

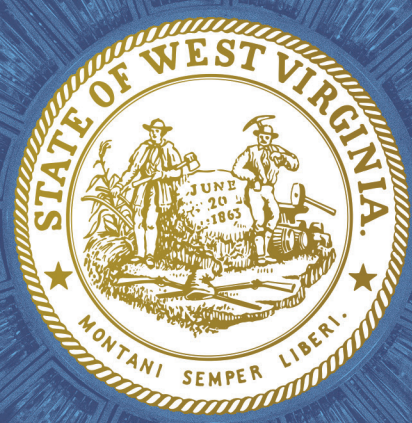
JOINT COMMITTEE ON GOVERNMENT AND FINANCE
WEST VIRGINIA OFFICE OF THE LEGISLATIVE AUDITOR

POST AUDIT DIVISION

LEGISLATIVE AUDIT REPORT

WV Lottery Commission – Limited Video Lottery Inspection Process

Post Audit Division Director: Justin Robinson



GENERALLY ACCEPTED GOVERNMENT
AUDITING STANDARDS STATEMENT

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (**GAGAS**). 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.

POST AUDIT DIVISION
Justin Robinson, Director

Post Audit Division

POST AUDITS SUBCOMMITTEE MEMBERS

SENATE MEMBERS
President, Craig Blair
Jack Woodrum
Michael Woelfel

HOUSE MEMBERS
Roger Hanshaw, *Speaker*
Chris Phillips
Kayla Young



WV Lottery Commission Limited Video Lottery Inspection Process

August 27, 2024

POST AUDIT DIVISION STAFF CONTRIBUTORS

Justin Robinson.....Director
Adam Fridley, CGAP.....Audit Manager
Nick Hamilton.....Assistant Audit Manager
Randy Mays II, CFE.....Senior Auditor
Kelly Blunden.....Auditor
Jake Casto, CFE.....Auditor
Sarah Clere, CFE.....Auditor
Nathan Hamilton.....Referencer

**Issue Summary - Limited Video
Lottery Inspection Process Is
Sufficient in Ensuring Compliance
and Could Be Improved to Further
Strengthen This Function - PAGE 1**

Background - PAGE 2

**Inspection Purpose and Function -
PAGE 4**

**Inspection Frequency & Methods
Used - PAGE 7**

**Areas for Improvement from Audit
Results - PAGE 8**

Conclusion - PAGE 10

Recommendations - PAGE 10

Appendix A: PAGE 11
Report Transmittal Letter

Appendix B: PAGE 12
Objective, Scope, & Methodology

Appendix C: PAGE 13
WV Lottery's Response to Post Audit
Division's Report

Issue 1: The West Virginia Lottery Commission Inspection Process for Limited Video Lottery Retailers is Sufficient to Ensure Compliance With West Virginia Code. While There Are No Significant Weaknesses, Improvements Could Be Made to Strengthen Lottery's Inspection Function.

Issue Summary

The West Virginia Lottery Commission (Lottery) operates and oversees a number of gaming activities, authorized by the Legislature, across the state of West Virginia. Broadly, these gaming activities include traditional lottery games (instant and draw games), table games, sports wagering, interactive wagering, and video lottery gaming. In Fiscal Year 2023, Limited Video Lottery (LVL)¹ accounted for the second largest share of overall revenues collected by Lottery, totaling over \$496 million from approximately 1,200 licensed retail locations.

Due to LVL accounting for the second largest share of Lottery revenues and considering the geographic distribution of approximately 1,200 retailers across the State, the Legislative Auditor performed an audit of Lottery's inspection function for LVL retailers licensed and operating from 2019 through 2022. The audit sought to evaluate the extent to which Lottery conducts routine inspections of LVL retailers and the overall effectiveness of its inspection function. The results of these analyses identified the following:

- Lottery has established an internal goal of inspecting each licensed LVL retailer at least once every 6 months. A review of a non-statistical sample of 225 licensed LVL retailers operating between 2019 and 2022 identified that Lottery personnel conducted nearly 5,000 total inspections of the sampled retailers. However, 147 of the retailers sampled, or 65 percent, experienced at least 1 inspection period which was longer than 6 months between inspections, including 24 inspections which succeeded the prior inspection by more than 1 calendar year.
- Lottery's inspections could be strengthened by incorporating additional national best practices such as licensee signoffs on completed inspections and clear notations of actions taken when noncompliance is documented during an inspection. In addition, Lottery could further strengthen its inspection function by ensuring that inspections include and document the results of all required compliance items. Further, to mitigate the risk of inaccurate or incomplete reporting, Lottery may consider changing its digital inspection form so that it no longer defaults to a fully compliant inspection report.
- Lottery lacks a comprehensive policy document to govern its inspection function and direct its inspection procedures, which is likely a key contributing factor for the weaknesses identified.

