

**THE UNITED STATES VIRGIN ISLANDS**  
**VIRGIN ISLANDS BUREAU OF AUDIT AND CONTROL**



**LIMITED REVIEW OF  
EMPLOYEE ACCOUNTS RECEIVABLE  
AT THE V.I. LOTTERY**

**ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO  
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**No. 75 Kronprindsens Gade**

**St. Thomas, Virgin Islands 00802**



**GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS**  
**V. I. BUREAU OF AUDIT AND CONTROL**

**No. 75 Kronprindsens Gade, Charlotte Amalie, St. Thomas, V. I. 00802**

**STEVEN VAN BEVERHOUDT**  
**INSPECTOR GENERAL**

November 3, 1997

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Juan Centeno  
Chairman  
Virgin Islands Lottery Commission  
76 Kronprindsens Gade  
St. Thomas, Virgin Islands 00802

Dear Mr. Centeno:

This letter audit report contains the results of our review of the procedures employed by the Virgin Islands Lottery (Lottery) in the processing of its gaming transactions. We made this review in response to a request from the then chairperson of the Virgin Islands Lottery Commission, (Commission), Joanne Bozzuto. There were concerns relating to shortages of cash revenues incurred by the Lottery's cashiers as they routinely conducted ticket transactions.

We limited our audit to an examination of the specific transactions from which the alleged shortages were incurred during 1996, as well as to an evaluation of the Lottery's internal control procedures relating to the processing of cash receipts and disbursements.

The objectives of our review were to: (i) determine whether the Lottery has established and maintained proper administrative and accounting controls to effectively regulate the processing of lottery transactions, and to prevent or minimize losses; and, (ii) identify instances where noncompliance with procedural controls may have resulted in losses to the agency.

Our review focused mainly on the operations of the Lottery's cashiers during fiscal year 1996, as we were informed that transaction documents for 1997 to date were not yet properly assembled for review, while those maintained prior to fiscal year 1996 were destroyed by Hurricane Marilyn. We reviewed the accounts receivable files of current cashiers and documented instances during 1996 in which they were called upon to repay identified shortages.

As part of our review, we examined the Lottery's system of internal controls to the extent necessary to accomplish our audit objectives. The internal control weaknesses identified are included in the Audit Results portion of the report.

We conducted our review using generally accepted auditing standards applicable to government entities, and included tests and procedures that were considered necessary under the circumstances.

### **BACKGROUND**

The Lottery was created by statute in 1937, and in 1971, established as an independent agency of the Virgin Islands Government. The Lottery's operations are managed by an Executive Director, who is subject to the supervision of a seven member commission. It's operations are centralized at its head office on St. Thomas, with three branch offices; one on St. John, and two on St. Croix.

The Lottery normally utilizes a computerized system for the processing of its lottery transactions; however, it was interrupted following Hurricane Marilyn in 1995. The system is currently back on line; however, for fiscal year 1996, transactions were done manually.

## AUDIT RESULTS

### Conclusions

The results of our review have confirmed that the Lottery: (i) in 1996, has lost over \$10,000 in revenues due to the overpayment of prize monies to patrons (prize winners); (ii) during the same period, has underpaid patrons at least \$8,000 in winnings; (iii) has allowed employee accounts receivable to increase to over \$45,000, while over \$10,000 in under payments have also accumulated; (iv) has failed to recoup its losses from those cashiers who were responsible for the overpayments and shortages; and, (v) has not enforced punitive sanctions against defaulting cashiers in an attempt to either minimize or deter the incidence of transaction inaccuracies and/or fraudulent activities.

### Overpayments/Underpayments

During fiscal year 1996, 14 cashiers have overpaid prizes or incurred shortages totaling over \$10,000. In addition, over \$8,000 was underpaid to patrons conducting business with the Lottery. As a result, employee accounts receivable have increased to over \$45,000, and underpayments to patrons are reported to exceed \$10,000.

**Overpayments/Shortages.** We sampled receipt and disbursement transactions for fiscal year 1996 and found that the Lottery has sustained losses of over \$10,000 arising from inaccuracies incurred by its cashiers while conducting over-the-counter transactions with patrons. The estimated loss of \$10,000 represents overpayments of prize monies and other cash shortages resulting from erroneous transactions by cashiers.

During 1996 Lottery officials determined that several cashiers incurred indebtedness stemming from inaccurate transactions. The following schedule summarizes the number of cashiers who have incurred overpayments and shortages during 1996.

<u>Overpayments/Shortages</u>	<u>Number of Cashiers</u>
\$2,100 - \$2,499	1
1,700 - 2,099	1
1,300 - 1,699	1
900 - 1,299	1
500 - 899	3
100 - 499	7
	<u>14</u>

In its attempt to recoup losses arising from cashier inaccuracies, the lottery adopted the policy to charge overpayments and shortages as receivables due from the defaulting cashiers. At the end of fiscal year 1996, those receivables had accumulated to over \$45,000.

**Prize Payments.** The Lottery's cashiers incurred over 95% of their inaccuracies during the payment of prize monies. Their erroneous transactions took the form of either overpayments or underpayments. The following are some of the more prevalent irregularities found during our review of prize payment order forms, on which transactions are recorded.

