

Florida Lottery Office of Inspector General Annual Report

For the Year Ending
June 30, 2009



Charlie Crist, Governor
Leo DiBenigno, Secretary
Andy Mompeller, Inspector General

September 2009

CHARLIE CRIST
Governor



LEO DIBENIGNO
Secretary

FLORIDA LOTTERY

September 14, 2009


Leo DiBenigno
Florida Lottery Secretary
250 Marriott Drive
Tallahassee, Florida 32301

Secretary DiBenigno:

I am pleased to present the Annual Report for the Office of Inspector General. The report reflects the activities for Fiscal Year 2008-2009.

The office remains committed to the goals of the Florida Lottery and I thank you for your continued support.

Sincerely,



Andy Mompeller
Inspector General

cc: Melinda Miguel, Chief Inspector General
David W. Martin, Auditor General



Mission & Vision

The mission of the Office of Inspector General (OIG) is to provide a central point within the Florida Lottery for the coordination of and responsibility for activities that promote accountability, integrity, and efficiency in government. Specifically, we strive to protect and promote public integrity and accountability through audits that detect fraud, waste and abuse and the investigation of criminal and administrative violations.

Our vision is to enhance public trust by excelling in auditing and internal investigations so as to achieve the highest level of customer satisfaction.

Responsibilities

Key responsibilities of the Office of Inspector General are to:

- Conduct, supervise, and coordinate audits and reviews of operations carried out or financed by the Florida Lottery for the purpose of promoting economy and efficiency of operations as well as preventing and detecting fraud and abuse.
 - Initiate, conduct, supervise, and coordinate investigations designed to detect, deter, prevent, and eradicate fraud, waste, mismanagement, misconduct, and other abuses within the Florida Lottery.
 - Keep the Secretary informed of recommended corrective actions, and report on the progress of
- corrective action concerning fraud, abuses, and deficiencies relating to programs and operations administered or financed by the Florida Lottery.
 - Receive complaints and coordinate all activities of the Florida Lottery as required by the Whistle-blower's Act pursuant to Section.112.3187-112.31895, Florida Statutes.
 - Submit in a timely fashion, final reports on investigations authorized by the Inspector General to the Secretary, with the exception of Whistle-blower investigations, which shall be conducted and reported pursuant to Section 112.3189, Florida Statutes.
 - Provide direction for, supervise, and coordinate internal assurance and consulting engagements relating to the programs and operations of the Florida Lottery.
 - Receive and consider all other complaints and conduct, supervise, or coordinate such inquiries, investigations, or reviews as the Inspector General deems appropriate.
 - Assess the validity and reliability of the information provided by Department management and staff on performance measures and standards, and make recommendations for improvement, if necessary.
 - Conduct investigations and other inquiries free of actual or perceived impairment to the independence of

the Inspector General or the Inspector General's office. This shall include freedom from any interference with investigations and timely access to records and other sources of information.

Organizational Structure

The Office of Inspector General is staffed with five full-time equivalent positions. The office is led by Inspector General Andy Mompeller, who is supported by four professional staff members. The staff collectively possess diverse professional and educational backgrounds that provide the office with the expertise to fulfill its statutory directive of ensuring that an appropriate balance is maintained between audit, investigative, and other accountability activities.

Development, Assessment, and Validation of Performance Measures

Section 20.055(2)(b), Florida Statutes, requires each agency's Office of Inspector General to assess the reliability and validity of information provided on performance measures and standards prior to their submission to the Executive Office of the Governor.

The Florida Lottery developed performance accountability measures using Fiscal Year 1997-1998 as a baseline. The following is a list of the measures submitted with the Long Range Program Plan.

- Transfers to the State Educational

- Enhancement Trust Fund
- Total Revenue in Dollars
- Operating Expense as a Percent of Total Revenue
- Percent of Respondents who are Aware of the Florida Lottery's Contribution to Education
- Provide Executive Direction and Support Services for all Florida Lottery Operations as Measured by Percent of Total Agency Budget

The Office of Inspector General reviewed the five performance measures submitted to the Florida Legislature and found them to be both reliable and valid for all material respects. The Exhibit IV – Performance Measure Validity and Reliability contained in the Florida Lottery Long-Range Program Plan was reviewed and found to be accurate.