The Legislative Auditor notes that Lottery has managed to conduct a large quantity of inspections of its licensed LVL retailers with current staffing resources. Moreover, the issues identified herein can be easily resolved by developing, implementing, and adhering to a

¹ In the state of West Virginia, Video Lottery is the legal use of player interactive gaming machines similar to those commonly known as "slot" machines in the casino industry. In 2001, the West Virginia Legislature passed a bill allowing for a limited number of video lottery machines in adult environments.

comprehensive set of policies governing Lottery’s inspection function which incorporates national best practices for a regulatory agency’s inspection function.

Background

The West Virginia Lottery Commission was created by the Legislature in 1985 and oversees and operates gaming activities, authorized by the Legislature, in the state of West Virginia. These gaming activities currently include:

- Traditional Lottery games
- Racetrack Video Lottery, since 1994
- Limited Video Lottery, since 2001
- Racetrack Table Games, since 2008
- Table Games at the Greenbrier Resort & Hotel, since 2010
- Sports Wagering, since 2019
- Interactive Wagering, since 2020

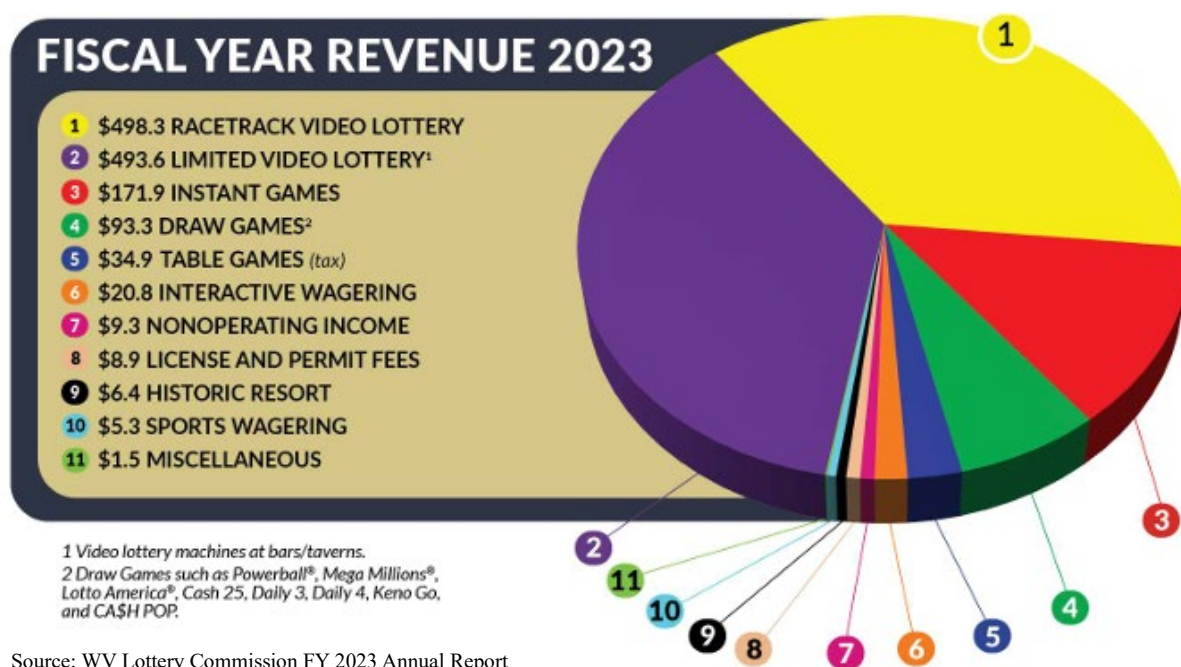
Through these gaming activities, Lottery has collected more than \$1 billion in annual revenues in 9 of the last 10 fiscal years, and nearly \$12 billion in total. Figure 1 details Lottery’s annual revenues from FY 2014 through FY 2023.

