

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

**AUDIT OF INTERNAL CONTROLS OVER INSTANT TICKETS AND  
THE RETAIL LICENSING PROCESS 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:** Tracey Cohen, Interim Executive Director  
DC Lottery & Charitable Games Control Board

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

**DATE:** July 14, 2015

**SUBJECT:** Final Report: Audit of the Internal Controls over Instant Tickets and the Retail Licensing Process at the District of Columbia Lottery and Charitable Games Control Board (OIO-15-01-03 DCLB)

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The attached final report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of Internal Controls over Instant Tickets and the Retail Licensing Process. The audit objectives were to: 1) determine whether DCLB has adequate internal controls in place over the instant tickets inventory process; 2) assess the inventory methods and tracking processes over sales and payouts; 3) determine whether DCLB has adequate internal controls in place over the agent licensing process; and 4) assess internal controls and enforcement of the Insufficient Funds policies and procedures.

We addressed three recommendations to the Interim Executive Director. DCLB concurred with our findings and accepted recommendations one and three and provided respective corrective action plans with target completion dates. DCLB indicated that they cannot implement recommendation number two because the Clean Hands Act and DCLB guidelines and regulations do not permit DCLB to engage in any enforcement action. However, DCLB has proposed an alternative to our recommendation with which we concur. We consider the actions taken to be responsive to our findings and recommendations. The full texts of the responses are included as Appendix 1.

We appreciate the assistance and cooperation that you and your staff provided to OIO during the audit. Should you have any questions related to the report, please contact me at (202) 442-6433; or Mohamad Yusuff, Internal Audit Director, at (202) 442-8240.

cc: Jeff DeWitt, Chief Financial Officer, Government of the District of Columbia  
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO  
Marshelle Richardson, Chief Risk Officer, OCFO

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**AUDIT OF INTERNAL CONTROLS OVER THE INSTANT TICKET AND  
THE RETAIL LICENSING PROCESS AT THE DISTRICT OF  
COLUMBIA LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

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**AUDIT OF INTERNAL CONTROLS OVER THE INSTANT TICKET AND  
THE RETAIL LICENSING PROCESS AT THE DISTRICT OF  
COLUMBIA LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

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**ACRONYMS**

DCLB	District of Columbia Lottery and Charitable Games Control Board
LVR	License Verification Review
FY	Fiscal Year
NSF	Non-Sufficient Funds
OCFO	Office of the Chief Financial Officer
OIO	Office of Integrity and Oversight
SOPs	Standard Operating Procedures
TBD	To Be Determined

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## EXECUTIVE SUMMARY

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### OVERVIEW

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) conducted an Audit of the Internal Controls over Instant Tickets and the Retail Licensing Process at the District of Columbia Lottery and Charitable Games Control Board. This audit was included in the OIO's FY 2015 Audit and Integrity Plan. The audit objectives were to:

- Determine whether DCLB has adequate internal controls in place over the instant tickets inventory process;
- Assess the inventory methods and tracking processes over sales and payouts;
- Determine whether DCLB has adequate internal controls in place over the agent licensing process; and
- Assess internal controls and enforcement of the Insufficient Funds policies and procedures.

### CONCLUSION

We examined all of the 52 biennial LVR folders and concluded that internal controls over the biennial Agent License Verification Review (LVR) process need to be strengthened. We found that:

- Credit and criminal background checks were not uniformly conducted as required by the biennial Agent License Verification Review Standard Operating Procedures (SOPs).
- Adequate follow up was not performed involving existing retail agents.
- SOPs were not updated to reflect the current procedures.
- The SOPs did not provide clear guidance pertaining to retail agents who were non-compliant with the Clean Hands Act.

We examined the application process for new retail agent licenses and we concluded that the internal controls in place are working as intended. We conducted an examination of all 54 new retail agent licensing application packages for the audit period, fiscal year 2014, and we found no exceptions.

