



July 14, 2023

Sports Betting – Status Report

Members of the Legislative Audit Committee:

Attached is the status report from the Department of Revenue (DOR) on the implementation of recommendations contained in the Office of the State Auditor's (OSA) *Sports Betting Performance Audit*.

OSA Review of Documentation

As part of the status report process, we requested and received supporting documentation for each recommendation that DOR reported as having been implemented. Specifically, we reviewed:

- New investigative checklists for background investigations based on the required financial, legal, operational, and regulatory criteria for temporary and permanent investigations.
- Documentation of a new formal risk-based assessment process, which was designed to ensure that investigators can consistently identify defined indicators of risk in an investigation.
- New sports betting background investigation report templates.
- A purchase order procuring the services of a policy writer to draft new policies pertaining to temporary investigation processes, supervisory review, documentation, investigative report writing, international investigations, and verification of monthly tax filings and wager information.

Based on our review, the supporting documentation substantiates the Department's reported implementation status.



COLORADO

Department of Revenue

Specialized Business Group—Gaming

1707 Cole Blvd., Suite 300
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May 12, 2023

Kerri L. Hunter, CPA
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear State Auditor Hunter:

In response to your request, we have prepared the attached status report on the implementation status of audit recommendations contained in the Sports Betting performance audit. The report provides a brief explanation of the actions taken by the Division of Gaming to implement each recommendation.

In response to the sports betting audit, in addition to the immediate changes and procedures put in place, the Division of Gaming has taken the following actions to ensure that the audit recommendations are implemented.

The division has engaged the Governor's Office of Information Technology (OIT) in a two phase sports betting data management system. The first phase was to automate the daily reporting data received from sports betting operators to reduce or eliminate labor intense manual processes. The second phase will be to receive all betting data from operators to enable division auditors' better ability for ongoing audit and data verification of monthly tax payments. Additionally, it will provide division data analysts a more complete picture of all betting data for analysis and investigation.

Through the competitive bidding process, the division selected a technical writing service to review existing policies and procedures. During that review to identify any new policies that need to be written and identify existing policies and procedures that need to be revised to conform to the audit recommendations.

Additionally, through the RFP selection process the division is in the final stages of selecting and contracting with one or more vendors that can be



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utilized, along with agency criminal investigators, to provide background investigations including criminal, legal, and financial data of non-US applicants outside of the United States. Having one or more vendors to supply this supplemental information will enhance the division's ability to complete license applications in a timelier manner.

We have included documentation on current procedures that have been in place. With the completion of the formal technical writing contract, approval of the Limited Gaming Control Commission and the OIT data project, we plan to have all recommendations implemented.

If you have any questions about this status report and the Division of Gaming's efforts to implement the audit recommendations, please contact Senior Director Specialized Business Group Michael Phibbs, michael.phibbs@state.co.us or Olya Rohrbaugh at 720-653-9313 or olya.rohrbaugh@state.co.us

Sincerely,

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Audit Recommendation Status Report

Audit Name:	Sports Betting
Audit Number:	2166P
Agency:	Division of Gaming
Date of Status Report:	May 10, 2023

Section I: Summary

Rec. Number	Response from Audit Report	Original Implementation Date	Current Implementation Status	Current Implementation Date
1A	Agree	February 2023	Partially Implemented	June 2023
1B	Agree	February 2023	Partially Implemented	June 2023
1C	Agree	February 2023	Partially Implemented	June 2023
1D	Agree	February 2023	Partially Implemented	October 2023
1E	Agree	February 2023	Partially Implemented	June 2023
1F	Agree	February 2023	Partially Implemented	June 2023
1G	Agree	February 2023	Partially Implemented	June 2023
2A	Agree	September 2022	Partially Implemented	May 2024
2B	Agree	February 2023	Partially Implemented	June 2023
2C	Agree	February 2023	Partially Implemented	May 2024

Section II: Narrative Detail

Recommendation 1A

The Division of Gaming (Division) should improve the efficiency and effectiveness of sports betting license investigations by incorporating them into a regulatory framework that provides the strict regulation intended by statute. The Division should develop written policies and procedures for sports betting investigations that include the following elements:

The minimum essential information needed to support a recommendation of temporary versus permanent licensure to ensure that applicants who are issued both types of licenses meet appropriate statutory and regulatory qualifications.

Current Implementation Status	Partially Implemented
Current Implementation Date	June 30, 2023
Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy the Division has implemented a strict adherence to the Standards and Procedures for the investigation of temporary and permanent licensure. The Division reviewed the screening criteria set forth in the Gaming Statutes and the Gaming Rules and Regulations and created a set of criteria which lays out the minimum checks for temporary licensure based on five identified areas of risk: financial, legal, operational, regulatory, and strategic. The division has also instituted a formal risk matrix for temporary investigations which lead the investigator to conduct additional scrutiny of company materials should red flags be indicated.