Figure 1 Total Annual Lottery Revenues FY 2014-FY 2023	
Fiscal Year	Total Annual Revenue
2014	\$1,226,465,658
2015	\$1,175,723,567
2016	\$1,147,951,706
2017	\$1,091,129,086
2018	\$1,105,479,909
2019	\$1,159,086,844
2020	\$972,249,062
2021	\$1,252,893,801
2022	\$1,284,149,192
2023	\$1,344,207,228
Average	\$1,175,933,605
Total	\$11,759,336,053
<i>Source: West Virginia Lottery Commission Annual Reports.</i>	

In 2001, the Legislature authorized LVL terminals to be placed and operated in retail locations across the State. Current law allows up to 9,000 LVL terminals to operate at these licensed LVL retailers. According to Lottery’s 2023 Annual Report, a total of 8,647 LVL terminals were in operation at approximately 1,200 licenses retail locations during FY 2023. The distribution of LVL retailers is statewide and includes 7 counties—Cabell, Harrison, Monongalia, Berkely, Ohio, Kanawha, and Wood—which each have more than 60 LVL retailers licensed from 2019 through 2022.

Lottery reports that LVL revenues reached record levels, bringing in approximately \$493.6 million or approximately 37 percent of total lottery revenue for fiscal year 2023. The Figure below provides a breakdown of Fiscal Year 2023 Total Revenue by source.

Figure 2. Breakdown of Lottery Revenues, by Source, FY 2023



Source: WV Lottery Commission FY 2023 Annual Report

LVL revenues over the past 5 fiscal years have consistently accounted for approximately 34 to 39 percent of total lottery revenues, comprising nearly \$2.2 billion in total revenues since FY 2019.

Figure 3 LVL Revenues as a Percent of Total Annual Revenue FY 2019-2023			
Fiscal Year	LVL Revenues	Total Annual Revenues	LVL as a Percent of Total
2019	\$392,329,925	\$1,159,086,844	33.8%
2020	\$329,844,305	\$972,249,062	33.9%
2021	\$480,612,089	\$1,252,893,801	38.4%
2022	\$490,921,902	\$1,284,149,192	38.2%
2023	\$493,639,842	\$1,344,207,228	36.7%
Total	\$2,187,348,063	\$6,012,586,127	36.4%

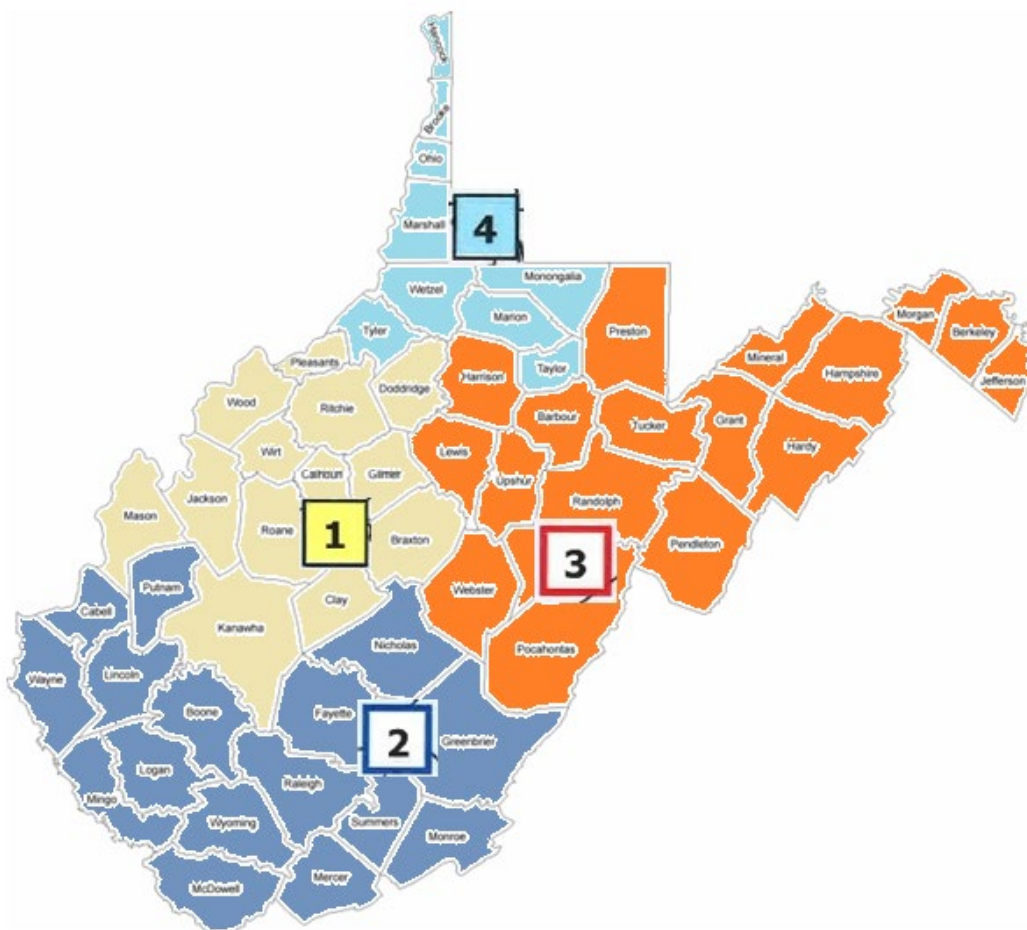
Source: West Virginia Lottery Commission Annual Reports.

