

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2025-027
October 2024

DEPARTMENT OF THE LOTTERY

Jacksonville District Office Operations



Sherrill F. Norman, CPA
Auditor General

Secretary of the Department of the Lottery

The Department of the Lottery is established by Section 20.317, Florida Statutes. The head of the Department is the Secretary who is appointed by the Governor and subject to confirmation by the Senate. John F. Davis served as Department Secretary during the period of our audit.

The team leader was Ranleigh Hudgens, CPA, and the audit was supervised by Aaron Franz, CPA.

Please address inquiries regarding this report to Joshua Barrett, CPA, Audit Manager, by e-mail at joshuabarrett@aud.state.fl.us or by telephone at (850) 412-2804.

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DEPARTMENT OF THE LOTTERY

Jacksonville District Office Operations

SUMMARY

This operational audit of the Department of the Lottery (Department) focused on the operations of the Jacksonville District Office (Office). The audit also included a follow-up on Finding 3 noted in our report No. 2023-001. Our audit disclosed the following:

Finding 1: Office records did not always evidence that District Office opening and closing procedures were conducted in accordance with established policies and procedures and management's expectations. Additionally, District Office opening and closing policies and procedures could be enhanced to require supervisory review of daily activities.

Finding 2: Office safe, check endorsement stamp, and cash drawer controls need improvement.

Finding 3: Department and Office controls over the collection and deposit of retailer application fees need enhancement.

BACKGROUND

State law¹ authorizes the Department of the Lottery (Department) to operate the State lottery to maximize revenues in a manner consonant with the dignity of the State and welfare of its citizens. The net proceeds of lottery games are to benefit public education. Specifically, revenues from the sale of lottery tickets, less prizes paid to winning ticket holders, retailer commissions and fees, gaming vendor fees, and administrative costs, are to be transferred to the Educational Enhancement Trust Fund (EETF) managed by the Department of Education.² The amount transferred to the EETF is calculated net of all Department administrative and game expenses. For the 2022-23 fiscal year, the Department was authorized 418.5 positions, received appropriations totaling approximately \$210 million, and transferred over \$2.4 billion to the EETF.

The Department operates nine District Offices located throughout the State to manage the sale, promotion, and redemption of lottery products. In addition to District Office management, each District Office employs sales representatives who assist in the promotion and sale of lottery products at the retail level and other personnel who support District Office retail operations.

As each District Office operates as an entrepreneurial business enterprise that collects revenue from retailers and customers and pays prize winnings, the Department established daily operating policies and procedures³ for opening and closing District Offices as well as for cash management. The Department also established policies and procedures for the oversight of other daily District Office activities and

¹ Article X, Section 15 of the State Constitution and Section 24.104, Florida Statutes.

² Section 24.121, Florida Statutes.

³ Department General Accounting Policy No. 207, *District Office Operation Procedures*.

responsibilities, including prize payments, promotional game merchandise inventory, fleet management, retailer contracting, physical security of assets, and promotional scratch-off ticket handling.

According to Jacksonville District Office (Office) records, during the period June 27, 2022, through March 3, 2024, Office ticket sale revenues totaled \$905,311. Additionally, during the period July 2022 through February 2024, Office prize claim expenses and non-prize claim operating expenses totaled \$91,748,980 and \$1,952,491, respectively.

FINDINGS AND RECOMMENDATIONS

Finding 1: Opening and Closing Procedures

Among other things, District Office opening and closing policies and procedures required personnel at the beginning of each day to make a new daily folder and to:

- At the close of business each Friday, print either an *Active Books Report* to verify the specific scratch-off ticket books (ticket books) in inventory or an *Inventory Summary Report* of the ticket books in received status.
- Log, verify, initial, and date all new ticket books at the time the ticket book is activated.
- Print the instant ticket terminal screen and initial the printout showing the settlement of the ticket book. Ticket books were not to be settled by the personnel who activated the book.

All supporting records were to be maintained in each day's folder.

