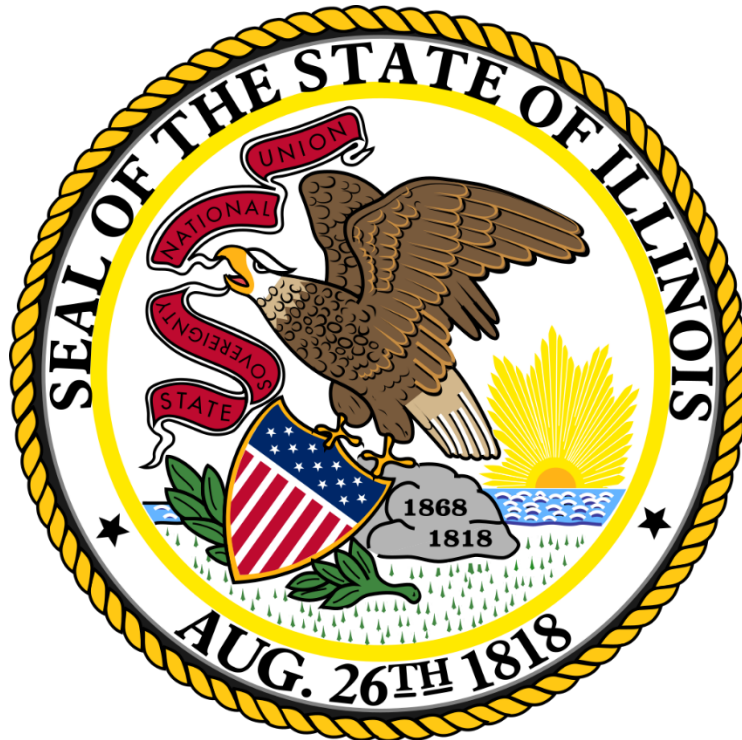


LEGISLATIVE AUDIT COMMISSION



Review of
Department of Lottery
Two Years Ended June 30, 2019

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Springfield, Illinois 62706
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REVIEW #4521: FY18-19 Compliance Examination – Department of Lottery

REVIEW: 4521 ILLINOIS DEPARTMENT OF LOTTERY TWO YEARS ENDED JUNE 30, 2019

FINDINGS/RECOMMENDATIONS – 14

IMPLEMENTED – 7 PARTIALLY IMPLEMENTED – 7 ACCEPTED – All

REPEATED RECOMMENDATIONS – 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 8

This review summarizes the auditors' report on the Department of Lottery for the two years ended June 30, 2019, filed with the Legislative Audit Commission March 3, 2020. The auditors conducted a compliance examination in accordance with state law and Government Auditing Standards.

The Illinois Lottery was established in 1974 and is administered by the Department of the Lottery (Lottery).

Lottery's purpose is to maximize revenue to the state to benefit good causes in an ethical and socially responsible manner. Approximately, 64% of the money goes to prizes, 25% to good causes, and the remainder to retail commissions (6%), and operating costs (5%).

Lottery's mission statement is to raise money for education, capital projects, and other worthy causes by growing sales in a socially responsible manner, while ensuring all Lottery operations adhere to the highest standards of security and public accountability.

Lottery's good causes include raising money for K-12 public education, capital projects, and six "specialty" instant games that benefit veterans support programs, breast cancer research and education, HIV/AIDS awareness, developmental disabilities, multiple sclerosis research, and police memorials.

Lottery's Divisions are by function. The divisions are:

- Operations and Technology;
- Sales and Marketing—managed by the Private Manager, Camelot Illinois; and
- Finance.

Note: Sales personnel operate out of the private manager's sub-contractor offices in McCook, as well as Springfield, and Rockford and Fairview Heights. Marketing personnel operate primarily from the private manager's administrative office.

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Mr. Harold Mays was appointed as Acting Director on July 14, 2018 and is currently serving in that capacity.

The number of employees at June 30 of the following years was as follows:

Lottery Departments	FY18	FY19
Operations	56	58
Employee Use Agreement	83	82
Electronic Data Processing	11	9
Contractual	2	2
Total Department	152	151

Key Metrics

Sales Revenue	FY18	FY19
Sales Revenue (billions)	\$2.926	\$2.977
Change from Prior Year	2.9%	1.75%

FY 19 was a strong sales year for most lotteries due to sales generated by the record breaking \$1.5 billion Mega Millions jackpot in October 2018.

Key Metrics (GOMB FY 23 Budget Book)

Lottery Sales	FY 21 Actual	FY22 Estimated	FY23 Projected
Cost of Sales/Services (million)	186.2	176.7	170.4
General/Admin Expenses (million)	162.7	179.2	186
Draw based games (millions)	1,235.5	1,235	1,318.1
Instant games (millions)	2,214.4	2,118	2,129.6
Online platform included in draw based games (millions)	170.1	205.6	239.7
Sports wagering	NA	0	0
Sales per capita in dollars (18 years and older)	346	347	336

Lottery Key Performance Indicators	FY 21 Actual	FY22 Estimated	FY23 Projected
Number of retailers	6,992	7,200	7,300
Sales as cost of sales/services (%)	5.3	5.4	4.9
Sales as general/admin expenses (%)	4.7	5.3	5.4
Sales as prize expenses (% instant, draw)	67.5	65.7	65.5
Sales as transfers to good causes	22.5	23.9	24.1
Prizes expense – draw based games (million)	708.5	665.5	715.3
Prize expenses – instant (millions)	1,620.8	1,537.2	1,546.0
Prize expenses – sports wagering	NA	0	0

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Lottery Key Performance Indicators	FY21 Actual	FY22 Estimated	FY23 Projected
Total Lottery Sales (billion)	3.450	3,353.5	3,447.1
Total Prize Expenses (billion)	2.329	2.203	2.261
Transfers to Good Causes (million)	776.3	798.6	833.9

Appropriations and Expenditures

The General Assembly appropriated approximately \$1.3 billion from the State Lottery Fund to Lottery for FY19. Lottery was also appropriated \$589,100 GRF for unpaid wage increases in FY19. Total expenditures from both appropriated funds were \$647.1 million in FY19 compared to \$789.5 million in FY18, a decrease of \$142.4 million, or 18%. Prize payments for winning tickets decreased by \$223.2 million in FY19 while expenses of developing and promoting lottery games increased \$79.3 million. The increase in the expenses of developing and promoting lottery games in FY19 was largely due to a \$33 million residual value expense as the result of the Letter Agreement of Termination with Northstar Lottery Group—the Lottery’s prior Private Manager (p 63, Compliance Exam).

