



September 22, 2016

# OIG Annual Report For Fiscal Year 2015-16

---



Andy Mompeller  
Inspector General

FLORIDA DEPARTMENT OF LOTTERY

OFFICE OF INSPECTOR GENERAL

TABLE OF CONTENTS

---

Introduction.....	1
Overview .....	1
Mission Statement.....	1
OIG Responsibilities .....	1
Organization and Staff .....	2
OIG Staff Qualifications and Certifications.....	3
Affiliations .....	3
Internal Audit .....	4
Accomplishments.....	5
Review of Corrective Actions for Prior Year Audits.....	9
Audit Response Coordination and Follow-up.....	9
Risk Assessment and Audit Plan.....	10
Investigations .....	11
Complaints .....	12
Completed Investigations.....	12
Accreditation .....	12
Other OIG Activities .....	13
Enterprise Projects .....	13
Audit Director Roundtable.....	14
Retailer Integrity Program .....	14
Florida Lottery New Employee Training.....	14
OIG Newsletter.....	14
OIG Office Brochure.....	14
Lottery Drawings.....	15
Other Ongoing Oversight .....	15

## INTRODUCTION

---

### OVERVIEW

---

In 1986, Florida voters authorized a lottery through a constitutional amendment, enacted by a two-to-one margin, which would use its proceeds to enhance public education in Florida. The Florida Legislature established the Florida Lottery with the mission of maximizing revenues for education to allow the people of Florida to benefit from significant additional monies while providing the best lottery games available. Over the history of the Florida Lottery, both goals have been accomplished. Consistent with this, the mission of the Florida Lottery is to maximize revenues in a manner consonant with the dignity of the state and the welfare of its citizens.

The Office of Inspector General (OIG) provides support to the agency's mission through its function. This annual report is presented to the Secretary and Chief Inspector General to comply with statutory requirements and to provide departmental staff and interested parties with information on the OIG's progress in accomplishing its mission.

### MISSION STATEMENT

---

The mission of the Florida Lottery OIG is to protect and promote public integrity and accountability within the Department through audits and investigations that detect fraud, waste and abuse, and administrative violations. The goal of the OIG is to prevent and decrease the reoccurrence of such violations through employee awareness and cooperation while providing the Department with a timely, accurate, objective, and useful work product that promotes confidence and provides transparency for the citizens of the State of Florida.

### OIG RESPONSIBILITIES

---

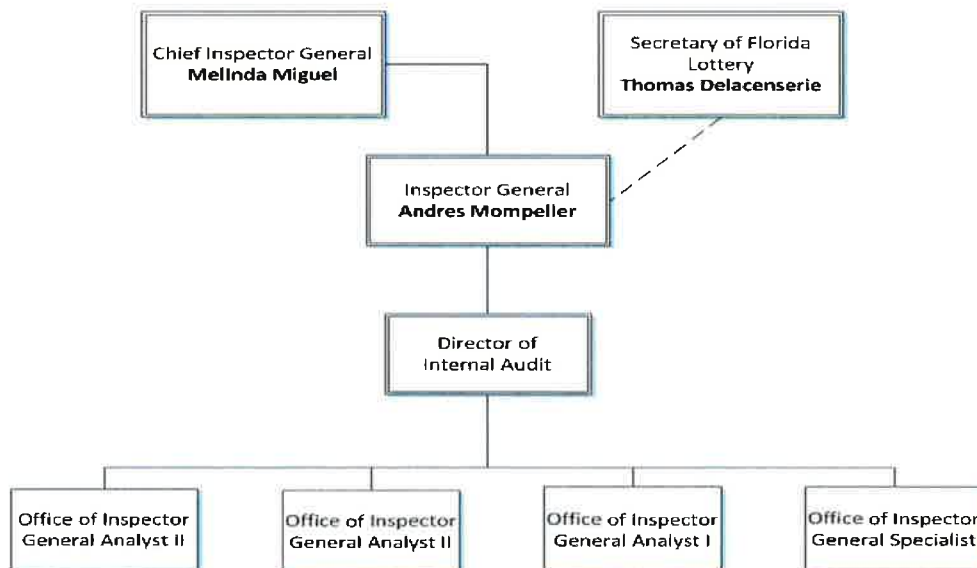
Section 20.055, Florida Statutes, establishes the Office of Inspector General within each state agency to provide a central point for coordination of, and responsibility for, activities that promote accountability, integrity, and efficiency in government. The OIG's responsibilities include:

- Conducting audits, investigations, and management reviews relating to the programs and operations of the Department;
- Reviewing and evaluating internal controls necessary to ensure the fiscal accountability of the Department;

- Keeping the Secretary and Chief Inspector General informed concerning fraud, abuse, and deficiencies relating to programs and operations administered or financed by the Department, recommending corrective action, and reporting on the progress made in implementing corrective action;
- Advising in the development of performance measures, standards, and policies and procedures for Department programs;
- Conducting or coordinating other activities carried out or financed by the Department for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations;
- Coordinating, and monitoring the implementation of, the Department’s response to recommendations made by the Auditor General, the Office of Program Policy Analysis and Government Accountability (OPPAGA), the Florida Department of Financial Services, and other external agencies; and
- Ensuring that an appropriate balance is maintained between audit, investigative, and other accountability activities.

## ORGANIZATION AND STAFF

Effective July 1, 2014, Chapter 2014-144, Laws of Florida, changed the reporting structure for inspectors general in agencies under the jurisdiction of the Governor. The Lottery Inspector General remains under the general supervision of the Secretary but now reports directly to the Governor’s Chief Inspector General. The OIG consists of six professional positions that perform internal audit and investigative functions, as shown below.



## OIG STAFF QUALIFICATIONS AND CERTIFICATIONS

---

OIG personnel are highly qualified and bring various backgrounds and expertise to the Department. The collective experience spans a variety of disciplines, including auditing, accounting, investigations, and information systems.

The *International Standards for the Professional Practice of Internal Auditing* as published by the Institute of Internal Auditors, and the *Association of Inspectors General's Principles and Standards for Offices of Inspector General* require internal auditors to maintain their professional proficiency through continuing education and training. In addition, the OIG must meet minimum training standards as required by the Commission for Law Enforcement Accreditation, Inc. (CFA) in order to maintain accreditation.

OIG staff members continually seek to enhance their abilities and contributions to the office and the Department. Many staff members have obtained certifications that demonstrate their knowledge, motivation, and commitment to the profession. The accomplishments of the staff in obtaining professional certifications represent significant time and effort by each staff member, reflecting positively on the individual as well as the Department. During Fiscal Year 2015-16, professional certifications held by OIG staff members include:

- Certified Inspector General (CIG)
- Certified Internal Auditor (CIA)
- Certified Information Systems Auditor (CISA)
- Certified Governmental Auditing Professional (CGAP)
- Certified Information Systems Security Professional (CISSP)
- Certified Inspector General Investigator (CIGI)



## AFFILIATIONS

---

OIG staff members participate in a number of professional organizations to maintain proficiency in their areas of expertise and certification. These associations allow them to establish and advance professional networks and participate in professional development activities. OIG staff members are affiliated with the following professional organizations that support audit and investigation activities:

- Association of Inspectors General (AIG)
- Institute of Internal Auditors (IIA)
- Association of Government Accountants (AGA)
- ISACA

## INTERNAL AUDIT

---

The purpose of internal auditing is to provide independent, objective assurance and consulting activities designed to add value and improve the Department's operations. Our vision is to help the Department by facilitating change directed toward improving efficiency, effectiveness, accountability, and teamwork.

Audit responsibilities of the OIG include:

- Conduct compliance, electronic data processing, performance, and financial audits of the Department to identify and recommend corrective action for deficiencies or matters of noncompliance;
- Conduct consulting activities in order to provide independent advisory services to Department management;
- Assess the reliability and validity of Department performance measures;
- Ensure effective coordination and cooperation with the Office of the Auditor General, OPPAGA, and other governmental bodies to ensure proper coverage and minimize duplication of effort;
- Conduct risk assessments of the Department annually, taking into consideration the input of senior management;
- Develop annual and long-term audit plans outlining the audits to be conducted during each year and related resources to be devoted to the respective audits;
- Monitor the implementation of the Department's response to audit reports issued by the Department's Inspector General, Office of the Auditor General, OPPAGA, or other oversight agency;
- Develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity, with an external assessment conducted every three years; and
- Participate in enterprise projects and provide assistance as requested by the Chief Inspector General.



The OIG conducts assurance and consulting activities in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors, Inc. Audit reports are distributed to the Secretary of the Florida Lottery, the Governor's Chief Inspector General, the Office of the Auditor General, OPPAGA, and affected Department managers.

