

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

**AUDIT OF CASH HANDLING PROCESS OVER PROMOTIONAL
EVENTS AT THE DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD**

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 K. Yusuff, Interim Executive Director
Office of Integrity and Oversight

DATE: February 20, 2014

SUBJECT: Final Report: Audit of Cash Handling Process over Promotional Events at the District of Columbia Lottery and Charitable Games Control Board (**OIO No.-14-01-01 DCLB**)

The attached report summarizes the results of the Office of Integrity and Oversight's (OIO) Audit of Cash Handling Process Over Promotional Events at the District of Columbia Lottery and Charitable Games Control Board.

This report contains two findings and four recommendations, which if implemented, should correct the cited issues, strengthen internal controls and promote operational efficiency. The DCLB concurred with the findings and recommendations and submitted an appropriate corrective action plan. We consider DCLB's corrective actions to be responsive to the noted findings. The full text of the DCLB 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, please contact me at (202) 442-8240, or your staff can contact Tiong The, Audit Manger, at (202) 442-8294.

cc: Angell Jacobs, Deputy CFO and Chief of Staff, OCFO
Kathy Crader, Chief Risk Officer, OCFO
Tracey Cohen, Chief Operating Officer, DCLB
Clarice Wood, Associate Treasurer, Banking & Operations, OFT

**AUDIT OF CASH HANDLING PROCESS OVER PROMOTIONAL EVENTS AT THE
DISTRICT OF COLUMBIA LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

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**AUDIT OF CASH HANDLING PROCESS OVER PROMOTIONAL EVENTS AT THE
DISTRICT OF COLUMBIA LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

ACRONYMS

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

EXECUTIVE SUMMARY

OVERVIEW

The Office of Integrity and Oversight (OIO) has completed an audit of the Promotional Events Cash Handling Process at the District of Columbia Lottery and Charitable Games Control Board (DCLB) for the period October 1, 2012 to September 30, 2013. The objectives of this audit were to determine whether DCLB: (1) Established effective internal controls over cash handling process for promotional events; (2) Followed its promotional events cash handling policies and procedures; and (3) Promotional events cash is properly and accurately recorded in a timely manner. The audit was initiated as part of OIO fiscal year's (FY) 2014 annual plan.

CONCLUSIONS

We found that the internal controls for the DCLB promotional events cash program need to be improved. Specifically, our testwork revealed that: supporting documents were not signed and dated as required and one of the required documents was missing from the supporting documentation packages. Also, we found that cash deposits were not picked up and deposited timely.

SUMMARY OF RECOMMENDATION

We directed four recommendations to the DCLB management for necessary action to correct the described deficiency. Our recommendations to DCLB are as follows:

- Ensure that agency personnel involved in the promotional events cash handling process sign the respective supporting documents.
- Develop and implement a checklist (cover sheet) of cash handling for promotional events to ensure that all of the required documents are included in the supporting documents package.
- Enforce the current DCLB policy and procedures, which require that the settlement reconciliation be performed the next business day or within 48 hours.
- Notify the Office of Finance and Treasury (OFT) whenever the contractor is late for pickup of cash from promotional events so that can ensure that the terms of the contract are met and cash is picked up timely by the contractor.

MANAGEMENT RESPONSE AND OIO COMMENTS

OIO received a written response from the Executive Director of the DCLB dated February 11, 2014. DCLB concurred with the findings and recommendations. We conclude that the DCLB planned corrective actions, when fully implemented, will address the issues noted in the findings. The full text of DCLB's response is included at Appendix 1.

INTRODUCTION

BACKGROUND

The District of Columbia Lottery and Charitable Games Control Board (DCLB) conducts promotional events on a regular basis. These events can be sponsored by DCLB retail agents where DCLB staff is present. The staff present at events sponsored by DCLB retail agents promotes awareness of the Lottery and the various games offered to players. They accomplish this by answering questions from players and give away prizes which include water bottles, mugs, umbrellas, free tickets, baseball hats. The players can get a prize for purchasing a specified ticket(s) or for simply showing up at the event. At other times DCLB sponsors the event and sells tickets. Prizes are also given out for purchasing specific ticket(s).

This audit focused on cash handling at those events where DCLB is the sponsor and sells lottery tickets. Both scratch and online tickets are sold at these promotional events. Tickets sold include \$1, \$2, \$5, \$10 and \$20 scratch. The online game tickets include Mega Millions, Hot Lotto, Powerball, Keno, Race2Riches and Fast Play.