Accounts Receivable

Licensed Lottery retailers are required to maintain a separate bank account in which to deposit all Lottery sales. Lottery sales are swept from a retailer's bank account on a weekly basis. Retailers who do not have sufficient funds in their bank accounts when they are swept and do not wire transfer or deposit the funds by the statement cutoff date generate accounts receivable. A statutory 5% penalty is assessed, as well as a monthly 2% interest charge, until the debt is dissolved.

Total net receivables was \$25.4 million in FY19 compared to \$24.8 million in FY18. Current receivables totaled \$19 million for FY19 and \$19.2 million for FY18. Of the total accounts receivable, \$24.1 million is estimated uncollectible for FY19 and \$21.2 million was estimated uncollectible for FY18.

The Commission reviewed Lottery’s FY14/15 compliance exam. Since that audit report, the amounts of estimated uncollectible accounts receivable has increased by \$1.8 million, or 11.4%, from FY15 to FY16, \$1.6 million, or 9.1%, from FY16 to FY17, \$2 million, 10.2% from FY17 to FY18 and \$2.9 million, or 13.7%, from FY18 to FY19.

Cash Receipts

Per Lottery’s records, the total cash receipts from all funds was \$1.4 billion in FY19 and \$1.5 billion in FY18. The largest decrease of \$9.3 million was seen in the Capital Projects Fund due to a change to the Illinois Lottery Law (20 ILCS 1605/9.1(o)) that went into effect on June 4, 2018 in PA100-587 that changed the due date to transfer money into the

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Capital Projects Fund to September 30th of each year. The largest increase from FY18 to FY19 of \$179.5 million was seen in the State Lottery Fund. This was due primarily to when the last sweep of bank accounts occurred in FY19 related to the end of the fiscal year and as the result of aspects of being a part of multi- state gaming.

Locally Held Funds

Lottery receipts and disbursements occur amongst four Locally Held Funds: the Lottery Prize Payment Fund, the Lottery Agent Security Deposits Fund, the Agent Sales Sweep Account Fund and the Deferred Lottery Prize Winner Trust Fund. Cash receipts and disbursements for all locally held funds totaled approximately \$1.5 billion in FY19 and \$1.4 billion in FY18. The total cash balance for locally held funds was \$324.8 million on July 1, 2017 and decreased to \$307 million, or \$17.8 million (5.5%), as of June 30, 2019.

Property and Equipment

Equipment for which Lottery was accountable during the period under review was \$1.4 billion at June 30, 2017 and \$757 million at June 30, 2019, representing a decrease of \$655 million, or 46.4%. Lottery deleted \$114 million and transferred \$260 million in state property in FY18 and deleted \$239 million and transferred \$105 million in state property in FY19.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, “It is declared to be the policy of the state that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts....” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to state property in order to protect against further loss of or damage to state property, to prevent or minimize serious disruption in critical state services that affect health, safety, or collection of substantial state revenues, or to ensure the integrity of state records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than five business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided

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to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file a statement with the Procurement Policy Board and the Auditor General to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

Lottery did not have any emergency procurements in FY18.

Per Lottery's records during FY19, one affidavit was filed for emergency purchase and totaled \$60,000. This emergency procurement was to provide 90 additional days of Customer Acceptance Testing (CAT), system testing and certification work to minimize the disruption in the collection of substantial State revenues.

Accountants' Findings and Recommendations

Condensed below are the fourteen findings and recommendations included in the audit report. Of these, 5 are repeated from the previous audit. The following recommendations are classified on the basis of information provided by Lottery, via electronic mail received March 3, 2020.

- 1. The auditors recommend Lottery take immediate action to ensure the Private Manager and its subcontractor obtain a SOC 1, Type 2 report for the CGS system covering the state's fiscal year no later than 45 days after the close of the state's fiscal year. In addition, Lottery should monitor changes to its environment to ensure it receives SOC 1, Type 2 reports for all systems comprising the State's Lottery operated by service providers.**

FINDING: *(Failure to Ensure Timely Compliance with the Private Manager Agreement)*

Lottery did not ensure timely compliance by its Private Manager with obtaining a timely System Organization and Control (SOC) examination of the Central Gaming System (CGS) by an Independent Service Auditor, a critical piece of audit evidence for both Lottery's and the state's financial statements.

Lottery's transition process from the predecessor Private Manager to the current Private Manager took place at the beginning of FY19. The Office of the Auditor General (OAG) communicated the need for Lottery to ensure it received a SOC 1, Type 2 report from both entities covering the period each entity ran the CGS during FY19.

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Lottery officials acknowledged the importance of these SOC reports to both the Lottery's and state's financial statements, indicating the predecessor Private Manager was aware of the need for a final SOC report through the date when its CGS transitioned to the new Private Manager. Additionally, Lottery officials indicated the new Private Manager would be contractually required to obtain a SOC report covering its CGS each fiscal year over the duration of the contract.

As the audit progressed, auditors became concerned the SOC 1, Type 2 report was not going to be received timely. On October 16, 2019, Lottery officials informed the OAG they had interacted with the Private Manager and determined the delays were due to the Private Manager's subcontractor contracting with a firm to perform the examination that **did not have sufficient available resources** to timely complete both this SOC 1, Type 2 engagement and the SOC 2, Type 2 engagement.

In response, auditors requested Lottery provide us the engagement letter and/or terms of the engagement between the Private Manager and the Independent Service Auditor. Auditors noted the engagement letter between the **Independent Service Auditor and the Private Manager's subcontractor operating the CGS was not written until October 7, 2019, and not executed in writing by all parties until October 8, 2019. Under this agreement, the Independent Service Auditor was not going to start performing its sole week of testing until November 18, 2019. Further, the Independent Service Auditor was not going to deliver the final report until January 2, 2020.** Along with this letter, Lottery officials provided an undated and unsigned "delivery schedule" showing **the testing was to be conducted from October 21 through November 1, 2019, with the final report delivered on November 30, 2019.**

The Private Manager's subcontractor ultimately delivered the SOC 1, Type 2 report signed by the Independent Service Auditor on December 20, 2019, which significantly delayed our completion of this audit.

Lottery officials indicated that Lottery directed the Private Manager to meet the SOC examination compliance requirements through numerous communications, meetings, and letters of direction before and throughout the examination period. These communications informed the Private Manager of the State's requirements and further clarified what were the necessary deliverables and respective timelines. Lack of specific coordination between the Private Manager and its subcontractors to meet the timelines identified led to delayed compliance with the *PMA*.

Failure to ensure the Private Manager's subcontractor obtained a timely SOC 1, Type 2 report resulted in (1) Lottery not receiving timely feedback about the design, suitability, and operating effectiveness of controls over the CGS, (2) delayed the completion of this audit, (3) could have delayed the State's CAFR, and (4) could have resulted in a modified opinion on the State's CAFR.

