



**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2019

**Performed as Special Assistant Auditors
For the Auditor General, State of Illinois**



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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019

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Other Reports Issued Under a Separate Cover:

The State of Illinois, Department of the Lottery's financial statements for the State Lottery Fund as of and for the year ended June 30, 2019, have been issued under a separate cover. Additionally, in accordance with *Government Auditing Standards*, we have issued the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance with Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the year ended June 30, 2019, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, under a separate cover. The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019

AGENCY OFFICIALS

Lottery Control Board Chair (08/21/19 – Present)	James Floyd
Lottery Control Board Chair (07/28/18 – 08/20/19)	Vacant
Lottery Control Board Chair (02/26/18 – 07/27/18)	Haydee Ollinger
Lottery Control Board Chair (02/02/18 – 02/25/18)	Vacant
Lottery Control Board Chair (07/01/17 – 02/01/18)	Jonathan “Blair” Garber
Director (Acting) (07/14/18 – Present)	Harold Mays
Director (Acting) (07/01/17 – 07/13/18)	Greg Smith
Chief of Staff (04/02/18 – Present)	Scott Gillard
Chief of Staff (12/22/17 – 04/01/18)	Vacant
Chief of Staff (07/01/17 – 12/21/17)	Jayme Odom
Chief Financial Officer (09/25/17 – Present)	Carol Radwine
Chief Financial Officer (07/01/17 – 09/24/17)	Vacant
General Counsel (12/17/18 – Present)	Cornell Wilson
General Counsel (11/26/18 – 12/16/18)	Jessica White
General Counsel (11/20/18 – 11/25/18)	Vacant
General Counsel (07/01/17 – 11/19/18)	Annice Kelly
Chief Operations Officer (Acting) (08/01/18 – Present)	James Bartlett
Chief Operations Officer (07/01/17 – 07/31/18)	Harold Mays
Chief Internal Auditor	Darick Clark

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPLIANCE EXAMINATION
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LOTTERY CONTROL BOARD MEMBERS

Member	Elba Aranda-Suh
Member (06/03/19 – Present)	Sarah Alter
Member (07/27/18 – 06/02/19)	Vacant
Member (07/01/17 – 07/26/18)	Haydee Ollinger
Member	James Floyd
Member (08/23/19 – Present)	Tarrah Cooper Wright
Member (05/21/19 – 08/22/19)	Vacant
Member (10/31/18 – 05/20/19)	Lori Yokoyama
Member (07/01/18 – 11/01/18)	Vacant
Member (05/21/19 – Present)	Vacant
Member (09/21/18 – 05/20/19)	Nimish Jani
Member (02/02/18 – 09/20/18)	Vacant
Member (07/01/17 – 02/01/18)	Jonathan “Blair” Garber

The Department’s primary administrative offices are located at:

122 S. Michigan Avenue, 19th Floor
Chicago, Illinois 60601

101 W. Jefferson Street
Springfield, Illinois 62706



MANAGEMENT ASSERTION LETTER

January 31, 2020

Sikich LLP
3201 West White Oaks Drive, Suite 102
Springfield, Illinois 62704

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Department of the Lottery (Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following specified requirements during the two-year period ended June 30, 2019. Based on this evaluation, we assert that during the years ended June 30, 2018, and June 30, 2019, the Department has materially complied with the specified requirements listed below.

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. Other than what was previously disclosed, the Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.



Yours truly,

State of Illinois, Department of the Lottery

SIGNED ORIGINAL ON FILE

Harold Mays, Acting Director

SIGNED ORIGINAL ON FILE

Carol Radwine, Chief Financial Officer

SIGNED ORIGINAL ON FILE

Cornell Wilson III, General Counsel

J.B. Pritzker
Governor

Harold Mays
Acting Director

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and the Illinois State Auditing Act.

ACCOUNTANT'S REPORT

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contained a modified opinion on compliance and identifies material weaknesses over internal control over compliance.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	<u>Report</u>	<u>Reports*</u>
Findings	14	8
Repeated findings	5	3
Prior recommendations implemented or not repeated	3	8

*The prior year report column contains findings related to *Government Auditing Standards* from the Department's financial audit as of and for the year ended June 30, 2018, and State compliance only findings from the Department's *Compliance Examination Report* for the two years ended June 30, 2017.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last</u> <u>Reported</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (<i>Government Auditing Standards</i>)				
2019-001	15	New	Failure to Ensure Timely Compliance with the Private Manager Agreement	Material Weakness
2019-002	19	2018	Excess Transfers to the Common School Fund	Material Weakness and Noncompliance
2019-003	21	2018	Noncompliance with the Capital Projects Fund Transfer Provisions within the Illinois Lottery Law	Material Weakness and Noncompliance

STATE OF ILLINOIS
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COMPLIANCE EXAMINATION
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SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
<i>FINDINGS (Government Auditing Standards)</i>				
2019-004	23	2018	Inadequate Controls over Specialty Tickets	Significant Deficiency and Noncompliance
<i>FINDINGS (STATE COMPLIANCE)</i>				
2019-005	26	New	Failure to Obtain Timely Assurance over the Trust Services Criteria and Information Integrity for the Central Gaming System	Material Weakness and Material Noncompliance
2019-006	30	New	Ineffective Oversight of the Evaluation Team Selecting the New Private Manager	Material Weakness and Material Noncompliance
2019-007	33	New	Inadequate Control over Personal Services	Significant Deficiency and Noncompliance
2019-008	36	New	Inadequate Control over Contractual Services	Significant Deficiency and Noncompliance
2019-009	39	New	Inadequate Control over State Vehicles	Significant Deficiency and Noncompliance
2019-010	42	2017	Inadequate Control over Reporting Requirements	Significant Deficiency and Noncompliance
2019-011	44	New	Weaknesses Regarding the Security and Control of Confidential Information and CyberSecurity	Significant Deficiency and Noncompliance
2019-012	46	New	Weaknesses with Payment Card Industry Data Security Standards	Significant Deficiency and Noncompliance
2019-013	48	New	System Access Weaknesses	Significant Deficiency and Noncompliance

STATE OF ILLINOIS
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SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
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FINDINGS (STATE COMPLIANCE) (Continued)

2019-014	50	2017	Noncompliance with Lottery Control Board Requirements	Noncompliance
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In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

2019-001	15	New	Failure to Ensure Timely Compliance with the Private Manager Agreement	Material Weakness and Material Noncompliance
2019-002	19	2018	Excess Transfers to the Common School Fund	Material Weakness and Material Noncompliance
2019-003	21	2018	Noncompliance with the Capital Projects Fund Transfer Provisions within the Illinois Lottery Law	Material Weakness and Material Noncompliance
2019-004	23	2018	Inadequate Controls over Specialty Tickets	Significant Deficiency and Noncompliance

PRIOR FINDINGS NOT REPEATED

A	52	2018	Improper Classification of a Residual Value Compensation Expense
B	52	2017	Financial Reporting Errors
C	52	2017	Noncompliance with the Illinois Vehicle Code

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on January 28, 2020.

Attending were:

Department of the Lottery

Harold Mays, Director (Acting)
Scott Gillard, Chief of Staff
Carol Radwine, Chief Financial Officer
Cornell Wilson, General Counsel
Amber Chappell, Finance Manager
Darick Clark, Chief Internal Auditor
James Bartlett, Chief Operating Officer (Acting)

Sikich LLP

Amy Sherwood, Partner
Samantha Bugg, Senior Manager
Shannon Manfre, Senior Accountant

Office of the Auditor General

Daniel J. Nugent, Senior Audit Manager
Reddy Bommareddi, Senior Audit Manager

The responses to the recommendations were provided by Amber Chappell, Finance Manager, in a correspondence dated January 31, 2020.