Ongoing Projects – June 30, 2009

The following projects were initiated during Fiscal Year 2008-2009 but were not completed as of June 30, 2009.

- Assurance: Audit of Lottery Retailer Recruitment
- Assurance: Audit of Personal Computer Management and Support
- Follow-up Assessment: Florida Council on Compulsive Gambling Contract Audit
- Investigation: Joint Retailer Integrity Investigation with Lottery Division of Security

Open Audit Findings

There have been no significant recommendations described in previous annual reports for which corrective actions have not been completed.

Work Performed During Fiscal Year 2008-2009

During Fiscal Year 2008-2009, the Office of Inspector General completed 29 assignments. Work completed included:

- 6 assurance engagements,
- 12 previously issued internal and external audits,
- 1 internal investigation, and
- 10 other oversight activities.

The following details the work performed by the Office of Inspector General for Fiscal Year 2008-2009.

Internal Assurance Services

Audit of the Florida Lottery Americans With Disabilities Retailer Compliance Program

The Florida Lottery is required by federal and state laws¹ to ensure games are accessible to disabled persons. The Lottery Americans with Disabilities Act (ADA) program is responsible for planning and supervising the evaluation of all potential and contracted lottery

retailers for compliance with the accessibility requirements thus ensuring that as a public entity, the Florida Lottery complies with the accessibility requirements of Title II of the ADA. At the time of the audit, the ADA compliance rate for the Florida Lottery's 13,173 retailers statewide was 80% (May 2008). The scope of the audit involved the review of current ADA compliance standards, internal policy and processes, and historical compliance status and trends for lottery retailers.

The audit determined that there existed a limited directed focus on ADA non-compliant retailers. A significant portion of time was spent reevaluating already compliant retailers or retailer locations with a change of ownership. The audit recommended that the ADA program develop an evaluation priority in which non-compliant retailers are superseded only by consumer complaints and evaluations of prospective retailers. In addition, the program should develop, implement and adhere to, detailed and comprehensive written policy and procedures that mandate particular actions for non-compliant retailers. Policy and procedures should specify a system of explicit steps to be taken at various time intervals until the retailer becomes compliant. The final step must include termination of the retailer contract.

The audit also determined that the current frequency of ADA compliance re-evaluations was unnecessarily high. Policy required ADA evaluations of each retailer, every two years and after any change of ownership (CHOW). The audit recommended that management extend the interval of the biannual

¹ Titles II of the federal Americans with Disabilities Act of 1990 (codified in Title 42 of the United States Code), the Florida Americans With Disabilities Accessibility Implementation Act (s.553.501-553.513, Florida Statutes), and the Florida Public Education Lottery Act (Chapter 24, Florida Statutes)

evaluations and discontinue evaluations of CHOWs. To mitigate any risk in eliminating occurrences of ADA evaluations, it was also recommended that management develop a process by which Sales Representatives, with basic ADA training, notify district management should they discover an ADA compliance issue during standard sales visits. In turn, district management will make a request through the ADA program for a thorough ADA evaluation.

The ADA program written procedures were determined to be outdated and not reflective of the current work processes. The audit recommended that management review existing procedures and make necessary changes to align policy and procedures with practice. Additionally, the audit recommended the consideration of several operational improvements that, if implemented, could significantly improve the efficiency, effectiveness, and economy of operations of the ADA program. Program management concurred with all audit recommendations and agreed to take corrective actions.

Audit of the Florida Council on Compulsive Gambling Contract

The Florida Council on Compulsive Gambling (FCCG) was established in 1988 as a gaming neutral educational and advocacy organization that provides information, resource referrals, and support services for problem gamblers, their families, employers and others. The FCCG's 24-hour confidential, multilingual Help Line offers free self-help, professional treatment referral, legal and financial referrals, and special programs. Its primary mission is to:

- Increase public awareness regarding the risks and consequences associated with gambling;
- Provide assistance to problem gamblers, their families, and others adversely impacted; and
- Advocate for programs, services, funding, and other support to address population-specific needs.