As part of our audit, we evaluated the Department-established opening and closing policies and procedures and found that the policies and procedures did not require and, consequently Jacksonville District Office (Office) management did not conduct, supervisory reviews of daily activities to ensure that Office personnel documented all opening and closing procedures in accordance with established requirements. The absence of such reviews may have contributed to the subsequently described issues noted on audit. We also examined Office folders for 12 days (including 6 Fridays) during the period July 2022 through February 2024 and observed Office controls on April 25 and 26, 2024, to determine whether the Office completed and adequately documented all opening and closing procedures in accordance with established requirements. Our audit procedures found that Office personnel did not:

- Print and include in 5 of the 6 tested Friday folders either an *Active Books Report* or an *Inventory Summary Report*.
- Always include in the daily folders all required documentation for the 44 settled ticket books applicable to the days tested and recorded in the Department's gaming system. Specifically, the folders did not include:
 - A printout of the instant ticket terminal screen showing the settlement of 3 ticket books and the printouts of the screens for 12 other ticket books were not initialed by Office personnel.
 - Records evidencing the Office employee responsible for activating 10 ticket books. Consequently, we were unable to determine whether those ticket books were settled by the same personnel who activated the books. For another 5 ticket books, we noted that the same Office employee activated and settled the books.

According to Office management, inexperienced personnel and insufficient management oversight contributed to the issues noted on audit.

As Office personnel are directly involved with cash and ticket handling, it is critical that opening and closing procedures are conducted and documented in accordance with Department policies and procedures and that supervisory reviews of such activities are performed to ensure that management's expectations are met.

Recommendation: We recommend that Department management revise District Office opening and closing policies and procedures to require supervisory review of daily activities and Office management ensure that opening and closing procedures are conducted and documented in accordance with established expectations.

Finding 2: Safeguarding of Assets

District Office policies and procedures for safeguarding assets required the Office to change the safe combination each time an employee with access separated from employment or no longer needed access, but no less than annually. Safe combination changes were to be recorded in a log to be kept in a safe, as well as the date the combination was changed, the name and signature of the person who changed the combination, and the reason for the change. Office assets such as cash, check stock, check printer signature cartridge, printer cartridge tracking label, check printer key, endorsement stamp used to restrictively endorse checks received from retailers, and instant ticket vending machine keys were to be kept in the Office's safe when not in use and only removed in the presence of a witness. To promote accountability, the policies and procedures also required the Office to limit access to each cash drawer to one person.

As part of our audit, we inquired of Office management, reviewed Office records, and observed Office controls over the safeguarding of assets on April 25 and 26, 2024, and noted that:

- The Office did not maintain a safe combination log nor did Office records evidence that the safe combination was changed during the period January 2022 through February 2024. Additionally, while a safe combination change was recorded on a key log as being made on March 12, 2024, no reason for the change was documented, nor was the key log kept in the Office's safe. Office management indicated that, while only they had the safe combination, going forward a safe combination log would be used to record all safe combination changes and would be kept in the safe.
- The endorsement stamp was not kept in the safe when not in use. Instead, it was kept in an employee's unlocked desk drawer. In response to our audit inquiry, Office management indicated that it was kept at the employee's desk for ease of access, but going forward the endorsement stamp would be kept in the safe until needed.
- More than one Office employee had access to a shift's cash drawer. During our observations, Office personnel indicated that, when the assigned employee went on break, Office personnel covering the break had access to the cash drawer to complete customer transactions. According to Office management, going forward cash drawers would only be accessible to the assigned employee and ticket sales would be unavailable during their breaks.

Absent adequate controls, the risk is increased that Office assets may be misappropriated.

Recommendation: We recommend that Office management ensure that Office assets are appropriately safeguarded in accordance with established policies and procedures.

Finding 3: Retailer Application Fee Controls

Department rules⁴ specify various retailer fees to be paid to the Department, including for initial and renewal applications. Effective fee collection and deposit controls are essential for the prevention and detection of theft or loss. Such controls include preparing receipts or logs of collections and restrictively endorsing checks upon receipt. Department policies and procedures⁵ required District Offices to maintain a daily log of all checks received from retailers and stated that it was imperative that deposits be taken to the bank on the day they were prepared or first thing the following work day. During the period July 2022 through February 2024, the Office collected retailer fees totaling \$15,195.