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INDEPENDENT ACCOUNTANT'S REPORT
ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND
ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State of Illinois, Department of the Lottery (Department) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2019. Management of the Department is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Department's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the Department complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the Department complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

Our examination does not provide a legal determination on the Department's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirements applicable to the Department during the two years ended June 30, 2019. As described in the accompanying Schedule of Findings as items 2019-001, 2019-002, 2019-003, 2019-005, and 2019-006, the Department had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material deviation, from the specified requirements described in the preceding paragraph, the Department complied with the specified requirements during the two years ended June 30, 2019, in all material respects. However, the results of our procedures disclosed other instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2019-004 and 2019-007 through 2019-014.

The Department's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control).

In planning and performing our examination, we considered the Department's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Department's compliance with the specified requirements and to test and report on the Department's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with the specified requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2019-001, 2019-002, 2019-003, 2019-005, and 2019-006 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2019-004 and 2019-007 through 2019-013 to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The Department's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on the Department's compliance with the specified requirements. The accompanying supplementary information for the years ended June 30, 2018 and June 30, 2019 in Schedules 1 through 6 and the Analysis of Operations Section are presented for purposes of additional analysis. Such information is the responsibility of Department management. We have applied certain limited procedures as prescribed by the *Audit Guide* to the accompanying supplementary information for the years ended June 30, 2018, and June 30, 2019, in Schedules 1 through 6. We have not applied procedures to the accompanying supplementary information for the year ended June 30, 2017, in Schedules 3 through 6 and in the Analysis of Operations Section. We do not express an opinion, a conclusion, nor provide any assurance on the accompanying supplementary information in Schedules 1 through 6 or the Analysis of Operations Section.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 31, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the State Lottery Fund of the State of Illinois, Department of the Lottery (Department), as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated January 31, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2019-002, 2019-003, and 2019-004.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as item 2019-004 to be a significant deficiency.

Department's Responses to the Findings

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 31, 2020

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
For the Year Ended June 30, 2019

2019-001 **FINDING** (Failure to Ensure Timely Compliance with the Private Manager Agreement)

The Department of the Lottery (Department) 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 the Department's and State's financial statements.

During the Department's transition process from the predecessor Private Manager to the current Private Manager from the beginning of Fiscal Year 2019, the Office of the Auditor General (OAG) communicated the need for the Department to ensure it received a SOC 1, Type 2 report from both entities covering the period each entity ran the CGS during Fiscal Year 2019. Department officials acknowledged the importance of these SOC reports to both the Department'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, Department 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.

Ultimately, § 11.7.2 of the *Private Management Agreement (PMA)* between the Department and the new Private Manager required delivery of the SOC report to the State covering the portion of Fiscal Year 2019 when it operated the CGS no later than September 28, 2019. 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 audit, we communicated the importance of obtaining a timely SOC 1, Type 2 report to Department officials. After we became aware the subcontractor was not going to obtain the appropriate SOC report from an Independent Service Auditor, we jointly worked with Department officials to develop a workable scope for the SOC examination and set a mutually-agreeable deadline to receive the SOC 1, Type 2 report of October 15, 2019, which would still have enabled us to express our opinion on the Department's financial statements to meet the deadline within the State Comptroller Act (15 ILCS 405/19.5(b)) to compile and publish the State's audited Comprehensive Annual Financial Report (CAFR) no later than December 31, 2019. In a letter to the Private Manager on August 6, 2019, Department officials communicated (1) the need for a SOC 1, 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.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
For the Year Ended June 30, 2019

2019-001 **FINDING** (Failure to Ensure Timely Compliance with the Private Manager Agreement) – Continued

As the audit progressed, we became concerned the SOC 1, 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 and the SOC 2, Type 2 engagement (see Finding 2019-005).

In response, we requested the Department provide us the engagement letter and/or terms of the engagement between the Private Manager and the Independent Service Auditor. We 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, Department 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.

The Illinois Lottery Law (20 ILCS 1605/9.1(d)) mandates certain provisions within the *PMA* between the Department and the Private Manager, including the Department has the "the authority to direct or countermand operating decisions by the private manager at any time" and a clause for the Department to "monitor and oversee the private manager's practices and take action that the Department considers appropriate to ensure that the private manager is in compliance with the terms of the management agreement, while allowing the manager, unless specifically prohibited by law or the management agreement, to negotiate and sign its own contracts with vendors." These provisions were ultimately incorporated into the *PMA*.

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 subcontractors to meet the timelines identified led to delayed compliance with the *PMA*.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
For the Year Ended June 30, 2019

2019-001 **FINDING** (Failure to Ensure Timely Compliance with the Private Manager Agreement) – Continued

Failure to ensure the Private Manager’s subcontractor obtained a timely SOC 1, Type 2 report resulted in (1) the Department 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. (Finding Code No. 2019-001)

RECOMMENDATION

We recommend the Department 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, the Department 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.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department 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 Department 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, the Department communicated the clarified requirements to the Private Manager who in turn was expected to communicate the requirements to the sub-contractor who was responsible for completing the SOC audit of the CGS system. Through regular communications over the following months, the Department 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. The Department also stressed the significance of the SOC audits, not only for the Department’s financial audit, but also for the State’s CAFR.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
For the Year Ended June 30, 2019

2019-001 **FINDING** (Failure to Ensure Timely Compliance with the Private Manager Agreement) – Continued

The Private Manager notified the Department 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. The Department sought to verify this date with the CGS subcontractor and was told the estimated delivery date was actually January/February 2020. The Department communicated this new information to the OAG. The Department 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, the Department immediately provided the report to the OAG.

The Department had continuous communication regarding the requirements of the SOC audits during the current period under review. Going forward, the Department 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.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
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2019-002 **FINDING** (Excess Transfers to the Common School Fund)

The Department of the Lottery (Department) 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.

On June 30, 2019, the Illinois Lottery Law (Law) (20 ILCS 1605/9.1(o)) required the Department to distribute the proceeds of lottery tickets and shares sold in the following priority order and manner:

- 1) to pay prizes and retailer bonuses;
- 2) to pay costs related to administering the Lottery, including all amounts due to the Private Manager under the Private Management Agreement;
- 3) to distribute the net revenue from specialty tickets into specific State funds, as provided by § 21.5, § 21.6, § 21.7, § 21.8, § 21.9, § 21.10, and § 21.11 of the Law*;
- 4) to transfer into Fund 412 an amount equal to the proceeds transferred into Fund 412 from Fund 711 in Fiscal Year 2009, adjusted for inflation, on the last day of each month or as soon thereafter as possible; and,
- 5) to annually deposit, on or before September 30, any estimated remaining proceeds from the prior fiscal year into the Capital Projects Fund (Fund 694), with an adjustment in the subsequent annual transfer for any difference between the estimated amount and the actual audited amount reported in the Department's annual financial audit report.

* Since June 30, 2019, two new specialty tickets have been added to priority 3.

This calculation excludes all activity associated with the Deferred Prize Winners Fund (Fund 978) and Deferred Lottery Prize Winners Trust Fund (Fund 2978).

During testing, we noted the following:

- Due to the overall profitability of the Illinois Lottery during Fiscal Year 2019, the Department 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, the Department's process still calls for, in years where the Illinois Lottery does not have sufficient profitability to fully satisfy priority 4, the Department to perform excess transfers into Fund 412 from Fund 711 based upon the prescribed amount.
- The Department was unable to resolve excess transfers that occurred during prior fiscal years, totaling \$64.124 million.