We also performed substantive tests of Non-Sufficient Funds (NSF) transactions for the audit period and based on the results of those tests, it appears that DCLB is enforcing their NSF policy. We tested all 149 NSF transactions for the 88 retail agents with NSF transactions and found no exceptions. Total FY 14 instant tickets sales was \$40,420,000, and the NSF transactions totaled \$700,931, of which DCLB collected \$625,712. Most of the retail agents paid the NSF on the same day the NSF was incurred or within two days. As of March 31, 2015, the outstanding balance of NSF was \$75,219, of which \$57,164 were by a court judgement.

In addition, we performed tests of internal controls over the instant ticket process. Those tests included observations, review of applicable documentation such as exception reports, standard

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## EXECUTIVE SUMMARY

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operating procedures, reconciliations and walkthroughs. We found no exceptions and concluded that the controls were functioning as intended. We did not perform substantive test of transactions as the new process for instant tickets was not fully implemented until May 20, 2015.

### SUMMARY OF RECOMMENDATIONS AND MANAGEMENT RESPONSES

We provided three recommendations to improve the internal controls over the biennial LVR. The recommendations focused on:

- Establishing and implementing procedures to monitor and follow up on issues identified during the review and before it is closed out.
- Establishing and implementing enforcement procedures for those agents that are non-compliant with the Clean Hands Act.
- Updating the Standard Operating Procedures for the biennial Agent License Verification Review process to reflect changes in procedures.

We received management comments from DCLB on July 6, 2015. Management concurred with the report findings and recommendations number one and three. Management proposed an alternative to recommendation number two with which we concur. The response proposed corrective actions, with projected completion dates, which, when fully implemented, will correct the findings identified in the report. The completed text of the response is provided in Appendix 1.

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## INTRODUCTION

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### BACKGROUND

The District of Columbia Council established the Lottery and Charitable Games Control Board, as an independent agency with the passage of DC Act 3-172 in 1982. 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 not more than 2 percent of the estimated annual prize payments.

The following is an overview of the areas covered in the audit:

#### Retail Agent Licensing

The Lottery Sales and Licensing Department is responsible for the licensing and oversight of the 494 retail agents that sell lottery tickets and games. This department is responsible for processing the initial licensing applications and for conducting biennial reviews of existing lottery agents to verify that certain requirements placed on the licensed retailers are enforced.

#### Instant Tickets

New instant ticket game(s) are scheduled to launch on the first Wednesday of the month. The games that are chosen to be launched are based on the market conditions such as the types of games that are popular with players and sales trends. DCLB's instant ticket games have six price points which are \$1, \$2, \$3, \$5, \$10, \$20. Some of the games launched were: Big Money Playbook, Triple Dynamite 777, 5X the Money, Aces High, Pink Panther and Bejeweled.

DCLB did not warehouse or distribute instant tickets prior to August 2013. There are only 3 instant ticket vendors in North America. After the DCLB instant ticket contract with the vendor expired in July 2013, DCLB selected the same vendor as the contractor for the new contract, but the DC Council rejected DCLB's selection via the Office of Contracts & Procurement Request for Proposal process. This rejection caused not only the loss of an instant ticket manufacturer but it also caused the loss of "cooperative services" such as, the warehousing of instant tickets, Pick and Pack, and Tel-Sel operations.

During this transition period when DCLB assumed the warehousing and distribution function for instant tickets, DCLB Pick and Pack staff noticed that a specific retail agent had been purchasing tickets in large quantities without activating the tickets so that DCLB could not invoice the retail agent. DCLB investigated the matter and put controls in place to prevent retail agents from ordering excessive amounts of tickets. Because this measure was implemented in FY 2015 the external auditors reported this issue as a significant deficiency in the FY 2014 independent auditor's report. The new business process developed and implemented for the instant tickets flows through the following departments: Sales and Licensing, Finance, Product Development and Warehousing. The process was fully implemented on May 20, 2015.

