including Finance, Sales, Marketing, Information Technology, Security, Communications and Operations. We examined supporting documentation relating to DCLB operating activities which included, but not limited to: invoices, draw packages, sales data, license and renewal application, security files, DCLB standard operating policies and procedures and other relevant documents. We reviewed the applicable District laws and regulations for DCLB operations including, 30 DCMR §200 and §300. We also reviewed the DC Clean Hands Act, D.C. Act 11-118. This act was codified in the D.C. Code as title 47 section 2861 (DC ST§ 47-2861 (2006)).

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

FINDINGS AND RECOMMENDATIONS

FINDING 1: DCLB RETAILER AGENT LICENSING PROCESS

SYNOPSIS

We examined 64 out of the 513 active retail agent folders. We found many instances of missing supporting documents and non-compliance with the Department of Consumer and Regulatory Affairs Clean Hands Act which is required in order for an agent to get a license. We believe this was caused by an absence of monitoring that is evidenced by the lack of a checklist which would ensure that the required documents were maintained in the folder. We also noted that the \$500 bonding requirement for the licensing period was not being collected, and that the most recent licenses issued did not have the required issue and expiration dates because changes were made to the licensing policies and procedures, which were not adequately documented. As a result of the above cited issues, DCLB licensing folders are not adequately maintained and create the potential for ineligible retail agents to be licensed which increases the public relations and financial risk for DCLB.

DISCUSSION

The retail licensing unit is generally responsible for the licensing and oversight of the 513 retail outlets that sell lottery tickets and games. This unit in addition to processing the initial licensing applications, processes the application renewals, and conducts various on-sight monitoring visits during the year to the retailers. This works in conjunction with the DCLB Security Department in conducting unannounced visits to the retailers to verify that certain requirements placed on the licensed retailers are enforced. At the time of this audit, DCLB assigned 2.5 full-time equivalents to this unit.

OIO selected a random non-replacement sample of 64 retail agents out of 513 active agents for testing. The following table presents a summary of the results:

Table 2: Summary of the Results from OIO Licensing Testwork

Description of Issues	Instances
No Vendor Training Certificate on file	46
No lease on file	24
No business license on file	2
No Incorporation certificate on file	6
No Certificate of Good Standing on file	13
No current Business license	38
No current Lease	9
No current Financial and background checks	47
No Clean hands compliance conducted after the last expired license date	40
Lottery license in file did not have a issue or expiration date	63

FINDINGS AND RECOMMENDATIONS

Missing Required Supporting Documentation

Title 30 section 201.2 of the District of Columbia Municipal Regulations (30 DCMR § 201.2) outlines the required documentation necessary for an individual or business to become a retail agent. The potential or current retailer must provide such documentation to show that the individual or business is financially stable, capable and responsible. Evidence of this support for the financial assessment is to be found in the application file maintained by DCLB for each applicant. Examples of necessary documents include criminal background check, credit report check, compliance with the District's Clean Hands Act, business license etc.

We examined the files to verify that the documentation required by 30 DCMR § 201.2 was present in the files. Our test revealed that the documentation practices employed by DCLB required significant improvements. We found many instances of various required documents missing from agents' files. As seen in **Table 2**, some examples of missing documents were vendor training certificate, business licenses, leases, certificate of good standing and financial and background checks with the number of instances ranging from 2 to 47.

District Clean Hands Act For Retail Agents

The District requires that all contractors and those, who are issued either a business or professional license, comply with the Department of Consumer and Regulatory Affairs Clean Hands Act, DC Act 11-118 (D.C. Code §47-286). This act requires that vendors or potential licensees certify that they do not owe more than \$100 to the District for fines, fees, overdue or unpaid taxes, or water and sewer fees. The "Clean Hands" certification must be on file for each successful vendor and licensee.

Our test to determine whether DCLB verified that licensed agents were in compliance with the Department of Consumer and Regulatory Affairs Clean Hands Act found that 40 of 63 licenses examined did not have a current "Clean Hands" certificate and evidence of a compliance check in the agent files.

Lottery License Issuance and Expiration Dates

30 DCMR §§ 202.5 and 204.4 outlines the requirements for the issuance of licenses by DCLB. These sections state that: "All licenses shall be valid for a period determined by the Board and shall expire at midnight of the last day of the designated period. For the purpose of staggering license renewals and for orderly administration of the licensing process, the Board may vary the period of a new or renewal license to coincide with the scheduled renewal cycle for that license."