During FY 2013, 49 promotional events were held. DCLB sponsored 26 of these events and sold lottery tickets. DCLB Retail Agents sponsored the other 23 events. These events are managed by an Events Manager. For events where DCLB sells tickets the supporting staff includes one Cashier, one Dual Control person (this person stays with the Cashier to ensure two persons is always with the events cash), one Security Guard, the Lucky Lottery Mobile (LLM) Driver and Event set-up person (s). For events that are sponsored by DCLB Retail Agents the events are managed by an Events Manager and the supporting staff are the LLM Driver, one Security Guard and other event personnel (ranging from four to six persons) determined by the Events Manager to help with the promotion of the Lottery.

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of this audit were to determine whether DCLB: (1) Established effective internal controls over cash handling process for promotional events; (2) Follows its promotional events cash handling policies and procedures; and (3) Promotional events cash is properly and accurately recorded in a timely manner.

SCOPE AND METHODOLOGY

Our audit covered cash receipts from promotional events for FY 2013. To accomplish our objectives, we interviewed the Events Manager and relevant personnel from the Finance Department; we reviewed all of the cash transactions resulting from promotional events and examined the supporting documentation for each cash deposit of the 26 events. We reviewed applicable standard operating policies and procedures as it relates to cash. In addition, we observed a promotional event and performed a surprise cash count.

INTRODUCTION

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit 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: DOCUMENTATION OF CASH DEPOSIT TRANSACTIONS FOR PROMOTIONAL EVENTS

SYNOPSIS

We examined all of the 26 promotional events cash deposit transactions for FY 2013. We found 10 instances of missing signatures on the supporting documents. This happened because the signature lines on the forms were not specifically designated by position of those required to sign the forms. As a result, a lack of accountability existed for those events and the chain of custody was not documented.

We also found 11 instances of missing supporting documents. This happened because the employees running the Photon terminal were different for each event prior to August 2013 and the other instances were likely due to employee not realizing the importance of running this report at the beginning of each event. As a result, we were unable to determine whether the amount listed for online ticket sales were accurate for those events.

DISCUSSION

DCLB uses the Disbursement and Settlement Forms to document the physical custody of the lottery tickets and cash for each promotional event.

The Disbursement Form is used to document the tickets and cash for change bank given by the Event Manager to the Cashier and to show that the Cashier acknowledged the receipt of the tickets and cash. This also serves as the beginning inventory of tickets and cash for the event.

The Settlement Form is used to document the tickets sold and cash received for those tickets. The Cashier and Dual Control Person (another DCLB staff that is present at all times with the cash and tickets) documents their sales and ending inventory for the event. Both sign the Settlement Form along with the Events Manager to acknowledge the returned tickets and cash is accurate.

Missing Signatures

Our examination of the 26 cash deposit transactions supporting documents packages revealed that in one instance the Events Manager did not sign and date the Disbursement Form. Also, in two out of 26 transactions reviewed neither the Manager nor the Cashier signed and dated the Disbursement Form.

We also noted that in one instance the Events Manager did not sign and date the Settlement Form and in two instances neither the Manager nor the Cashier signed the Settlement Form. The Settlement Form is used to document the tickets sold and cash received for those tickets.

FINDINGS AND RECOMMENDATIONS

Missing Documentation

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

“Internal Control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.”

According to DCLB Policies and Procedures and OIO’s observations the Beginning of Event Photon Terminal Zero Sales Report is part of the supporting documents package for transactions relating to promotional events cash handling. It provides evidence that online ticket sales at the beginning of the event is zero from that Photon Terminal so that when the End of Event Photon Terminal Sales Report is printed DCLB can be confident that no other online sales is included in that promotional event online sales.

Our examination of the cash deposit transactions supporting documents packages revealed that 11 out of the 26 Beginning of Event Photon Terminal Zero Sales Reports were missing from the package.

Recommendations

We recommend that the Executive Director, DCLB:

1. Ensure that Events Manager, Cashier, Dual Control Person, Vault Count and Reconciliation Reviewer sign the respective supporting documents.
2. Develop and implement a checklist (cover sheet) for cash handling of promotional events to ensure that all of the required documents are included in the supporting documents package.

Management Response

DCLB concurred with OIO’s findings and recommendations and provided a corrective action plan, which will be fully implemented by February 28, 2014.

OIO Comment

DCLB planned corrective actions are responsive to the findings

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 15.

