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

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Office of Integrity and Oversight

MEMORANDUM

TO: Tracey Cohen, Interim Executive Director
Office of Lottery and Charitable Games

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

DATE: August 3, 2017

SUBJECT: Memorandum Report: Audit of Office of Lottery and Charitable Games
Implementation of the Best Practices Recommendations (17-01-11 OLCG)

This memorandum report summarizes the results of the Office of Integrity and Oversight's (OIO) Audit of the Office of Lottery and Charitable Games (OLCG) Implementation of the Best Practices Recommendations. This audit was included in the OIO FY 2017 Annual Audit Plan.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions, please call me at (202) 442-6433, or Tisha Edwards, Director, Internal Audit at (202) 442-6446.

cc: Jeffrey S. 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
    Baraka Ondiek, Chief Improvement Officer, OCFO
    Craig Lindsey, Interim Chief Operating Officer, OLCG

BACKGROUND Delehanty Consulting, LLC conducted an independent best practices review of the Office of Lottery and Charitable Games (OLCG) operations. The Best Practice Review Report, issued February 26, 2016, cited 27 suggestions and recommendations to improve lottery operations in key performance areas, shown in Table 1:

Table 1: Best Practice Recommendations by Functional Area

Recommendation Functional Areas	Recommendations per Best Practice Report
Organization Structure & Staffing	4
Internal Controls	4
Lottery Procurement Process	2
Competitive Landscape/Sales & Marketing Plan	1
IT Operations, Systems, & Staffing	3
Retailers Sales & Merchandising	2
Expansion of DC Lottery Network	1
Product Portfolio	2
Retailer Engagement	1
Player Engagement	6
Draw Operations	1
Totals	**27**

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to: (1) determine whether the OLCG implemented all of the recommendations of the "Best Practices Review Report of the DC Lottery – February 26, 2016" by Delehanty Consulting, LLC, and (2) assess whether the implemented recommendations have achieved the intended process improvements and mitigated the noted internal control deficiencies.

To achieve these objectives, we requested the status of the recommendations. We also assessed the impact of the implemented recommendations on the operations of OLCG. Additionally, we reviewed the standard operating procedures (SOPs), conducted interviews, analyzed reports, and other related documents to gain an understanding of various implemented processes. As part of our assessment on one of the implemented recommendations relating to the newly merged Security and Compliance Department, we examined all new licenses issued and biennial reviews of agents conducted by OLCG. The audit covered the period from October 1, 2016, to February 28, 2017.

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.

Status of Implementation of Best Practice Recommendations

Delehanty Consulting, LLC reviewed OLCG operations and provided 27 recommendations. OLCG accepted 21 of the 27 best practice recommendations. For those recommendations accepted, the OLCG developed actions for implementation of the recommendations. Our review of the implementation status of the recommendations found that 14 of the 21 (67%) recommendations were fully implemented. The remaining seven recommendations were in progress at the end of our audit fieldwork and it is our understanding that OLCG's goal is to implement the remaining recommendations by September 30, 2017.

The recommendations accepted and status of implementation is shown in Table 2 below:

Table 2: Status of Recommendations
as of May 18, 2017

Recommendation Functional Areas	Recommendations Best Practice Report	Recommendations Accepted	Accepted Recommendations Fully Implemented	Accepted Recommendations In-Progress
Organization Structure & Staffing	4	3	3	-
Internal Controls	4	3	2	1
Lottery Procurement Process	2	-	-	-
Competitive Landscape/Sales & Marketing Plan	1	1	1	-
IT Operations, Systems, & Staffing	3	2	1	1
Retailers Sales & Merchandising	2	1	1	1
Expansion of DC Lottery Network	1	1	-	1
Product Portfolio	2	2	-	2
Retailer Engagement	1	1	-	1
Player Engagement	6	6	6	-
Draw Operations	1	-	-	-
Totals	**27**	**21**	**14**	**7**

OLCG did not accept 6 of the recommendations provided due to constraints in the ability to implement the recommendations under OLCG's current structure as noted in **Table 3**:

Table 3: OLCG's Reasons for Not Accepting Best Practice Recommendations

Functional Area	Recommendations	Reasons	OIO Evaluation
Organization Structure and Staffing	1.4.2.2: The newly merged Security and Licensing and Charitable Games unit should be led by a director (instead of a unit chief) with a law enforcement and investigative background.	This recommendation was reviewed previously and was not accepted by the OCFO's Human Resources Department. A second request was submitted and a response has not been received to date.	OIO reviewed the request sent to the OCFO Human Resources indicating the reclassification was not accepted. As OLCG does not have authority to reclassify positions based on the OCFO organizational structure, we concur with non-acceptance.
Internal Controls	2.6.2.3 (a): Changing its policy of requiring winners to be photographed. Winners should be encouraged and incentivized to be photographed.	The use of the photograph has not been an issue with winners to date.	OIO reviewed the Prize Center Standard Operating Procedures revised August 1, 2016, which states that OLCG uses the winner's photograph to generate publicity and winner awareness. According to staff, the photographs are an invaluable tool lotteries use to generate sales. Based on policy and feedback received, we concur with non-acceptance.
Lottery Procurement Process	5.4.2.3 (a) & (b): The Lottery should request that the OCFO decentralize the procurement function to the Lottery to avoid delays on major procurements.	The OCFO uses a centralized procurement process.	We concur with non-acceptance.
IT Operations, Systems, & Staffing	6.6.2.4: The Lottery should request that the OCFO decentralize the information technology function to the Lottery to be more effective and efficient.	The OCFO has a central Chief Information Officer that oversees all information technology under the OCFO.	We concur with non-acceptance.
Draw Operations	13.2.3: The Lottery should consider soliciting a drawing package from the local television stations to see if they can get the drawings or the winning numbers broadcast at specific time by one of the stations.	The District's major media market has not demonstrated an interest in broadcasting the winning numbers on television. One station currently scrolls the lottery numbers.	OIO inquired of staff and found that due to the lack of advertising money to spend with the major media markets and few complaints from customers this is not a priority. We concur with non-acceptance.

Verification of Implemented Recommendations

OLCG implemented 14 of the recommendations identified below:

Table 4: SUMMARY OF RECOMMENDATIONS IMPLEMENTED

Recommendation Functional Areas	Implemented
Organization Structure & Staffing	3
Internal Controls	2
Competition /Sales &Marketing Plan	1
IT Operations, Systems, & Staffing	1
Retailers Sales & Merchandising	2
Player Engagement	6
Totals	**14**

Source: OIO

OIO was able to verify seven of the implemented recommendations, identified below, based on access to verifiable data to reflect the steps taken for implementation. OIO interviewed staff, reviewed documentation such as: comparative sales and inventory reports, comparative Agent reports, new or updated policies and procedures, and reviewed retail agent files etc.

OIO was unable to verify seven of the implemented recommendations. One was in the area of expansion of the DC Lottery network and 6 were in the area of player engagement. Specifically, the recommendations centered on developing a Board to determine system requirements and in growing players in certain demographics, as well as increasing social media presence. These recommendations could not be verified at this time because: (i) the implemented recommendations by nature are impractical to analyze; or (ii) the implementation timeline was too short to properly analyze the impact.

Our evaluation determined the following:

Organization Structure and Staffing

Recommendation 1.4.2.1:

Delehanty recommended that the OLCG hire a person to oversee the tel-sell function. The tel-sell function's primary responsibility is to ensure retailers have an adequate inventory of instant game tickets. OLCG evaluated the recommendation and agreed; however, the FY2017 financial operating budget did not provide funding to add an FTE. In October 2016, at the suggestion of Best Practices Consultant (Delehanty) instead of hiring a staff person, the OLCG further trained the Inventory Management Specialist. As part of this training, the Inventory Management Specialist traveled to the Kentucky Lottery to observe their tel-sell operations and was charged with coming back and implementing best practices.

OIO reviewed evidence of travel to the Kentucky lottery by the Inventory Management Specialist, communication with Delehanty regarding the tel-sell best practices and training, the updated position description for the Inventory management specialist, and reviewed email correspondence regarding best practice implementation related to the tel-sell function. We also reviewed a screenshot of quality control call records showing that the Tel-Sell unit is applying the additional training in their calls to retailers. Although the recommendation was not implemented as outlined, the alternative action taken achieved the intended outcome.

Recommendation 1.4.2.2(a):

Delahanty recommended the OLCG consolidate the Security and Licensing and Charitable Games into a single division to give the appropriate level of supervision and ensure the integrity of the retailer review, licensing and adjudication processes. To implement this recommendation, OLCG merged the Security and Compliance Department in November 2016. This newly merged Unit performs the combined functions of security, compliance enforcement, lottery agents' licensing, and charitable games oversight in one unit of the Lottery which is in line with other state lottery organization structure.

OIO reviewed the organization structure and noted that the OLCG merged the areas as recommended. Based on our review of the organizational structure, discussion with staff, the recommendation was fully implemented.

Recommendation 1.4.2.4

It was recommended that the OLCG enhance the capability of the Tel-sell function to support the sales efforts. As noted in recommendation 1.4.2.1, the OLCG trained an existing employee on the Tel-Sell function and best practices. Additionally, the OLCG began an effort to enhance the capability of the Tel-Sell function to support the sales efforts of the agency. As part of this effort, OLCG implemented a new Tel-sell system and related policies and procedures which have improved the management of instant tickets inventory at retail locations.