Our test of the licenses to determine whether each license had issue and expiration dates noted that licenses provided to the retail agents lacked either the start date or expiration date for the license. We did not find any evidence showing a change in and the justification of this requirement.

FINDINGS AND RECOMMENDATIONS

Bonding Requirements for Retail Agents

DCLB is required by 30 DCMR §302.1 to obtain a bond from each retail vendor prior to the placement of a terminal and issuance of a retail license. Specifically the cited section states: "Before the license is issued and an on-line terminal is assigned, the agency shall require each agent to be bonded in an amount determined by the agency so as to avoid any monetary loss to the District resulting from the sale of lottery tickets." The District self-insures the retail agents and the bonding fees are placed in a reserve fund to protect DCLB and the District from substantial losses. The bonding fees are collected based on the start date of the licensing period.

Our review of the 64 retail agent licensing files revealed that none of the agents are currently bonded. We did not find any documented evidence showing DCLB's reasons/justification for changing this requirement or the publication of this change in their policies and procedures.

Adequacy of DCLB Retail Agent Licensing Unit Staffing

There is currently about 513 active Lottery Retail Agents to two dedicated staff creating a very low staff to agents' ratio. Prior to January 2011, the Licensing staff consisted of 6 dedicated staff, including the Chief and an American with Disabilities Act (ADA) compliance specialist. The department is currently comprised of two individuals with one staff member dedicated to ADA compliance, and the other dedicated to the Licensing activities. The Licensing Chief has dual responsibilities to the Licensing and Sales departments and the remaining three were assigned to the Sales Department.

Based on our observations, interviews, documentation and the results of our tests conducted, it appears to us that a lack of manpower contributed in part to the issues discussed above, resulting in agents not being effectively monitored as required by 30 DCMR. We understand that DCLB management is examining the staffing issue to determine whether additional support staff should be added.

Recommendations

We recommend that the Executive Director, DCLB take the following actions:

1. Ensure all required licensing documentation is kept in the retail agent files and readily available for external review.
2. Ensure that all retail agents, who are issued a lottery license, comply with the Department of Consumer and Regulatory Affairs Clean Hands Act.
3. Document changes made within the licensing process or licensing requirements which are stipulated by District laws and regulations.
4. Allocate the necessary resources to adequately manage the licensing program, including supervisory oversight of program compliance.

FINDINGS AND RECOMMENDATIONS

Agency Response

DCLB agrees with OIO's recommendations. In its response, DCLB state that it has requested additional human capital to assist with keeping the licensing files complete. Moreover, it noted that, as DCLB's human resources department is centralized, the agency awaits the CFO's HR Department to act upon its request.

DCLB agrees that changes to the licensing requirements and the bonding fee should be documented. D.C. Official Code § 3-1315 and D.C. Mun. Regs., tit. 30 § 302 allows the Executive Director to set the bond amount. Via Administrative Issuance (Director's Memorandum 13-01), the bond amount has been set to \$0 (attached).

D.C. Official Code § 3-1315 and 3-1321 and D.C. Mun. Regs., tit. 30 § 204.4, the DCLB has the authority to determine the period of time for which the lottery sales licenses is valid. Via Administrative Issuance (Director's Memorandum 13-02) DCLB has established a "no expire" period for licenses.

OIO Comment

DCLB corrective actions are responsive to our recommendations.

FINDING 2: NON-SUFFICIENT FUNDS POLICY ENFORCEMENT

SYNOPSIS

The audit disclosed that during the period October 1, 2011 through April 30, 2012, 57 retail agents had 137 instances of Non-Sufficient Funds (NSF) charges. As part of our testing in this area, we judgmentally selected 88 transactions to examine from 15 retail agents who had three or more NSF transactions during the audit period. We found the issue of non-enforcement to be pervasive under current operations. We understand that DCLB management did not strictly enforce the NSF policy because the primary mission of the agency is to generate as much sales as possible, and shutting down agents' sales terminals per the current NSF policy was contrary to increasing sales. As a result, DCLB did not effectively enforce its non-sufficient funds (NSF) policies with its retail agents. This situation raises the question of accountability and compliance which potentially increase the financial risk for DCLB.

