

RICK SCOTT  
*Governor*



CYNTHIA F. O'CONNELL  
*Secretary*

## FLORIDA LOTTERY

September 14, 2012

Cynthia O'Connell  
Florida Lottery Secretary  
250 Marriott Drive  
Tallahassee, Florida 32301

Secretary O'Connell:

I am pleased to present the Annual Report for the Office of Inspector General. The report reflects the activities for Fiscal Year 2011-12.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "A. Mompeller".

Andy Mompeller  
Inspector General





September 2012

**FLORIDA LOTTERY  
OFFICE OF INSPECTOR GENERAL  
ANNUAL REPORT  
FISCAL YEAR 2011-12**

---



**Andy Mompeller  
Inspector General**

## **Table of Contents**

Overview	2
Office Mission and Goal	3
Summary of OIG of Activities	3
Organizational Structure	4
Staff Qualifications	4
Audits	5
Completed Audits	5
Audit Follow-up Activities	7
Audits in Progress	9
Investigations	9
Internal Investigations	10
Complaint Processing	10
Commission for Law Enforcement Accreditation	10
Other Oversight Activities	11
External Audit Coordination	11
Enterprise Projects	11
Projects with other Agencies	12
Internal Oversight Projects	13

## 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. The mission of the Florida Lottery is to *maximize revenues in a manner consistent 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. Section 20.055, Florida Statutes, establishes an OIG in each state agency to provide a central point for coordination of and responsibility for activities that promote accountability, integrity and efficiency in government. Responsibilities of the OIG include:

- Provide direction for, supervise and coordinate audits, investigations and management reviews relating to the programs and operations of the agency;
- Conduct, supervise or coordinate other activities carried out or financed by the agency for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations;
- Keep the Lottery Secretary informed concerning fraud, abuses, and deficiencies relating to programs and operations administered or financed by the agency, recommend corrective action concerning fraud, abuses, and deficiencies, and report on the progress made in implementing corrective action;
- Review and evaluate internal controls necessary to ensure fiscal accountability of the agency;
- Assess the reliability and validity of the information provided by the agency on performance measures and standards and make recommendations for improvement, if necessary;
- Review, as appropriate, rules relating to the program and operations of the agency and make recommendations concerning their impact; and
- Ensure that an appropriate balance is maintained between audit, investigative and other accountability activities.

## **OIG Mission and Goal**

The mission of the OIG is to protect and promote public integrity and accountability with the Department through audits that detect fraud, waste and abuse and the investigation of criminal 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.

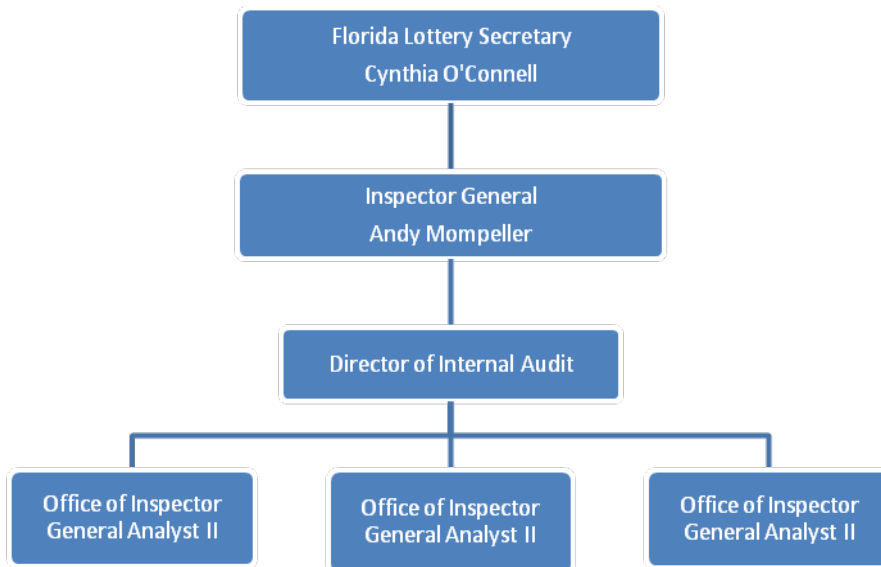
## **Summary of OIG Activities**

For Fiscal Year 2011-12, the OIG completed projects in the following areas:

- Audit Activities;
- Audit Follow-up Activities;
- Investigations;
- Complaint Processing;
- Other Oversight Activities, including:
  - External Audit Coordination;
  - Enterprise Projects;
  - Projects with other Agencies; and
  - Internal Oversight Projects.