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For the Year Ended June 30, 2019

2019-002 **FINDING** (Excess Transfers to the Common School Fund) – Continued

Department officials indicated the Law’s current language lacks clarity and specificity on how to address the conflict between the Department’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, the Department’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, the Department 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, Department 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. (Finding Code No. 2019-002, 2018-001)

RECOMMENDATION

We recommend the Department 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, the Department should take action to correct the overpayment of \$64.124 million.

DEPARTMENT RESPONSE

The Department agrees with the finding and recommendation. At the beginning of Fiscal Year 2020, the Department 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.

The Department 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 the Department 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.

STATE OF ILLINOIS
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2019-003 **FINDING** (Noncompliance with the Capital Projects Fund Transfer Provisions within the Illinois Lottery Law)

The Department of the Lottery (Department) 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.

On June 30, 2019, the Law (20 ILCS 1605/9.1(o)) required the Department to distribute the proceeds of lottery tickets and shares sold in the following priority order and manner:

- 1) to pay prizes and retailer bonuses;
- 2) to pay costs related to administering the Lottery, including all amounts due to the Private Manager under the Private Management Agreement;
- 3) to distribute the net revenue from specialty tickets into specific State funds, as provided by § 21.5, § 21.6, § 21.7, § 21.8, § 21.9, § 21.10, and § 21.11 of the Law*;
- 4) to transfer into Fund 412 an amount equal to the proceeds transferred into Fund 412 from Fund 711 in Fiscal Year 2009, adjusted for inflation, on the last day of each month or as soon thereafter as possible; and,
- 5) to annually deposit, on or before September 30, any estimated remaining proceeds from the prior fiscal year into the Capital Projects Fund (Fund 694), with an adjustment in the subsequent annual transfer for any difference between the estimated amount and the actual audited amount reported in the Department's annual financial audit report.

* Since June 30, 2019, two new specialty tickets have been added to priority 3.

This calculation excludes all activity associated with the Deferred Prize Winners Fund (Fund 978) and Deferred Lottery Prize Winners Trust Fund (Fund 2978).

During discussions with Department 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 than required on an accrual basis during fiscal years prior to June 30, 2009. In order to account for this excess transfer, the Department'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 the Department's Fiscal Year 2012 financial audit, it was determined this due from did not meet criteria established by the Governmental Accounting Standards Board to be reported and Department 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.

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For the Year Ended June 30, 2019

2019-003 **FINDING** (Noncompliance with the Capital Projects Fund Transfer Provisions within the Illinois Lottery Law) – Continued

- 2) Prior to Public Act 100-0587, the Department 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, the Department was not able to timely transfer the remaining \$19.203 million from Fund 711 into Fund 694.

During the current engagement, Department officials indicated a legislative remedy could not be obtained prior to the end of Fiscal Year 2019.

Failure to make transfers into Fund 694 in conformity with the Law delays Fund 694's receipt of cash. (Finding Code No. 2019-003, 2018-002, 2017-001)

RECOMMENDATION

We recommend the Department work with the General Assembly to address the permanent cash deficit of \$69.842 million within Fund 711 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 from Fund 711.

DEPARTMENT RESPONSE

The Department 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 our prior and future transfers. Additionally, the Department transferred an excess of \$64.124 million to Fund 412 in 2018, which further increases our cash deficit in Fund 711.

The Department 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.

STATE OF ILLINOIS
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For the Year Ended June 30, 2019

2019-004 **FINDING** (Inadequate Controls over Specialty Tickets)

The Department of the Lottery (Department) 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 the Department 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.

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

At June 30, 2019, the Law (20 ILCS 1605/21.5(b), 20 ILCS 1605/21.6(b), 20 ILCS 1605/21.7(b), 20 ILCS 1605/21.8(b), 20 ILCS 1605/21.9(b), 20 ILCS 1605/21.10(b), and 20 ILCS 1605/21.11(b)) required the transfer of net revenue from each game to its respective fund within the State Treasury pursuant to the following statutory formula: Net Revenue = Tickets Sold – Amounts Paid Out in Prizes – Actual Administrative Expenses of the Department solely related to each specific specialty scratch-off game.

STATE OF ILLINOIS
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For the Year Ended June 30, 2019

2019-004 **FINDING** (Inadequate Controls over Specialty Tickets) – Continued

During testing, we noted the following problems:

- During the preceding two annual audits, predecessor auditors had questioned whether the Department’s practice of allocating an overhead charge to specialty tickets conformed with the Law’s net revenue formula. Department officials ultimately agreed with the predecessor auditors and ceased allocating the overhead charge during Fiscal Year 2019. However, the Department 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, the Department has not posted adjusting entries to correct prior period errors.
- The Department 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 the Department 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.

The Statewide Accounting Management System (Procedure 27.50.10) requires the Department prepare a complete set of manual forms to report “accrual only” entries to the Department of Public Health, the Department of Veterans’ Affairs, and the Department of Human Services, the administering agency for financial reporting purposes for the five State Treasury-held funds receiving “net revenues” from the Department’s specialty scratch-off games that would have needed the adjustments from the first and second bullet points. Good internal controls include ensuring accurate and timely information is reported to each administering agency to ensure these agencies can properly record and account for transactions used in preparing its financial reports for the Office of the State Comptroller to use in preparing the State’s Comprehensive Annual Financial Report (CAFR).

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires the Department ensure revenues, transfers, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State’s resources.

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For the Year Ended June 30, 2019

2019-004 **FINDING** (Inadequate Controls over Specialty Tickets) – Continued

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

Failure to determine the impact of prior period errors and perform a “true up” of actual prizes paid to estimated prizes paid hinders the overall reliability of financial reporting and represents noncompliance with both the Law and the Act. (Finding Code No. 2019-004, 2018-004, 2017-003)

RECOMMENDATION

We recommend the Department 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, the Department should complete its analysis of the impact of allocating the overhead rate as opposed to actual administrative costs and, as necessary, post adjusting entries.

DEPARTMENT RESPONSE

The Department accepts the recommendation. In Fiscal Year 2019, the Department revised our specialty ticket procedures to charge actual administrative costs incurred to each ticket. These costs do not encompass all administrative costs incurred by the Department 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. We 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 Fiscal Year 2020, the Department 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. The Department will complete any necessary transfer during the year and communicate directly with those agencies impacted on the matter. Finally, the Department 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.

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2019-005 **FINDING** (Failure to Obtain Timely Assurance over the Trust Services Criteria and Information Integrity for the Central Gaming System)

The Department of the Lottery (Department) 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 Department'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.

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.

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2019-005 **FINDING** (Failure to Obtain Timely Assurance over the Trust Services Criteria and Information Integrity for the Central Gaming System) – Continued

Department 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.

Ultimately, § 11.7.2 of the *Private Management Agreement (PMA)* between the Department and the new Private Manager required delivery of the SOC report to the State covering the portion of Fiscal Year 2019 when it operated the CGS no later than September 28, 2019. 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, we communicated the importance of obtaining a timely SOC 2, Type 2 report to Department officials. After we became aware the subcontractor was not going to obtain the appropriate SOC report from an Independent Service Auditor, we jointly worked with Department 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, Department 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.

In response, we had the Department obtain the engagement letter and/or terms of the engagement between the Private Manager and the Independent Service Auditor. We noted the engagement letter between the Independent Service Auditor and the Private Manager’s subcontractor operating the CGS was not written until October 10, 2019, and not executed in writing by all parties until October 15, 2019. Under this agreement, **the Independent Service Auditor was not going to start performing its month of testing until December 9, 2019**. Further, **the Independent Service Auditor was not going to deliver the final report until February 12, 2020**. Along with this letter, Department officials provided an undated and unsigned “delivery schedule” showing the **testing was going to be conducted from October 21 through November 22, 2019, with the final report delivered on December 21, 2019**.