DISCUSSION

DCLB's policy states that additional assessments will be enforced when retail lottery agents do not have sufficient funds in their checking account to cover the electronic withdrawal for ticket sales. DCLB policy regarding NSF transactions for agents is based on the number of NSF transactions incurred.

The following is a brief overview of DCLB's current Non-Sufficient Funds (NSF) policy:

First NSF: The Agent terminal is deactivated on NSF Bank Report date and the Agent terminal is reactivated after NSF is repaid.

Second NSF: The Agent terminal is deactivated on NSF Bank Report date, a 5% penalty is assessed (5% of NSF amount) and the Agent terminal is reactivated after NSF and penalty is repaid.

Third NSF: The Agent terminal is deactivated on NSF Bank Report date, a 5% penalty is assessed (5% of NSF amount), Agent is suspended for 1 week and counseled regarding NSF (potential for revocation on next NSF), and the Agent terminal is reactivated after NSF and penalty is repaid.

Fourth NSF: The Agent terminal is deactivated on NSF Bank Report date, a 5% penalty is assessed (5% of NSF amount), Agent license is revoked and the Agent must repay the NSF and penalty.

During our testing of the 88 non-sufficient funds transactions, we found that in several instances agents did not pay the penalty assessed, did not pay the penalty assessed timely, did not pay the NSF amount assessed; the agent terminal was not deactivated on NSF Bank Report date and was reactivated without paying the NSF amount assessed or the penalty assessed. **Table 3** summarizes the results of our NSF testwork.

FINDINGS AND RECOMMENDATIONS

Table 3: Summary of the Results from OIO Non-Sufficient Funds Testwork

Description of Issues	Instances
Agent paid NSF amount but did not pay the penalty assessed	33
Agent paid NSF amount assessed, but the amount assessed does not include the 5% penalty	22
Agent terminal was reactivated after paying only the NSF amount but not the 5% penalty assessed.	36
No evidence of agent suspension of license except in one instance	13
No evidence of counsel regarding possible revocation of license	13
Agent terminal was not deactivated on NSF Bank Report date	17
Agent terminal was reactivated without paying the NSF amount assessed	1
Agent did not pay the NSF amount assessed	3
Agent terminal was reactivated after paying only the NSF amount, but the 5% penalty was not assessed	17
No evidence of Agent license revocation	41
5% penalty was not assessed	24

Recommendation

We recommend that Executive Director, DCLB:

5. Enforce the existing Non-sufficient Funds policies regarding agent deposits to protect the agency's cash from being at risk or alternatively, develop and implement a policy that can be enforced while still allowing for DCLB to focus on its core mission to increase lottery sales.

Agency Response

DCLB reiterated that its primary mission is to generate sales via the sale of lottery products and that shutting down agents' sales terminals is contrary to increasing sales. However, the agency stated that it has revised and updated its NSF policy, which it intends to follow.

OIO Comment

DCLB corrective action is responsive to our recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 3: INTERNAL CONTROLS OVER THE MONEY MACHINE GAME

SYNOPSIS

We examined the Money Machine Game Program, which was a series of eight-raffle tickets selling and public drawing events during Wizard basketball games and Capitals (CAPS) hockey games at the Verizon Center that started on November 8, 2011 and ended on April 10, 2012. We selected all eight games for testing. Our examination of the documentation package for each game revealed that there was a lack of segregation of duties between the Draw staff and the marketing staff. We understand that this lack of segregation of duties occurred because the Marketing staff was not always present at the games due to emergencies. As a result, the absence of Marketing Department signatures and involvement creates an impression that the Draw Department fully controlled the Money Machine game process and drawing. This arrangement could create the appearance to the public that a draw staff is selecting the winners and awarding the prizes as they see fit, which could potentially create an issue in the fairness of the Money Machine game. The winner should be randomly selected and recorded by someone other than the person awarding the prize to reduce any hint of a pre-selected winner.

DISCUSSION

The Money Machine game is one in which a participant is placed in a Plexiglas “wind tunnel” where simulated money is blown around the enclosure. The objective is for the participant to gather and hold on to as much of the money within a few minutes. In the case of the DC Lottery’s Money Machine game, the participant is awarded the amount of cash he/she collected in simulated bills. **Table 4** shows a listing of the prizes awarded during the eight games.