At the time of the audit, the Florida Lottery had a reoccurring appropriations bill (Appropriation Bill 2893 for Fiscal Year 2007-2008) that authorized the Lottery to utilize up to \$1,300,000 for the purpose of contracting with an appropriate Florida organization to conduct a compulsive gambling program. The Lottery's contract with the FCCG requires the operation of a compulsive gambling program involving the performance of services, including, but not limited to, research, need, identification, outreach, and program development.

The audit determined that the FCCG was using State of Florida funding for prohibited expenses and travel expenses not in compliance with its contractual agreement. Additionally, the audit determined that the FCCG was paying unauthorized perquisites with Lottery funds and not reporting all wages and other compensation to the Internal Revenue Service. A recommendation was made that only allowable expenses be paid and that wage reporting be accurately reported to the Internal Revenue Service.

From a contract management prospective, the audit determined that limited documentation existed to support oversight by the Lottery contract

manager. Additionally, the manner in which the 24-hour Helpline (888-ADMIT-IT) detailed call data was presented did not always fully depict the quantity of calls that responded to specific data and could possibly be misleading. The audit determined that for many years, the Florida Lottery had been the predominant funding source of the FCCG. However, with the approval of slot machines in South Florida, significant funding sources were realized through the Department of Business and Professional Regulation. The audit recommended that future Florida Lottery contracts with the FCCG be reflective of lottery related gambling problems.

Audit of Purchasing Card Program

In 2006, the Florida Lottery deployed a Purchasing Card program throughout the Agency. The primary benefits of procurement cards are user convenience, the elimination of some steps required by the Florida Lottery's traditional procurement processes, and a reduction in the internal paperwork needed to support purchases and payments. Vendors also benefit by prompt payment and reduced transaction costs. The Florida Lottery participates in the State of Florida contract with Bank of America for its Purchasing Card program. The objectives of the audit were to determine whether purchases made with purchasing cards were in compliance with policies and procedures, if adequate internal controls exist that prevent, deter and detect fraudulent purchasing card transactions and whether there were opportunities for improved efficiency, effectiveness or economy of operations.

The audit determined that the Purchasing Card Administrator did not always retain documentation supporting management decisions related to agency purchasing cards, such as expanded usage of purchasing cards for travel expenses, temporary spending limit adjustments, and delegation of approval responsibility. Additionally, during the course of the audit, the Lottery's Purchasing Card Administrator and staff were either unaware of or unable to utilize established systematic monitoring tools. The audit contained a recommendation that the Purchasing Card Administrator and staff obtain more detailed system knowledge. At a minimum, this should include participating in training programs offered by the Department of Financial Services.

For the audit period reviewed, not all Lottery purchasing card transactions were approved by cardholders, unit budget authorities, and vendor disbursements staff within timeframes established by Lottery management. Since unit budget approval is required both prior to and after each Purchasing Card purchase, the recommendation was made that unit budget approval, prior to every purchasing card purchase, constitute their final approval. The audit also recommended that the Purchasing Card Administrator develop a formal reporting mechanism to notify the Chief Financial Officer and program management with information regarding Lottery staffs' failure to approve Purchasing Card transactions within approved timelines.

Audit of the Internal Controls Over Contract Management

The objectives of this audit were to determine whether the Florida Lottery's contract management and administration programs are operating in compliance with state regulations and in the direction of Lottery management (i.e. policies and procedures); whether an adequate internal control system exists that minimizes risks and opportunities for fraudulent activities, as well as one that appropriately safeguards the assets and integrity of the Lottery; and whether there are opportunities for improved efficiency, effectiveness, or economy of operations.

The audit concluded that the contract management and administration processes were operating in compliance with state regulations and in the general direction of Lottery management. The audit identified several opportunities to enhance the efficiency and effectiveness of contract management and administration by incorporating minor changes to strengthen the control environment. There were six audit findings with recommendations that are summarized in the following narrative.

There is limited monitoring of and reporting on contract deliverables, as well as insufficient oversight over the Agency's contract managers.

The audit recommended that the Contract Coordinator communicate and meet more regularly with contract managers. Ideally, the Contract Coordinator should meet with each contract manager at least once per year, providing assistance and tools to help them with their responsibilities. These

meetings should be documented. The Contract Coordinator should also perform regular contract deliverable audits. The audits should be documented and identify needed areas of improvement. The review should be based on state regulations/rules, written procedures and best practices.