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## INTRODUCTION

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### Instant Tickets Prizes and Payouts

The validation for winning tickets and disbursement of checks paid out to the winning players is done by the Claims Center. Players can redeem awards up to \$599 at any agent location. Prizes \$600 or greater can be redeemed at the Agency's Claims Center or at any of the lottery's AgentPlus locations. The AgentPlus locations can process prizes up to \$5,000 only. Prizes greater than \$5,000 must be redeemed at the Claims Center and are paid by check.

For the 16 games launched in FY 2014, DCLB had \$40,420,000 in ticket sales and paid out \$29,094,000 in prizes. The price structure involves the percentage of payouts for each game and number of prizes. The payout percentage is about 63% to 70% of total game ticket sales. There are usually a few big prizes (between 2 and 9) and tiered prizes (between 8 and 25) per game. For games where the prize is \$1 million or more, the game rules are structured based on industry standard practices and the Executive Director's discretion so that players can take the 20 year annuity option, or a lump sum amount which is specified as the cash value and is printed on the ticket.

### Retail Agent Billing and Payment Receipts For Instant Tickets

The Finance Department is responsible for billing and collection of revenues for instant tickets from the retail agents. The Finance Department reconciles the sales, commissions and invoicing amounts weekly for those instant tickets which become due. Currently, tickets become due when 80% of low-tiered tickets are validated, or 45 days from the date that the retail agent signed for the receipt of tickets. Once this reconciliation is performed, usually on Wednesday mornings, Intralot is notified by electronic mail that the reconciliation is complete. Intralot sends the Weekly Electronic Funds Transfer Sweeps Report which shows the amounts due to DCLB to the Wells Fargo Bank. The Bank notifies DCLB by electronic mail confirming receipt of the file. The Bank performs a sweep of the retail agents' bank accounts for the amount due to DCLB on Thursday at 12:01 am. If the funds are available in the retail agents' accounts the funds are deposited into the DCLB bank account.

### Non-Sufficient Funds (NSF)

If there are insufficient funds in the retail agents' accounts, DCLB gets a bank report of all NSF retail agent accounts. The Finance Department follows up with the retail agent to determine the reason for the NSF. Generally the retail agent will pay the NSF amounts on the same day or within 2 business days. DCLB has appropriate and enforceable NSF policy and procedures in place which are transparent to the retail agents. It involves immediately shutting down the photon terminal so the retail agent cannot sell lottery tickets. The photon terminal is reactivated upon payment of the funds owed and repeat offenders must meet with the Executive Director.



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## INTRODUCTION

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### OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives were to: 1) determine whether DCLB has adequate internal controls in place over the instant tickets inventory process; 2) assess the inventory methods and tracking processes over sales and payouts; 3) determine whether DCLB has adequate internal controls in place over the agent licensing process; and 4) assess internal controls and enforcement of the Insufficient Funds policies and procedures.

In order to achieve these objectives, we interviewed and met with responsible personnel from the Licensing and Sales Department, Finance Department, Product Development, Information Technology Department, Security Department, and Warehousing Department. The audit covered the period October 1, 2013, to September 30, 2014.

Our audit verified that the internal controls in place over the application process for new licenses were working effectively as intended by conducting an examination of 100% of the 54 new agent licenses processed in FY 2014. We expanded the scope of the audit to include the first quarter of FY 2015 because the biennial review of licensees is a new process, which was implemented in FY 2015. We conducted an examination of 100% of the 52 retail agent biennial reviews conducted in the first quarter of FY2015.

We also examined supporting documentation relating to Non-Sufficient Funds (NSF) transactions. We performed 100% test of the 88 retail agents who had 149 NSF transactions for FY 2014 to verify that DCLB is following its standard operating procedures and enforcing its NSF policy.

In addition, we tested internal controls over the instant ticket process. These tests included observations, review of applicable documentation such as exception reports, standard operating procedures, reconciliations and walkthroughs. We did not perform substantive test of transactions as the new process for instant tickets was not fully implemented until May 20, 2015. We also reviewed standard operating procedures for those areas audited and the DC Clean Hands Act, D.C Law 11-118, D.C Code §47-2861.