## Organizational Structure

The OIG has five professional positions, with four positions supervised by the Inspector General. Personnel collectively possess diverse professional and educational backgrounds that provide the office with the expertise to fulfill its statutory requirements.



## Staff Qualifications

In accordance with the *International Standards for the Professional Practice of Internal Auditing*, internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. 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 personnel complete training each year to improve knowledge and skills in audits and investigations.

During Fiscal Year 2011-12, OIG staff held the following certifications:

- Certified Internal Auditor
- Certified Fraud Examiner
- Certified Public Accountant
- Certified Inspector General
- Certified Inspector General Investigator

In addition to maintaining professional certifications, OIG personnel are active in professional organizations that support audits and investigations. OIG personnel are affiliated with the Association of Inspectors General, the Institute of Internal Auditors and the Association of Certified Fraud Examiners.

## **Audits**

During Fiscal Year 2011-12, the OIG completed two internal audits and 13 follow-up assignments on internal and external audits. There were two audits in process at the close of the fiscal year.

Audits are conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, as published by the Institute of Internal Auditors and the *Principles and Standards for Offices of Inspectors General*, published by the Association of Inspectors General.

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

### **Completed Audits**

#### **Tampa District Office Audit**

The Tampa District Office functions as a Lottery retailer and prize redemption center, including selling scratch-off and online tickets and redeeming winning tickets with a value of up to \$250,000 (Powerball prizes up to \$1 million). The district office operates a warehouse with functions such as: receiving, storing and distributing promotional and retail merchandise, point of sale advertising, and other items as needed to support the Lottery retailers located within the district. The district office also serves as an operations center for Lottery Sales Representatives, whose duties are to service the over 2,400 retailers located in the district.

The objectives of the audit were to determine, in select essential areas of operation, if the district office was operating in compliance with the direction of Lottery management (by following established policies and procedures), and demonstrating an adequate system of internal controls which appropriately safeguarded the assets and integrity of the Lottery. Audit steps utilized to satisfy the objectives included reviewing written procedures and related documentation, observing actual processes, evaluating internal controls for specific areas and interviewing staff.

The audit report detailed findings in the areas of noncompliance with procedures for scratch-off inventory, promotional tickets, cash handling, prize payment disbursements, fleet management and evacuation drills. Recommendations were made for improvements in each of these areas. Management concurred with the audit findings and associated recommendations and agreed to take necessary corrective action.

### **Software Quality Assurance Audit**

The Lottery's Software Quality Assurance (SQA) department conducts, documents and reports on the results of formal system software user acceptance testing for gaming, gaming support and administrative support systems. They handle issues noted with Lottery gaming and internal systems as reported by end users.

The objectives of the audit were to determine if the SQA department: is operating in compliance with established policies and procedures, has an adequate internal control system to minimize risks and safeguard the integrity of the Lottery, and is operating efficiently and effectively.

Audit steps utilized to satisfy the audit objectives included: reviewing relevant contracts, rules, written procedures and related documentation, conducting interviews of appropriate personnel including end users, observing actual processes, and performing analyses of applicable system information.

The audit report detailed findings in the areas of noncompliance with procedures for balancing the test environment, summary report verification, testing scratch-off tickets, and maintenance of testing documentation. Also, written procedures should be established for some processes. Recommendations were made for improvements in each of these areas. Management concurred with the audit findings and associated recommendations and had taken corrective action on two findings prior to report issuance.