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2019-005 **FINDING** (Failure to Obtain Timely Assurance over the Trust Services Criteria and Information Integrity for the Central Gaming System) – Continued

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 our completion of this examination.

The Illinois Lottery Law (20 ILCS 1605/9.1(d)) mandates certain provisions within the *PMA* between the Department and the Private Manager, including (1) the Department has “the authority to direct or countermand operating decisions by the private manager at any time” and a clause for the Department to “monitor and oversee the private manager's practices and take action that the Department considers appropriate to ensure that the private manager is in compliance with the terms of the management agreement, while allowing the manager, unless specifically prohibited by law or the management agreement, to negotiate and sign its own contracts with vendors.” These provisions were ultimately incorporated into the *PMA*.

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. (Finding Code No. 2019-005)

RECOMMENDATION

We recommend the Department 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, the Department 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.

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2019-005 **FINDING** (Failure to Obtain Timely Assurance over the Trust Services Criteria and Information Integrity for the Central Gaming System) – Continued

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department 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 Department 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, the Department communicated the clarified requirements to the Private Manager who in turn was expected to communicate the requirements to the sub-contractor who was responsible for completing the SOC audit of the CGS system. Through regular communications over the following months, the Department 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. The Department also stressed the significance of the SOC audits, not only for the Department's financial audit, but also for the State's CAFR.

The Private Manager notified the Department 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. The Department sought to verify this date with the CGS subcontractor and was told the estimated delivery date was actually January/February 2020. The Department communicated this new information to the OAG. The Department 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, the Department immediately provided the report to the OAG.

The Department had continuous communication regarding the requirements of the SOC audits during the current period under review. Going forward, the Department 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.

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2019-006 **FINDING** (Ineffective Oversight of the Evaluation Team Selecting the New Private Manager)

The Department of the Lottery (Department) failed to effectively oversee and monitor its 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, the Department established the Evaluation Committee in accordance with the Illinois Administrative Code (44 Ill. Admin. Code 1.8010(g)). The Department'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 the Department'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 the Department 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.

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2019-006 **FINDING** (Ineffective Oversight of the Evaluation Team Selecting the New Private Manager) – Continued

The *2017 Ethics Orientation for State of Illinois Employees* published by the Office of Executive Inspector General for the Agencies of the Illinois Governor pursuant to the State Officials and Employees Ethics Act (5 ILCS 430/5-10) states:

To act ethically, you must use state-provided resources in the most productive and efficient way possible and, generally, only for the work of state government. You must avoid placing your personal or financial interests above those of the state. If you have knowledge of conduct by a state employee, appointee, or official, or by a person who does business with the state that is either unethical or unlawful, you have an obligation to notify the appropriate authorities.

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.

Department 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. (Finding Code No. 2019-006)

RECOMMENDATION

We recommend that the Department 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. The Department 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.

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2019-006 **FINDING** (Ineffective Oversight of the Evaluation Team Selecting the New Private Manager) – Continued

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department 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 the Department had controls in place to identify potential conflicts of interests, the Department will work to continuously monitor and counsel evaluation members on the requirement of disclosing any required information in future procurements.

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SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
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2019-007 **FINDING** (Inadequate Control over Personal Services)

The Department of the Lottery (Department) did not maintain adequate internal control over its personal services function.

During testing, we noted the following:

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

- 1) the Department provides the vehicle to the employee for use in the Department's trade or business;
- 2) for non-compensatory business reasons, the Department requires the employee to commute in the vehicle;
- 3) the Department 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 the Department 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 nine separation payments for an employee's accrued vacation leave, we noted one (11%) employee was underpaid \$2,943. We noted the Department erroneously paid out the employee's 19.8 accrued sick days as opposed to the employee's 26.8 accrued vacation days.

The Illinois Administrative Code (Code) (80 Ill. Admin. Code 303.290) states employees with at least six months of continuous service are entitled to payment upon separation for any vacation leave not taken or forfeited, where the amount paid is computed by multiplying the number of days or hours of accumulated vacation by the employee's daily or hourly rate.

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2019-007 **FINDING** (Inadequate Control over Personal Services) – Continued

Department 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 undergone 27 performance evaluations during the examination period, we noted the following:
 - The Department lacked documentary evidence six (22%) performance evaluations had been performed when due.
 - The Department 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.

The Code (80 Ill. Admin. Code 302.270) establishes a system of probationary and annual employee evaluations such that no employee is evaluated not less often than annually on their performance. For testing purposes, we considered performance evaluations completed within 30 days after the evaluation period to be timely.

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

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

The Code of Federal Regulations (8 C.F.R. § 274a.2(b)(1)(ii)(B)) requires each employer to complete Section 2 on the Form I-9 within three business days after an employee is hired and sign the attestation in the appropriate place.

Department officials indicated the Form I-9 is a two-sided form where only the front side of the Form I-9, and not the back side with Section 2, was copied and retained in the employee's personnel file.

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2019-007 **FINDING** (Inadequate Control over Personal Services) – Continued

Failure to comply with U.S. Department of Homeland Security regulations could subject the State to unnecessary legal costs and penalties. (Finding Code No. 2019-007)

RECOMMENDATION

We recommend the Department 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.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department will review the current controls in place and appropriately revise our current procedures. The Department 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.

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2019-008 **FINDING** (Inadequate Control over Contractual Services)

The Department of the Lottery (Department) did not exercise adequate control over contractual services.

During testing, we noted the following:

- The Department had one emergency purchase during the examination period, with an award value of \$60,000. We noted the following:

- The Department failed to notify the Office of the Auditor General with the estimated cost of the emergency purchase.

The Illinois Procurement Code (Code) (30 ILCS 500/20-30(c)) requires the Chief Procurement Officer conducting a procurement as an emergency purchase to file a statement with the Auditor General with the estimated cost of the purchase within 10 calendar days after the procurement.

- The Department 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.

The Code (30 ILCS 500/20-30(c)) requires, if only an estimate of the cost of the emergency purchase was available within 10 days after the start of the contract's term, the actual cost – when it is known – must be immediately reported to the Auditor General.

- The Department failed to give notice of the emergency purchase within the Illinois Procurement Bulletin no later than five days after the contract was awarded.

The Code (30 ILCS 500/20-30(b)) requires notice of all emergency procurements be published in the online Illinois Procurement Bulletin no later than five days after the contract is awarded.

Department 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.

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2019-008 **FINDING** (Inadequate Control over Contractual Services) – Continued

- The Department did not properly prepare reconciliations of its contracts and related obligation activity to the State Comptroller’s records.
 - The Department did not prepare reconciliations of the monthly *Agency Contract Report* (SC14) during the entire examination period.
 - The Department did not prepare reconciliations of the monthly *Obligations Activity Report* (SC15) during Fiscal Year 2018.
 - One of three (33%) monthly SC15 reconciliations tested during Fiscal Year 2019 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.

The Statewide Accounting Management System (SAMS) (Procedure 07.30.20) requires the Department reconcile its records to the SAMS system on a monthly basis within 60 days of each month end, which includes the SC14 and SC15 reports. In addition, good internal controls over compliance include documenting the individual and date when a reconciliation is both prepared and reviewed.

Department officials indicated data processing issues within the State’s new Enterprise Resource Planning (ERP) accounting system created problems with performing the reconciliations. Further, Department officials indicated the SC15 reconciliations were not performed during Fiscal Year 2018 due to staff turnover and failing to date the SC15 reconciliation in Fiscal Year 2019 was an oversight.

Failure to perform all required reconciliations in a timely manner could result in errors or other omissions within the State’s accounting records not being timely identified or corrected and represents noncompliance with SAMS.