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

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## FINDINGS AND RECOMMENDATIONS

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### FINDING 1: MONITORING OVER THE BIENNIAL AGENT LICENSE VERIFICATION REVIEW PROCESS

#### SYNOPSIS

All required elements of the biennial Agent LVR were not always completed, and the reviewer did not uniformly follow up on the uncompleted steps. This condition existed because of lack of monitoring of the biennial LVR process. As a result, there is the potential risk that retail agents are ineligible to continue selling lottery tickets and continued non-compliance with the Clean Hands Act.

#### DISCUSSION

DCLB Standard Operating Procedures (SOPs) for Conducting Agent License Verification Reviews dated October 21, 2014, require the reviewer to conduct a credit and criminal background check and retain documentation in the file as part of the biennial review process. The SOPs also require retail agents compliance with the Department of Consumer and Regulatory Affairs Clean Hands Act, DC Act 11-118 (D.C Code §47-286).

We examined all of the 52 agent biennial review files for the first quarter of FY 2015. We found 17 (33%) instances where the current criminal background and credit checks were not in the file. We also noted one instance where the Ownership Certification Form was not signed by the business owner. We found that DCLB managers did not review the retail agent file to ensure completeness.

#### RECOMMENDATIONS, MANAGEMENT RESPONSES AND OIO COMMENTS

We recommend the Interim Executive Director, DCLB:

1. Establish and implement a procedure to add a second level review to monitor the biennial Agent License Verification Review process.

#### Management Response (Recommendation 1)

“DCLB concurs with the finding and accepts OIO’s recommendation.

At the time of the audit, the Lottery was in the middle of conducting an overhaul of its licensing files. The completion of this labor intensive effort is not scheduled to be completed until September 30, 2016. Thus, some criminal history and credit reports were not filed in a timely manner.

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## FINDINGS AND RECOMMENDATIONS

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Based on the OIO recommendation, documents are reviewed and filed when received from the vendor. In addition, the Licensing Department implemented a review process wherein the Licensing Chief reviews and signs all completed license verification inspection forms as a second level of review. This practice was initiated in May 2015.

Finally, on a monthly basis, the Program Specialist will submit a list of license reviews performed for the month. The Security Division will sample from the list to ensure all requisite documentation is in the file. The new procedure is effective as of July 1, 2015 and is imbedded in the current SOP (see attached).”

### **OIO Comment**

DCLB’s corrective actions are responsive to the recommendation.

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## FINDINGS AND RECOMMENDATIONS

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### **FINDING 2: POLICIES AND PROCEDURES OVER THE BIENNIAL AGENT LICENSE VERIFICATION REVIEWS**

#### **SYNOPSIS**

We found that the Standard Operating Procedures (SOPs) for the biennial Agent License Verification Review process do not reflect the current business environment. We also noted that the SOP did not provide any guidance on corrective measures for retail agents, who were non-compliant with the Clean Hands Act. This condition occurred because DCLB management did not enforce updating the SOPs to reflect current business practice which resulted in conflicting directives for the reviewer.

#### **DISCUSSION**

DCLB's SOPs for Conducting Agent License Verification Reviews dated October 21, 2014, required the reviewer to conduct a Clean Hands Act compliance check as part of the biennial review process. 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.

We examined all of the 52 agent biennial review files for the first quarter of FY 2015 and found that, although the standard operating procedures that were in place required Clean Hands Act compliance, it did not provide enforcement procedures against retail agents who were non-compliant. We noted that in 7 (14%) instances the current clean hands compliance check showed that the agents were non-compliant. Letters were sent out to agents on January 1, 2015, urging them to get into compliance by the licensing department. However, none of the agents responded to the letter as of March 2015. We found no follow up enforcement action in place for the non-compliant retail agents.

Because the SOPs lacked specific guidance on resolving Clean Hands Act non-compliance, other than sending the retail agents a letter instructing them to become compliant with the Clean Hands Act, the reviewer did not have a definitive course of action or authority to resolve the issue with non-compliant retail agents.