Contract managers should be required to report (every six months, at a minimum) to the Contract Coordinator on the status of their monitoring efforts utilizing a standardized form. The Contract Coordinator should compile these results, and provide a summarizing report to the General Services Director, noting any concerns.

Contract managers should require contractors to comply with contract agreement terms that stipulate invoices be mailed directly to the Lottery's Vendor Disbursements office.

Florida Lottery expectations of and directives to contract managers should be more formalized.

The audit recommended that General Services' management develop a procedures manual for contract managers which outlines management's expectations.

Opportunities exist to improve processes involving the establishment, monitoring and tracking of performance bonds and securities for Florida Lottery contracts.

The audit recommended a number of measures to enhance the documentation, accountability and controls over performance bonds.

Formal Modifications to the current contract approval process will provide an improved control environment for early detection and prevention of contract deficiencies.

The audit recommended that General Services management modify the current contract approval process, so that program, legal, purchasing, and financial management have the opportunity to review, make any necessary changes, and provide signature approval for all agreements prior to the agreement being forwarded to the vendor for signature.

The Fiscal Year 2008-2009 Vendor Contracts listing on the Agency's internet website was determined to not be comprehensive or accurate.

The audit recommended that more frequent notifications of vendor contracts be made to the Lottery's Public Information Office and that any updates be reflected on the Lottery's website.

Florida Lottery written procedures for Contract Administration Tracking, Processing and Approvals and Vendor Background Investigations were determined to be in draft format.

The audit recommended that procedures be approved by management.

Audit of the Florida Lottery's Continuity of Operations Plan

The Florida Emergency Management Act (Section.252.31-252.60, Florida Statutes) requires each state agency to appoint an Emergency Coordination Officer and alternate, who are tasked with designing and maintaining an

emergency preparedness plan. The Florida Lottery has selected its Director of Security, as the Emergency Coordination Officer with the Continuity of Operations Plan (COOP) Planner, as the alternate. The COOP Planner has been tasked with the primary responsibility for the development and maintenance of the Lottery's COOP Plan.

The objectives of the audit were to assess and evaluate the adequacy of the Continuity of Operations Plan; identify areas of potential exposure or oversight in the plan; review the provisions, procedures, and staffing intended to support recovery from an extended disruption of operations (IT, financial, operational, etc.); and develop detailed recommendations to remedy exposures identified through the audit process. The audit concluded that overall, the COOP Plan is an excellent document and the Lottery's COOP Planner has demonstrated a high level of expertise through the comprehensive Plan. Fine tuning of the COOP Plan as well as improvements to the testing and training practices should improve the ability of the Lottery to respond to emergency situations and maintain essential operations.

Specifically, the audit recommended that the COOP function, as established within the Lottery, be expanded to more closely guide, direct, and evaluate all mission essential functions identified in the COOP Plan. It was also recommended that the COOP Planner facilitate a process to review and update the Agency-wide detailed and prioritized list of mission essential functions. Additionally, more specific training

should be provided to critical staff members with Move and Setup Team responsibilities. Lastly, the audit recommended that the COOP Plan be reviewed and updated to ensure that it contains only accurate, concise and relevant data.

Audit of the Florida Lottery's Ethics Program

The objective of this audit was to assess the effectiveness of the Lottery's ethics program and promotion of an ethical environment. The purpose of the audit was to fulfill the Office of Inspector General's responsibility under Performance Standard 2130², of the *International Standards for the Professional Practice of Internal Auditing*, to assess and make appropriate recommendations for improving the governance process in promoting ethics and values within the Department of the Lottery. The scope of this audit focused primarily on actions taken by the Lottery to communicate, monitor, and enforce ethical standards and policies applicable to its employees. Specifically, the audit reviewed training, communication, documentation to support the program, and the overall ethical climate.

Based on the work performed, the audit concluded that the Florida Lottery had established an ethics program that supports Governor Crist's Executive Order 07-01. Additionally, it was determined that, generally, an ethical climate exists and is promoted within the Florida Lottery. There were no audit recommendations to improve the program.