- Cashiers listed tickets for payment on the prize payment order form, without any evidence to indicate that the tickets were physically presented to the cashier for cancellation prior to payment. This action is in violation of Title 32, Section 241-9 of the Virgin Islands Rules and Regulations which states that; "Generally, no prize shall be paid without the presentation of the winning ticket and the verification of its legitimacy....."

- Losing tickets were listed on the prize payment order form and prize monies paid.

- Tickets recorded on the official prize list with a "T" symbol to signify a single payment for both the prize and the terminal, (numbers ending with the same number as the winning prize ticket) were recorded on the prize payment order form for the award as shown on the prize list, plus an additional terminal award.

- Tickets that won both terminal and prize awards were recorded on the prize payment order form for payment of only one of the two awards.

- Tickets winning prize awards were recorded on the prize payment order form for the payment of terminal awards and vice versa.

- Wining tickets presented to and canceled by the cashier, were not listed on the prize payment order form.

The circumstances under which the payments made in the first two situations noted above, suggest that there was potentially fraudulent intent rather than the committal of honest unintentional errors. An official at the Lottery stated that most of the cashiers have been functioning in that capacity for over ten years, and therefore should be very knowledgeable about the operation of the prize distribution system.

**Underpayment of Winnings.** The Lottery's cashiers not only overpaid lottery patrons during 1996, but also deprived them of winnings estimated at over \$8,000 through the erroneous underpayment of prize monies.

Following reviews of completed daily transactions by the Lottery's internal auditors, defaulting cashiers are promptly notified of their requirement to repay overpayments and other shortages attributable to their operations. However, no mention is made to the cashiers of their inaccuracies that result in the underpayment of prize monies. An official at the Lottery stated that to disclose the underpayment may lead to further abuse, in that cashiers may tend to consider underpayments as an off-set against overpayments.

The Lottery reports underpayment of prize monies on its balance sheet as a payable; but, it makes no attempts to locate affected patrons. As of the end of its 1996 fiscal year, the payable had accumulated to over \$10,000. The Lottery's policy is to claim these monies as another source of income.

**Prize Payment Order Form.** Gaming patrons do not see the details of tickets and associated prizes that are recorded by the cashier on the prize payment order form. Only a single copy of the prize payment order form is produced, and the portion detailing the information relating to tickets and prizes is retained by the cashier. The patron receives only the perforated section of the prize payment order form, which only identifies the number of the drawing and the total dollar value of the winnings, but does not detail the individual prizes.

As discovered during our review, cashiers on St. Croix do not even give patrons this tear-off portion of the prize payment order form. The patron is, therefore, denied any means of verifying the information recorded on the prize payment order form against the tickets that were surrendered to the cashier. Therefore, while the Lottery would eventually know of a patron's benefit or deprivation through the retained portion of the prize payment order form, the patron has no means of knowing. It is our opinion that the prize payment order form should be prepared in duplicate, with a copy being given to the patron. This will give the patron the opportunity to review the prizes awarded, and question any differences.

### **Internal Controls**

**O**ur review has found that while the Lottery has instituted adequate controls to detect transaction irregularities, the agency has failed to enforce the measures it has devised to recoup lost revenues and to minimize potentially costly mistakes and fraudulent activities by cashiers. The Lottery's policy regarding cashier shortages is explicitly outlined in a memorandum originating from its Executive Director and circulated to Lottery employees. The memorandum contains a set of clearly defined guidelines for the imposition of sanctions on cashiers who are found in default while conducting the business of the Lottery. The penalties for cashier default range from a reprimand, with notification to repay the shortages within 24 hours, to suspension and dismissal, and finally to referral to the Credit Bureau and court action. By not enforcing its controls, the Lottery seems to have given its cashiers the impression that inaccuracies will

be tolerated.

The following summarizes the number of cashiers and former cashiers who have accumulated indebtedness as of the end of the 1996 fiscal year.

<u>Range of Indebtedness</u>	<u>Number of Cashiers</u>
\$ 6,000 - \$6,999	1
4,000 - 5,999	1
3,000 - 3,999	1
2,000 - 2,999	0
1,000 - 1,999	8
145 - 999	<u>11</u>
	<u>22</u>

**Notification of Indebtedness.** While the Lottery's internal controls to detect cashier inaccuracies are adequate, reminder notices to the cashiers to comply with the Lottery's repayment policy in respect of overpayments and shortages were not issued timely. Cashiers have, for the most part, ignored the notices without encountering any form of enforcement penalties from the Lottery, and the individual debts have risen to over \$45,000 as of the end of fiscal year 1996. Meanwhile, as previously mentioned, cashiers are neither notified of, nor sanctioned for, transaction inaccuracies that result in the underpayment of prize monies.

All of the Lottery's cashiers are bonded under the Department of Finance's bonding arrangements. Such an arrangement normally guarantees that the bonding agency compensate the employer for specified amounts of losses incurred by the bonded employee. However, the employer must demonstrate a commitment towards curbing or deterring the employee irregularities. From the evidence gathered during our review, we do not believe that the Lottery has demonstrated such a commitment.