**Table 4: Prizes Awarded to the Money Machine Winners
November 8, 2011 through April 10, 2012**

Winners	Examples of Prizes
First Place	Entitled to enter the “Money Machine” and pick up as much cash as he/she is able to while in the machine within the specified time
Second Place	Autographed Wizards jersey or autographed Capitals jersey, Verizon Center Suite tickets, Road trip to NY with Wizards and \$500, Road trip to NY with Wizards and a Wizards jersey
Third Place	Autographed Wizards basketball, autographed Capitals hockey stick
Fourth Place	Wizards photo pack, autographed hockey puck

Our examination objectives are to determine whether management has properly designed and maintained internal controls to achieve the objectives of effective and efficient operations, including clearly outlined and published rules of the games, a drawing and winners’ prize awarding processes that are fair in both fact and appearance, to include a properly designed and

FINDINGS AND RECOMMENDATIONS

maintained sales and event recording processes for the game. Players play lottery games with an understanding that the prize they will win is the prize that is advertised by the lottery.

Inadequate Segregation of Duties between the Draw Staff and the Marketing Staff

In its publication *Internal Control Standards for the Federal Government*, the Government Accountability Office (GAO) states that:¹

“Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them. No one individual should control all key aspects of a transaction or event.”

DCLB in its “Money Machine Operating Task Duties Checklist” provides the specific steps and controls, which are to be followed in the awarding of prizes. This checklist provides specific duties for the Draw and Marketing Departments’ staff.

Our testing found that, in 8 (47 percent) of the 17 instances tested, the Claims Forms were signed by a staff member from the Draw Department instead of the Marketing Department. Further, the Marketing staff did not validate the prize winners as required by DCLB policies and procedures. Additionally, the Draw Department staff member, who signed the Claim Forms also signed the Claim Letters in two (25 percent) of the eight games. We also found that the Marketing Department did not effectively maintain a chain of custody for the currency certificates used in the game.

Our testing identified that the duties between the Draw and Marketing Departments were not adequately separated. With the exception of drawing the winning tickets, the Draw Department could control the process for awarding money machine prizes.

In addition, OIO found that, in the eight drawings tested, the Marketing Department staff did not sign the Cash Reconciliation Sheet (CRS). The staff from the Draw Department did sign the CRS both, prior to and after the drawings, in the eight games. The Draw Department should have only signed the CRS to provide evidence that they accepted the currency certificates at the start of each game.

Recommendations

We recommend that the DCLB Management:

6. Enforce the separation of “non-conflicting” duties between the Draw Staff and the Marketing Staff during a live draw event are both in fact and in appearance so as to

¹ U.S. Government Accountability Office, formerly the U.S. General Accounting Office; *Standards for Internal Control in the Federal Government*, Report Number: GAO/AIMD-00.21.3; November, 1999; page 14.

FINDINGS AND RECOMMENDATIONS

enhance the public perception of the “fairness” of the draw and prize award processes. After the draw process completed, the draw staff could be assigned to other non-conflicting duties such as promoting future Lottery events.

Agency Response

DCLB disagreed with this finding. It stated that the integrity of the draw is verified by the presence of 1 to 2 auditors on site at the Verizon Center at all times with the Draw staff. Moreover, the auditors certify the integrity of the draw process as well as the selection of winners; therefore, there can be no hint or impression of a pre-selected winner.

However, DCLB stated that to enhance the public perception of fairness, only one Draw staff person will conduct the Draw and the other assigned Draw staff person will help where needed; DCLB repeated that one to two auditors are always on site to certify the integrity of the Draw process.

OIO Comment

Subsequent to our audit, DCLB modified their procedures for handling the prize distribution for the Money Machine Game as noted in their response. We agree with the corrective action taken by DCLB which, when fully implemented, will satisfy the recommendation.

OBSERVATION OF RETAIL AGENT COMPLIANCE PROGRAM

SYNOPSIS

During 2008 and 2009 lotteries in Canada and the United States of America were experiencing negative publicity resulting from lottery sales agents not paying the players their correct winnings. In response to this fraud risk, DCLB implemented an Agent Compliance Program. During the fieldwork phase of the audit, the OIO auditor of record accompanied DCLB staffers' investigation of five such compliance tests on agent's checks. DCLB Agent Compliance Program appears to be working as intended by seeking to uncover dishonest agent behavior.