As part of our audit, we interviewed Department and Office management, reviewed Department policies and procedures, and examined Office records to assess the adequacy of Office controls over collecting, processing, depositing, recording, and safeguarding retailer fees. Our audit procedures found that:

- While Department policies and procedures required District Office personnel to restrictively endorse checks prior to deposit, the policies and procedures did not require restrictive endorsement on the day of receipt when lapses between check receipt and deposit occurred.
- Contrary to Department policies and procedures, the Office had not prepared and maintained a daily log of checks received from retailers during the period July 2022 through February 2024. Additionally, our review of 35 retailer checks, totaling \$3,600 and deposited during the period July 2022 through February 2024, found that 23 checks, totaling \$2,375, were deposited 3 to 104 days (an average of 18 days) after receipt.

According to Office management, they were not aware of Department policies and procedures requiring the completion of a daily check log. Office management further indicated that checks are endorsed at the time of deposit, which coincides with when the retailer's application is considered complete, rather than at receipt, and that management would reevaluate this practice.

Establishing effective controls over retailer fee activities from collection through deposit would provide greater assurance that retailer fees are appropriately safeguarded and accounted for and better prevent and detect any potential theft or loss.

Recommendation: We recommend that Department management enhance policies and procedures to require the restrictive endorsement of retailer checks on the day of receipt. We also recommend that Office management establish daily check logs in accordance with Department policies and procedures and promptly deposit all fees received.

PRIOR AUDIT FOLLOW-UP

The Department had taken corrective actions for Finding 3 included in our report No. 2023-001.

⁴ Department Rule 53ER24-22, Florida Administrative Code.

⁵ Department General Accounting Policy No. 207, *District Office Operation Procedures*, and Department *Remote Deposit Services - Check Deposit Procedures*.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2024 through July 2024 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.

This operational audit of the Department of the Lottery (Department) focused on Jacksonville District Office (Office) operations. For those areas, the objectives of the audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed into operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether Department management had corrected, or was in the process of correcting, Finding 3 noted in our report No. 2023-001.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives; instances of noncompliance with applicable governing laws, rules, or contracts; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, Department policies and procedures, and other guidelines, and interviewed Department and Office personnel to obtain an understanding of Office operational processes and responsibilities.
- Inquired of Department management regarding whether the Department made any expenditures or entered into any contracts under the authority granted by an applicable state of emergency during the period July 1, 2021, through April 2, 2024.
- From the population of 411 daily folders completed by the Office during the period July 2022 through February 2024, examined Office records for 12 selected daily folders to determine whether the Office completed and adequately documented all opening and closing procedures in accordance with Department-established requirements.
- Evaluated the adequacy of Office controls, including policies and procedures, over daily opening and closing activities, quarterly physical inventory counts of promotional merchandise and ticket dispensers, and trunk stock inventory inspections by conducting observations on April 3, 25, and 26, 2024.
- Performed inquiries, observations, and examined documents and records related to Office cash management processes to determine whether the Office had adequately designed and implemented cash management controls. Specifically:
 - From the population of 401 bank deposits, totaling \$511,967, made to the Office's bank account during the period July 2022 through February 2024, examined Office records for 12 selected deposits, totaling \$19,556, to determine whether bank deposits were made, and cash reconciliations were conducted, in accordance with Department policies and procedures.
 - From the population of 331 retailer fee deposits, totaling \$15,195, made by Automated Clearing House (ACH) or check during the period July 2022 through February 2024, examined Office records for 14 selected ACH and 35 selected check deposits, totaling \$3,800, to determine whether the Office timely and appropriately deposited retailer fees.
 - Examined the four bank signature cards that were in effect for the Office during the period July 2022 through February 2024 to determine whether only authorized personnel could access and make changes to the Office's bank account.
 - Examined the Office's banking agreement effective July 1, 2023, to determine whether the agreement included appropriate terms and responsibilities.
- From the population of 15 Office motor vehicles, with acquisition costs totaling \$310,705, that were available for assignment and use at some point during the period July 2022 through February 2024, examined Office records for 5 selected motor vehicles, with acquisition costs totaling \$107,237, to determine whether the Office appropriately documented motor vehicle use, costs, and maintenance in accordance with Department policies and procedures and Department of Management Services rules.