FINDINGS AND RECOMMENDATIONS

FINDING 2: CASH PICKUPS AND DEPOSITS

SYNOPSIS

We examined the 26 promotional events cash deposit transactions for FY 2013. We found five instances where DCLB did not perform the Settlement Reconciliation timely. We were unable to determine the cause for the untimely performance of the Settlement Reconciliation. As a result, the event cash would not be deposited timely to the bank.

We also found 13 instances where the contractor did not pick-up cash deposits per the scheduled dates which is every Tuesday and Friday. We were unable to determine the cause for the delayed pick-ups by the contractor. Those cash receipts were not deposited to the bank timely by the contractor resulting in loss on interest to the District.

DISCUSSION

Timely Settlement Reconciliation Form

DCLB Cash Handling Procedures states that:²

“The next day or within 48 hours of an event, the finance representative and the Event Manager or designee, under dual control, will access the vault to verify the settlement bags and prepare the bank deposit.”

Of the 26 cash deposit transactions supporting documents packages reviewed, we found that five times the Settlement Reconciliation was not performed timely and resulted in \$1,761.00 of deposits not deposited timely in the bank.

Timely Cash Deposits

The District procured the services of a contractor to pick-up and drop off deposits to the bank for various agencies. DCLB is one such agency. The contract calls for them to pick up deposits every Tuesday and Friday.

Our review of the Contractor Customer Receipt Pickup Book (Red Book) showed that the Contractor was late in picking up 13 out of 26 deposits from DCLB in FY 2013 (50%). The Red book shows the date and signature of the Contractor official's confirmation of the deposit (s) picked up.

Table 1 below shows those pickups for which the Contractor was late.

² D.C Lottery Games & Control Board Cash Handling Procedures Manual; February 1, 2013; page 4

FINDINGS AND RECOMMENDATIONS

Table 1: Instances of Late Pickup by Contractor

No.	Event Date	Scheduled Pickup Date	Actual Pickup Date	Days Deposit Pickup Late	Deposit Amounts
1	10/04/2012	10/05/2012	10/16/2012	11	\$ 63.00
2	10/11/2012	10/12/2012	10/16/2012	4	4,054.00
3	11/08/2012	11/09/2012	11/13/2012	4	1,987.00
4	08/20/2013	08/23/2013	08/27/2013	4	478.00
5	08/21/2013	08/23/2013	08/27/2013	4	852.00
6	08/30/2013	09/03/2013	09/10/2013	7	518.00
7	09/03/2013	09/06/2013	09/10/2013	4	559.00
8	09/04/2013	09/06/2013	09/10/2013	4	1,377.00
9	09/10/2013	09/13/2013	09/17/2013	4	1,059.00
10	09/11/2013	09/13/2013	09/17/2013	4	789.00
11	09/24/2013	09/27/2013	10/04/2013	7	455.00
12	09/25/2013	09/27/2013	10/04/2013	7	192.00
13	09/27/2013	10/01/2013	10/04/2013	3	953.00
Total Deposits					\$ 13,336.00

These late pickups mentioned above contributed to cash not being deposited timely. In addition, it appears that the cash picked was not deposited timely in 18 out of 26 instances. 65 days of interest lost to the District because of late deposits totaled \$15,065 in FY 2013 (see **Table 2** below).

Table 2: Days of Interest Lost Due to Cash Not Deposited Timely

No.	Estimated Deposit Dates Based on Policies and Procedures	Deposit Date Per Bank Statement	Estimated days of interest lost on deposits (compare bank deposit date to the estimated deposit date)	Deposit Amounts
1	11/09/2012	11/14/2012	5	1,987.00
2	11/18/2012	11/21/2012	3	1,548.50
3	12/04/2012	12/10/2012	6	1,386.00
4	08/16/2013	08/19/2013	3	352.00
5	08/16/2013	08/19/2013		283.50
6	08/20/2013	08/28/2013	8	478.00
7	08/23/2013	08/28/2013	5	852.00
8	08/30/2013	09/03/2013	4	382.00
9	08/30/2013	09/03/2013		300.00
10	09/03/2013	09/11/2013	8	518.00
11	09/06/2013	09/11/2013	5	559.00
12	09/06/2013	09/11/2013		1,377.00
13	09/13/2013	09/18/2013	5	1,059.00
14	09/13/2013	09/18/2013		789.00
15	09/20/2013	09/23/2013	3	1,377.00
16	09/20/2013	09/23/2013		1,170.00
17	09/27/2013	10/07/2013	10	455.00
18	09/27/2013	10/07/2013		192.00
Total			65	15,065.00

FINDING AND RECOMMENDATION

Recommendations

We recommend that the Executive Director, DCLB:

3. Enforce the current policy and procedure which requires that the settlement reconciliation be performed the next business day or within 48 hours.
4. Notify the Office of Finance and Treasury (OFT) whenever the contractor is late for pickup of cash from promotional events so that OFT can ensure that the terms of the contract are met and cash is picked up timely by the contractor.