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DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery communicated its SOC audit requirements per the Private Management Agreement to the Private Manager throughout the review period. When the Department became aware of potential issues with obtaining the outstanding SOC audit for the new central gaming system (CGS) in the spring of 2019, Lottery immediately notified the Office of the Auditor General (OAG).

After discussions with the OAG to further clarify the SOC audit requirement and the timing of the submission, Lottery communicated the clarified requirements to the Private Manager who in turn was expected to communicate the requirements to the subcontractor who was responsible for completing the SOC audit of the CGS system. Through regular communications over the following months, Lottery directed the Private Manager to enforce provisions within their contract to have their CGS subcontractor complete the required SOC audit by the date proposed by the OAG. Lottery also stressed the significance of the SOC audits, not only for Lottery's financial audit, but also for the State's CAFR.

The Private Manager notified Lottery formally in October 2019 that the outstanding SOC audit would not be ready by the date requested by the OAG and that it would potentially be completed in December 2019. Lottery sought to verify this date with the CGS subcontractor and was told the estimated delivery date was actually January/February 2020. Lottery communicated this new information to the OAG. Lottery immediately informed the Private Manager and the CGS subcontractor that the timelines for completion were not acceptable, and directed them to demand additional resources from their independent auditor to expedite the audit. After this communication, the CGS subcontractor's auditor provided additional resources which enabled the audit to be completed in December 2019. Upon receipt, Lottery immediately provided the report to the OAG.

Lottery had continuous communication regarding the requirements of the SOC audits during the current period under review. Going forward, Lottery will work with the Private Manager to ensure all required SOC audits from the Private Manager and their subcontractors are completed within 45 days of fiscal year-end.

UPDATED RESPONSE: Implemented.

- 2. The auditors recommend Lottery implement controls to provide assurance it has the resources available on an accrual basis to properly allocate proceeds in accordance with the Law or seek a legislative remedy. Further, Lottery should take action to correct the overpayment of \$64.124 million.**

FINDING: *(Excess Transfers to the Common School Fund)*

Lottery has not resolved the prior period excess cash transfers from the State Lottery Fund (Fund 711) to the Common School Fund (Fund 412), totaling \$64.124 million.

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During testing, auditors noted the following:

- Due to the overall profitability of the Illinois Lottery during FY19, Lottery was able to fully meet its obligations under priority 4. As such, while the net overpayment to Fund 412 from Fund 711 did not increase this year, Lottery's process still calls for, in years where the Illinois Lottery does not have sufficient profitability to fully satisfy priority 4, Lottery to perform excess transfers into Fund 412 from Fund 711 based upon the prescribed amount.
- Lottery was unable to resolve excess transfers that occurred during prior fiscal years, totaling \$64.124 million.

Lottery officials indicated the Law's current language lacks clarity and specificity on how to address the conflict between the Lottery's monthly obligation to transfer the statutorily pre-determined amount to Fund 412 with the transfer of actual final sales proceeds that are both not fully realized nor audited until, at least, three months after the end of the fiscal year. Therefore, Lottery's current process is to make the monthly transfers based on the availability of cumulative cash proceeds from the ticket sales, as the Law does not have a provision for adjusting the deposits and transfers made during the fiscal year after the actual final sales proceeds in a given fiscal year have been realized and audited in accordance with the priority order established by the Law. Further, Lottery has been unable to recoup the prior period overpayments as the Law does not have a mechanism for Fund 412 to reimburse overpayments from Fund 711. Finally, Lottery officials indicated they have not had ample time to reach a legislative remedy.

Failure to make transfers into Fund 412 in conformity with the priority order for the distribution and use of proceeds established by the Law created a cash deficit within Fund 711.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery agrees with the finding and recommendation. At the beginning of FY20, Lottery changed its internal policy for transferring proceeds to the Common School Fund (Fund 412) by transferring amounts based upon the available net profit and not the prescribed amount alone.

Lottery is working diligently to reach a legislative remedy regarding the prior year overpayments to Fund 412 and to revise the language in the Lottery Law to better meet the operating needs of Lottery as the true net profit is not known until the year-end audited financials are complete, while respecting the need for expediency in making monthly transfers to Fund 412.

UPDATED RESPONSE: Implemented.

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3. The auditors recommend Lottery work with the General Assembly to address the permanent cash deficit of \$69.842 million within Fund 711 (Lottery) arising from the excess transfers which occurred before June 30, 2009. Further, the Department should transfer the other \$19.203 million due to Fund 694 (Capital) from Fund 711.

FINDING: *(Noncompliance with the Capital Projects Fund Transfer Provisions within the Illinois Lottery Law)*

Lottery has not performed all the transfers to the Capital Projects Fund (Fund 694) from the State Lottery Fund (Fund 711) required by the Illinois Lottery Law (Law), totaling \$89.045 million at June 30, 2019.

During discussions with Lottery officials concerning this balance, they indicated this balance has accumulated due to the following reasons:

- 1) Fund 711 annually transferred more cash into Fund 412 (Common School) than required on an accrual basis during fiscal years prior to June 30, 2009. In order to account for this excess transfer, Lottery's predecessor agency booked a due from Fund 412 (accounts receivable) for the amount of excess cash transferred in Fund 711 of \$69.842 million at June 30, 2009. During Lottery's FY12 financial audit, it was determined this due from did not meet criteria established by the Governmental Accounting Standards Board to be reported and Lottery management posted an adjustment to reclassify the \$69.842 million as a transfer out to Fund 412. This created a cash deficit of \$69.842 million within Fund 711, as Fund 412 now had the cash that otherwise should have been deposited into Fund 694 in accordance with the Law.
- 2) Prior to Public Act 100-0587, Lottery was required to annually transfer cash from Fund 711 into Fund 694 on June 30. Due to difficulties determining the exact amount to transfer and timing issues arising from the conversion of accounts receivable into cash, Lottery was not able to timely transfer the remaining \$19.203 million from Fund 711 into Fund 694. During the current engagement, Lottery officials indicated a legislative remedy could not be obtained prior to the end of FY19. Failure to make transfers into Fund 694 in conformity with the Law delays Fund 694's receipt of cash.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. As noted in the finding, excess transfers to the Common School Fund in the amount of \$69.842 million did occur prior to 2009 and have never been recouped. The write-off of this amount, previously categorized as a due from Fund 412, resulted in a cash shortage which affects the prior and future transfers. Additionally, Lottery transferred an excess of \$64.124 million to Fund 412 in 2018, which further increases the cash deficit in Fund 711.