The West Virginia Lottery Commission Has Established an Inspection Function to Oversee LVL Licensees and Ensure That They Operate in Accordance With West Virginia Code.

Upon receiving licensure, LVL retailers operating in West Virginia are required to comply with several different provisions of West Virginia Code relating to access to terminals, security, advertising, and condition of gaming terminals, among other items. To ensure that LVL retailers are operating their terminals in accordance with the law, Lottery has established an inspection function to periodically conduct physical inspections of LVL retail locations, respond to and investigate complaints, and handle enforcement for any issues identified.

To carry out its inspection function, Lottery employs a total of 14 FTEs, comprising 4 Lottery Investigation Supervisors and 10 Lottery Investigators. To better manage and plan the inspection workload for approximately 1,200 LVL retail licensees, Lottery has divided the state into 4 regions, each of which is assigned an Investigation Supervisor and a number of in-the-field investigators to conduct LVL compliance inspections on retailers in their assigned region. Figure 4 details the geographic breakdown of these Inspection Regions.

Figure 4. Lottery Inspection Regions



Lottery has assigned 3 to 4 FTEs to each of the 4 regions. Based on LVL licensee rosters submitted by Lottery, the Legislative Auditor identified at least 1,127 LVL retailers operating between 2019 and 2022. Figure 5 provides a breakdown of Lottery’s allocated FTEs and the number of identified LVL retailers in each inspection region.


Figure 5 Breakdown of Lottery Inspection FTE and Retailers By Region		
Region	Assigned FTEs	LVL Retailers
Region 1	4	241
Region 2	4	278
Region 3	3	257
Region 4	3	351
Totals	14	1,127
<i>Source: Figures provided by WVLC.</i>		

Lottery provided a policy statement to the Legislative Auditor indicating it maintains a goal of conducting inspections on each LVL retailer at least once every 6 months. These inspections can be scheduled in advance or may also be unannounced inspections. Lottery’s investigators are required to be on-site at a retail location anytime a new machine is installed, or a machine requires maintenance to be performed.

Maintenance on LVL terminals may not be performed without the physical presence of an investigator. Therefore, while Lottery makes efforts to conduct unannounced inspections of LVL retailers, many inspections are conducted during these scheduled visits.

Compliance inspections are performed using a standardized compliance checklist established by Lottery, in a digital format. The compliance checklist requires the investigator performing the inspection to check and denote conditions against several requirements contained in West Virginia Code. Figure 6 details the items that should be covered in an LVL compliance inspection.