To evaluate the effectiveness of this implementation, OIO reviewed the new policies and systems which indicate that OLCG is able to manage the instant ticket inventory with real time access to retail agent ticket quantities for re-ordering. Based on the actions taken, the recommendation was implemented.

Internal Controls

Recommendation 2.6.2.1

The DC Lottery should require its gaming system vendor to upgrade certain control objectives testing in the next annual SSAE 16 Type 2 audit as recommended in section 2.1.1.1 of the Best Practice report.

To address this recommendation, OLCG issued a Statement of Work for the SSAE 16 Audit of the Intralot Computer Gaming System for FY 2016 which included updated SSAE 16

Type 2 audit control objectives that specifically addressed random number generation for all rapid draw games. It was noted that there was an omission of an item requested by the Consultants in the FY 2016 SSAE Type 2 report. This error did not have an adverse impact as the control objective is inherently captured in testing. Delehanty was made aware of this omission and noted that this did not have an adverse impact.

In order to evaluate the implementation of this recommendation, OIO reviewed the Statement of Work to ensure that the updated objectives were responsive to the recommendation. To avoid omissions in the future, OLCG stated they will include a checklist to ensure all items are covered.

OIO also reviewed the SSAE 16 Type 2 audit report for FY 2016 and noted that the quality of the SSAE 16 Type 2 Report was improved to include testing of Random Number Generator for all rapid draw games. Based on the actions taken, the recommendation was implemented.

Recommendation 2.6.2.3 (b):

It was recommended that the OLCG require all Agent-Plus Retailers to strictly adhere to quality control and security requirements. To address the recommendation, OLCG provided additional training to the Agents-Plus Retailers in April 2017. The training was designed to reduce the compliance error rate among the retailers.

To determine if the training was effective in addressing the quality control and security requirements, OIO examined the comparative Agents-Plus Retailer reports for number of errors prior and subsequent to implementation and noted significant reduction in number of errors. Specifically, the error rate was reduced by 87.4%. We also noted that for those agents-plus retailers with infractions, OLCG maintains a log to indicate the infraction and the resolution. Based on the actions taken, the recommendation was implemented.

Competitive Landscape/Sales and Marketing Plan

Recommendation 4.3.2.4

The DC Lottery should consider enhancing merchandising at retailer locations (stores makeover). To address this recommendation, the OLCG entered into a contract for Lottery Retail Enhancement Services in October 2015. The lottery enhancement services were for 16 retail agent locations (the first phase of the project) to improve the aesthetic Lottery presence in line with industry best practices.

For the 16 stores that were made over, OIO reviewed the relevant stores' comparative sales reports and found that the results were a mixture of increases and decreases in sales. The changes were completed in September 2016; therefore, it is difficult to measure the real impact of "stores makeover" with less than a year of data, as fluctuations in sales could be attributed to other factors such as the weather, location, etc. We encourage OLCG to continue to monitor the sales reports over time to determine the impact.

Retailers' Sale and Merchandising

Recommendation 7.4.2.4

Delehanty recommended the OLCG consider sharing the report suggestions with the contractor performing the retailer makeover. Some best practices included using signage that is more easily seen from the street, creating space in retailer locations where one does not exist, and providing placement guidelines based upon more successful retailers.

Prior to this recommendation, the OLCG entered into a contract for Lottery Retail Enhancement Services in October 2015. The lottery enhancement services were for 16 retail agent locations to improve the aesthetic Lottery presence in line with industry best practices. The 16 retail locations were completed by September 30, 2016. OLCG shared the recommendation with the vendor to satisfy this recommendation.

OIO reviewed the contract and noted that the statement of work required the use of Lottery Best Practices. Additionally, we requested and obtained supporting documentation that indicated the Best Practices Report was shared with the Lottery Retail Enhancement Services Vendor and that the Report's suggestions were taken into account during the Vendor's execution of the contract. Based on the actions taken, we deem this recommendation implemented.

Overall, we found that for those measurable recommendations, the implementations have had a meaningful impact to the OLCG's operation and gaming system integrity.

Other Matter

The implementation of the newly merged Security and Compliance Department creates the potential risk for non-compliance with the Lottery's standard operating procedures and regulations; specifically, the financial and reputational risks to OLCG in the area of retail agents licensing. As such, we examined all 11 new agent licenses issued for the audit period. We found that all of the 11 new agents complied with the Lottery's SOPs and regulations. We also examined all 50 existing agent licenses under biennial review for the audit period and found instances where the file was incomplete in regards to ownership certification.

OLCG completed a review of the 50 agent license files to ensure that they were complete with regards to the checklist and ownership certification forms. Beginning October 1, 2017, OLCG has plans to implement a new electronic process in which the agents applying for new or renewed licenses are required to upload their application and related documents. The new procedure added a requirement for agents to notarize their application which has the ownership information making the ownership certification form no longer applicable. OLCG will take additional steps to remediate the ownership issue.