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Lottery will remain committed to correct the remaining balance owed to the Capital Projects Fund by working with the General Assembly to address the excess transfers to the Common School Fund.

UPDATED RESPONSE: Partially Implemented.

- 4. The auditors recommend Lottery develop an annual financial reporting checklist which includes performing a “true up” of actual prizes paid to estimated prizes paid for all games that have closed out. Further, Lottery should complete its analysis of the impact of allocating the overhead rate as opposed to actual administrative costs and, as necessary, post adjusting entries.**

FINDING: *(Inadequate Controls over Specialty Tickets)*

Lottery had not fully implemented corrective action to quantify the impact of improper prior period overhead charges and performed a “true up” of its estimated prize liabilities to prizes paid.

As of June 30, 2019, the Illinois Lottery Law (Law) required Lottery offer specialty scratch-off games to fund:

- Breast cancer research grants appropriated by the General Assembly to the Department of Public Health from the Carolyn Adams Ticket For The Cure Grant Fund (Fund 208) (20 ILCS 1605/21.5);
- Assistance for veterans appropriated by the General Assembly to the Department of Veterans’ Affairs for grants from the Illinois Veterans Assistance Fund (Fund 236) (20 ILCS 1605/21.6);
- Multiple sclerosis research grants appropriated by the General Assembly to the Department of Public Health from the Multiple Sclerosis Research Fund (Fund 429) (20 ILCS 1605/21.7);
- HIV/AIDS prevention grants appropriated by the General Assembly to the Department of Public Health from the Quality of Life Endowment Fund (Fund 437) (20 ILCS 1605/21.8);
- Special Olympics grants appropriated by the General Assembly to the Department of Human Services from the Special Olympics Illinois and Special Children’s Charities Fund (Fund 073) (20 ILCS 1605/21.9);
- Chicago Police Memorial Foundation Fund, the Police Memorial Committee Fund, and the Illinois State Police Memorial Park Fund grants appropriated by the General Assembly to the Illinois Criminal Justice Information Authority from the Criminal Justice Information Projects Fund (Fund 335) (20 ILCS 1605/21.10), which became law and began in Fiscal Year 2019; and,
- Homelessness prevention grants appropriated by the General Assembly to the Department of Human Services from the Homelessness Prevention Revenue Fund (Fund 889) (20 ILCS 1605/21.11), which became law in Fiscal Year 2019 and began in Fiscal Year 2020.

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In addition, since June 30, 2019, two additional new specialty tickets have been added.

During testing, auditors noted the following problems:

- During the preceding two annual audits, predecessor auditors had questioned whether Lottery's practice of allocating an overhead charge to specialty tickets conformed with the Law's net revenue formula. Lottery officials ultimately agreed with the predecessor auditors and ceased allocating the overhead charge during FY19. However, Lottery has not yet quantified the difference between the overhead charge and its actual administrative costs solely related to each specialty scratch-off game from October 2008 through June 2018. As such, Lottery has not posted adjusting entries to correct prior period errors.
- Lottery has not performed its "true up" for its initial estimated prize liability for specialty ticket games ending during the two years prior to June 30, 2018. This true up would recalculate the amount of net revenue based upon actual known prizes paid after the game had formally ended, with adjusting entries being posted to correct for estimation differences.
- Due to the two preceding problems, the "accrual only" information sent by Lottery to the Department of Public Health, the Department of Veterans' Affairs, and the Department of Human Services during the State's annual financial reporting process was not complete and accurate.

Lottery officials indicated difficulties with finding the historical records necessary to determine actual costs hindered the ability of Lottery to fully implement corrective action for the first bullet point. Further, Lottery officials indicated, like they did last year, that oversight during the busy financial reporting period contributed to Lottery not performing a "true up" of the estimated prizes paid to actual prizes paid.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. In FY19, Lottery revised our specialty ticket procedures to charge actual administrative costs incurred to each ticket. These costs do not encompass all administrative costs incurred by Lottery in administering these tickets while performing administrative duties related to all games that aren't specifically separated. Work occurs through our instant ticket processes, marketing processes, and financial processes. Lottery are able to identify direct costs incurred by our vendor for specific products or services to the development and marketing of specialty games, but the hourly efforts of the Lottery staff and the Private Manager staff requires manual tracking and have been difficult and costly to isolate.

In FY20, Lottery will complete the reconciliation to "true-up" estimated prize liabilities to prizes paid, as well as, our review of the overhead rate charged to specialty tickets in years prior to 2019. Lottery will complete any necessary transfer during the year and

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communicate directly with those agencies impacted on the matter. Finally, Lottery will continue to research and analyze a better way to allocate and account for the administrative costs associated with specialty tickets to bring forth a legislative remedy.

UPDATED RESPONSE: Partially Implemented. Lottery is currently working on completing a “true-up” of actual prizes paid to estimated prizes for games that have closed out. This is expected to be completed during FY22, and Lottery will post adjusting entries as needed.

- 5. The auditors recommend Lottery take immediate action to ensure the Private Manager and its subcontractor obtain a SOC 2, Type 2 report for the CGS system covering the State’s fiscal year no later than 45 days after the close of the state’s fiscal year. In addition, Lottery should monitor changes to its environment to ensure it receives SOC 2, Type 2 reports for all systems comprising the State’s Lottery operated by service providers.**

FINDING: *(Failure to Obtain Timely Assurance over the Trust Services Criteria and Information Integrity for the Central Gaming System)*

Lottery did not ensure timely compliance by its Private Manager with obtaining a timely System Organization and Control (SOC) examination of the Central Gaming System (CGS) by an Independent Service Auditor for the Trust Services Criteria (TSC), a critical piece of attestation evidence.

During the Lottery’s transition process from the predecessor Private Manager to the current Private Manager, the Office of the Auditor General (OAG) communicated the need for the Department to ensure it received a SOC 2, Type 2 report from the new Private Manager covering the period it ran the CGS during Fiscal Year 2019. A SOC 2, Type 2 report tests the design, suitability, and operating effectiveness of controls over the CGS against the TSC. As defined by the American Institute of Certified Public Accountants, the TSCs cover the following five critical areas:

- 1) **Security**

The system and information within are protected against unauthorized access, disclosure, and damage that could compromise the availability, integrity, confidentiality, and privacy of the information or systems that could affect the ability of the control objectives.

- 2) **Availability**

The system and information are available for operation and use to meet the control objectives, including the availability of information used by the entity and of the services provided to customers. Availability addresses where the controls support accessibility for operation, monitoring, and maintenance.