DCLB's SOPs for Conducting Agent License Verification Reviews required the business owners to sign the LVR Form. However, on October 21, 2014, the DCLB Legal Counsel updated procedures for conducting Agent License Verification Reviews. This added procedure required the business owner to sign the Ownership Certification Form instead of the LVR Form as part of the review process.

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## FINDINGS AND RECOMMENDATIONS

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We found that the written SOPs did not match the actual procedure performed by the Reviewer. In all 52 instances tested, we found that the reviewer complied with the updated procedure per DCLB's Legal Counsel and not the outdated SOPs. As a result of the SOPs not being updated to reflect the change in the business process, it created conflicting directives for the reviewer when performing their duty.

### RECOMMENDATIONS, MANAGEMENT RESPONSES AND OIO COMMENTS

We recommend the Interim Executive Director, DCLB:

2. Establish and implement enforcement actions for retail agents that are non-compliant with the Clean Hands Act.
3. Update the Standard Operating Procedures for the biennial Agent License Verification Review process to reflect DCLB's current operating environment.

#### Management Response (Recommendations 2 and 3)

"DCLB concurs with the finding.

However, the DCLB cannot implement recommendation number two (2); enforcement actions for licensed retail agents that are not compliant with the Clean Hands Act, D.C. Official Code §§ 47-2861 through 47-2866. The Clean Hands Act provides that an applicant for a license or permit may not owe more than \$100 to the District government and that the applicant must file District tax returns or the applicant will be denied a license. *Id.* The Clean Hands Act does not, however, provide for enforcement actions and license revocations against individuals that already hold licenses unless the individual lied on the Clean Hands Certification in order to receive the licenses. D.C. Official Code § 47-2864. Currently, the DCLB sends warning letters to retail agents found to be non-compliant with the Clean Hands Act. The warning letters request the retail agent become Clean Hands compliant or risk license action. Unfortunately, as the license verification process is not an application for a new license or a license renewal, the Clean Hands Act does not permit the DCLB to engage in enforcement actions. *Id.* Such tax enforcement actions would be within the realm of DCRA and OTR, but outside of the Clean Hands Act's authorizations as written, and outside of the DCLB'S enforcement guidelines and regulations. However, the DCLB will refer the names of non-compliant retail agents to the appropriate department/party at the DCRA.

DCLB accepts OIO's recommendation number three (3). The DCLB updated the SOP for license review and verification to reflect the DCLB's new procedures. The updated SOP is attached."

#### OIO Comment

DCLB's corrective actions are responsive to the recommendations 2 and 3.

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**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**

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<b>Recommendation</b>	<b>Potential Benefit</b>	<b>Type of Benefit</b>	<b>Agency Reported Completion Date</b>	<b>Status<sup>1</sup></b>
1	Establish and implement a procedure to add a second level review to monitor the biennial Agent License Verification Reviews	Internal Control	9/30/2016	Open
2	Establish and implement enforcement actions for retail agents that are non-compliant with the Clean Hands Act.	Internal Control	7/1/2015	Open
3	Update the standard operating procedures for the biennial Agent License Verification Review process to reflect DCLB's current operating environment	Internal Control	7/2/2015	Closed

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<sup>1</sup> This column provides the status of the recommendation as of the report date. For final reports “Open” means management and OIO are in agreement on the action to be taken, but the action is not complete. “Closed” means that management advised OIO that they took the action needed to correct the condition and that action is complete. If a completion date was not provided the date of management’s response was used. “Unresolved” means that management has neither agreed to the recommended action nor proposed a satisfactory alternative action to correct the condition.