## ACCOMPLISHMENTS

During Fiscal Year 2015-16, the OIG completed five internal audits, one consulting service engagement, and four management reviews. Additionally, the OIG followed up on the status of 11 internal engagements, which consisted of 52 open findings and 81 recommendations. The results of those engagements are summarized below:

### **15-000-1005, HR Consulting Service**

At the request of Lottery management, the OIG provided consulting services to Human Resources (HR) staff to provide guidance in how to “think like auditors” when approaching their work. We discussed the importance of internal controls, educated staff on the risks of not following internal controls; and identified risks to various HR processes and the controls in place (or needed) to mitigate those risks. We conducted 12 trainings to discuss each key HR business process and presented best practices.



### **15-000-1011, Annuity Program**

The mission of the Lottery’s Claims Processing office is to validate, pay, audit, and research claims to ensure compliance with Lottery rules and regulations. Top prize winners for LOTTO™, Lucky Money™, Powerball®, Mega Millions®, and select scratch-off games may choose the cash option or annuity payments. Most annuity payments are made annually on one of four quarterly payment dates, although there are a few scratch-off games with prizes that are paid with weekly annuity payments.



The OIG conducted an audit of the Annuity Program to determine whether the annuity program was operating in compliance with applicable policies, procedures, regulations, and best practices and had an adequate internal control system in place to minimize risks and safeguard the integrity of the Florida Lottery. Specifically, the audit focused on the initial and succeeding installment payments, split installment payments, select Fortune application controls related to dual control and segregation of duties, training of new staff, and policies and procedures related to annuity payments.

Our audit did not disclose any material deficiencies in the areas of annuity payments, Fortune application controls, or training of new staff; however, our audit disclosed an opportunity for improvement in the area of weekly installment payment procedures, as similarly noted in our Report No. 13-1005, dated June 13, 2013.

### **15-000-1008, Pensacola District Office**

The Pensacola district functions as a Lottery retailer and prize redemption center, which includes selling scratch-off and terminal game tickets and redeeming winning tickets with a value of up to \$1 million for Powerball® and Mega Millions® and up to \$250,000 for all other Lottery games. The district office serves as an operations center for lottery sales representatives, and operates a warehouse that receives, stores, and distributes items needed to support the Lottery retailers located within the district.

The OIG conducted an audit of the Pensacola district office to determine whether the Pensacola district is operating in compliance with the direction of Lottery management, and demonstrating an adequate system of internal controls that safeguard the assets and integrity of the Lottery. Our audit disclosed opportunities for improvement in the areas of opening/closing procedures, cash, security of resources and assets, and MICS inventory. To address the noted deficiencies, we made five recommendations, which if implemented, would strengthen the internal control structure of the Pensacola District.

### **16-000-1003, Performance Measure Validation**

Section 20.055, Florida Statutes, requires the OIG in each state agency to advise in the development of performance measures, standards, and procedures for the evaluation of state agency programs; assess the reliability and validity of the information provided by the state agency on performance measures and standards; and make recommendations for improvement, if necessary. The Lottery OIG conducted an annual review of the performance measures for the Lottery's annual Long Range Program Plan. The OIG assessed the reliability and validity of the five performance measures provided to the Legislature and found them to be reliable and valid in all material respects.

### **16-000-1001, Gaming System ITN Review**

The OIG performed a management review of the solicitation process for the invitation to negotiate for Lottery gaming system and related commodities and services. The objectives were to ensure Lottery staff followed applicable rules and regulations and took reasonable measures to ensure the confidentiality of sensitive information relating to the administrative and technical portions of the ITN.





Our management review found that the Lottery's decisions made during the solicitation process were based on fair and sound internal processes, and Lottery staff followed applicable rules and regulations and took reasonable measures to ensure the confidentiality of sensitive information.

### **15-000-1010, Orlando Data Center**

The Lottery's backup data center is located in Orlando, Florida, and is co-located with the backup data center of the Lottery's gaming system vendor. Every two years, an independent security firm performs a security evaluation of the Lottery and its operations. The last security evaluation conducted May 15, 2014, did not include an evaluation of the Lottery's Orlando data center.

The OIG conducted a management review of the Lottery Orlando Data Center in order to review the security of the Orlando Data Center, including physical and logical access controls, environmental controls, and its ability to respond to a disaster. Specific findings and recommendations were deemed confidential in accordance with section 282.318, Florida Statutes; as a result, the detailed findings and recommendations are not included in this report.