Management Response

DCLB concurred with OIO's findings and recommendations and provided a corrective action plan for Recommendation Three which will be fully implemented by April 1, 2014. The agency corrective actions for Recommendation Four will begin April 1, 2014, and continue as the need arises.

OIO Comment

DCLB planned corrective actions are responsive to the findings and recommendations.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

No	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status ³
1	Ensure that Events Manager, Cashier, Dual Control Person, Vault Count and Reconciliation Reviewer should sign the respective supporting documents.	Internal Control and Program Efficiency	2/28/2014	Open
2	Develop and implement a checklist cover sheet for promotional events cash handling to ensure that all of the required documents are included in the supporting documents package.	Internal Control and Program Efficiency	2/28/2014	Open
3	Enforce the current policy and procedure which requires that the settlement reconciliation be performed the next business day or within 48 hours	Internal Control and Program Efficiency	4/1/2014	Open
4	Notify the Office of Finance and Treasury (OFT) whenever the contractor is late for pickup of cash from promotional events so that can ensure that the terms of the contract are met and cash is picked up timely by the contractor.	Internal Control	Begin 4/1/2014 and continue as needed	Open

³ This column provides the status of a recommendation as of the report date. For final reports, "Open" means management, and the OIO agree on the action to be taken, but is not complete. "Closed" means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management's response is used. "Unresolved" means that management has agreed neither to take the recommended action nor propose satisfactory alternative actions to correct the condition.

APPENDIX 1: DCLB MANAGEMENT RESPONSE

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



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

FROM: ¹³⁸ Buddy Robgow, Executive Director
DC Lottery & Charitable Games Control Board

DATE: February 11, 2014

SUBJECT: Audit of Cash Handling Process Over Promotional Events at the District of Columbia Lottery and Charitable Games Control Board (**Report No. OIO No. 14-01-01-DCLB**)

Introduction

This memo is in response to your Draft Report on the Audit of Cash Handling Process over Promotional Events at the District of Columbia Lottery and Charitable Games Control Board ("DCLB") dated January 30, 2014. The report identified two recommendations.

OIO Finding – Our examination of the 26 cash deposit transactions supporting documents packages revealed that in one instance the Events Manager did not sign and date the disbursement form. Also, in two out of 26 transactions reviewed neither the manager nor the cashier signed and dated the disbursement form:

- OIO Recommendation:
 1. *Ensure that Events Manager, Cashier, Dual Control Person, Vault Count*

APPENDIX 1: DCLB MANAGEMENT RESPONSE

DCLB Response:

DCLB agrees with OIO's recommendation and will reiterate the importance of signing the above mentioned documents to the respective parties. A checklist will be created by the Events Manager to ensure that all of the required documents are included in the supporting documents package.

OIO Finding – We found five instances where DCLB did not perform the Settlement Reconciliation timely. We were unable to determine the cause for the untimely performance of the Settlement Reconciliation. As a result, the event cash would not be deposited timely in the bank. We also found 13 instances where the contractor did not pick up cash deposits per the schedule dates which is every Tuesday and Friday. We were unable to determine the cause for the delayed pick-ups by the contractor. Those cash receipts were not deposited to the bank timely by the contractor resulting in loss on interest to the District:

- OIO Recommendation:
 3. *Enforce the current policy and procedure which requires that the settlement reconciliation be performed the next business day or within 48 hours.*
 4. *Notify the Office of Finance and Treasury (OFT) whenever the contractor is late for pickup of cash from promotional events so that OFT can ensure that the terms of the contract are met and cash is picked up timely by the contractor.*

DCLB Response:

DCLB agrees with OIO's recommendation and will enforce the current policy and procedure which requires that the settlement reconciliation be performed the next business day or within 48 hours. DCLB will also notify OFT whenever the contractor is late for pickup of cash from promotional events.

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