Current Implementation Status	Partially Implemented
Current Implementation Date	June 30, 2023
Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy the Division has implemented a strict adherence to the Standards and Procedures for the investigation of temporary and permanent licensure. The Division reviewed the screening criteria set forth in the Gaming Statutes and the Gaming Rules and Regulations and created a set of criteria which lays out the minimum checks for temporary licensure based on five identified areas of risk: financial, legal, operational, regulatory, and strategic. The division has also instituted a formal risk matrix for temporary investigations which lead the investigator to conduct additional scrutiny of company materials should red flags be indicated.

Status Update Narrative

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Recommendation 1B

The Division of Gaming (Division) should improve the efficiency and effectiveness of sports betting license investigations by incorporating them into a regulatory framework that provides the strict regulation intended by statute. The Division should develop written policies and procedures for sports betting investigations that include the following elements:

A risk-based approach that clearly defines the objectives of the investigation process, identifies high-risk areas, and establishes investigative procedures to target those risk areas that will be applied consistently to all investigations.

Current Implementation Status	Partially Implemented
Current Implementation Date	June 30, 2023
Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented a risk-based approach through the utilization of formalized checklists that guide the investigator in

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Status Update Narrative

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	their review of the applicant materials. These checks include third party databases outside the purview of the applicant.
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Recommendation 1C

The Division of Gaming (Division) should improve the efficiency and effectiveness of sports betting license investigations by incorporating them into a regulatory framework that provides the strict regulation intended by statute. The Division should develop written policies and procedures for sports betting investigations that include the following elements:

Clear parameters on the quantity and quality of evidence needed to develop consistent conclusions in the risk areas specific to sports betting.

Current Implementation Status	Partially Implemented
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Current Implementation Date	June 30, 2023
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Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30 2023. Until such time that the protocols can be formalized in policy, the Division has implemented a schedule of examinations which requires the investigator to obtain information from at least ten databases available to investigators in addition to the open-source survey and direct inquiries with regulators, law enforcement agencies, and the applicant themselves. When an item is acknowledged to have been analyzed by the investigator, it is mandatory for supporting documents to be provided with it. Currently these standards are relayed to the team through the Field Training Program and reinforced through the Supervisory quality assurance review of completed reports.
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Recommendation 1D

The Division of Gaming (Division) should improve the efficiency and effectiveness of sports betting license investigations by incorporating them into a regulatory framework that provides the strict regulation intended by statute. The Division should develop written policies and procedures for sports betting investigations that include the following elements:

Guidance for navigating international investigations and identifying available information sources, while accounting for legal restrictions that may impact the investigation.

Current Implementation Status	Partially Implemented
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Current Implementation Date	October 1, 2023
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Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy and to ensure the legitimacy of applicants in the time being, the Division requests additional documentation from all international applicants to substantiate any claims/omissions on the application. The Division is also actively engaged in the acquisition
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	of a third-party screening company which can provide criminal, legal, and financial data of non-US applicants outside of the United States. This requires that a suitable vendor be thoroughly researched and comply with the State's vendor protocols and billing mandates. These conversations take time for all the stakeholders to fully engage and meet their state directives. It is expected that this service will be implemented no later than October 1, 2023.
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Recommendation 1E

The Division of Gaming (Division) should improve the efficiency and effectiveness of sports betting license investigations by incorporating them into a regulatory framework that provides the strict regulation intended by statute. The Division should develop written policies and procedures for sports betting investigations that include the following elements:

Information that must be contained in investigative reports prepared for the Colorado Limited Gaming Control Commission to ensure that the reports include information on the scope of work completed and the basis of the Division's recommendations.

Current Implementation Status	Partially Implemented
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Current Implementation Date	June 30, 2023
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Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented standard language in the reports that align with the investigatory checklists which guide the investigator's screening for suitability. The reports document the sources of information retrieved by the investigator and if additional means are utilized that language is added to the report.
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Recommendation 1F

The Division of Gaming (Division) should improve the efficiency and effectiveness of sports betting license investigations by incorporating them into a regulatory framework that provides the strict regulation intended by statute. The Division should develop written policies and procedures for sports betting investigations that include the following elements:

Requirements for documenting investigative work, including expectations for what external documents must be maintained, what Division-generated documents should be present, and how investigators should record their reasoning and decision making.