DCLB Investigators and OIO visited five agent locations as part of their ongoing efforts to ensure agent compliance with DCLB regulations for its retail agents. Four out of the five agents followed the DCLB regulations and gave the correct response while the fifth cashed the winning ticket. The cause for his behavior is that he probably thought that DCLB has no effective monitoring system for this compliance requirement. The effect of the agent cashing the ticket meant that he could be withholding and keeping part of the winnings from the players and not remitting the taxes to the District. It leads to dishonest dealings that would be associated with DCLB games. The public trust is essential to the operations of DCLB. We understand the above mentioned issue was investigated and the agent who violated the DCLB regulations received the appropriate disciplinary action.

DISCUSSION

To ensure that the Lottery winners received their prizes, DCLB requires their retail sales agents to inform the customer (those who won a prize greater than \$600.00), that the ticket is a winner and give a printout to take to an agent plus location or at DCLB Claim Center to be redeemed.

DCLB Security Department conducts Agent Compliance field visits to enforce the above-mentioned policy. The purpose of these undercover field visits is to determine whether the agent is following DCLB regulations when players present winning tickets. Each Investigator presents a winning mirror ticket (a ticket that when scanned appears to be a winning ticket but it does not allow the agent to actually redeem the ticket since it is not a real ticket. The ticket when scanned by the agent will show that it is a winning ticket but the amount of winnings per DCLB regulations cannot be redeemed at the agent location). In instances when the winning ticket is \$600 or greater, the correct agent response should be to inform the customer that the ticket is a winner and give a printout to take to an agent plus location or at DCLB Claim Center to be redeemed.

Four of the agents followed the DCLB regulations and gave the correct response. Each of the four told the Investigators that they won \$2,000 and gave a printout to take to an agent plus location or to DCLB Claim Center to redeem. However, the fifth agent that we visited violated the DCLB regulations and cashed the ticket for Investigator and withheld taxes from the winnings.

OBSERVATION OF RETAIL AGENT COMPLIANCE PROGRAM

Recommendations

7. Reinforce the message that DCLB will monitor agents' compliance with DCLB lottery rules during sales and security training sessions.

Agency Response

In its response, DCLB stated that its Security Division conducts routine compliance checks of agent locations at any given time. The purpose of this initiative is to identify and hold accountable lottery agents or their employees who intentionally defraud lottery players of their legitimate winnings by theft or paying less than the full prize of a winning lottery ticket. In the event that an agent fails to comply, DCLB retains the option to suspend, terminate, revoke the license, or take any other enforcement action authorized by law.

In addition, during new agent recruitment training and any refresher training deemed necessary by DCLB officials, the Sales/Licensing Division will reinforce the message that we monitor agents' compliance.

OIO Comment

The Lottery planned action noted above is responsive to our recommendation.

EXHIBIT A: Summary of Potential Benefits from Audit

No	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status ²
1	To ensure all required licensing documentation is kept in the retail agent files and readily available.	Internal Control	5/5/2013	Open
2	To ensure that all retail agents who are issued a lottery license comply with the Department of Consumer and Regulatory Affairs Clean Hands Act.	Internal Control	5/5/2013	Open
3	To document changes made within the licensing process or licensing requirements which are stipulated by District laws and regulations.	Compliance and Internal Control	3/19/2013 and 5/8/2013	Closed
4	Take action to allocate the necessary resources to adequately manage the licensing program, including supervisory oversight of program compliance.	Internal Control	4/30/2013	Open
5	Enforce the existing Non-sufficient Funds policies regarding agent deposits or develop and implement a policy that can be enforced.	Internal Control	Standard Operating Procedure Issued on 5/5/2013	Open
6	Ensure that the separation of "non-conflicting" duties between the Draw Staff and the Marketing Staff during a live draw event are both in fact and in appearance so as to enhance the public perception of the "fairness" of the draw and prize award processes. After the draw process is completed, the draw staff could be assigned to other non-conflicting duties such as promoting future Lottery events.	Internal Control	New procedures issued on 4/30/2013	Open
7	Reinforce the message that DCLB will monitor agents' compliance with DCLB lottery rules during sales and security training sessions.	Internal Control	Whenever new agents are licensed or refresher training is needed	Open

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

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



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

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

DATE: May 10, 2013

SUBJECT: Draft Report on the Audit of the District of Columbia Lottery &
Charitable Games Control Board (DCLB) Operations (Report No. OIO-
11-02-28-DCLB)

Introduction

This memo is in response to your Draft Report on the Audit of the District of Columbia Lottery & Charitable Games Control Board (DCLB) Operations dated April 11, 2013. The report identified five weaknesses and contained seven recommendations.

