

RICK SCOTT  
Governor



CYNTHIA F. O'CONNELL  
Secretary

## FLORIDA LOTTERY

July 23, 2012

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

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 findings are published, the Inspector General must provide a written response of 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 2012, the Auditor General released its report titled *Department of the Lottery, Financial Audit for the Fiscal Year Ended June 30, 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 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 21 separate areas, 9 of which were repeated from the prior audit. To avoid the possibility of compromising Lottery information, specific details of these matters are not disclosed in the report. However, appropriate Lottery personnel have been notified of these issues.*

*Recommendation: The Lottery should make necessary enhancements to its IT control practices to address the issues identified.*



**Status of Corrective Action:** Of the original twenty-one findings, fifteen are closed. The remaining six findings are still in the process of completion. The remaining open audit findings and responsible departments are #4 (ISM/IR), #5 (ISM), #6 (IR), #8 (ISM), #10 (ISM), and #19 (ISM).

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 1, 2011, retailers comprising one minority type totaled approximately 65 percent of the total number of minority retailers. A similar finding has been included in previous Auditor General reports. The Lottery has developed an outreach program to increase retailer participation in under-represented minority groups; however, despite these efforts, the level of participation from these groups has decreased slightly over the past fiscal year.*

*Recommendation: The Lottery should continue to take steps to resolve this finding.*

**Status of Corrective Action:** Again this year, the Lottery approached legislative committee members and staff proposing that the "one minority type" provision be amended out of Section 24.113, Florida Statutes. The Lottery suggested that this change could be a part of its bill authorizing the use of vending machines for terminal games. The general reaction to amending the provision was positive, but an amendment to the relevant bill was not added to the bill, so the effort did not succeed. Pending further discussion with the Governor's Office, the Lottery plans to seek a remedy again in the 2013 legislative session.

In September of 2011, the Lottery reorganized its retailer recruitment program, folding it into the Sales Division, where it could be fully integrated into the effort to attract and retain retailers. This involved moving two Account Executive positions into the corporate unit of the Sales Division. One of the two positions has been given special responsibilities in regard to recruiting and maintaining retailers owned or operated by Spanish-speaking business people. The Lottery remains committed to a diverse retailer network.

3) Sales-Based Expenses

*Audit Finding: The Lottery's contracts with On-line and Scratch-Off game vendors provide that the Lottery pay the vendors a percentage of ticket sales. The fees paid to*

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Status on Auditor General Recommendations  
July 23, 2012

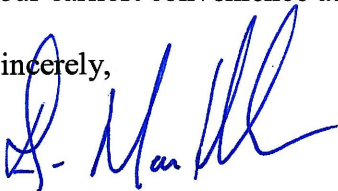
*these vendors are thus sales-based expenses that increase as ticket revenues increase. Amounts appropriated in the State's budget to pay the sales-based expenses are estimated using ticket sales projections determined by the Office of Economic and Demographic Research's Revenue Estimating Conference (REC). Chapter 2010-152, Laws of Florida, the General Appropriations Act, provided the approved budgeted amounts for fiscal year 2010-11, and included specific language authorizing the Lottery to submit budget amendments should actual sales exceed the projected sales used to calculate the amounts appropriated. In February 2011, the Lottery estimated that the On-line sales-based expenses would exceed the appropriated amounts and requested a budget amendment. This budget amendment was approved resulting in an adjusted budget amount of \$27,740,321. However, in June 2011, the sales-based expenses incurred during fiscal year 2010-11 reached a level that exceeded by \$419,300 the available appropriations for the On-line games contract, and rather than submitting an additional budget amendment, the Lottery recorded this amount as an expense of the 2011-12 fiscal year and charged this amount against the 2011-12 fiscal year's appropriation.*

**Recommendation:** *The Lottery should submit appropriate budget amendments in instances where sales-based expenses are estimated to exceed appropriations.*

**Status of Corrective Action:** Once again, the Lottery did not have sufficient appropriation to cover the vendor fees due to increasing sales. Just as the previous year, the department submitted a request for a budget amendment. Again as a result of LBC scheduling issues, the budget amendment was reworked by legislative budget staff and incorporated into the appropriations process, and the issue was eventually handled with an appropriation adjustment in the back of the GAA for FY 12-13. The significant difference from last year was that the Lottery based the requested adjustment on the department's internal forecast for sales rather than an REC forecast, so the amounts were sufficient to cover the year's expenditures.

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