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## APPENDIX 1: DCLB MANAGEMENT'S RESPONSE


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**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD  
2235 SHANNON PLACE, S.E. 5TH FLOOR  
WASHINGTON, D.C. 20020-5731



**TO:** Timothy Barry, Executive Director  
Office of the Chief Financial Officer  
Office of Integrity and Oversight

**FROM:** Tracey Cohen, Interim Executive Director   
DC Lottery & Charitable Games Control Board

**DATE:** July 2, 2015

**SUBJECT:** Draft Report: Audit of the Internal Controls Over Instant Tickets and the Retail Licensing Process at the District of Columbia Lottery and Charitable Games Control Board (**OIO-15-01-03 DCLB**)

### Introduction

This memo is in response to your Draft Report on the Internal Controls over Instant Tickets and the Retail Licensing Process at the District of Columbia Lottery and Charitable Games Control Board ("DCLB") dated June 18, 2015. The report identified two recommendations.

OIO Finding – We found 17 instances where the current criminal background and credit checks were not in file. We also noted one instance where the Ownership Certification Form was not signed by the business owners. We found that DCLB managers did not review the retail agent file to ensure completeness:

- OIO Recommendation:
  1. *Establish and implement a procedure to add a second level review to monitor the biennial Agent License Verification Review process.*

### DCLB Response:

**DCLB concurs with the finding and accepts OIO's recommendation.**

At the time of the audit, the Lottery was in the middle of conducting an overhaul of its licensing files. The completion of this labor-intensive effort is not scheduled to be complete until September 30, 2016. Thus, some criminal history and credit reports were not filed in a timely manner.

Based on the OIO recommendation, documents are reviewed and filed when received from the vendor. In addition, the Licensing Department implemented a review process wherein the Licensing Chief reviews and signs all completed license

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## APPENDIX 1: DCLB MANAGEMENT'S RESPONSE

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verification inspection forms as the second level of review. This practice was initiated in May 2015.

Finally, on a monthly basis, the Program Specialist will submit a list of license reviews performed for the month. The Security Division will sample from the list to ensure all requisite documentation is in the file. The new procedure is effective as of July 1, 2015 and is imbedded in the current SOP (see attached).

OIO Finding – We found that the written SOPs did not match the actual procedure performed by the Reviewer. In all 52 instances tested, we found that the reviewer complied with the updated procedure per DCLB's Legal Counsel and not the outdated SOPs. As a result of the SOPs not being updated to reflect the change in the business process, it created conflicting directives for the reviewer when performing their duty:

- OIO Recommendation:
  2. *Establish and implement enforcement actions for retail agents that are non-compliant with the Clean Hands Act.*
  3. *Update the Standard Operating Procedures for the biennial Agent License Verification Review process to reflect DCLB's current operating environment.*

### DCLB Response:

DCLB concurs with the finding.

However, the DCLB cannot implement recommendation number two (2); enforcement actions for licensed retail agents that are not compliant with the Clean Hands Act, D.C. Official Code §§ 47-2861 through 47-2866. The Clean Hands Act provides that an applicant for a license or permit may not owe more than \$100 to the District government and that the applicant must file District tax returns or the applicant will be denied a license. *Id.* The Clean Hands Act does not, however, provide for enforcement actions and license revocations against individuals that already hold licenses unless the individual lied on the Clean Hands Certification in order to receive the license. D.C. Official Code § 47-2864. Currently, the DCLB sends warning letters to retail agents found to be non-compliant with the Clean Hands Act. The warning letters request the retail agent become Clean Hands compliant or risk license action. Unfortunately, as the license verification process is not an application for a new license or a license renewal, the Clean Hands Act does not permit the DCLB to engage in enforcement actions. *Id.* Such tax enforcement actions would be within the realm of DCRA and OTR, but outside of the Clean Hands Act's authorizations as written, and outside of the DCLB's enforcement guidelines and regulations. However, the DCLB will refer the names of non-compliant retail agents to the appropriate department/party at the DCRA.

DCLB accepts OIO's recommendation number three (3). The DCLB updated the SOP for license review and verification to reflect the DCLB's new procedures. The updated SOP is attached.