² The Professional Practices Framework (March 2007)

Audit Follow-up

OPPAGA Status Report

In accordance with Section 20.055(5)(h), Florida Statutes, the Office of Inspector General conducted a review of the Department's progress on corrective actions made by OPPAGA in Report 08-19. A letter documenting the status of corrective actions was provided to the Lottery Secretary and Joint Legislative Auditing Committee.

Auditor General Status Report

In accordance with s.20.055(5)(h), Florida Statutes, the Office of Inspector General conducted a review of the Department's progress on corrective actions made by the Auditor General in report 2008-069. A letter documenting the status of corrective actions was provided to the Lottery Secretary and Joint Legislative Auditing Committee.

Getronics Security Audit

Pursuant to Sections.24.108(7)(a) and (7)(c), Florida Statutes, the Florida Lottery must, at least once every two years, engage an independent firm experienced in security procedures to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Florida Lottery. The *Getronics'* report, issued on June 20, 2008, contained 19 findings ranging in high to low priority; one (1) ranked as high priority, eight (8) ranked as medium priority, and ten (10) as low priority. The objective of this follow-up evaluation was to assess Lottery management's progress towards taking corrective actions on the various findings identified in the *Getronics'* report and implementing the report's recommendations. Based on the follow-

up assessment, 13 of the 19 findings had been addressed by Lottery management. Six of the findings (5 ranked as medium priority, 1 as low priority) have not been completely resolved. Funding availability may be an issue that could impact four of these six findings.

***Auditor General Information
Technology Audit Findings***

A review was conducted to determine progress made on information technology findings made by the Auditor General in association with their audit of the June 30, 2008 Lottery financial statements. The review found considerable progress had been made on each of the findings; however, five of the 14 findings remained open. The Office of Inspector General report was provided to the Auditor General to assist in their follow-up of the initial findings.

GTECH SAS 70 Report

On June 30, 2008, McGladrey & Pullen issued the *Service Auditor's Report for GTECH Florida Operations (SAS 70)* for the Period July 1, 2007, through June 30, 2008. The report included three findings to which GTECH provided anticipated completion dates for closure. The Office of Inspector General reviewed the three findings in this follow-up review, dated October 7, 2008. OIG staff determined that GTECH provided appropriate written procedures and/or documentation to close all three audit issues.

Ft. Myers District Office

An internal audit report was issued for the Ft. Myers District Office on December 19, 2007, with eight audit findings and recommendations. Two follow-up assessments were conducted

during Fiscal Year 2008-2009 to determine if management had taken corrective action. A follow-up assessment, dated September 11, 2008, determined that seven of eight audit findings were addressed. The remaining unresolved issue related to obsolete property and vehicle fleet management written procedures. Another follow-up audit, dated February 24, 2009, was conducted and Office of Inspector General staff determined that management had satisfactorily addressed the remaining audit finding for the Ft. Myers District Office audit.

West Palm Beach District Office

An internal audit report was issued for the West Palm Beach District on June 4, 2007, resulted in twelve audit findings and recommendations. Given the results of previous audit follow-up assessments only two open findings remained. A follow-up audit, dated August 25, 2008, determined that the written procedures for both property and Fleet remained outdated. Another follow-up audit, dated February 24, 2009, OIG staff determined that management satisfactorily addressed both remaining findings for the West Palm Beach District Office audit.

Lottery District Office Operations

The Office of Inspector General performed a follow-up on the Audit of Florida Lottery District Office Operations, report dated October 23, 2006. The follow-up assessment evaluated the actions taken by management to address the two outstanding issues from the original report. Based on this evaluation, OIG staff determined that the Safety Committee had conducted a review of the district office safety concerns. The

results were provided to management, who will work with the Assistant Safety Coordinator to purchase the necessary items recommended by the Safety Committee. The remaining audit issue concerning Lottery Playstations will be evaluated during Fiscal Year 2009-2010.

Employee Insurance Benefits

An audit of Lottery Employee Insurance Benefits was issued on May 1, 2008 and contained seven audit findings. A follow-up assessment, dated January 7, 2009, was conducted and determined that of the seven audit findings contained in the original audit, Employee Relations has sufficiently addressed three findings for closure. The remaining issues pertaining to procedures and disability premiums will be evaluated during Fiscal Year 2009-2010.