- Examined Office records for the 12 Office employees with fuel card charges during the period July 2022 through February 2024 to determine whether the employees completed a user agreement form prior to receiving a fuel card in accordance with Department policies and procedures.
- Analyzed Department data for the 1,513 fuel card charges, totaling \$61,008, incurred by the Office during the period July 2022 through February 2024 to determine whether the charges did not exceed, and were not split to circumvent, established spending limits. Additionally, reviewed Office records for the 2 charges that exceeded established spending limits to determine whether appropriate explanations and approvals were documented in accordance with Department policies and procedures.
- Obtained an understanding of selected Department information technology (IT) controls, assessed the risks related to those controls, evaluated whether selected general and application IT controls for the Merchandise Inventory Control System (MICS) were in place, and tested the effectiveness of the selected controls.
- Selected and examined Office physical inventory records for 3 of the 6 quarters during the period July 2022 through December 2023 to determine whether the Office conducted quarterly physical inventory counts of promotional merchandise recorded in MICS and scratch-off tickets in accordance with Department policies and procedures.
- From the population of 36 MICS inventory transfer orders completed during the period July 2022 through February 2024, examined Office records for 15 selected MICS inventory transfer orders to determine whether inventory transfers were made in accordance with Department policies and procedures.
- From the population of 67 Office events during the period July 2022 through February 2024 that included the distribution of promotional merchandise and issuance of ticket dispensers, examined Office records for 10 selected events to determine whether the Office distributed promotional merchandise and issued ticket dispensers in accordance with Department policies and procedures.
- Examined the 20 monthly vehicle Trunk Stock Inventory Inspection Reports completed during the period July 2022 through February 2024 to determine whether the Office ensured that vehicle trunk stock was properly secured and related records were complete and accurate.
- From the population of 7,098 Office inventory items recorded in MICS as of April 26, 2024, with acquisition costs totaling \$83,820, physically observed 649 selected inventory items, with acquisition costs totaling \$5,630, to determine whether the selected recorded items existed. Additionally, traced 1,276 selected inventory items, with acquisition costs totaling \$9,710, physically observed at the Office on April 26, 2024, to MICS inventory records to determine whether the Office appropriately included the items in MICS.
- Examined the two Brass Key Issuance and Return Forms and 3 of the 6 Quarterly Brass Key Logs for the period July 2022 through December 2023 to determine whether the Office completed the forms and logs in accordance with Department policies and procedures.
- Examined records for the seven Office physical access reviews completed during the period July 2022 through February 2024 to determine whether the reviews were completed timely and in accordance with Department policies and procedures.
- From the population of 34,116 prize claims exceeding \$600 and totaling \$90,809,783, paid by the Office during the period July 2022 through February 2024, examined Office records for 34 selected prize claims, totaling \$2,006,442, to determine whether the prize claims were properly validated and paid in accordance with Department policies and procedures.
- Analyzed data for the 47,238 prize claims, totaling \$91,748,980, paid by the Office during the period July 2022 through February 2024 to determine whether the Office paid, contrary to

Department rules and policies and procedures, any non-annuity claims with combined winnings totaling more than \$1,000,000.

- From the population of five Promotional Scratch-Off events completed by the Office during the period July 2022 through February 2024, examined Office records for three selected events to determine whether the events were conducted in accordance with Department policies and procedures.
- Evaluated Department actions to correct Finding No. 3 noted in our report No. 2023-001. Specifically, we:
 - Reviewed applicable laws, rules, and Department policies and procedures, and interviewed Department personnel to obtain an understanding of Department controls over text message usage and retention and the related requirements.
 - Examined the 68 invoices paid during the period July 2022 through February 2024 for the Department's five mobile device accounts to identify whether the Department sent or received text messages during the period July 2022 through February 2024.
 - Reviewed the Department's mobile device management application (application) settings to determine whether controls to disable the iMessage application were in place and compared Department Apple device inventory records to the devices enrolled in the application to determine whether the Department enrolled all Department Apple devices in the application.
 - Reviewed the Department's *Mobile Device Acknowledgement of Receipt* form to determine whether the form indicated that employees were prohibited from using Department mobile devices to send or receive text messages pertaining to official State business, or alternatively, provided for the retention of such messages.
 - From the population of 232 Department employees assigned a Department mobile device as of March 8, 2024, examined Department records for 10 selected employees to determine whether the employees completed a *Mobile Device Acknowledgment of Receipt* form in accordance with Department policies and procedures.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