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3) Processing Integrity

Processing integrity addresses whether the system achieves the purpose for which it exists, including that system processing is valid, accurate, complete, timely, and authorized to meet the control objectives. Further, processing integrity addresses whether the system functions as intended in an unimpaired manner, free from errors, delays, omissions, unauthorized manipulation, and inadvertent manipulation.

4) Privacy

Personal information is collected, used, retained, disclosed, and disposed of in accordance with the control objectives.

5) Confidentiality

Confidentiality addresses the ability of the service provider to protect data and information designated as confidential from its initial collection or creation through disposal and removal.

Lottery officials acknowledged the importance of this SOC report, indicating the new Private Manager would be contractually required to obtain a SOC report covering its CGS each fiscal year over the duration of the contract.

When the CGS transitioned to the new Private Manager on February 18, 2019, the new Private Manager assigned the functions to operate and maintain the CGS to a subcontractor.

During this examination, auditors communicated the importance of obtaining a timely SOC 2, Type 2 report to Lottery officials. After auditors became aware the subcontractor was not going to obtain the appropriate SOC report from an Independent Service Auditor, auditors jointly worked with Lottery officials to develop a workable scope for the SOC examination and set a mutually-agreeable deadline to receive the SOC 2, Type 2 report by October 15, 2019, which would still have enabled us to timely express our opinion on the Department's compliance with the specified requirements set by the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies*. In a letter to the Private Manager on August 6, 2019, Lottery officials communicated (1) the need for a SOC 2, Type 2 report with the change in scope to get a workable report and (2) their expectation the subcontractor should have been aware of this need.

As the examination progressed, we became concerned the SOC 2, Type 2 report was not going to be received timely. On October 16, 2019, Department officials informed the OAG they had interacted with the Private Manager and determined the delays were due to the Private Manager's subcontractor contracting with a firm to perform the examination that **did not have sufficient available resources** to timely complete both this SOC 1, Type 2 engagement (see Finding 2019-001) and the SOC 2, Type 2 engagement.

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The Private Manager's subcontractor ultimately delivered the SOC 2, Type 2 report signed by the Independent Service Auditor on December 20, 2019, which significantly delayed the completion of this examination.

Department officials indicated the Department directed the Private Manager to meet the SOC examination compliance requirements through numerous communications, meetings, and letters of direction before and throughout the examination period. These communications informed the Private Manager of the State's requirements and further clarified what were the necessary deliverables and respective timelines. Lack of specific coordination between the Private Manager and its subcontractor(s) to meet the timelines identified led to delayed compliance with the *PMA*.

Failure to ensure the Private Manager's subcontractor obtained a timely SOC 2, Type 2 report resulted in the Department not receiving timely feedback about the design, suitability, and operating effectiveness of controls over the TSC within the CGS, delayed the completion of this examination, and hindered our ability to provide timely and relevant feedback about the Department's operations to the General Assembly.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery communicated its SOC audit requirements per the Private Management Agreement to the Private Manager throughout the review period. When the Department became aware of potential issues with obtaining the outstanding SOC audit for the new central gaming system (CGS) in the spring of 2019, the Lottery immediately notified the Office of the Auditor General (OAG).

Related to Finding #1, Lottery had continuous communication regarding the requirements of the SOC audits during the current period under review. Going forward, Lottery will work with the Private Manager to ensure all required SOC audits from the Private Manager and their subcontractors are completed within 45 days of fiscal year end.

UPDATED RESPONSE: Implemented.

- 6. The auditors recommend that Lottery provide continuous education to all employees that may participate in the evaluation and awarding of any contract, and particularly in the awarding of a new Private Management Agreement. Lottery should continue to review internal controls to ensure all individuals with influence over the award of the contract understand their obligation to fully disclose potential conflicts of interest and avoid situations that could give rise to a potential conflict of interest.**

FINDING: *(Ineffective Oversight of the Evaluation Team Selecting the New Private Manager)*

In order to award a 10-year agreement with the new Private Manager which is effective until January 1, 2028, with an estimated award value of \$2.23 billion, Lottery established

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the Evaluation Committee in accordance with the Illinois Administrative Code (44 Ill. Admin. Code 1.8010(g)). Lottery's Director appointed staff to the Evaluation Committee and required each member to complete a "Compliance, Conflict of Interest, and Confidentiality Agreement." The agreement provided users guidance on what a conflict of interest was and then each member was to certify in writing the member would notify Lottery's Ethics Office immediately if they became aware of a situation that might indicate or create the appearance of a conflict of interest or other impropriety involving the awarding of the new private manager agreement. Each member of the Evaluation Committee signed this agreement.

After the Evaluation Committee completed its work and Lottery entered into a *Private Management Agreement (PMA)* with the new Private Manager on October 13, 2017, the Chief Procurement Officer for General Services became aware of information suggesting some members of the Evaluation Committee may have had previously undisclosed personal relationships with lobbyists for the new Private Manager. In a memorandum dated October 30, 2017, the Chief Procurement Officer for General Services noted the failure to disclose potential conflicts of interest by the members of the Evaluation Committee would have materially impacted her decision to certify, in accordance with State law, that the procurement process had followed applicable State law on September 18, 2017. This memorandum was provided to both the Governor and the Office of the Executive Inspector General for the Agencies of the Illinois Governor.

In response, the State – after consultation between the Governor's Office and the Chief Procurement Officer for General Services – retained outside legal counsel to perform an investigation as to whether any of the members on the Evaluation Committee had a relationship with the new Private Manager's lobbyist that created either an actual or apparent conflict of interest or other impropriety. On December 20, 2017, the outside legal counsel determined two of the five (40%) members of the Evaluation Committee did have "long-standing personal relationships with lobbyists for [the new Private Manager] that could have created the appearance of a conflict of interest or other impropriety" and that the two individuals "did not properly disclose their personal relationships with lobbyists for [the new Private Manager] at the outset of the evaluation process." In addition, the outside legal counsel determined one member failed to disclose to the Department's Ethics Officer that she had been in contact with a lobbyist for the new Private Manager while the Evaluation Committee was working.

Further, good business practices include ensuring all individuals serving on a selection committee related to a procurement or award maintain the upmost integrity and all potential conflicts have been vetted, documented, and appropriate safeguards are in place to ensure the integrity of state actions.

Ultimately, the outside legal counsel determined the actions taken by the two noted Evaluation Committee members did not materially affect the work of the Evaluation Committee and the new *PMA* went forward.

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Lottery officials indicated they were unaware of the failure of two private manager evaluation committee members to disclose certain long-standing relationships with lobbyists from the new Private Manager at the beginning of their work on the Private Manager Evaluation Committee.