Lottery Software License Controls

An audit of controls over software licensure was issued on September 21, 2005. Of the six findings identified in the initial audit, one remained and was included in the scope of this review. OIG staff determined that Operations had completed agreed upon corrective action regarding the development of procedures for Software Metering Rules and the completion of workstation scans from the original audit.

Jacksonville District Office

An internal audit report for the Jacksonville District Office was issued on June 4, 2007. Of ten findings identified in the initial audit, three were addressed in the first follow-up audit (report dated January 9, 2008). The remaining seven findings were included in the scope of this review. The follow-up assessment determined that

management had completed five of the remaining findings and is in the process of addressing the final two issues.

Americans with Disabilities Act

An audit of the Florida Lottery's *Americans with Disabilities Act (ADA) Program* was issued on August 11, 2008. The initial audit detailed four findings and corresponding recommendations to improve the Lottery's ADA program. The follow-up assessment dated April 23, 2009, found that management was continuing to address all four audit findings and recommendations. A follow-up assessment for this audit will be conducted during Fiscal Year 2009-2010.

Internal Investigations

Employee Misconduct

An internal investigation was conducted involving two Florida Lottery employees that were alleged to have participated in acts unbecoming to a state employee and to have inappropriately used Lottery property and equipment. The allegations were supported and their employment with the Florida Lottery was terminated.

Referral to Management

In addition to the investigation conducted during the year, there were seven occasions on which complaints received by the Office of Inspector General did not result in a formal investigation and were referred to Lottery management.

Other Oversight Activities

Auditor General – June 30, 2008 Financial Audit

The Auditor General conducted a financial audit of the Department of Florida Lottery for the fiscal year ending June 30, 2008. The Office of Inspector General served as a liaison in this effort. The Auditor General issued the final report in January 2009.

OPPAGA Efficiency Review of the Florida Lottery

OPPAGA conducted an efficiency review of the Florida Lottery for the fiscal year ended June 30, 2008. The Office of Inspector General served as a liaison between OPPAGA and Lottery staff during the project. The final report was issued in March 2009.

Annual Report for the Office of Inspector General

As required by Section 20.055(7), Florida Statutes, the Office of Inspector General prepared and distributed a report that summarizes all the activities for the Fiscal Year 2007-2008.

Office of Inspector General Internal Quality Assessment

As part of an internal quality assessment program and in preparation for an external quality assessment, the Office of Inspector General conducted an internal quality assessment, utilizing the *Quality Assessment Manual, 5th Edition* issued by the Institute of Internal Auditors. The review of supporting documentation for the selected assurances and consulting assignments indicated that projects were well documented, the scope of work and related programs were adequate, and

there was no indication that projects were not being executed in compliance with the *International Standards for the Professional Practice of Internal Auditing*. Recommendations for enhancements to policies and procedures were made and implemented.

Florida Lottery Draw Studio

The Florida Lottery facility where Lottery drawings are conducted requires a dual-control environment requiring security and audit staff be present during any required maintenance. Office of Inspector General staff, at times, fulfill the audit staff requirement.

Quarterly Report to CIG for Fiscal Year 2008-2009

At the request of the Chief Inspector General's Office, each agency submits quarterly reports summarizing the activities of the office. This project captured information relating to the report submitted to the Chief Inspector General's Office during Fiscal Year 2008-2009.

Performance Based Budgeting Review

In accordance with Section 20.055(2)(b), Florida Statutes, the Office of Inspector General assessed the reliability and validity of the five performance measures provided to the Legislature. All legislative performance measures were found to be reliable and valid in all material respects.

Information Technology Risk Assessment Coordination

Each Office of Inspector General provided support and coordinated the efforts for their respective agency of the 2008 Florida IT Risk Assessment process. This assessment provided the

Agency for Enterprise Information Technology with a baseline of the Florida Lottery's progress toward implementing administrative information technology security controls.

COSO/Internal Control Assessment

At the request of the Auditor General, the Office of Inspector General identified and documented relevant controls related to the June 30, 2008 Lottery Financial Statements. As part of this review, an assessment was conducted to evaluate the control environment using a COSO-based approach. Based on the audit work performed, the Florida Lottery appeared to have an effective internal control system for financial reporting.

Computer Security Incident Response Team (CSIRT)

The Florida Lottery Office of Inspector General participated in the State of Florida CSIRT team.