Current Implementation Status	Partially Implemented
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Current Implementation Date	June 30, 2023
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Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented requirements that are
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	<p>relayed to all staff within their Field Training program. There is also continuous and ongoing training provided to staff as new resources become available or as more efficient/thorough sources are brought into the fold. The quality control check conducted by the supervisory investigators upon completion of each report reinforces the standards set forth by the unit.</p>
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Recommendation 1G

The Division of Gaming (Division) should improve the efficiency and effectiveness of sports betting license investigations by incorporating them into a regulatory framework that provides the strict regulation intended by statute. The Division should develop written policies and procedures for sports betting investigations that include the following elements:

A standardized supervisory review process for investigations that identifies the purpose of the reviews with respect to ensuring the quality of the investigations and the accuracy of the information in the investigative reports.

Current Implementation Status	Partially Implemented
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Current Implementation Date	June 30, 2023
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Status Update Narrative

The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented the supervisory review process which includes two levels of evaluation to ensure accuracy and completeness. Upon completion, the Investigator turns in their report and investigation file to a sports betting Supervisory Investigator ("SI"). The SI then checks for each item that was signed off on the investigative list to ensure that a corresponding document (or a valid reason for lack thereof) is included in the file. Then the SI reads the report to ensure that any anticipated questions from the Commission or the public can reasonably be answered within the existing document. If necessary, the report is sent back to the initial Investigator for revision or additions. Once the SI approves the report, it is sent to the Sports Betting Agent in Charge for their review. At this time, the Agent in Charge reviews the completeness of the content and anticipates any concerns which may require additional reporting for the Commission's consideration.

Recommendation 2A

The Division of Gaming (Division) should ensure the accuracy of sports betting operations' (operations) monthly sports betting tax payments by requiring operations to provide documentation to support the wager amounts reported, including any adjustments that are made to those amounts during each month.

Current Implementation Status	Partially Implemented
Current Implementation Date	May 31, 2024
Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented procedures to ensure verification of the monthly tax filing process. The Division is currently engaged with the Governor's Office of Information Technology (OIT) to develop our sports betting data management system. OIT has been selected to develop our data initiative to provide structure, consistency, and standardization for how the Gaming Division collects, stores, shares, and reports on sports betting data submissions. OIT is currently finalizing Phase 1 of the project for automation of the daily reports. This should be in production by June 30, 2023. OIT will begin phase 2 for the collection of all data and making ongoing audit verification data driven and verifiable. OIT is now starting the project plan for phase 2 and projected to have it done late FY2024.

Current Implementation Date	May 31, 2024
Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented procedures to ensure verification of the monthly tax filing process. The Division is currently engaged with the Governor's Office of Information Technology (OIT) to develop our sports betting data management system. OIT has been selected to develop our data initiative to provide structure, consistency, and standardization for how the Gaming Division collects, stores, shares, and reports on sports betting data submissions. OIT is currently finalizing Phase 1 of the project for automation of the daily reports. This should be in production by June 30, 2023. OIT will begin phase 2 for the collection of all data and making ongoing audit verification data driven and verifiable. OIT is now starting the project plan for phase 2 and projected to have it done late FY2024.

Status Update Narrative**Recommendation 2B**

The Division of Gaming (Division) should ensure the accuracy of sports betting operations' (operations) monthly sports betting tax payments by implementing additional policies and procedures for Division staff to use when verifying the wager data that operations report and the amount of tax they have paid.

Current Implementation Status	Partially Implemented
Current Implementation Date	June 30, 2023
Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented procedures to ensure verification of the monthly tax filing process.

Current Implementation Date	June 30, 2023
Status Update Narrative	The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented procedures to ensure verification of the monthly tax filing process.

Status Update Narrative

Recommendation 2C	
The Division of Gaming (Division) should ensure the accuracy of sports betting operations' (operations) monthly sports betting tax payments by reassessing how Division audit staff can be more effectively used to verify the accuracy of operations tax filings.	
Current Implementation Status	Partially Implemented
Current Implementation Date	May 31, 2024
Status Update Narrative	<p>The Division has employed the services of a policy writer to clearly articulate the Division's expectations of the unit. Those policies are in draft form and should be completed by June 30, 2023. Until such time that the protocols can be formalized in policy, the Division has implemented procedures to ensure verification of the monthly tax filing process. The Division is currently engaged with the Governor's Office of Information Technology (OIT) to develop our sports betting data management system. OIT has been selected to develop our data initiative to provide structure, consistency, and standardization for how the Gaming Division collects, stores, shares, and reports on sports betting data submissions. OIT is currently finalizing Phase 1 of the project for automation of the daily reports. This should be in production by June 30, 2023. The automation of the reports will free up resources to be more effective in other projects/initiatives and operational processes. OIT will begin phase 2 for the collection of all data and making ongoing audit verification data driven and verifiable. OIT is now starting the project plan for phase 2 and projected to have it done late FY2024.</p>