Failure to ensure members of the Evaluation Committee fully disclosed their potential conflicts of interest and avoided potentially improper contact with parties involved in the procurement process resulted in an unnecessary expenditure of State resources to retain legal counsel to perform its investigation, delayed implementation of the new *PMA*, and could have resulted in a failed procurement which had already taken 18 months.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery had processes in place, which established rules and required disclosures to be completed of any conflict of interest from all evaluation committee members. The disclosures were completed and evaluation members were required to report any changes to their disclosure during the course of the procurement process. While Lottery had controls in place to identify potential conflicts of interests, Lottery will work to continuously monitor and counsel evaluation members on the requirement of disclosing any required information in future procurements.

UPDATED RESPONSE: Partially Implemented.

7. **The auditors recommend Lottery implement controls to ensure:**
- 1) **fringe benefits related to its employees' commuting in State vehicles are either added to each affected employee's taxable income or each employee provides a reimbursement to the State for the commuting use of the State's vehicle in strict adherence with IRS regulations;**
 - 2) **separation pay-outs are correct;**
 - 3) **all required performance evaluations are conducted timely; and,**
 - 4) **the original completed Form I-9 is retained in its employees' personnel files.**

FINDING: *(Inadequate Control over Personal Services)*

During testing, auditors noted the following:

- Lottery did not include fringe benefits for the personal use of a state vehicle within its Lottery Sales Representatives' taxable income during the engagement period. These employees extensively use state vehicles when commuting to retailers as part of their full-time job.

Internal Revenue Service (IRS) Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, notes a vehicle provided to an employee for commuting use must either (1) include \$1.50 for each one-way commute in the employee's wages or (2) obtain

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a reimbursement from the employee of \$1.50 for each one way commute, provided:

- 1) Lottery provides the vehicle to the employee for use in Lottery's trade or business;
- 2) for non-compensatory business reasons, Lottery requires the employee to commute in the vehicle;
- 3) Lottery has a written policy prohibiting the employee to use the vehicle for personal purposes other than commuting or de minimis personal use;
- 4) the employee does not use the vehicle for personal purposes other than commuting or de minimis personal use; and,
- 5) the employee is not an elected official or has a salary greater than or equal to a Federal Government Executive Level V employee.

Department officials indicated Lottery had ceased including the fringe benefit for the personal use of a State vehicle in its employees' taxable income after a union grievance in 2006.

Failure to comply with IRS regulations could subject the State to unnecessary legal costs and penalties.

- During testing of 9 separation payments for an employee's accrued vacation leave, auditors noted one (11%) employee was underpaid \$2,943. Auditors noted Lottery erroneously paid out the employee's 19.8 accrued sick days as opposed to the employee's 26.8 accrued vacation days.

Lottery officials indicated this was due to human error when the payment was calculated.

Failure to properly pay-out accrued vacation time represents noncompliance with the Code and could subject the state to unnecessary litigation.

- During testing of 15 employees who should have underwent 27 performance evaluations during the examination period, auditors noted the following:
 - Lottery lacked documentary evidence six (22%) performance evaluations had been performed when due.
 - Lottery did not conduct 18 (67%) performance evaluations in a timely manner, as they were completed between 32 and 418 days after the final day in the employee's evaluation period.

Lottery officials indicated these exceptions were due to oversight, human error, and supervisor turnover.

Performance evaluations are a systemic and uniform approach used for the development of employees and communication of performance expectations.

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These evaluations should serve as the foundation for salary adjustments, promotion, demotion, discharge, layoff, recall, and reinstatement decisions.

- During testing of 15 employees, auditors noted Lottery failed to complete Section 2 on one (7%) *Employment Eligibility Verification Form* (Form I-9), which documents Lottery's review and verification of the employee's authorization to work in the United States of America.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery will review the current controls in place and appropriately revise our current procedures. Lottery will ensure all impacted parties are made aware of the procedural changes and remain diligent in reminding employees of the significance of timely performance evaluations as well as maintaining proper and accurate paperwork.

UPDATED RESPONSE: Partially Implemented.

8. **The auditors recommend Lottery implement controls to provide assurance:**
- 1) **disclosures of emergency purchase activity are timely and accurately prepared and submitted to the Illinois Procurement Bulletin and the Auditor General;**
 - 2) **all SC14 and SC15 reconciliations are timely performed with documentation substantiating the preparer and reviewer and the date when each individual performed their respective roles; and,**
 - 3) **contracts for legal services are either approved by the Attorney General or the Form C-23 filed with the State Comptroller indicates the contract is not subject to the Act.**

FINDING: *(Inadequate Control over Contractual Services)*

During testing, auditors noted the following:

- Lottery had one emergency purchase during the examination period, with an award value of \$60,000. Auditors noted the following:
 - Lottery failed to notify the Office of the Auditor General with the estimated cost of the emergency purchase.
 - Lottery failed to notify the Office of the Auditor General within 10 days after the end of the contract's term of the final cost of the emergency purchase.
 - Lottery failed to give notice of the emergency purchase within the Illinois Procurement Bulletin no later than five days after the contract was awarded.

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Lottery officials indicated this oversight was due to staff vacancies.

Failure to provide notice to appropriate parties of an emergency purchase represents noncompliance with the Code and hinders governmental oversight and transparency.

- Lottery did not properly prepare reconciliations of its contracts and related obligation activity to the State Comptroller's records.
 - o The Department did not prepare reconciliations of the monthly Agency Contract Report (SC14) during the entire examination period.
 - o The Department did not prepare reconciliations of the monthly Obligations Activity Report (SC15) during FY18.
 - o One of three (33%) monthly SC15 reconciliations tested during FY19 lacked documentation of the date when the reconciliation was completed. As such we were unable to determine whether the reconciliation was prepared and reviewed timely.

Lottery officials indicated the SC15 reconciliations were not performed during FY18 due to staff turnover and failing to date the SC15 reconciliation in FY19 was an oversight.

During the testing of five contractual agreements with an award value of \$1,419,340, auditors noted one (20%) agreement for legal services either (1) lacked evidence the contract was approved by the Attorney General or (2) its related Contract Obligation Document (Form C-23) did not include a statement that the contract was not subject to the State Employee Indemnification Act (Act) (5 ILCS 350).

Lottery officials indicated this contract for advisory services related to the new Private Manager Agreement was not subject to the Act and the failure to disclose the contract was not subject to the Act on the Form C-23 was due to an oversight.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. The sole emergency purchase occurred during a time when the agency procurement officer (APO) position was vacant. The employee filling in for the duties of the APO was not fully trained in all procurement reporting requirements. The position is filled and personnel are trained to ensure all future emergency procurements will be submitted to the Illinois Procurement Bulletin and the Auditor General.