## Audit Follow-up Activities

The *International Standards for the Professional Practice of Internal Auditing* requires the internal audit activity establish a follow-up process to monitor and ensure management actions have been effectively implemented. The follow-up activities for issued audits and management reviews are detailed below.

ENGAGEMENT	FOLLOW-UP STATUS
Auditor General Games Administration Operational Audit	Section 20.055(5)(h), Florida Statutes, requires that no later than six months after the Auditor General or the Office of Program Policy Analysis and Government Accountability (OPPAGA) publishes a report on a state agency, the inspector general provides a written response to the agency head and files a copy with the Legislative Auditing Committee. Auditor General Report No. 2012-007 was issued in September 2011. The OIG conducted a review of the department's progress on recommendations made in the report, and management had taken corrective actions towards addressing all recommendations. A status of corrective actions was provided to the Secretary of the Lottery and the Legislative Auditing Committee.
Auditor General Financial Audit for the Fiscal Year Ended June 30, 2010	In accordance with Section 20.055(5)(h), Florida Statutes, the OIG conducted a review of the department's progress on recommendations made in Auditor General Report No. 2011-080, issued in January 2011. Management had taken actions towards addressing all recommendations. A status of corrective actions was provided to the Secretary of the Lottery and the Legislative Auditing Committee.
OPPAGA Efficiency Review	In accordance with Section 20.055(5)(h), Florida Statutes, the OIG conducted a review of the department's progress on recommendations made in OPPAGA Report No. 11-12, issued in March 2011. Management had taken actions towards addressing all of the recommendations. A status of corrective actions was provided to the Secretary of the Lottery and the Legislative Auditing Committee.
Fort Myers District Office	An audit of the Fort Myers District Office was originally conducted in January 2011. The initial audit contained eight findings and associated recommendations related to improving overall district operations. During a follow-up review, OIG staff found that management had taken corrective actions to address four of the eight findings.
West Palm Beach District Office	An audit of the West Palm Beach District Office was originally conducted in January 2011. The initial audit contained four findings and associated recommendations related to improving overall district operations. During a follow-up review, OIG staff found that management had taken corrective actions to address all findings.
Retailer Recruitment	An audit of Retailer Recruitment was originally conducted in November 2009. The initial audit contained six findings and associated recommendations related to improving retailer recruitment operations. As a result of follow-up reviews, OIG staff found that management had taken corrective actions to address all findings.

ENGAGEMENT	FOLLOW-UP STATUS
Personal Computer Management and Support	An audit of Personal Computer Management and Support was originally conducted in March 2010. The initial audit contained three findings and associated recommendations related to controls over the agency's information technology property. As a result of follow-up reviews, OIG staff found that management had addressed one of the three findings.
Continuity of Operations Plan	An audit of the Continuity of Operations Plan (COOP) was originally conducted in March 2009. The initial audit contained four findings and associated recommendations related to the adequacy of the agency's COOP. As a result of follow-up reviews, OIG staff found that management had addressed two of the four findings.
Internal Controls Over Contract Management	An audit of the Internal Controls over Contract Management was originally conducted in March 2009. The initial audit contained six findings and recommendations related to controls over the contract management and administration programs. As a result of follow-up reviews, OIG staff found that management had addressed three findings.
Organizational Ethics	An audit of Organizational Ethics was originally conducted in January 2011. The initial audit contained five findings and associated recommendations related to the effectiveness of the agency's ethics program. As a result of follow-up reviews, OIG staff found that management had addressed four findings.
Public Information	An audit of Public Information was originally conducted in December 2010. The initial audit contained three findings and associated recommendations related to the controls, efficiency and effectiveness of the agency's Public Affairs Department. As a result of a follow-up review, OIG staff found that management had addressed two findings.
Draw Communications	A management review of Draw Communications was originally conducted in May 2011. The initial review contained two findings and associated recommendations related to the controls over draw communications. As a result of follow-up reviews, OIG staff found that management had taken corrective actions to address all findings.
Scientific Games SAS 70	A SAS 70 Audit of vendor Scientific Games was originally issued in January 2011 by Moore, Colson & Company, P.C. The initial audit evaluated controls placed in operation for the instant ticket game development process, and seven user control considerations were identified. As a result of follow-up reviews, OIG staff found that management had addressed two of the seven user control considerations.