Figure 6. Limited Video Lottery Compliance Inspection Form



LIMITED VIDEO LOTTERY COMPLIANCE INSPECTION

Location name _____

Date _____

ABCA License Number _____

Location Address _____

☐ Address Verified

Corrected Address if Necessary _____

Person at Location _____

Location County _____

	LAW	YES	NA	NO	
1. Limited video license posted		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Incident <input type="checkbox"/> DX Extrema Change <input type="checkbox"/> DVR Change
2. Valid ABCA license posted	29-22B-504(B)(3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Logic Box seal numbers correct and secure	29-22B-904(a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Lottery decal number correct and secure	29-22B-1203(b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Terminals properly placed and secured	29-22B-1201(b)(3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Terminal visibly damaged or inoperative		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Terminals in operation and available for play	29-22B-702(8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Persons under age of 21 playing terminals	29-22B-702(8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Persons under 21 present in immediate area of the machines	29-22B-702(8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Persons visibly intoxicated playing machines	29-22B-702(8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Are games visible by persons under 21	29-22B-702(8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Personnel appear to be signing books	29-22B-1302	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. "Caution" Gambling sign posted	29-22B-1112	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. 1-800 Stickers affixed to machine	29-22B-907(4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Security cameras working and positioned properly	29-22B-1201(b)(1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Is Retailer displaying Approved LVL Advertisement	179-5-33	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Games visible from outside the establishment	29-22B-328(A)(1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Tavern license only – regularly prepares and sells meals	29-22B-328(2)(D)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Does this location have a dedicated phone line that is at all times connected to the terminals	<input type="checkbox"/> 29-22B-702(5) Retailer <input type="checkbox"/> 29-22B-706(8) Operator	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Name of CCTV recorder	CCTV Recorder Actual				
21. DVR Recording at least 60 days	29-22B-1201 (b)(1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

COMMENTS: _____

WVL Security Investigator

Revised 11/14/2022 - LVL

Completed compliance inspection reports and related documentation are uploaded by the investigators into a central database where they are reviewed by the appropriate supervisor.

Given that LVL revenues make up a significant portion of the overall revenues collected by Lottery over the last 5 years, the statewide distribution of LVL terminals across approximately 1,200 retail locations statewide, and the current FTE levels allocated by Lottery to conduct its inspections of LVL retailers, the Legislative Auditor sought to evaluate Lottery's LVL inspection function to determine the extent to which Lottery conducts routine inspections of LVL retailers and the overall effectiveness of its inspection function.

The West Virginia Lottery Commission Conducts a Large Quantity of LVL Retailer Compliance Inspections Each Year. While the Goal of Conducting Inspections Every Six Months Poses a Challenge, Nearly All Retailers Undergo At least Two Inspections Each Year.

To evaluate Lottery's LVL inspection function, the Legislative Auditor took a random sample of 225 LVL retailers licensed from 2019 through 2022, accounting for 20 percent of all retailers reported as being licensed by lottery during the period. For each sampled LVL retailer, Lottery provided a copy of every completed compliance inspection conducted on each licensee from 2019 through 2022. The Legislative Auditor's review of inspection documentation sought to determine:

- Whether Lottery has sufficient policies and procedures in place to plan and execute routine inspections of LVL retailers;
- The extent to which Lottery is conducting inspections of all licensed retailers at least every 6 months; and
- Whether Lottery's inspections provide reasonable assurance that LVL retailers are operating in accordance with West Virginia Code.

The Legislative Auditor notes that despite having just 14 FTEs responsible for inspecting approximately 1,200 retail locations, Lottery manages to conduct a very high volume of LVL retailer compliance inspections each year. Based on this documentation, the Legislative Auditor determined that Lottery investigators conducted 4,936 compliance inspections of the 225 sampled LVL retailers over the 4-year period:

- 2019 – 1,405 Compliance Inspections
- 2020 – 1,035 Compliance Inspections
- 2021 – 1,189 Compliance Inspections
- 2022 – 1,307 Compliance Inspections

To evaluate the time interval between inspections and the frequency with which LVL retailers within the sample were inspected, the Legislative Auditor analyzed nearly 5,000 inspection reports provided by Lottery. The results of this analysis determined that 147 of the sampled LVL retailers (65 percent) experienced at least 1 time interval greater than 6 months in between inspections. Many of these noted instances exceed the 6-month interval by an insignificant amount of time, but 24 instances were noted wherein more than a full year had passed between inspections.