Lottery has implemented processes to ensure all SC14 and SC15 reconciliations are completed as required going forward and have continued working with the State-wide ERP Team to allow for these reconciliations to be completed utilizing SAP. In addition, contracts for legal services will either be approved by the Attorney General or be reported on the C-23 indicating the contract is not subject to the Act.

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UPDATED RESPONSE: Implemented.

9. **The auditors recommend Lottery implement controls to provide assurance its vehicles are appropriately maintained in accordance with State regulations and CMS directives. Further, Lottery should enforce its policies prohibiting the use of the State’s vehicles outside of regular business hours without the approval of the Director or the Director’s designee.**

FINDING: *(Inadequate Control over State Vehicles)*

During testing, auditors noted the following:

- Auditors reviewed the maintenance records for 8 vehicles, noting the following:
 - Four of eight (50%) vehicles tested did not have the vehicle’s odometer reading recorded at the beginning of the examination period. As such, we could not determine whether the vehicle’s periodic maintenance like oil changes and tire rotations were performed timely and we were unable to determine if the vehicle’s use was reasonable and necessary during the examination period.
 - Two of the eight (25%) tested vehicles did not have an oil change at all during the examination period. For one of these vehicles, the vehicle was driven 9,092 miles over the examination period with an oil change required after one year or 5,000 miles of use. For the other vehicle, Lottery lacked records to substantiate its beginning mileage and the vehicle required an oil change after one year or 3,000 miles of use.
 - The eight tested vehicles had 13 oil changes during the examination period. Auditors noted six of the 13 (46%) oil changes were performed between 954 and 10,975 miles after the vehicle’s specific oil change interval mileage point had been exceeded.
 - One of the eight (13%) tested vehicles, which required an oil change after one year or 5,000 miles of use, was overdue for an oil change by 1,388 miles on June 30, 2019.
 - Four of eight (50%) vehicles tested did not have a tire rotation during the examination period.
 - Four of eight (50%) vehicles tested did not have an annual inspection during the examination period.

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Lottery officials indicated these exceptions were generally attributable to the manual process for tracking vehicle maintenance, which does not allow for a timely review process to identify vehicles needing maintenance.

- One of five (20%) vouchers tested, totaling \$11,392, included two purchases of fuel, totaling \$68, where purchases were made outside of normal working hours on the weekend when the employee was not working overtime and had not received approval to make the purchase outside of normal business hours. Auditors noted Lottery had not identified these two deviations and determined the reason for the deviations prior to our review of the fuel invoice.

Lottery officials indicated employees indicated they made these purchases during the weekend prior to the next working day so they would be ready to get right on the road when the next working day began.

Failure to exercise adequate internal control over state vehicles may result in the early deterioration or obsolescence of the state's vehicles, could result in additional repair costs that could have been avoided by routine maintenance, and resulted in noncompliance with Lottery's Vehicle Policy and Manual.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery agrees with the recommendation. Lottery implemented the Fleet Management System (FMS) at the end of FY19 to ensure the vehicles are properly maintained in a timely manner. Lottery will reiterate the importance of vehicle inspection and maintenance to all assigned drivers, as well as the fact it is their responsibility to ensure compliance. Lottery will ensure all employees have been properly trained on the FMS system and appropriately submit all required information. In addition, employees will be reminded the use of a state vehicle outside of working hours is prohibited per Lottery's vehicle policy.

UPDATED RESPONSE: Implemented.

- 10. The auditors recommend Lottery should prepare and submit a corrected FY17 and FY18 Report with the Office of the Governor and the Office of the Secretary of State within 30 days from the release of this report, as required by the Illinois State Auditing Act (30 ILCS 5/3-2.2.(b)). Further, Lottery should ensure its annual Report is properly prepared from its underlying records, with the final report reviewed by a supervisor to help ensure the accuracy and reliability of the report.**

Lastly, Lottery should implement controls designed to ensure its reports and publications are deposited into the State Library.

FINDING: *(Inadequate Control over Reporting Requirements)*

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During testing, auditors noted the following:

- Auditors continued to note the following problems with Lottery’s annual Agency Workforce Report (Report) submitted to the Office of the Governor and the Office of the Secretary of State:
 - The number of physically disabled males in Lottery’s FY17 Report filed in FY18 did not agree with Lottery’s records. Further, the Report’s total number of new female hires, and total number of new hires were mathematically inaccurate, which resulted in discrepancies in the percentages reported in these categories.
 - The number of new hires and promoted individuals in Lottery’s FY18 Report filed in FY19 did not agree with the underlying Lottery records. In addition, the total number of employees reported as earning \$70,000 to \$79,999 annually was not mathematically accurate, which resulted in the percentages calculated within this line to be incorrect.

Noncompliance with Report Distribution Requirements

- Except Lottery’s FY18 Annual Report, Lottery has not made any report or publication deposits into the State Library during the examination period. Some of these reports and publications would include the quarterly report on the private manager’s actions and activities required by the Illinois Lottery Law (Law) (20 ILCS 1605/9.1(p)(1)), the quarterly report on prize payments up to \$25,000 from a locally held fund required by the Law (20 ILCS 1605/20.1(a)), the annual report on the private manager’s activities as required by the Law (20 ILCS 1605/9.1(p)(3)), and the publication *Game Rules: Pick 3, Pick 4, Lotto/Extra Shot®, Lucky Day Lotto® with EZmatch™, MegaMillions®/Megaplier®, and Powerball®/Power Play®*.

Lottery officials indicated, that similar to its last examination, these exceptions were due to human error.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery will submit corrected agency workforce reports for FY17 and FY18. Lottery will ensure the reports are prepared from underlying records and a supervisor review is completed to ensure accuracy of the report. Also, additional staff will be trained on submitting reports to the State Library to ensure all required reports and publications are deposited into the State Library.

UPDATED RESPONSE: Partially Implemented.

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11. Lottery has the responsibility to ensure that confidential and personal information is adequately protected. Specifically, the auditors recommend Lottery:

- establish and communicate the Department’s security program (formal and comprehensive policies, procedures, and processes) to manage and monitor the regulatory, legal, environmental, and operational requirements;
- ensure cybersecurity roles and responsibilities are clearly defined; and,
- perform a comprehensive risk assessment to identify and ensure adequate protection of information, including confidential and personal information, most susceptible to attack.

FINDING: *(Weaknesses Regarding the Security and Control of Confidential Information and Cybersecurity)*

Lottery maintains computer systems containing large volumes of confidential and personal information such as names, addresses, and Social Security numbers of Lottery players. During the examination period, Lottery utilized the common systems of the DoIT.