## **Audits in Progress**

The following audits were still in progress as of June 30, 2012:

### **Advertising Contracts Deliverables Audit**

The Lottery's Marketing Department is charged with managing and facilitating Lottery sales and promotions, including effectively managing the development and delivery of advertising campaigns and associated budget and expenditures. The objectives of this audit are to determine: if contractors are meeting the stated objectives of the advertising contracts with the Lottery; if work performed is in compliance with the scope of the contract; if the Marketing department is operating in compliance with state regulations, policies and procedures; and if the Marketing department has an adequate internal control system in existence.

### **Procurement Management Audit**

The Office of Procurement Management is responsible for the administration of the Lottery's procurement processes. The objectives of this audit are to evaluate the efficiency and effectiveness of the procurement management process and to assess compliance with applicable regulations, policies and procedures.

## **Investigations**

In addition to audit activities, Section 20.055, Florida Statutes, details investigative duties of the OIG. The OIG shall initiate, conduct, supervise and coordinate investigations designed to detect, deter, prevent and eradicate fraud, waste, mismanagement, misconduct and other abuses. In line with this, the OIG is required to:

- Receive complaints and coordinate all activities of the agency as required by the Whistle-blower's Act, pursuant to Section 112.3187-112.31895, Florida Statutes; and
- Receive and consider the complaints which do not meet the criteria for an investigation under the Whistle-blower's Act and conduct, supervise, or coordinate such inquiries, investigations, or reviews as appropriate.

During Fiscal Year 2011-12, the OIG completed two internal investigations, processed 115 complaints and conducted activities related to maintaining the Commission for Law Enforcement Accreditation.

## **Internal Investigations**

### **Conduct of Duties**

The OIG conducted an investigation based on an allegation that a Lottery employee was not conducting required duties. The allegation was supported.

### **Compromised Password**

The OIG conducted an investigation based on an allegation that a Lottery employee's password for a data system was compromised. The allegation was supported.

## **Complaint Processing**

The OIG received and processed 115 complaints during the fiscal year (one of which progressed to the Conduct of Duties investigation above). OIG staff responded to all complainants as needed. Of the total complaints received, OIG staff directly handled 37 complaints and 78 were processed and then referred to Lottery management.

## **Commission for Law Enforcement Accreditation**

The OIG received accreditation in 2010 by the Commission for Law Enforcement Accreditation, Inc. (CFA). OIG staff regularly conducts activities to ensure ongoing compliance with accreditation requirements. Activities relating to this effort include:

- Conducting 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;
- Providing 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;
- Attending Accreditation Managers meetings to discuss current and future issues regarding accreditation requirements;
- Revising the OIG Investigations Manual to comply with changes in CFA standards;
- Conducting an annual inspection and inventory of the evidence room;
- Ensuring annual independence attestations are submitted and annual training requirements for CFA standards are met for OIG staff; and
- Completing the CFA Annual Report.

## **Other Oversight Activities**

The OIG participates in other activities, such as external audit coordination, Enterprise Projects, projects with other agencies and internal oversight projects.

### **External Audit Coordination**

Section 20.055, Florida Statutes, requires the OIG to ensure effective coordination and cooperation between the Auditor General, federal auditors, and other governmental bodies with a view toward avoiding duplication.

The OIG is the primary liaison with external audit entities and is responsible for coordinating and facilitating responses to audits or reviews by those entities. The inspector general shall provide a written response to the agency head on the status of corrective actions taken. Each year, external auditors perform annual financial audits of the Florida Lottery.<sup>1</sup> These audits include the expression of an opinion on the adequacy of internal controls and recommendations to enhance the earning capability and efficiency of Florida Lottery operations.<sup>2</sup> During the fiscal year, the OIG coordinated the Auditor General Games Administration Operational Audit, the Auditor General Financial Statement Audit for the Fiscal Year Ending June 30, 2011, and the OPPAGA Annual Efficiency Review.