The Lottery's balance sheet, as of the end of fiscal year 1996, showed that its cashiers accumulated over \$45,000 in receivables due to erroneous overpayments and shortages incurred in transactions. Some of these cashiers have left the Lottery without liquidating any of the debt. Others are still employed at the Lottery, though not functioning in the capacity of cashier.

Our review disclosed that the Lottery has basically not pursued collection from the cashiers or former cashiers where possible, or written off debts that were determined to be uncollectible. At the time of our review, only four of the cashiers had made partial repayments of \$2,546 towards the liquidation of their debts.



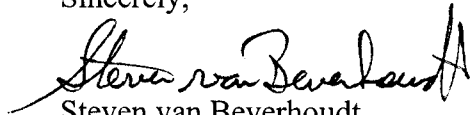
## Recommendations

**W**e recommend that the Executive Director of the Lottery:

1. Strictly enforces the established procedures for collecting receivables accumulated by cashiers, due to overpayments and shortages.
2. Notifies the cashiers that underpayment of prize monies is as serious an offense as overpaying prizes, and abuses should result in penalties.
3. Requires that the prize payment order form be prepared in duplicate; with a copy given to the patron. Allow a time period of up to six months after issue to give patrons the opportunity to question entries on the prize payment order form.
4. Notifies cashiers of shortages/overages on a timely basis, within a few days of the date of review by the internal auditors.
5. Takes steps to liquidate the outstanding employee accounts receivable of \$45,000, by recovering the shortages from employees or former employees who can be located, and writing-off the uncollectible amounts.

An October 27, 1997 response indicated agreement with all five recommendations made, a copy of which is included as an appendix to this report. Accordingly, we consider all recommendations fully resolved.

Sincerely,



Steven van Beverhoudt  
Inspector General, CFE. CGFM

Attachment



# *Virgin Islands Lottery.*

75 B KRONPRINDESENS GADE  
Charlotte Amalie, St. Thomas, V.I. 00802

TEL. 774-2502

October 27, 1997

Steven Van Beverhoudt  
Inspector General  
Virgin Islands Bureau of Audit & Control  
No. 75 Kronprindsens Gade  
Charlotte Amalie,  
St. Thomas, Virgin Islands 00802

Dear Mr. Van Beverhoudt:

Pursuant to the draft audit issued October 3, 1997 herewith are the Virgin Islands Lottery's response.

The Virgin Islands Lottery has reviewed the Draft Audit Report focusing on the Employees Accounts Receivables. The lottery has agreed with all five recommendations. And have already implemented some of the recommendation. The other recommendations should be implemented within the first quarter of fiscal Year 1998.

## Responses

1. The Lottery is in agreement with recommendation #1 and has already begun the implementation of the enforcement procedure with the commencement of the 1998 fiscal year. Each employee will be given a letter of indebtedness for prior fiscal years with each employee given the opportunity to take part in an indebtedness interview. This interview will be conducted during the week of November 3, 1997 with the Executive Director for the purpose of developing

a schedule of repayment.

2. The lottery agrees with recommendation #2 and has already implemented the recommendation during the time the audit was being conducted. The Executive Director will issue a policy statement to all employees regarding the seriousness of under payments to our patrons. Underpayments of prize monies is a very poor reflection on the accuracies and diligence of our employees and thus can result in disciplinary action.

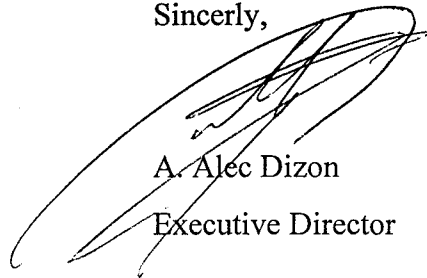
3. The lottery has implemented recommendation #3 with the inception of the computerization of its prize payment function. However, currently the computer's remote links are not fully operational. The lottery is in the middle of the ongoing process of bringing all remote locations on-line and has estimated the process to be completed by the end of November. Once this has been completed, the Prize Payment receipt will again be a process in multiply origination. As an interim measure while the computer system is still not completely functional, new prize payment order forms in triplicate are being procured. These forms will be used whenever our computer is non functional thus allowing our patrons to receive a receipt.

4. The lottery is in agreement with recommendation #4 and has already implemented the recommendation. During the audit the accounting section was short staffed and had fallen behind with the auditing task. Currently the work has been brought up-to-date and the cashiers are now receiving notification on a more timely basis.

5. The lottery agrees with recommendation #5. The first portion of the recommendation will be addressed in recommendation #1. The second part of the recommendation that recommends the writing-off of the uncollectible amounts has to be decided upon by the Virgin Islands Lottery Commission. After careful review and determination a recommendation will be submitted to the Lottery Commission for its consideration.

If there is any need for further clarification, please call me at 778-6360.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Alec Dizon', is written over the typed name and title. The signature is stylized and somewhat illegible due to overlapping strokes.

A. Alec Dizon

Executive Director