However, the Legislative Auditor notes that the vast majority of LVL retailers did undergo at least 2 compliance inspections during the audited period. Within the sampled LVL retailers, the Legislative Auditor noted only 35 instances (out of 4,936 total inspections) wherein a retailer was subject to 1 (or no) inspection in a calendar year. It is likely that some of these retailers received only 1 (or no) inspections resulting from when they commenced their operations.

For each retailer in the audit sample, Lottery conducted over 5 inspections per year, on average, with 99 retailers undergoing more than 6 inspections per year, on average, over the 4-year review period. A contributing factor to the large quantity of inspections conducted is the fact that Lottery investigators are required to be on-site at a retail location any time terminals are installed

or undergo maintenance. However, the Legislative Auditor notes that Lottery's inspection documentation does not always indicate whether an inspection was done as part of a maintenance visit to a retailer or if the inspection was an unscheduled, "pop-in" inspection.

According to the National State Auditor's Association's (NSAA) best practices for a regulatory program's inspection function, some important factors that should be incorporated include:

- conducting inspections frequently enough to provide reasonable safeguards and ensure compliance;
- inspection scheduling that is risk-based, if possible; and
- conducting unscheduled inspections.

Based on this review, the Legislative Auditor notes that Lottery conducts its inspections of LVL retailers on a frequent basis, and Lottery personnel indicate that they do conduct unscheduled inspections.

Lottery could strengthen its inspection selection process by incorporating more risk-based inspections (such as conducting a higher frequency of inspections on retailers with noted issues from prior inspections), where feasible. Additionally, Lottery should consider indicating on its inspection document whether an inspection was scheduled or a "pop-in" inspection. Both factors should be included in a comprehensive policy document established by Lottery to guide its inspection function for LVL retailers.

The West Virginia Lottery Commission Could Improve Its Inspection Function to Strengthen Oversight of LVL Retailers and Foster Greater Compliance.

The Legislative Auditor asked Lottery to provide its policies and procedures for carrying out its inspections of LVL retailers. Lottery provided the Legislative Auditor with a brief training document used by its investigators and a brief policy statement. While the training document is primarily focused on training investigators on how to use Lottery's inspection software suite, it does contain some guidance for conducting the inspections.

Investigators are expected to document the reason for their visit to each retailer (maintenance, compliance inspection, software change, etc.). Lottery investigators are instructed to fill out the standardized inspection checklist, noting each retailer's compliance with around 20 requirements. Of note, Lottery's training document indicates that compliance checklists are set to default to an inspection showing no compliance issues. In addition, Lottery policy indicates that, upon completion of an inspection, if an investigator marks any item that appears to be a violation, it should be documented and attached to the corresponding inspection form.

While Lottery's policy statement and training document for investigators provide some guidelines and parameters for its inspection function, a full, comprehensive policy document should be developed to ensure consistent, complete, and high-quality inspections of LVL retailers. In contrast, Lottery provided much more expansive and comprehensive sets of policies and procedures used to govern its casino/table game inspection functions. Given that LVL gaming makes up such a significant amount of overall revenue and has a statewide expanse, **the Legislative Auditor recommends that Lottery establish and implement comprehensive policies for its LVL inspection functions as well.**

Based on a review of Lottery's inspection policies and training materials, interviews with Lottery personnel, and a comprehensive review of the 4,936 inspections conducted on the LVL retailers in the audit's sample, the Legislative Auditor has identified areas wherein Lottery's inspection process could be strengthened to ensure better oversight and compliance.

One noted issue relates to how Lottery's inspection checklist instrument is currently designed. As previously noted, Lottery's training documents indicate that inspection checklists pre-populate to what is considered fully compliant inspection (i.e., Lottery inspection forms populate an inspection form that shows no compliance issues). However, important controls listed on the inspection checklist do not appear to be checked. According to the inspection checklists used by Lottery investigators, each inspection should include a check of the logic box seal on each LVL terminal. West Virginia Code §29-22B-904 specifies that the interior of each terminal shall be controlled by a series of locks and seals to protect the main logic boards and memory chips for each terminal. Of the 4,936 inspection reports reviewed, 2,610 (approximately 53 percent) listed this item as "Not Applicable."

Additionally, West Virginia Code §29-22B-1302 requires that a written maintenance log be kept inside the interior cabinet of LVL terminals to record the date and time during which any person, including Lottery personnel, accesses the interior. Similar to the logic box check, the Legislative Auditor noted that 2,602 inspections listed this item as "Not Applicable" on the corresponding inspection checklist maintained by Lottery.