Every two years, the Florida Lottery is required to engage an independent firm to conduct a comprehensive study and evaluation of all aspects of security in the operation of the department, in accordance with Section 24.108, Florida Statutes. Delehanty Consulting, LLC, conducted this audit during Fiscal Year 2011-12.

### **Enterprise Projects**

#### **Law Enforcement Consolidation Task Force**

The 2011 Legislature enacted Senate Bill 2160, creating the Law Enforcement Consolidation Task Force. This task force evaluated any duplication of state law enforcement functions and identified functions that may be appropriate for consolidation. The Inspector General participated in this as part of the IG Workgroup for the Law Enforcement Consolidation Task Force.

---

<sup>1</sup> The State of Florida Auditor General currently fulfills this audit requirement.

<sup>2</sup> Section 24.123, Florida Statutes

### **Information Technology Mobile Computing**

The Office of Chief Inspector General conducted an engagement on Mobile Technology. As part of this engagement, the OIG coordinated survey responses from the agency's Chief Information Officer relating to usage of agency-owned and/or personally-owned mobile devices.

## **Projects with other Agencies**

### **Internal Controls for the Data Exchange with the Florida Department of Highway Safety and Motor Vehicles**

The Lottery Division of Security entered into a Memorandum of Understanding with the Florida Department of Highway Safety and Motor Vehicles (DHSMV). This agreement allows the Division of Security to access data through the Driver License and Vehicle Information Database system. The agreement requires that the Division of Security must meet several criteria to safeguard against the accidental or purposeful release of confidential information.

To ensure compliance with the control measures, the DHSMV requested a licensed Certified Public Accountant or the Lottery's Office of Inspector General provide an attestation as to the completeness of the required control measures. The OIG conducted this review and attested that the internal controls over the data are adequate to protect from unauthorized access, distribution, use, modification and disclosure.

### **Agency for Enterprise Information Technology (AEIT) Triennial Information Technology Survey**

Section 24.108, Florida Statutes, requires the Lottery to engage an independent firm to conduct a comprehensive study and evaluation of all aspects of security in the operation of the department every two years. In addition, Section 282.318, Florida Statutes, requires each agency to conduct, every three years, a comprehensive risk analysis to determine threats to information technology resources of the agency. As part of this, the department was approved to provide the risk assessment and public portion of the comprehensive security review as documentation for the AEIT Survey. This effort was coordinated by the OIG.

## **Internal Oversight Projects**

### **Risk Assessment, Annual Audit Plan and Annual Report**

In accordance with Section 20.055, Florida Statutes, the OIG develops long-term and annual audit plans, based on the findings of a comprehensive annual risk assessment. The annual audit plan was approved by the agency head and submitted to the Office of the Chief Inspector General and the Auditor General. The OIG is also responsible for preparing an Annual Report summarizing the activities of the office during the immediately preceding fiscal year.

### **Performance Measures**

The OIG conducts an annual review of the agency's Performance Measures as required by Section 20.055, Florida Statutes. 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.

### **Mail Distribution Management Review**

Lottery management requested the OIG review mail room operations, which include incoming and outgoing mail, interoffice delivery and other courier services. This review found six findings related to overall mail handling and processing. The OIG will conduct future follow-up procedures to assess corrective actions taken by management on the outstanding issues.

### **Joint Draw Procedures Review**

At the request of the Lottery Secretary, a workgroup was established to evaluate activities involved with Lottery drawings for online games. The OIG participated in the workgroup along with other department management. The workgroup provided several recommendations to the Lottery Secretary in regards to online games.

### **Lottery Draw Studio**

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.

### **Other Ongoing Oversight**

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

**Florida Lottery Office of Inspector General**

**Mail**

**Office of Inspector General  
c/o Florida Lottery  
250 Marriott Drive  
Tallahassee, Florida 32301**

**Phone**

**(850) 487-7726**

**Fax**

**(850) 487-7746**

**E-mail**

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