- During our testing of five contractual agreements with an award value of \$1,419,340, we 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).

SAMS (Procedure 15.20.30) requires contracts subject to the Act be approved by the Attorney General prior to the Department filing the contract with the Comptroller or the Form C-23 must state the contract is not subject to the Act.

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2019-008 **FINDING** (Inadequate Control over Contractual Services) – Continued

Department 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.

Failure to properly document whether a contractual agreement is subject to the Act hinders the Comptroller's oversight role. (Finding Code No. 2019-008)

RECOMMENDATION

We recommend the Department 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.

DEPARTMENT RESPONSE

The Department 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.

The Department 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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2019-009 **FINDING** (Inadequate Control over State Vehicles)

The Department of the Lottery (Department) did not exercise adequate control over its State vehicles.

During testing, we noted the following:

- We reviewed the maintenance records for eight 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.

The Department's *Vehicle Policy and Manual* filed with the Department of Central Management Services (CMS) requires drivers document the vehicle's daily mileage and trips from beginning to end.

- 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, the Department 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. We 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.

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2019-009 **FINDING** (Inadequate Control over State Vehicles) – Continued

The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5040.410(a)) requires the Department maintain vehicles in accordance with schedules provided by CMS or acceptable to CMS for maintaining special use vehicles. Further, CMS' *Vehicle Usage Program* requires passenger vehicles have an oil change every 3,000 miles or one year, whichever comes first, for vehicles 10 years of age or older and every 5,000 miles or one year, whichever comes first, for vehicles under 10 years of age. Finally, CMS' *Vehicle Usage Program* requires a tire rotation every other oil change.

- Four of eight (50%) vehicles tested did not have an annual inspection during the examination period.

The Code (44 Ill. Admin. Code 5040.410(a)) requires State vehicles undergo an annual inspection by CMS or an authorized vendor.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance property is safeguarded against waste or loss. Good internal controls over vehicles includes ensuring routine maintenance is performed to provide reasonable assurance each State vehicle's lifespan will be maximized and that the State's vehicles remain in a road-worthy and safe operating condition.

Department 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. We noted the Department had not identified these two deviations and determined the reason for the deviations prior to our review of the fuel invoice.

The Department's *Vehicle Policy and Manual* filed with CMS states, "For use of state vehicle outside of business hours, Director or his/her designee approval is required."

Department 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.

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2019-009 **FINDING** (Inadequate Control over State Vehicles) – Continued

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 the Department’s *Vehicle Policy and Manual*. (Finding Code No. 2019-009)

RECOMMENDATION

We recommend the Department implement controls to provide assurance its vehicles are appropriately maintained in accordance with State regulations and CMS directives. Further, the Department 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.

DEPARTMENT RESPONSE

The Department agrees with the recommendation. The Department implemented the Fleet Management System (FMS) at the end of Fiscal Year 2019 to ensure the vehicles are properly maintained in a timely manner. The Department 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. The Department 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 the Department’s vehicle policy.

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2019-010 **FINDING** (Inadequate Control over Reporting Requirements)

The Department of the Lottery (Department) did not comply with statutory reporting responsibilities.

During testing, we noted the following:

Inaccurate Reporting

- We continued to note the following problems with the Department’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 the Department’s Fiscal Year 2017 Report filed in Fiscal Year 2018 did not agree with the Department’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 the Department’s Fiscal Year 2018 Report filed in Fiscal Year 2019 did not agree with the underlying Department 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.

The State Employment Records Act (Act) (5 ILCS 410/20) requires the Department to collect, classify, maintain, and report all information required by the Act by January 1 after the conclusion of the State’s fiscal year. Good internal controls over reporting include ensuring reports agree with the Department’s records and computations are mathematically correct.

Noncompliance with Report Distribution Requirements

- Except for the Department’s Fiscal Year 2018 Annual Report, the Department 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®*.

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2019-010 **FINDING** (Inadequate Control over Reporting Requirements) – Continued

The State Library Act (15 ILCS 320/7(t)) requires the Department furnish copies of its reports to the General Assembly to the State Government Report Distribution Center at the State Library. Further, the State Library Act (15 ILCS 320/21(a)) requires the Department to provide and deposit with the State Library sufficient copies of all publications issued by the Department for its collection and exchange purposes.

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

Failure to report accurate information to the Office of the Governor and the Office of the Secretary of State hinders governmental oversight and the achievement of a more diversified workforce. In addition, failure to deposit reports and publications in the State Library limits public access to the Department’s documents, hinders the archival responsibilities of the State Library, and represents noncompliance with the State Library Act. (Finding Code No. 2019-010, 2017-004, 2015-007, 2013-006)

RECOMMENDATION

We recommend the Department should prepare and submit a corrected Fiscal Year 2017 Report and Fiscal Year 2018 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, the Department 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, the Department should implement controls designed to ensure its reports and publications are deposited into the State Library.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department will submit corrected agency workforce reports for FY17 and FY18. The Department 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.

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2019-011 **FINDING** (Weaknesses Regarding the Security and Control of Confidential Information and Cybersecurity)

The Department of the Lottery (Department) did not maintain adequate internal controls related to its cybersecurity programs and practices.

The Department 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, the Department utilized the common systems of the Department of Information and Technology (DoIT).

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review the Department's cybersecurity programs and practices. During our examination of the Department's cybersecurity programs and practices, we noted the Department had not:

- established and communicated the Department's security program (formal and comprehensive policies, procedures, and processes) to manage and monitor the regulatory, legal, environmental, and operational requirements; and,
- ensured that cybersecurity roles and responsibilities were clearly defined between the Department and DoIT; and,
- performed a comprehensive risk assessment to identify and ensure adequate protection of information (i.e. confidential or personal information) most susceptible to attack.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and to maintain accountability over the State's resources.

Department officials indicated a comprehensive information systems risk assessment was scheduled for Fiscal Year 2019, but DoIT rescheduled this assessment which was, as of the end of fieldwork, currently in-progress. Additionally, the Department 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. (Finding Code No. 2019-011)

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2019-011 **FINDING** (Weaknesses Regarding the Security and Control of Confidential Information and Cybersecurity) – Continued

RECOMMENDATION

The Department has the responsibility to ensure that confidential and personal information is adequately protected. Specifically, we recommend the Department:

- 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.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department 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, the Department completed a comprehensive risk assessment to identify and ensure adequate protection of confidential information most susceptible to attack in November 2019.

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2019-012 **FINDING** (Weakness with Payment Card Industry Data Security Standards)

The Department of the Lottery (Department) had not completed all requirements to demonstrate full compliance with the Payment Card Industry Data Security Standards (PCI DSS).

Credit card payments are accepted as part of the Department'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 Fiscal Year 2019, the Department handled approximately six million transactions estimated at approximately \$155,000,000.

Upon review of the Department's efforts to ensure compliance with PCI DSS, we noted the Department 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. At minimum, PCI DSS required the completion of SAQ A, which highlights specific requirements to restrict access to paper and electronic media containing cardholder data, destruction of such media when it is no longer needed, and requirements for managing third-party vendors. As additional elements, such as face-to-face acceptance of credit cards and point-of-sale solutions, are introduced into the credit card environment being assessed, additional PCI DSS requirements apply.

Department officials indicated multiple unprecedented technical transitions occurred during the period, which resulted in personnel resource restraints and other competing priorities, caused the Department 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. (Finding Code No. 2019-012)

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2019-012 **FINDING** (Weakness with Payment Card Industry Data Security Standards) –
Continued

RECOMMENDATION

We recommend the Department:

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

DEPARTMENT 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.

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2019-013 **FINDING** (System Access Weaknesses)

The Department of Lottery (Department) had weaknesses within its system access controls.