Following are responses to OIO's findings and recommendations.

1. OIO Findings – DCLB Retailer Agent Licensing Process:

We examined 64 out of the 513 active retail agent folders. We found many instances of missing supporting documents and non-compliance with the Department of Consumer and Regulatory Affairs Clean Hands Act which is required in order for an agent to get a license. We also noted that the \$500 bonding requirement for the licensing period was not being collected and that the most recent licenses issued did not have the required issue and expiration dates because changes were made to the licensing policies and procedures which we not adequately documented. As a result of the above cited issues, DCLB licensing folders are not adequately maintained and create the potential for ineligible retail agents to be licensed which increases the public relations and financial risk for DCLB.

- **OIO Recommendations:**

- 1) *Ensure all required licensing documentation is kept in the retail agent files and readily available for external review.*
- 2) *Ensure that all retail agents who are issued a lottery license comply with the Department of Consumer and Regulatory Affairs Clean Hands Act.*
- 3) *Document changes made within the licensing process or licensing requirements which are stipulated by District laws and regulations.*
- 4) *Allocate the necessary resources to adequately manage the license program including supervisory oversight of program compliance.*

DCLB Response:

DCLB agrees with OIO's recommendations. It should be noted that DCLB has requested additional human capital to assist with keeping the licensing files complete. As DCLB's human resources department is centralized, we are awaiting the CFO's HR Department to act upon our request.

DCLB agrees that changes to licensing requirements and the bonding fee should be documented. D.C. Official Code § 3-1315 and D.C. Mun. Regs., tit. 30 § 302 allows the Executive Director to set the bond amount. Via Administrative Issuance (Director's Memorandum 13-01), the bond amount has been set to \$0 (attached).

D.C. Official Code §§ 3-1315 and 3-1321 and D.C. MUN. REGS. tit. 30 § 204.4, the D.C. Lottery and Charitable Games Control Board ("DCLB") has the authority to determine the period of time for which a lottery sales license is valid. Via Administrative Issuance (Director's Memorandum 13-02), DCLB has established a "no expire" period for licenses.

2. OIO Findings—Non-Sufficient Funds (NSF) Policy Enforcement:

The audit disclosed that during the period 10/1/11 through 4/30/12, 57 retail agents had 137 instances of NSF charges. We found the issue of non-enforcement to be pervasive under current operations. This situation raises the question of accountability and compliance which potentially increase the financial risk for DCLB.

- **OIO Recommendation:** *Enforce the existing NSF policies regarding agent deposits to protect the agency's cash from being at risk or alternatively, develop and implement a policy that can be forced while still allowing for DCLB to focus on its core mission to increase lottery sales.*

DCLB Response:

As noted, DCLB's primary mission is to generate sales via the sale of lottery products. Shutting down agents' sales terminals is contrary to increasing sales; however, DCLB has revised and updated its NSF policy and will follow said policy (attached).

3. OIO Findings—Internal Controls Over the Money Machine Game: Inadequate Segregation of Duties between the Draw Staff and the Marketing Staff

We examined the Money Machine Game Program which was a series of eight raffle tickets selling and public drawing events during Wizard basketball games and Capitals hockey games at the Verizon Center that started on November 8, 2011 and ended on April 10, 2012. We selected all eight games for testing. Our examination of the documentation package for each game revealed that there was a lack of segregation of duties between the Draw staff and the Marketing staff. As a result of the Marketing staff not always being present at the games due to emergencies, the absence of Marketing Department signatures and involvement creates an impression that the Draw Department fully controlled the Money Machine game process and drawing. This arrangement could create the appearance to the public that a draw staff is selecting the winners and awarding the prizes as they see fit, which could potentially create an issue in the fairness of the Money Machine game. The winner should be randomly selected and recorded by someone other than the person awarding the prize to reduce any hint of a pre-selected winner.

Our testing found that in 8 of the 17 instances tested, the Claims Forms were signed by a staff member from the Draw Department instead of the Marketing Department. Further, the Marketing staff did not validate the prize winners as required by DCLB policies and procedures. Additionally, the Draw Department staff member who signed the claim forms also signed the claim letters in two of the eight games. We also found the Marketing Department did not effectively maintain a chain of custody for the currency certificates used in the game.