Combined, these 2 controls are designed to help ensure the security and integrity of important components of each LVL terminal, such as the internal computer system and each terminal's cash box. Across the 4 years included in the audit's scope 1 or both items were marked as "Not Applicable" on more than 50 percent of all inspections conducted on 109 different retailers.

Not Applicable or "N/A" appears to be the default setting on inspection checks of a terminal's logic box and maintenance logs. Therefore, while Lottery personnel may be checking these controls during each inspection, it is unclear from the inspection documentation available if these items are being checked during each inspection, as required.

NSAA best practices for regulatory inspection programs indicate that inspections should be designed to allow an inspector/investigator to demonstrate that he or she checked a licensee's compliance with all laws and requirements. Because Lottery's inspection checklist is set up to pre-populate for a fully compliant inspection, it is not always clearly demonstrated from the documentation whether an investigator has checked each item included on the checklist.

Moreover, the Legislative Auditor identified 4 inspection reports wherein the LVL retailer was marked as fully compliant, but the comment section indicates the establishment was closed when the investigator arrived on-location. While these examples comprise a very small number of examples, they highlight the need for Lottery's inspection tools to align with best practices and affirmatively demonstrate that each compliance item is being checked.

The Legislative Auditor further noted 36 inspections wherein a noncompliant item was noted in the inspection checklist, but there was no notation, incident report, or other documentation detailing any actions (warnings, violations, fines, etc.) taken by Lottery. Noncompliant items noted included things such as security issues with logic box seals, issues with security cameras at the retail location, or underage patrons playing LVL terminals, among others. Both best practices and Lottery's internal policies governing its inspection function require notation and further

explanation when noncompliant items arise during inspections. While the number of instances noted in this review are very small, Lottery should work to ensure that all noncompliant items are fully addressed and documented, as required.

Conclusion

Inspections, generally, are an important regulatory function designed to ensure safety, security, and integrity of operations. West Virginia's LVL gaming takes place at over 1,200 retail licensee locations across the State and is responsible for generating a significant overall portion of Lottery revenues each year. As such, it is particularly important for Lottery to provide adequate oversight and ensure broad compliance by LVL retailers with the provisions of West Virginia Code that govern LVL gaming activities.

The Legislative Auditor's review of Lottery's LVL inspection function determined that Lottery maximizes on limited staffing resources to conduct a significant quantity of inspections on the State's licensed LVL retailers. After reviewing nearly 5,000 inspection documents from 225 LVL retailers from 2019 through 2022, the Legislative Auditor finds that, with few exceptions, Lottery succeeds in conducting multiple inspections of each retailer each year.

While Lottery manages to conduct frequent inspections, it is the opinion of the Legislative Auditor that Lottery could improve its overall inspection function for LVL retailers by establishing and implementing comprehensive policies to govern the inspection function and strengthening certain processes. Comprehensive policies for the inspection function will provide parameters and guide the processes employed by Lottery to ensure consistent, comprehensive, and high-quality inspections. Moreover, incorporating current best practices into its existing inspection function, such as developing an inspection instrument that allows investigators to demonstrate compliance checks, documenting specifics regarding any noted instances of noncompliance, and including a signature on each completed inspection checklist from a representative of the licensee will further strengthen Lottery's existing processes for conducting inspections.

Recommendations

1. The Legislative Auditor recommends that the West Virginia Lottery Commission establish and implement a comprehensive set of written policies for its LVL inspection functions which establish how an inspection is to be scheduled, conducted, reviewed, documented, retained, and reported.
2. The Legislative Auditor recommends that the West Virginia Lottery Commission consider incorporating additional best practices into its inspection procedures, such as inspection instruments that demonstrate compliance checks, documenting instances of noncompliance and actions taken in response, and conducting and documenting unscheduled inspections on a frequent basis.