The Department 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, the Department utilized the common systems of the Department of Information and Technology (DoIT).

During our review of system access, we noted the Department:

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

We requested the Department 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. The Department 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, we tested user access to several of the Department’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. We 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.
- The Department had not performed annual access reviews during the engagement period for the ERP, iSecure, NSF Tracking, Retailer Tax Compliance, and 1099 Pro applications.

The Department’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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2019-013 **FINDING** (System Access Weaknesses) – Continued

Further, generally accepted information systems guidance endorses well-designed and well-managed controls to protect computer systems and data. Finally, generally accepted information technology guidance endorses the implementation of system development standards that require new system developments and modifications to existing systems be properly approved, thoroughly tested, and consistently documented. These procedures should include restricting programmers from making a change and moving it into production.

During the current engagement period, Department officials indicated the issues noted were due to limited resources by the vendor and changes in personnel and roles at the Department 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 the Department’s applications and data. (Finding Code No. 2019-013)

RECOMMENDATION

We recommend the Department 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.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department 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.

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2019-014 **FINDING** (Noncompliance with Lottery Control Board Requirements)

The independent Lottery Control Board (Board) within the Department of the Lottery (Department) did not comply with various provisions of the Illinois Lottery Law (Law).

During testing, we noted the following:

- The Board did not hold a meeting in the first quarter of Fiscal Year 2019 due to a lack of quorum.

The Law (20 ILCS 1605/6) requires the Board to hold, at least, one meeting during each quarter of the State's fiscal year.

- 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 Fiscal Year 2019 due to the lack of a quorum.

The Law (20 ILCS 1605/7.8a) requires the Board to establish an advertising policy for the Department to ensure advertising content and practices do not target specific groups or economic classes of people and advertising content is accurate and not misleading and to review, at least quarterly, all past advertising for major media campaigns to determine if it needs to direct the Department to cease advertising found to violate the Board's advertising policy.

- As of June 30, 2019, the five-member Board had one vacancy. As of the end of fieldwork, this vacancy had not been filled.

The Law (20 ILCS 1605/6) states the Board shall consist of five members appointed by the Governor with the advice and consent of the Senate.

Department 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. (Finding Code No. 2019-014, 2017-005)

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2019-014 **FINDING** (Noncompliance with Lottery Control Board Requirements) – Continued

RECOMMENDATION

We recommend the Department 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.

DEPARTMENT RESPONSE

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

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SCHEDULE OF FINDINGS – NOT REPEATED FINDINGS
For the Two Years Ended June 30, 2019

A **FINDING** (Improper Classification of a Residual Value Compensation Expense)

During the prior audit as of and for the year ended June 30, 2018, the Department of the Lottery (Department) improperly classified an operating expense within its financial statements as a special item.

During the current audit, the Department did not report any special items and our tests did not identify any inappropriately classified activity on the Department's financial statements. (Finding Code No. 2018-003)

B **FINDING** (Financial Reporting Errors)

During the prior audit as of and for the year ended June 30, 2018, the Department did not correct existing errors within its annuity prizes payable.

During the current audit, our testing noted the Department had corrected these prior period errors and we did not note any additional errors related to the annuity prizes payable balance. (Finding Code No. 2018-005)

C **FINDING** (Noncompliance with the Illinois Vehicle Code)

During the prior examination for the two years ended June 30, 2017, the Department did not obtain personal liability insurance certifications from all personnel assigned a State vehicle.

During the current examination, our sample testing indicated the Department obtained personal liability insurance certifications from personnel assigned a State vehicle. (Finding Code No. 2017-006)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES**

Appropriations for Fiscal Year 2019

Fifteen Months Ended September 30, 2019

<u>Public Act 100-0586; Public Act 101-0007</u>	Appropriations (Net of Transfers)	Expenditures Through June 30, 2019	Lapse Period Expenditures July 1, 2019 to September 30, 2019	Total Expenditures	Balances Lapsed
Appropriated Funds					
<u>State Lottery Fund - 0711</u>					
Personal services	\$ 5,579,900	\$ 3,649,388	\$ 301,812	\$ 3,951,200	\$ 1,628,700
State contributions to State Employees' Retirement System	2,880,100	1,884,572	155,777	2,040,349	839,751
State contributions to Social Security	393,200	262,339	23,048	285,387	107,813
Group insurance	1,776,000	1,118,262	76,538	1,194,800	581,200
Contractual services	4,627,000	1,463,599	12,928	1,476,527	3,150,473
Travel	42,400	37,877	2,750	40,627	1,773
Commodities	36,500	13,818	-	13,818	22,682
Printing	11,600	2,055	329	2,384	9,216
Equipment	9,500	166	-	166	9,334
Electronic data processing	3,630,200	1,865,864	362,997	2,228,861	1,401,339
Telecommunications services	348,400	319,954	15,937	335,891	12,509
Operations of automotive equipment	222,600	143,134	29,709	172,843	49,757
Expenses of developing and promoting lottery games	233,450,000	184,204,398	13,717,036	197,921,434	35,528,566
Expenses of Lottery Control Board	8,300	1,433	-	1,433	6,867
Prize payments for winning tickets	1,000,000,000	417,809,142	19,017,838	436,826,980	563,173,020
Refunds	100,000	9,896	-	9,896	90,104
Total, State Lottery Fund - 0711	<u>\$ 1,253,115,700</u>	<u>\$ 612,785,897</u>	<u>\$ 33,716,699</u>	<u>\$ 646,502,596</u>	<u>\$ 606,613,104</u>

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES (Continued)**

Appropriations for Fiscal Year 2019

Fifteen Months Ended September 30, 2019

<u>Public Act 100-0586; Public Act 101-0007</u>	Appropriations (Net of Transfers)	Expenditures Through June 30, 2019	Lapse Period Expenditures July 1, 2019 to September 30, 2019	Total Expenditures	Balances Lapsed
<u>General Revenue Fund - 0001</u>					
Unpaid wage increases	\$ 589,100	\$ -	\$ 588,232	\$ 588,232	\$ 868
Total, General Revenue Fund - 0001	<u>\$ 589,100</u>	<u>\$ -</u>	<u>\$ 588,232</u>	<u>\$ 588,232</u>	<u>\$ 868</u>
Total, Appropriated Funds	<u>\$1,253,704,800</u>	<u>\$ 612,785,897</u>	<u>\$ 34,304,931</u>	<u>\$ 647,090,828</u>	<u>\$ 606,613,972</u>
<u>Nonappropriated Funds</u>					
<u>State Lottery Fund - 0711</u>					
Deposit into the Capital Projects Fund		\$ -	\$ 18,503,860	\$ 18,503,860	
<u>Deferred Lottery Prize Winners Fund - 0978</u>					
Deferred prize payments for winning tickets		22,936,810	-	22,936,810	
Total, Nonappropriated Funds		<u>\$ 22,936,810</u>	<u>\$ 18,503,860</u>	<u>\$ 41,440,670</u>	
Grand Total All Funds		<u>\$ 635,722,707</u>	<u>\$ 52,808,791</u>	<u>\$ 688,531,498</u>	

Note 1: Appropriations, expenditures, and lapsed balances were obtained from the Department's records as of September 30, 2019, and have been reconciled to Comptroller's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES**