### **15-000-1009, Gainesville District Office**

The Gainesville district functions as a Lottery retailer and prize redemption center, which includes selling scratch-off and terminal game tickets and redeeming winning tickets with a value of up to \$1 million for Powerball® and Mega Millions® and up to \$250,000 for all other Lottery games. The district office serves as an operations center for lottery sales representatives, and operates a warehouse that receives, stores, and distributes items needed to support the Lottery retailers located within the district.

The OIG conducted an audit of the Gainesville district office to determine whether the Gainesville district is operating in compliance with the direction of Lottery management, and demonstrating an adequate system of internal controls that safeguard the assets and integrity of the Lottery. Our audit disclosed opportunities for improvement in the areas of cash handling, security of resources and assets, and MICS inventory. We made nine recommendations that should strengthen the internal control structure of the Gainesville district office.

### **16-000-1005, Miami District Office**

The Miami district functions as a Lottery retailer and prize redemption center, which includes selling scratch-off and terminal game tickets and redeeming winning tickets with a value of up to \$1 million for Powerball® and Mega Millions® and up to \$250,000 for all other Lottery games. The district office serves as an operations center for lottery sales representatives, and operates a warehouse that receives, stores, and distributes items needed to support the Lottery retailers located within the district.

The OIG conducted an audit of the Miami district office to determine whether the Miami district is operating in compliance with the direction of Lottery management, and demonstrating an adequate system of internal controls that safeguard the assets and integrity of the Lottery. Our audit disclosed opportunities for improvement in the areas of opening/closing procedures, security of resources and assets, paying claims, manual state owed debt checks, and MICS system functionality. To address the noted deficiencies, we made eight recommendations, which if implemented, will strengthen the internal control structure of the Miami District.

### **16-000-1002, ETL Process**

The Lottery's Extract Transfer Load (ETL) Process includes a collection of primarily nightly and weekly information technology jobs that transfer interface files received from the Lottery's gaming system vendor into various Lottery internal systems. The files contain such information as retailer demographics, retailer sales information, general ledger files, and draw files. Lottery management and staff utilize Business Objects to pull information and run reports from the data warehouse.

The OIG conducted an audit of the Lottery's ETL Process to determine if selected interface controls were in place to ensure the confidentiality, integrity, and availability of the ETL data exchanged between information systems. Specific findings and recommendations were deemed confidential in accordance with section 282.318, Florida Statutes; as a result, the detailed findings and recommendations are not included in this report.

### **16-216-1001, Internal Follow-Up**

The OIG reviewed the status of open corrective action plans from six internal audits, four management reviews, one assessment, and one external audit. There were 52 open findings, which included 81 recommendations. We verified the completion of 39 recommendations, which resulted in closure of 22 findings. We will continue to follow up on the outstanding recommendations until all corrective actions have been completed.

## **16-000-1010, Point of Sale**

The Division of Sales, as part of their efforts to increase sales, initiates promotions with advertisement products. These products are distributed to and displayed at retailer locations. The OIG conducted a management review of the Point of Sale (POS) receipt process to evaluate whether internal controls over the receipt process were in place and effective. The review revealed deficiencies relating to the documentation and tracking of receipt of goods. We recommended management maintain appropriate documentation and implement a quality review program.

---

### REVIEW OF CORRECTIVE ACTIONS FOR PRIOR YEAR AUDITS

---

Section 20.055(8)(c), Florida Statutes, requires the identification of each significant recommendation described in previous annual reports on which corrective action has not yet been completed. There have been no significant recommendations described in previous annual reports for which corrective actions have not been implemented.

---

### AUDIT RESPONSE COORDINATION AND FOLLOW-UP

---



The OIG provides a single point of contact for external agencies auditing the Department. This is done to ensure effective coordination and cooperation between the Office of the Auditor General, OPPAGA, and other governmental bodies and to minimize duplication of effort. We coordinate information requests and responses and assist in scheduling meetings for these entities. We provide coordination of the required responses to preliminary and tentative findings issued by the Office of the Auditor General, OPPAGA, U.S. Department of Financial Services, and other oversight agencies. We also coordinate the six-month response on the status of corrective actions taken by the Department on any audit findings and recommendations issued by the Office of the Auditor General or OPPAGA. Florida Statute 20.055 requires the OIG to provide a written report on the status to the Chief Inspector General and the Joint Legislative Auditing Committee. During the 2015-16 fiscal year, we coordinated external projects and follow-ups as reflected on the following page:

<b>OFFICE OF THE AUDITOR GENERAL</b>	
2015-092	SIX-MONTH STATUS: FINANCIAL AUDIT FOR THE FISCAL YEARS ENDED JUNE 30, 2014, AND 2013
2016-038	QUALITY ASSURANCE REVIEW
2016-080	FINANCIAL AUDIT FOR THE FISCAL YEARS ENDED JUNE 30, 2015, AND 2014
<b>OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY</b>	
15-03	SIX-MONTH STATUS: LOTTERY TRANSFERS CONTINUE TO INCREASE; OPTIONS REMAIN TO ENHANCE TRANSFERS AND IMPROVE EFFICIENCY
16-01	LOTTERY SALES HAVE INCREASED; TRANSFERS TO THE EDUCATIONAL ENHANCEMENT TRUST FUND REMAIN STABLE

## RISK ASSESSMENT AND AUDIT PLAN

Section 20.055, Florida Statutes, requires the Inspector General to develop long-term and annual audit plans based on periodic risk assessments of the Department. This helps ensure the OIG is responsive to management concerns and that those activities judged to have the greatest risks are identified and scheduled for review.

The risk assessment included identifying programs and activities administered by the Department and evaluating each activity based on indicators of risk exposure, or risk factors. The risk assessment included administration of a risk assessment survey to Department management, and meetings with executive management to discuss enterprise risk exposures and internal controls.



Using the results from these efforts and our professional judgment, we developed the audit plan for the 2016-17 fiscal year. The audit plan provides the most effective coverage of the Department's programs and processes while optimizing the use of internal audit resources. Additionally, the Chief Inspector General has asked each agency OIG to allocate twenty percent of direct audit hours to enterprise projects, which address administrative issues common to most agencies. The annual audit plan was approved by the Lottery Secretary and submitted to the Office of the Chief Inspector

General and the Auditor General. During the 2016-17 fiscal year, audit resources will be allocated to the following engagements:

**2016-17 Audit Plan**

DIVISION/OFFICE	PROJECT
CIO	Systems Development Lifecycle
CIO	Staffing Levels and Qualifications
ISM	Information Security Management
Finance	Internal Control Assessment
Department Wide	Performance Measures
Sales	District Offices
Division of Security	Retailer Integrity Program
Community Outreach and Special Events	Promotional Tickets

INVESTIGATIONS

The OIG works to deter, detect, and investigate allegations of fraud, waste, abuse or employee misconduct impacting the Department. The OIG receives inquiries or complaints regarding Departmental activity from many sources, including the Whistle-blower’s Hotline, the Florida Department of Financial Services’ Get Lean Hotline, the Chief Inspector General’s Office, an online complaint form on the OIG’s website, letters, telephone calls, e-mails, and the Executive Office of the Governor.



Investigations are conducted in accordance with quality and quantitative standards as set forth in the *Association of Inspectors General Principals and Standards for Offices of Inspector General* and the *Commission for Florida Law Enforcement Accreditation*. If suspicion of potential criminal activity is discovered, it is referred to the appropriate law enforcement

agency. The OIG coordinates with law enforcement on any criminal investigation, while ensuring that issues of an internal nature are addressed administratively.

During Fiscal Year 2015-16, the OIG completed four internal investigations, processed 178 complaints, and conducted activities related to maintaining the Commission for Law Enforcement Accreditation.

## COMPLAINTS

---

The OIG received 178 complaints during fiscal year 2015-16. OIG staff responded to each complainant as appropriate and referred 125 complaints to Department management for proper handling. OIG staff initiated an investigation for 8 complaints.

## COMPLETED INVESTIGATIONS

---

During the 2015-16 fiscal year, the OIG completed three investigations. A synopsis of those investigations is provided below.

### **16-000-4002, Data Part 2**

This investigation examined patterns of suspicious activity involving scratch-off book statuses. We provided the results of our review to Lottery management and the Division of Security for their review and action.

### **16-000-4003, Division of Security**

The OIG received a complaint alleging sexual harassment and inappropriate behavior by an employee of the Division of Security. The first allegation was unsubstantiated and the second allegation was substantiated.

### **16-000-4004, Failure to Report**

During OIG investigation No. 16-000-4003 involving allegations of sexual harassment and inappropriate behavior, it was reported that a supervisor may have had knowledge of a prior incident of sexual harassment and failed to report the behavior. The allegation was unsubstantiated.