Appendix A

WEST VIRGINIA LEGISLATIVE AUDITOR'S OFFICE

Post Audit Division

1900 Kanawha Blvd. East, Room W-329
Charleston, WV 25305-0610
(304) 347-4880

Justin Robinson
Director



August 12, 2024

John A. Myers, Director
West Virginia Lottery Commission
900 Pennsylvania Ave
Charleston, WV 25302

Director Myers,

This is to transmit a draft copy of the Post Audit Division's report on the West Virginia Lottery Commission's inspections of Limited Video Lottery Retailers. This report is scheduled to be presented during the August interim meeting of the Post Audits Subcommittee. This meeting is currently scheduled for Tuesday, August 27, 2024, at 3:00 pm in the Senate Finance Committee Room, Room 451-M. We recommend that a representative from your agency be present at the meeting to respond to the report and answer any questions committee members may have during or after the meeting.

If you would like to schedule an exit conference to discuss any concerns you may have with the report, please notify Terri Stowers at 304-347-4880 to schedule a meeting for a time and date that would occur before Wednesday, August 21, 2024. In addition, if you wish to provide a written response to be included in the final report, we ask that this be provided to us by Noon on Friday, August 23, 2024. If you have any questions or concerns, please feel free to contact me. Thank you for your cooperation.

Sincerely,

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

Justin Robinson

Enclosure – Post Audit Draft Report – WV Lottery LVL Inspection Process

Appendix B

Objective, Scope, and Methodology

The Post Audit Division within the Office of the Legislative Auditor conducted this audit of the West Virginia Lottery Commission pursuant to Chapter 4, Article 2, Section 5 of the *West Virginia Code*, as amended.

Objectives

The objective of this audit was:

“To determine the extent to which the West Virginia Lottery Commission (Commission) conducts regular inspections of Limited Video Lottery (LVL) retailers and operators under its purview and to evaluate the effectiveness of the Commission’s inspection process.”

Scope

The scope of this objective comprises calendar years 2019 through 2022. The scope was limited to a non-statistical random sample of LVL retailers licensed and operating in West Virginia between 2019 and 2022. The scope encompassed an analysis of each inspection report filed for each of the 225 licensees (20% of the population over the time-period). The scope did not include a comprehensive review of all LVL retailers, nor did it specifically include those licensees who were licensed strictly as an LVL operator.

Methodology

Post Audit staff gathered and analyzed several sources of information and assessed the sufficiency and appropriateness of the information used as evidence. Testimonial evidence was gathered through interviews or email correspondence with various employees at state spending units. The purpose for testimonial evidence was to gain a better understanding or clarification of certain issues, to confirm the existence or non-existence of a condition, or to understand the respective agency’s position on an issue. Such testimonial evidence was confirmed by either written statements or the receipt of corroborating or physical evidence.

Audit staff analyzed various source documents, such as the policy statements, procedural documents, inspection reports, annual financial data, and documentation related to enforcement actions taken by Lottery against licensees. These pieces of evidence were gathered from Lottery, statutes, rules, audit reports, consultant reports, or direct correspondence with those charged with governance.

We conducted this performance audit 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.

Appendix C



P.O. BOX 2067
CHARLESTON, WV 25327

JOHN A. MYERS
DIRECTOR

PHONE: 304.558.0500
wvlottery.com

August 20, 2024

Justin Robinson, Director
WV Legislative Auditor's Office
Post Audit Division
1900 Kanawha Blvd, East Room w-329
Charleston, WV 25305-0610

Director Robinson;

The WV Lottery has received the results of the audit of its inspections of the Limited Video Lottery Retailer's locations. We agree with the audit results and are currently taking the necessary steps to fully implement the recommendations. We do note that the time period examined by your auditors included months when the COVID-19 virus was active and investigations were halted, which could explain some investigations exceeding the Lottery's goal of completing them every six months. We feel the recommendations of the auditors will improve our processes and assist in reaching our goal.

We appreciate the courtesy and professionalism shown by your staff during the audit, and should there be any follow-up questions, my staff and I are willing to assist in any manner.

Sincerely,

A handwritten signature in blue ink that reads "John A. Myers".

John A. Myers, Director
West Virginia Lottery

Cc: Adam Fridley



POST AUDITS SUBCOMMITTEE
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Kayla Young



JOINT COMMITTEE ON GOVERNMENT AND FINANCE
WEST VIRGINIA OFFICE OF THE LEGISLATIVE AUDITOR
- POST AUDIT DIVISION -

Room 329 W, Building 1
1900 Kanawha Boulevard East
Charleston, West Virginia 25305
Phone: (304) 347-4880