RON DESANTIS
Governor



JOHN F. DAVIS
Secretary

October 3, 2024

Sherrill F. Norman, CPA
Florida Auditor General
Claude Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

The Lottery has received your list of preliminary and tentative audit findings and recommendations resulting from your operational audit of the Department of the Lottery, Jacksonville District Office Operations. Below is our response to each finding and recommendation:

Finding #1: Office records did not always evidence that District Office opening and closing procedures were conducted in accordance with established policies and procedures and management's expectations. Additionally, District Office opening and closing policies and procedures could be enhanced to require supervisory review of daily activities.

Recommendation: We recommend that Department management revise District Office opening and closing policies and procedures to require supervisory review of daily activities and Office management ensure that opening and closing procedures are conducted and documented in accordance with established expectations.

Lottery's Response: The Lottery's District management and Sales Director have reviewed and acknowledged the items denoted in Finding #1. Based on the recommendations and findings, the District has implemented the following measures:

- The Lottery Marketing Specialists (LMS) and Sales Operations Managers (SOM) will ensure Active Book Report/Inventory Summary is printed, initialed, and placed in each Close of Business (COB) Friday folder.
- The LMS or SOM will ensure that new ticket books will be captured on a log, verifying, and initialing the scratch book report slip for each book activated and settled.
- The LMS or SOM will ensure there are dual control initials with each activation and settlement of books.
- Revisions to policy and procedures will be made to require a supervisory review of the District opening and closing daily activities.

Finding #2: Office safe, check endorsement stamp, and cash drawer controls need improvement.

Recommendation: We recommend that Office management ensure that Office assets are appropriately safeguarded in accordance with established policies and procedures.

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Lottery's Response: The Lottery's District management and Sales Director have reviewed and acknowledged the items denoted in Finding #2. Based on the recommendations and finding, the District has implemented the following measures:

- The SOM will ensure the safe combination log is kept current (not combined with key log) and the combination is to be changed once per year unless a combination holder leaves the Lottery or changes position.
- The SOM will ensure the endorsement stamp will always remain in the safe and is only removed to endorse a retailer check and then promptly returned to the safe.
- The LMS or SOM will ensure that the cash drawer is controlled by the assigned employee working the window. When the assigned employee is on break, no other Lottery employee will have access to the cash drawer.

Finding #3: Department and Office controls over the collection and deposit of retailer application fees need enhancement.

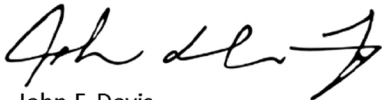
Recommendation: We recommend that Department management enhance policies and procedures to require the restrictive endorsement of retailer checks on the day of receipt. We also recommend that Office management establish daily check logs in accordance with Department policies and procedures and promptly deposit all fees received.

Lottery's Response: The Lottery's District management and Sales Director have reviewed and acknowledged the items denoted in Finding #3. Based on the recommendations and findings, the District has implemented the following measures:

- The LMS(s) responsible for the receipt of Retailer Contracting applications and checks, have been provided instructions to prepare and maintain a daily log of retailer applications and checks received from retailers.
- Additional enhancements to policy and procedures requested "We recommend that Department Management enhance policies and procedures to require the restrictive endorsement of retailer checks on the day of receipt."
 - Note: The District Offices log each retailer application and fee at the time of the application submission from a retailer. If the application is incomplete, the District retains the check placing it in the safe and records the additional information that is needed to approve the application. In some cases, it can take an unknown amount of time to receive the information required to approve the retailer application. Once the application fee is deposited and recorded in the system, the Lottery has the inability to refund it in the system.

Thank you for your audit efforts and recommendations. I look forward to receiving your final report.

Sincerely,



John F. Davis
Secretary

cc: Reggie Dixon, Chief of Staff
Andy Mompeller, Inspector General



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