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May 13, 2019

The Honorable Rick Gray, Chair
Joint Legislative Audit Committee

The Honorable Anthony Kern, Vice Chair
Joint Legislative Audit Committee

Dear Senator Gray and Representative Kern:

We have recently completed an initial followup of the Arizona Department of Gaming regarding the implementation status of the 12 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in August 2018 (Auditor General Report 18-105). As the attached grid indicates:

- 7 have been implemented.
- 3 are in the process of being implemented.
- 2 are not yet applicable.

For this report, we also identified a finding regarding the Department's administration of the Arizona Benefits Fund. The finding and 3 associated recommendations were not included in this report because they contained sensitive information. We assessed the implementation status of these 3 recommendations and determined that the Department is in the process of implementing them.

Our Office will conduct an 18-month followup with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,
Dale Chapman, Director
Performance Audit Division

cc: Ted Vogt, Director
Arizona Department of Gaming

Arizona Department of Gaming

Auditor General Report 18-105

Initial Follow-Up Report

Recommendation	Status/Additional Explanation
<p>Finding 1: Department appropriately certified gaming vendors and employees reviewed, but should continue to enhance employee recertification process</p>	
<p>1.1 The Department should continue its efforts to ensure that all SMP employees are properly identified and classified to ensure they receive the required expanded financial background check at the time of renewal.</p>	<p>Implemented at 6 months</p>
<p>1.2 The Department should incorporate the changes it has made to identify SMP employees in its policies, procedures, and/or training manual for employee certification, and then train staff accordingly.</p>	<p>Implemented at 6 months</p>
<p>Finding 2: Department should enhance horse racing licensure process to better ensure it appropriately issues all licenses in a timely manner</p>	
<p>2.1 The Department should perform name-based background checks through the FBI when fingerprint-based background checks are unable to be performed.</p>	<p>Implemented at 6 months</p>
<p>2.2 The Department should cross-train its licensing staff to complete criminal background investigations and make licensing recommendations and decisions.</p>	<p>Implemented at 6 months</p>
<p>2.3 The Department should continue to track and evaluate its licensing timeliness to ensure it completes criminal background investigations in a timely manner.</p>	<p>Implemented at 6 months</p>
<p>2.4 The Department should develop and implement policies and procedures that require the supervisory review of all licensing recommendations and decisions made by the special investigator when applicants have criminal history.</p>	<p>Implemented at 6 months</p>
<p>2.5 The Department should develop and implement policies and procedures for conducting interviews, such as what information should be obtained through an interview, to ensure that licensing applicants are evaluated consistently and effectively.</p>	<p>Implemented at 6 months</p>

Recommendation**Status/Additional Explanation****Sunset Factor #2: The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes**

1. The Department should conduct an IT risk assessment to evaluate, document, and prioritize the process areas in the Department's IT systems with the highest security risks.	Implementation in process The Department reported it has taken several steps to begin its IT risk assessment process, such as working with staff to identify the type of data stored on Department servers and running monthly threat assessment scans. However, it has not yet developed a formal IT risk assessment plan to identify the systems with the highest security risks. In addition, the Department has not identified a date by which it anticipates completing its IT risk assessment.
2. The Department should use the information from the IT risk assessment to guide its efforts to develop and implement all necessary security program policies and procedures in line with IT standards, best practices, and ASET standards, focusing on high-risk areas first.	Not yet applicable The Department has not yet completed a formal IT risk assessment (see explanation for Sunset Factor 2, Recommendation 1).
3. The Department should add supplementary detail to and finalize its policies and procedures for conducting tote audits, such as information on verifying test data, to ensure staff have adequate guidance when auditing the tote system.	Implementation in process The Department has added some supplementary detail to its policies and procedures for conducting tote audits, such as information related to setting up tote audits. In addition, the Department has developed draft policies and procedures for verifying test data and results; however, these policies and procedures have not been finalized. The Department reported it plans to finalize its policies and procedures by the end of fiscal year 2019.

Recommendation

Status/Additional Explanation

4. The Department should implement the recommendations from the Office of the Auditor General's June 2018 procedural review, conducted in conjunction with this audit (see Report 18-303). Specifically, the Department should:
- Conduct a physical inventory of its capital assets, update its internal capital assets listing and the FAM for any changes, and perform a reconciliation between its internal listing and the FAM at least annually. In addition, a record documenting the physical inventory should be prepared and retained for the retention period established by the Arizona State Library, Archives and Public Records.
 - Maintain accurate and up-to-date conflict-of-interest disclosure forms for all employees to help ensure compliance with A.R.S. §38-503. Further, if the Department has related-party transactions that aggregate to \$100,000 or more annually, it should report them to the State Comptroller for financial reporting purposes.
 - Improve its financial management of the Arizona Benefits Fund by identifying and accounting for monies designated for the reimbursement of administrative and regulatory expenses for gaming regulation separately from monies designated for problem gambling initiatives in the State's accounting information system. Additionally, the Department should review prior years' allocations and expenditures to help identify accurate amounts of unspent monies available to reimburse administrative and regulatory expenses and for problem gambling initiatives.

Implementation in process

The Department has conducted a physical inventory of its capital assets and updated the FAM based on the results of the physical inventory.

However, the Department is still in the process of obtaining accurate and up-to-date conflict-of-interest disclosure forms. Specifically, we found that not all Department staff had completed a conflict-of-interest disclosure form. In addition, as of May 2019, the Department reported that it had not identified any related-party transactions that needed to be reported to the State Comptroller.

Further, the Department reported that it is working to improve its financial management of the Arizona Benefits Fund by obtaining a separate fund that will be designated for monies received for problem gambling initiatives to help separately identify and account for these monies from monies designated for the reimbursement of administrative and regulatory expenses. Finally, the Department has begun to review prior years' allocations and expenditures to identify monies available to reimburse administrative and regulatory expenses and for problem gambling initiatives, but has not identified an anticipated completion date for this effort.

Sunset Factor #9: The extent to which changes are necessary in the laws of the Department to adequately comply with the factors listed in the sunset law

5. The Legislature should consider aligning the sunset dates of the Department, the Arizona Racing Commission, and the Arizona Boxing and Mixed Martial Arts Commission.

Not yet applicable

The Department's sunset date is July 1, 2020. Therefore, the Department reported that it will pursue legislation aligning the sunset dates of the Department, the Arizona Racing Commission, and the Arizona Boxing and Mixed Martial Arts Commission during the 2020 legislative session.
