

RICK SCOTT  
Governor



CYNTHIA F. O'CONNELL  
Secretary

## FLORIDA LOTTERY

July 25, 2013

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

Re: Auditor General Report No. 2013-089, Department of the Lottery Financial Audit  
For the Fiscal Years Ended June 30, 2012 and 2011

Dear Secretary O'Connell:

Section 20.055(5)(h), Florida Statutes, requires the Inspector General to monitor the implementation of the agency's response to any report on the Florida Lottery issued by the Auditor General or by the Office of Program Policy Analysis and Government Accountability. The referenced statute further requires that no later than six months after the report is published, the Inspector General must provide a written response on the status of actions taken. The purpose of this letter is to provide updated information on the agency's response to the Auditor General findings and fulfill these requirements.

In January 2013, the Auditor General released its report No. 2013-089 titled *Department of the Lottery, Financial Audit for the Fiscal Years Ended June 30, 2012 and 2011*. The report outlined three audit findings. The following details each audit finding and recommendation with the current progress of Lottery staff to address each recommendation:

1) Information Technology Controls

*Audit Finding: Information technology (IT) controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. During our audit, we identified the need for enhancements to the Lottery's IT control practices in eight separate areas, seven of which were repeated from the prior audit.*

*Recommendation: We recommend that the Lottery make the necessary enhancements to its IT control practices to address the issues identified.*



**Status of Corrective Action:** All recommended enhancements except (Finding No. 7, Second Bullet) have been addressed. We previously expected to resolve (Finding No. 7, Second Bullet), by December 31, 2012 but have run into workload and technical delays. This finding will be partially resolved by August 30, 2013. We are reviewing additional options to fully address this finding in the shortest, most cost efficient manner. These options will be presented to the Secretary for her consideration by July 25, 2013.

2) Minority Retailer Participation

*Audit Finding: Section 24.113, Florida Statutes, requires that 15 percent of the Lottery's retailers shall be minority business enterprises, as defined in Section 288.703(3), Florida Statutes; however, no more than 35 percent of such retailers shall be owned by the same type of minority person, as defined by Section 288.703(4), Florida Statutes. Our audit disclosed that as of July 2, 2012, retailers comprising one minority type totaled 65 percent of the total number of minority retailers. A similar finding has been included in prior reports.*

*Recommendation: We recommend that the Lottery continue its efforts to increase retailer participation in under-represented minority groups.*

**Status of Corrective Action:** The Lottery continues its efforts to increase retailer participation in under-represented minority groups using a number of different strategies including working with Florida's Petroleum Marketers Association and the Florida Retail Foundation to network and identify potential new retailers including minority operators. Additionally, the Lottery continues to participate in minority trade shows whenever possible, advertises in minority business journals by featuring minority retailers currently selling Lottery products, explores non-traditional trade style retailer prospects, and provides website access on how to become a Lottery retailer.

While we continue our efforts to increase retailer participation in under-represented minority groups, the overall level of participation has not changed significantly. Economic conditions are still part of the issue affecting all retailers, both independent and corporate. Hess for example is selling their Convenience Store Division, in order to concentrate on oil exploration, considered by their board of directors to be more profitable. At the same time, aggressive corporate convenience store expansion continues in Florida by 7-Eleven, Racetrac, Circle K, Wawa, and Thorntons. Although new stores are part of the expansion, many are purchased from chains with weak balance sheets or from struggling independents including minority retailers.

However, we agree with the recommendation and will continue to aggressively pursue retailer participation in under-represented minority groups.

3) Marketing and Research Support Funds

*Audit Finding: The Lottery's Terminal ticket and Scratch-Off ticket gaming service vendors are each contractually required to make periodic deposits into marketing and research support funds (funds) maintained by the vendors. In Auditor General report No. 2007-093, we recommended that the Lottery amend the applicable provisions of each contract to include language that specifically addressed the ownership of each fund; that based on these clarifications, the Lottery reconsider the appropriateness of the budgetary and financial reporting treatments utilized for the funds; and that the Lottery more closely monitor compliance with its established purchase authorization and payment procedures. Our audit disclosed that while the Lottery had taken steps to address most of these recommendations, the Lottery had not included complete information relating to these funds in Lottery budgetary and financial reports.*

*Recommendation: We recommend that the Lottery incorporate in its financial accounts and reports the transactions and balances associated with these Lottery resources.*

**Status of Corrective Action:** The Lottery retained the services of Law, Redd, Crona & Munroe, P.A. to perform financial consulting services regarding the financial accounting and reporting of the marketing and research support funds. Consulting services were conducted in accordance with the Statements on Standards for Consulting Services established by the American Institute of Certified Public Accountants. Procedures performed included review of the Lottery's audited financial statements for fiscal years ended June 30, 2012 and 2011, review of the sections of the contractual agreements with the gaming vendors relevant to the marketing and research support funds and activities, and interviews with Lottery management and staff to obtain an understanding of the accounting and reporting procedures for the marketing and research support funds. In the Independent Accountant's Report dated February 28, 2013, Law, Redd, Crona & Munroe, P.A. observed and recommended the following:

- Contracts with the gaming vendors are designed to require that the vendors reinvest in the design and operations of the Lottery's various games.
- The contractual provisions provide a mechanism for the Lottery and vendors to develop overall market strategies and respond to industry developments in a timely and flexible manner.
- It is critical that the Lottery exercise oversight over the funds from a public policy perspective in order to maintain the integrity of the Lottery.
- Vendors account for and track the activity in accrued liability accounts. Invoices directed for payment by the Lottery are charged against the vendor's liability account.
- The Lottery has established procedures to ensure that transactions have been authorized, properly documented, approved for payment and logged for disbursement by the vendor.

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- Monies are not held in segregated bank accounts by the vendors. The Lottery does not have title or access to vendor bank accounts. Accordingly, the funds are not presented as an asset in the financial statements of the Lottery.
- If there are residual funds at the culmination of the contract, the funds are returned to the Lottery and any resulting revenue is recorded at that time.
- Marketing and research support expenses are not included in the appropriation because they are expenses of the gaming vendors.
- As an enterprise fund, the Lottery does not present a budgetary comparison statement in its financial statements in conformity with generally accepted accounting principles for governments.

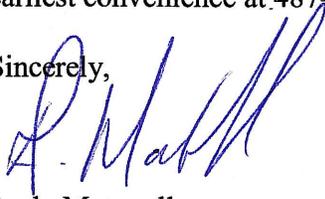
In terms of financial disclosure, the Independent Accountant's report recommended an expansion of the commitments footnote in the financial statements to include:

- a range of balances available for the marketing and research support activities from inception to date;
- a statement that historically no balances have reverted to the Lottery;
- renewal dates of the contracts; and
- changes in the marketing and research activities for the previous and current fiscal years.

**In closing, the Lottery concurs with the observations and recommendations of Law, Redd, Crona & Munroe, P.A. It is the intent of the Lottery to accept the financial disclosure recommendations described in the Independent Accountant's report dated February 28, 2013. The recommendations will be implemented with the financial statements prepared for the fiscal year ended June 30, 2013.**

If you require additional information in these matters, please feel free to contact me at your earliest convenience at 487-7726.

Sincerely,



Andy Mompeller  
Inspector General

Cc: Kathy DuBose, Coordinator, Joint Legislative Auditing Committee