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## APPENDIX 1: DCLB MANAGEMENT'S RESPONSE

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### DCLB Management Comment on the Instant Ticket Process

Although there was no finding surrounding this activity, it is DCLB's position that our instant ticket process was fully implemented in February, 2015 using internal staff for the telephone selling (tel sel) component. This component of the process was subsequently transitioned to a Certified Business Entity (CBE) of which DCLB staff provided the training.

cc: Mohamad Yusuff, Internal Audit Director  
Esther Sawyer, Auditor, Office of Integrity and Oversight

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## APPENDIX 1: DCLB MANAGEMENT'S RESPONSE

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**Title:** SOP for Conducting Agent License Verification Reviews

**Original Issue Date:** September 29, 2014

**Revision Date:** 7/02/15

**Number of Pages:** 2

**SOP Author:** Jeffrey R. Anderson

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

**Staff:** Sales Coordinators, Program Specialist, Licensing Chief, Sales Director and Security

**Purpose:** To provide the process for conducting biennial license verification reviews of agent locations.

1. Agent license verification reviews shall be conducted on a biennial basis; designated Sales Coordinators will conduct the license verifications reviews. **[NOTE: DCLB is in the midst of updating ALL agent location documentation. The time-consuming, labor intensive task will not be complete until September 30, 2016.]**
2. Agent license verification appointments must be pre-scheduled with the owner(s) in advance of the visit to ensure their availability of the business owner.
3. Licensee credit and criminal background information will be ordered through an approved vendor (the Office of Contracts and Procurement approves a vendor on an annual basis) consistent with the biennial review schedule by the DCLB Licensing Department.
4. Sales Agent credit and criminal background information will be reviewed by Licensing Department Program Specialist and Licensing Chief. The Security Division will sample reviews on a monthly basis to ensure all documentation is complete and present in the file. If there are adverse findings in the credit check, the results will be presented to the Executive Director to determine if a bond should be issued or if the license should be revoked. If adverse criminal information is returned, the findings will be presented to the Chief Investigator for further action. The Chief Investigator will in turn present the findings to the Executive Director to determine if the agent should retain the license or revoke said license. All documentation will become a part of the agent's permanent licensing file.

Sales Agent corporate status (to include LLC, partnership and sole proprietorship) as well as good standing status will be reviewed by Licensing Program Specialist and Licensing Chief utilizing the Department of Consumer and Regulatory Affairs (DCRA) PIVS Corporate Registration check, and the City Wide Clean Hands System. The reports are run on all entities including LLC, partnership, and sole proprietorship. The steps involved with the PIVS system is keying in the corporate name of the entity and running a search. If the Clean Hands System returns adverse information, the information will be presented to the Executive Director before submitting the information to the appropriate official at the DCRA.

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## APPENDIX 1: DCLB MANAGEMENT'S RESPONSE

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Retailer Clean Hands compliance status will also be reviewed by Licensing Program Specialist and Licensing Chief utilizing the City Wide Clean Hands System. The steps for using the City Wide Clean Hands System are simply keying in the EIN or Social Security number of the entity or principal officer into the system and search results.

5. Agents who fail to meet Clean Hands compliance will be sent a compliance letter by certified return receipt advising that they must immediately come into compliance. The DCLB will refer the names of non-compliant retail agents to the DCRA.
6. Findings of sales agent corporate statues become a part of the sales agent's permanent licensing file.
7. Verification of the required information will be recorded on the appropriate license verification review form and submitted to become a part of the agents licensing file. The form contains the following information:
  - 7.1 Current Lottery License posted
  - 7.2 Current DC Business Licenses issued to the licensee of record posted
  - 7.3 Corresponding Certificate of Occupancy posted
  - 7.4 Corresponding Tax Identification Number
8. The license verification form will be completed and signed by the Licensing Program Specialist and Licensing Chief.
9. The business owner(s) will be required to sign the ownership certification form at the time of license review acknowledging that the review was completed and that background and credit checks will be conducted as part of the review process.

An additional scratcher inventory review will also be conducted as a part of the license verification review.

\*\*\*\*Additional requirements of the Biennial License Verification Inspection:

Sales Coordinator will remind retailers of the requirement to inform the agency of a change of ownership at least forty-five 45 days prior to the change at the time of inspection.