## ACCREDITATION

---

An accreditation program has long been recognized as a means of maintaining and verifying the highest standards. Accreditation is the certification by an independent reviewing authority that an entity has met specific requirements and prescribed standards. In 2009, the Commission for Florida Law Enforcement Accreditation (CFA) expanded its program to include inspectors general offices. The CFA establishes standards, manages accreditation programs, and grants accreditation



to Offices of Inspectors General that adhere to the established standards. The OIG first received accreditation status by the CFA in 2010 and received reaccreditation status in September 2013. The accreditation remains in effect for three years.

OIG staff regularly conducts activities to ensure ongoing compliance with accreditation requirements. Activities relating to this effort are detailed below.

- Conduct annual reviews to ensure continued compliance with the standards and the Investigations Manual. This includes a full review of all complaints and investigations and supporting documentation.
- Provide assistance to other agencies with their accreditation process. On several occasions, OIG staff provided assistance (guidance and relevant materials) to other agencies to support them in their accreditation efforts.
- Attend Accreditation Managers meetings to discuss current and future issues regarding accreditation requirements.
- Revise the OIG Investigations Manual to comply with changes in CFA standards.
- Ensure OIG staff submit annual independence attestations and meet annual training requirements for CFA standards.
- Complete the CFA Annual Report.

---

## OTHER OIG ACTIVITIES

---

### ENTERPRISE PROJECTS

---

To gain efficiencies of working together, the CIG and agency Inspectors General meet on a regular basis to discuss and evaluate enterprise issues and projects. The CIG appointed several functional working groups made up of inspectors general from various state agencies to evaluate issues crossing agencies.

During fiscal year 2015-16, the Lottery OIG participated on an IT audit for the CIG Executive Office of the Governor and a CSIRT workgroup project. The CSIRT workgroup surveyed the Governor's agency ISMs to identify gaps between existing processes and procedures and the new requirements of the Florida Administrative Code. The workgroup tested select survey responses within their agencies to determine the accuracy of survey responses. The workgroup's efforts resulted in a report on the enterprise assessment of CSIRT. Additionally, the Lottery OIG collaborated with IG offices to determine the basic elements of audit reports and discuss the pre-report efforts that help to make a report successful.

---

## AUDIT DIRECTOR ROUNDTABLE

---

The Director of Internal Audit participates in the Audit Director Roundtable. The mission of the Audit Director Roundtable is to promote the effective and efficient use of Internal Audit resources toward accountability, productivity, and enhancement of management control over operations. The Roundtable is a voluntary group composed of representatives (primarily Audit Directors) from local companies and organizations, state agencies, and institution of higher education with an Internal Audit function.

---

## RETAILER INTEGRITY PROGRAM

---

Throughout Fiscal Year 2015-16, the OIG provided administrative support, research, and consulting activities. The IG serves as an advisor to the Retailer Integrity Program and attends the weekly meetings.

---

## FLORIDA LOTTERY NEW EMPLOYEE TRAINING

---

The OIG participates in the Lottery's new employee training program, *Lottery 101*. During fiscal Year 2015-16, our office participated in one *Lottery 101* program in which we described our services and conducted fraud awareness training for new employees.

---

## OIG NEWSLETTER

---

In the OIG's continued effort to educate and communicate with Department employees, the OIG issued the newsletter to Department employees in November 2015. The newsletter informs employees of OIG processes, highlights areas of the Department recently audited or investigated, and reminds staff of internal control best practices. The goal of the newsletter is to keep employees better informed and to seek a reduction in fraud, waste, abuse, and irregularities within the Department.

---

## OIG OFFICE BROCHURE

---

In the OIG's continued effort to educate and communicate with Department employees, the OIG published an office brochure. The OIG brochure was provided at new employee orientation and is used by staff to educate Lottery employee's about our office when initiating engagements. The brochure is continuously updated and available on the OIG's website.



## LOTTERY DRAWINGS

---

The facility where Lottery drawings are conducted requires a dual-control environment, necessitating Division of Security staff and audit staff be present during any required maintenance and other activities. OIG staff fulfills this role as needed. Additionally, the OIG is notified of any draw discrepancies. We monitor these discrepancies and perform additional reviews when necessary.

## OTHER ONGOING OVERSIGHT

---

OIG staff proactively monitors certain Lottery activities and reviews patterns to determine if additional action is warranted.

Florida Department of Lottery  
Office of Inspector General  
250 Marriott Drive  
Tallahassee, Florida 32301

Phone: 850-487-7726

Fax: 850-487-7746

**Email**

[ig@flalottery.com](mailto:ig@flalottery.com)

**Web Site**

[www.flalottery.com/inspectorGeneral](http://www.flalottery.com/inspectorGeneral)