Appropriations for Fiscal Year 2018

Sixteen Months Ended October 31, 2018

Public Act 100-0021	Appropriations (Net of Transfers)	Expenditures Through June 30, 2018	Lapse Period Expenditures July 1, 2018 to October 31, 2018	Total Expenditures	Balances Lapsed	
Appropriated Funds						
State Lottery Fund - 0711						
- 55 -	Personal services	\$ 5,579,900	\$ 3,462,918	\$ 159,776	\$ 3,622,694	\$ 1,957,206
	State contributions to State Employees' Retirement System	3,013,900	1,774,374	(58,015)	1,716,359	1,297,541
	State contributions to Social Security	393,200	252,111	11,464	263,575	129,625
	Group insurance	1,776,000	987,319	39,063	1,026,382	749,618
	Contractual services	4,627,000	1,555,891	124,409	1,680,300	2,946,700
	Travel	42,400	33,318	2,718	36,036	6,364
	Commodities	36,500	19,871	3,114	22,985	13,515
	Printing	11,600	1,217	3,796	5,013	6,587
	Equipment	9,500	1,279	-	1,279	8,221
	Electronic data processing	3,372,400	1,933,577	111,454	2,045,031	1,327,369
	Telecommunications services	348,400	200,508	17,254	217,762	130,638
	Operations of automotive equipment	222,600	144,075	35,128	179,203	43,397
	Expenses of developing and promoting lottery games	174,832,900	111,088,876	7,546,250	118,635,126	56,197,774
	Expenses of Lottery Control Board	8,300	1,105	(20)	1,085	7,215
	Prize payments for winning tickets	1,000,000,000	639,584,534	20,410,467	659,995,001	340,004,999
	Refunds	100,000	26,299	373	26,672	73,328
	Total, State Lottery Fund - 0711, All Appropriated Funds	<u>\$ 1,194,374,600</u>	<u>\$ 761,067,272</u>	<u>\$ 28,407,231</u>	<u>\$ 789,474,503</u>	<u>\$ 404,900,097</u>

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES (Continued)**

Appropriations for Fiscal Year 2018

Sixteen Months Ended October 31, 2018

Public Act 100-0021	Appropriations (Net of Transfers)	Expenditures Through June 30, 2018	Lapse Period Expenditures July 1, 2018 to October 31, 2018	Total Expenditures	Balances Lapsed
Nonappropriated Funds					
State Lottery Fund - 0711					
Deposit into the Capital Projects Fund		\$ 9,336,580	\$ -	\$ 9,336,580	
Deferred Lottery Prize Winners Fund - 0978					
Deferred prize payments for winning tickets		24,501,810	-	24,501,810	
Total, Nonappropriated Funds		<u>\$ 33,838,390</u>	<u>\$ -</u>	<u>\$ 33,838,390</u>	
Grand Total All Funds		<u>\$794,905,662</u>	<u>\$ 28,407,231</u>	<u>\$ 823,312,893</u>	

Note 1: Appropriations, expenditures, and lapsed balances were obtained from the Department's records as of October 31, 2018, and have been reconciled to Comptroller's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

Note 3: Notwithstanding anything within Public Act 100-0021 to the contrary, Public Act 100-0021 authorized the Department to pay for all costs incurred prior to July 1, 2018, using either its Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 73 includes information from Department management about the number of invoices and the total dollar amount of invoices from Fiscal Year 2016 and Fiscal Year 2017 held by the Department which were submitted against either its Fiscal Year 2017 or Fiscal Year 2018 appropriation.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES**

For the Fiscal Years Ended June 30, 2019, 2018, and 2017

	Fiscal Year		
	2019	2018	2017
	P.A. 100-0586 P.A. 101-0007	P.A. 100-0021	P.A. 99-0524
Appropriated Funds			
<u>State Lottery Fund - 0711</u>			
Appropriations (net of transfers)	\$ 1,253,115,700	\$ 1,194,374,600	\$ 1,168,592,100
Expenditures			
Personal services	3,951,200	3,622,694	8,972,094
State contributions to State Employees' Retirement System	2,040,349	1,716,359	4,000,120
State contributions to Social Security	285,387	263,575	653,047
Group insurance	1,194,800	1,026,382	2,898,047
Contractual services	1,476,527	1,680,300	2,004,776
Travel	40,627	36,036	32,275
Commodities	13,818	22,985	22,096
Printing	2,384	5,013	2,571
Equipment	166	1,279	975
Electronic data processing	2,228,861	2,045,031	2,635,491
Telecommunications services	335,891	217,762	189,902
Operations of automotive equipment	172,843	179,203	158,555
Expenses of developing and promoting lottery games	197,921,434	118,635,126	101,369,914
Expenses of Lottery Control Board	1,433	1,085	1,218
Prize payments for winning tickets	436,826,980	659,995,001	477,945,580
Refunds	9,896	26,672	25,693
Shared services	-	-	354,489
Total expenditures	\$ 646,502,596	\$ 789,474,503	\$ 601,266,843
Lapsed balances	\$ 606,613,104	\$ 404,900,097	\$ 567,325,257
<u>General Revenue Fund - 0001</u>			
Appropriations (net of transfers)	\$ 589,100	\$ -	\$ -
Expenditures			
Unpaid wage increases	588,232	-	-
Total expenditures	\$ 588,232	\$ -	\$ -
Lapsed balances	\$ 868	\$ -	\$ -
Total, Appropriated Funds	\$ 647,090,828	\$ 789,474,503	\$ 601,266,843

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES (Continued)**

For the Fiscal Years Ended June 30, 2019, 2018, and 2017

	Fiscal Year		
	2019	2018	2017
	P.A. 100-0586		
	P.A. 101-0007	P.A. 100-0021	P.A. 99-0524
Nonappropriated Funds			
<u>State Lottery Fund - 0711</u>			
Deposit into the Capital Projects Fund	\$ 18,503,860	\$ 9,336,580	\$ 15,000,000
<u>Deferred Lottery Prize Winners Fund - 0978</u>			
Deferred prize payments for winning tickets	22,936,810	24,501,810	30,709,381
Total, Nonappropriated Funds	<u>\$ 41,440,670</u>	<u>\$ 33,838,390</u>	<u>\$ 45,709,381</u>
Grand Total - All Funds	<u>\$ 688,531,498</u>	<u>\$ 823,312,893</u>	<u>\$ 646,976,224</u>
STATE OFFICER'S SALARY			
<u>State Lottery Fund - 0711 (State Comptroller)</u>			
Expenditures			
Director	\$ 50,804	\$ 142,000	\$ 97,799
Total Expenditures	<u>\$ 50,804</u>	<u>\$ 142,000</u>	<u>\$ 97,799</u>

Note 1: Appropriations, expenditures, and lapsed balances were obtained from the Department's records as of September 30, 2019, and October 31, 2018, and have been reconciled to State Comptroller's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

Note 3: Public Act 99-524 authorized the Department to pay Fiscal Year 2016 costs using Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 73 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Board submitted against its Fiscal Year 2017 appropriation.