- ***OIO Recommendation:** Enforce the separation of non-conflicting duties between the Draw staff and the Marketing staff during a live draw event are both in fact and in appearance so as to enhance the public perception of the "fairness" of the draw and prize award processes. [sic] After the draw process completed [sic], the draw staff could be assigned to other non-conflicting duties such as promotion future Lottery events.*

DCLB Response:

DCLB disagrees with this finding. The integrity of the draw is verified by the presence of 1 to 2 auditors on site at the Verizon Center at all times with the Draw staff. The auditors certify the integrity of the draw process as well as the selection of winners; therefore, there can be no hint or impression of a pre-selected winner.

However, to enhance the public perception of fairness, only one Draw staff person will conduct the Draw and the other assigned Draw staff person will help where needed. As stated above, one to two auditors are always on site to certify the integrity of the Draw process.

4. Observation of Retail Agent Compliance Program

- **OIO Recommendation:** Reinforce the message that DCLB will monitor agents' compliance with DCLB lottery rules during sales and security training sessions.

DCLB Response:

The DCLB's Security Division conducts routine compliance checks of agent locations at any given time. The purpose of this initiative is to identify and hold accountable lottery agents or their employees who intentionally defraud lottery players of their legitimate winnings by theft or paying less than the full prize of a winning lottery ticket. In the event that an agent fails to comply, DCLB retains the option to suspend, terminate, revoke the license, or take any other enforcement action authorized by law.

During new agent recruitment training and any refresher training deemed necessary by DCLB officials, the Sales/Licensing Division will reinforce the message that we monitor agents' compliance.

Cc: Ester Sawyer, Auditor, Office of Integrity and Oversight
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ADMINISTRATIVE ISSUANCE SYSTEM	DIRECTOR'S MEMORANDUM 13-01	EFFECTIVE DATE February 1, 2010
	DISTRIBUTION All DCLB Staff	SUPERSEDES n/a

Originator: Buddy Roogow
Executive Director

Subject: Lottery Agent Bond Amount

Purpose: The purpose of this issuance is to set the amount of the bond which lottery sales agents are required to provide to the DC Lottery as a licensing requirement.

1. In accordance with D.C. Official Code § 3-1315 and D.C. MUN. REGS., tit. 30 § 302, the initial bond amount required from lottery sales agents and applicants is \$0.
2. The Executive Director may require a bond in a greater amount, as determined by the Executive Director, based upon any one of the following factors:
 - (a) Poor credit score on the part of the lottery sales agent or applicant;
 - (b) the lottery sales agent fails to have, on more than two (2) occasions within a calendar year, funds available for an electronic funds transfer to the District as required by D.C. Official Code § 3-1316 and D.C. MUN. REGS., tit. 30 § 305; or
 - (c) any other relevant factor, as determined by the Executive Director, affecting the financial viability of the lottery sales agent.
3. Nothing in this Administrative Issuance shall limit the ability of the Agency to take additional enforcement action against a lottery sales agent, including but not limited to, suspension or revocation of a lottery license as authorized by law.


Buddy Roogow
Executive Director

3-19-13
Date


ADMINISTRATIVE ISSUANCE SYSTEM	DIRECTOR'S MEMORANDUM 13-02	EFFECTIVE DATE February 1, 2010
	DISTRIBUTION All DCLB Staff	SUPERSEDES n/a

Originator: Buddy Roogow
Executive Director

Subject: Renewal of Agent Licenses

Purpose: The purpose of this issuance is to set the timeframe for agent license renewal as a licensing requirement.

Pursuant to D.C. Official Code §§ 3-1315 and 3-1321 and D.C. MUN. REGS. tit. 30 § 204.4, the D. C. Lottery and Charitable Games Control Board ("DCLB") has the authority to determine the period of time for which a lottery sales license is valid. Accordingly, DCLB is establishing a "no expire" period for licenses. Notwithstanding the forgoing, the DCLB retains the right to suspend or revoke lottery sales agent licenses, issue fines or take any other enforcement action authorized by law for violations of the Law to Legalize Lotteries, Daily Numbers Games, and Bingo and Raffles for Charitable Purposes in the District of Columbia, effective March 10, 1981 (D.C. Law 3-172).



Buddy Roogow
Executive Director

5/8/13

Date