Lottery officials indicated a comprehensive information systems risk assessment was scheduled for FY19, but DoIT rescheduled this assessment which was, as of the end of fieldwork, currently in-progress. Additionally, Lottery had limited resources to complete its own risk assessment and establish formal cybersecurity roles and responsibilities due to multiple system changes – including system changes necessitated by the change in private managers and the implementation of the state’s new Enterprise Resource Planning (ERP) accounting system – which occurred during the examination period.

Weaknesses in cybersecurity programs and practices could result in unidentified risk and vulnerabilities and ultimately lead to the accidental or unauthorized disclosure of confidential or personal information.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery will continue efforts to fill a position to satisfy this ongoing responsibility and to assist with ensuring cybersecurity roles and responsibilities are clearly defined. In addition, Lottery completed a comprehensive risk assessment to identify and ensure adequate protection of confidential information most susceptible to attack in November 2019.

UPDATED RESPONSE: Partially Implemented.

12. The auditors recommend Lottery:

- assess, at least annually, each program accepting credit card payments, the methods in which payments can be made, and match those methods to the appropriate SAQ; and,

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- **complete the appropriate SAQ element(s) for its environment and maintain documentation supporting its validation efforts.**

FINDING: *(Weakness with Payment Card Industry Data Security Standards)*

Credit card payments are accepted as part of Lottery's Internet and Mobile App (IMA) sales managed by a third-party vendor. Credit card payments are accepted for Lottery games and subscriptions, via the IMA as well as retailer and self-serve terminals. In FY19, the Department handled approximately six million transactions estimated at approximately \$155 million.

Upon review of Lottery's efforts to ensure compliance with PCI DSS, auditors noted Lottery had not:

- formally assessed each program accepting credit card payments, the methods in which payments could be made, matched these methods to the appropriate Self-Assessment Questionnaire (SAQ), and contacted service providers and obtained relevant information and guidance as deemed appropriate; and,
- completed SAQs addressing all elements of its environment utilized to store, process, and transmit cardholder data.

PCI DSS was developed to detail security requirements for entities that store, process, or transmit cardholder data. Cardholder data is defined as any personally identifiable data associated with a cardholder.

To assist merchants in the assessments of their environment, the PCI Council has established the SAQs for validating compliance with PCI's core requirements.

Lottery officials indicated multiple unprecedented technical transitions occurred during the period, which resulted in personnel resource restraints and other competing priorities, caused Lottery to be unable to formally complete the SAQ A.

Failure to establish and maintain adequate procedures to handle and protect confidential and personally identifiable information could result in identity theft or other unintended use.

DEPARTMENT OF LOTTERY RESPONSE:

The Department accepts the recommendation. While the Department had a formal compliant PCI DSS SAQ from its service providers, it failed to complete a SAQ A of its own due to its resource constraints in that area. The Department will continue efforts to fill a position to satisfy this ongoing responsibility.

UPDATED RESPONSE: Implemented. Lottery worked with the Private Manager to obtain the SAQ report in a timely fashion. After report receipt, Lottery management timely reviewed and completed the appropriate SAQ report.

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- 13. The auditors recommend Lottery limit access to the production libraries and revoke programmers' access to the production libraries. The Department should also ensure future users who receive access to the production libraries are not programmers.**

Additionally, the Department should perform a periodic review of system access rights to ensure users are removed or access rights are deactivated for users who do not still need access.

FINDING: *(System Access Weaknesses)*

Lottery maintains computer systems containing large volumes of confidential and personal information, such as names, addresses, and Social Security numbers of Lottery players.

During the examination period, Lottery utilized the common systems of DoIT. During review of system access, auditors noted Lottery:

- did not have an effective separation of duties for programmers developing or maintaining Lottery's financial systems; and,
- granted powerful user access privileges to the financial systems to users when it was not warranted.

Auditors requested Lottery provide a listing of users who had access to the production libraries of the Internal Control System (ICS) and a listing of users who were programmers. Lottery utilized an external vendor to support ICS and our testing indicated two of the vendor's representatives programmers have access to the production libraries.

Additionally, auditors tested user access to several of Lottery's applications, including the Enterprise Resource Planning (ERP), ICS, iLottery, iSecure, Back Office System (BOS), Retailer Tax Compliance, QuickBooks, Non-Sufficient Funds (NSF) Tracking, and 1099 Pro. Auditors noted the following:

- Four of 27 (15%) users with access to NSF Tracking in the finance department had powerful user privileges which did not appear proper.
- Lottery had not performed annual access reviews during the engagement period for the ERP, iSecure, NSF Tracking, Retailer Tax Compliance, and 1099 Pro applications.

Lottery's User Provisioning and Access Rights Review Procedure states an authorized coordinator will regularly review and document user accounts on the network and its key systems to ensure authorized access is appropriate.

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During the current engagement period, Lottery officials indicated the issues noted were due to limited resources by the vendor and changes in personnel and roles at Lottery contributed to its oversight of the noted issues.

Inadequate change management and user controls, as well as a failure to perform regular user access reviews, increases the risk of unauthorized access to Lottery's applications and data.

DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery has a mitigating control in place to oversee changes made to the ICS, however, the Department will review and implement additional controls as necessary. In addition, the Department will ensure periodic reviews of system access are completed for all systems used by the Department.

UPDATED RESPONSE: Partially Implemented. Lottery has performed user access reviews for the majority of its systems in place and will be conducting reviews on the remaining systems within the upcoming quarter. In addition, Lottery is in the process of finalizing an updated policy to reflect the current operating environment.

14. The auditors recommend Lottery work with the Governor to ensure all Board vacancies are filled in a timely manner so it can meet quarterly and perform the functions assigned to it by the Law.

FINDING: *(Noncompliance with Lottery Control Board Requirements)*

During testing, auditors noted the following:

- The Board did not hold a meeting in the first quarter of FY19 due to a lack of quorum.
- The Board was unable to perform its statutory duty to review, on a quarterly basis, all past advertising for major media campaigns during the first quarter of FY19 due to the lack of a quorum.
- As of June 30, 2019, the five-member Board had one vacancy. As of the end of fieldwork, this vacancy had not been filled.

Lottery officials indicated, like they did during the last examination, that the Board lacked sufficient membership to help ensure a quorum to conduct its business could be maintained during the first quarter of FY19.

Board member vacancies impaired the Board's ability to properly formulate the functions of the Board and resulted in noncompliance with the Law.

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DEPARTMENT OF LOTTERY RESPONSE:

Lottery accepts the recommendation. Lottery will work with the administration to ensure Board vacancies are filled in a timely manner.

UPDATED RESPONSE: Implemented.