Note 4: Notwithstanding anything within Public Act 100-0021 to the contrary, Public Act 100-0021 authorized the Department to pay for all costs incurred prior to July 1, 2018, using either its Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 73 includes information from Department management about the number of invoices and the total dollar amount of invoices from Fiscal Year 2016 and Fiscal Year 2017 held by the Department which were submitted against either its Fiscal Year 2017 or Fiscal Year 2018 appropriation.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND FUND BALANCE (CASH BASIS) - LOCALLY HELD FUNDS**

For the Years Ended June 30, 2019 and 2018

Fund Number	Fund Name	Cash Balance July 1, 2018	Receipts	Disbursements	Cash Balance June 30, 2019
1279	Lottery Prize Payment Fund	\$ 24,021,224	\$ 121,245,226	\$ 135,266,895	\$ 9,999,555
1309	Lottery Agent Security Deposits Fund	847,772	93,267	365,674	575,365
1373	Agent Sales Sweep Account Fund	7,694,805	1,330,300,627	1,330,481,484	7,513,948
2978	Deferred Lottery Prize Winner Trust Fund	267,173,448	43,507,879	21,706,508	288,974,819
Total Locally Held Funds		<u>\$ 299,737,249</u>	<u>\$ 1,495,146,999</u>	<u>\$ 1,487,820,561</u>	<u>\$ 307,063,687</u>

Fund Number	Fund Name	Cash Balance July 1, 2017	Receipts	Disbursements	Cash Balance June 30, 2018
1279	Lottery Prize Payment Fund	\$ 29,040,048	\$ 135,864,995	\$ 140,883,819	\$ 24,021,224
1309	Lottery Agent Security Deposits Fund	810,282	228,698	191,208	847,772
1373	Agent Sales Sweep Account Fund	7,689,019	1,265,296,185	1,265,290,399	7,694,805
2978	Deferred Lottery Prize Winner Trust Fund	287,287,296	7,939,966	28,053,814	267,173,448
Total Locally Held Funds		<u>\$ 324,826,645</u>	<u>\$ 1,409,329,844</u>	<u>\$ 1,434,419,240</u>	<u>\$ 299,737,249</u>

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF CHANGES IN STATE PROPERTY

For the Years Ended June 30, 2018 and 2019
(Expressed in Thousands)

	Balance July 1, 2017	Additions	Deletions	Net Transfers	Balance June 30, 2018
Equipment	\$ 1,412	\$ -	\$ 114	\$ (260)	\$ 1,038
Capital Lease Equipment	-	63	-	-	63
Total	<u>\$ 1,412</u>	<u>\$ 63</u>	<u>\$ 114</u>	<u>\$ (260)</u>	<u>\$ 1,101</u>

	Balance July 1, 2018	Additions	Deletions	Net Transfers	Balance June 30, 2019
Equipment	\$ 1,038	\$ -	\$ 239	\$ (105)	\$ 694
Capital Lease Equipment	63	-	-	-	63
Total	<u>\$ 1,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 757</u>

Notes:

1. This schedule was derived from the Department's property records, which were reconciled to the property records submitted to the Office of the State Comptroller.
2. This schedule was prepared using property records maintained in accordance with the Illinois Administrative Code (Code). The capitalization policy in the Code is different than the capitalization policy established by the Office of the State Comptroller for financial reporting purposes.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**COMPARATIVE SCHEDULE OF CASH RECEIPTS
AND RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO
THE STATE COMPTROLLER**

For the Fiscal Years Ended June 30, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Special Olympics Illinois and Special Children's Charities Fund - 0073</u>			
Scratch-off game proceeds	\$ 516,648	\$ 955,450	\$ 530,229
Total receipts per Department	\$ 516,648	\$ 955,450	\$ 530,229
Deposits in transit beginning of year	-	-	-
Deposits in transit end of year	-	-	-
Total receipts per Comptroller records	<u>\$ 516,648</u>	<u>\$ 955,450</u>	<u>\$ 530,229</u>
<u>Carolyn Adams Ticket for the Cure Grant Fund - 0208</u>			
Scratch-off game proceeds	\$ 627,695	\$ 573,924	\$ 478,963
Total receipts per Department	\$ 627,695	\$ 573,924	\$ 478,963
Deposits in transit beginning of year	-	-	-
Deposits in transit end of year	-	-	-
Total receipts per Comptroller records	<u>\$ 627,695</u>	<u>\$ 573,924</u>	<u>\$ 478,963</u>
<u>Illinois Veterans Assistance Fund - 0236</u>			
Scratch-off game proceeds	\$ 1,246,632	\$ 1,038,759	\$ 729,552
Total receipts per Department	\$ 1,246,632	\$ 1,038,759	\$ 729,552
Deposits in transit beginning of year	-	-	-
Deposits in transit end of year	-	-	-
Total receipts per Comptroller records	<u>\$ 1,246,632</u>	<u>\$ 1,038,759</u>	<u>\$ 729,552</u>
<u>Multiple Sclerosis Research Fund - 0429</u>			
Scratch-off game proceeds	\$ 454,778	\$ 552,859	\$ 477,129
Total receipts per Department	\$ 454,778	\$ 552,859	\$ 477,129
Deposits in transit beginning of year	-	-	-
Deposits in transit end of year	-	-	-
Total receipts per Comptroller records	<u>\$ 454,778</u>	<u>\$ 552,859</u>	<u>\$ 477,129</u>
<u>Quality of Life Endowment Fund - 0437</u>			
Scratch-off game proceeds	\$ 544,849	\$ 467,274	\$ 707,718
Total receipts per Department	\$ 544,849	\$ 467,274	\$ 707,718
Deposits in transit beginning of year	-	-	-
Deposits in transit end of year	-	-	-
Total receipts per Comptroller records	<u>\$ 544,849</u>	<u>\$ 467,274</u>	<u>\$ 707,718</u>

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
**COMPARATIVE SCHEDULE OF CASH RECEIPTS
AND RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO
TO THE STATE COMPTROLLER (Continued)**

For the Fiscal Years Ended June 30, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Capital Projects Fund - 0694</u>			
Interfund Cash Transfer from the State Lottery Fund	\$ -	\$ 9,336,580	\$ 15,000,000
Total receipts per Department	\$ -	\$ 9,336,580	\$ 15,000,000
Deposits in transit beginning of year	-	-	-
Deposits in transit end of year	-	-	-
Total receipts per Comptroller records	<u>\$ -</u>	<u>\$ 9,336,580</u>	<u>\$ 15,000,000</u>
<u>State Lottery Fund - 0711</u>			
Lottery - daily settlement	\$ 1,323,033,581	\$ 1,257,114,308	\$ 1,241,432,221
Interest	22,620	-	-
Lottery agents - licenses and fees	2,866,751	4,004,981	3,995,959
Repayment to State pursuant to law	720,771	245,093,421	93,059,081
Miscellaneous	4,227	1,722	9,285
Prior year refunds	59,870	3,993	763
Prior year warrant voids	-	-	-
Total receipts per Department	<u>\$ 1,326,707,820</u>	<u>\$ 1,506,218,425</u>	<u>\$ 1,338,497,309</u>
Deposits in transit beginning of year	11,802	20,659	82,402
Deposits in transit end of year	(28,242)	(11,802)	(20,659)
Total receipts per Comptroller records	<u>\$ 1,326,691,380</u>	<u>\$ 1,506,227,282</u>	<u>\$ 1,338,559,052</u>
<u>Deferred Lottery Prize Winners Trust Fund - 0978</u>			
Investment income	\$ 22,659,000	\$ 24,143,000	\$ 31,211,000
Total receipts per Department	\$ 22,659,000	\$ 24,143,000	\$ 31,211,000
Deposits in transit beginning of year	-	-	-
Deposits in transit end of year	-	-	-
Total receipts per Comptroller records	<u>\$ 22,659,000</u>	<u>\$ 24,143,000</u>	<u>\$ 31,211,000</u>
Grand Total - All Funds			
Total receipts per Department	\$ 1,352,757,422	\$ 1,543,286,271	\$ 1,387,631,900
Deposits in transit beginning of year	11,802	20,659	82,402
Deposits in transit end of year	(28,242)	(11,802)	(20,659)
Total receipts per Comptroller records	<u>\$ 1,352,740,982</u>	<u>\$ 1,543,295,128</u>	<u>\$ 1,387,693,643</u>

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2019
(Not Examined)

ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN FISCAL YEARS 2018 AND 2019

General Revenue Fund (0001)

Unpaid Wage Increases

During Fiscal Year 2019, the Department was provided an appropriation from the General Revenue Fund to pay back wages and accompanying interest to union employees. Typically, the Department does not expend funds from the General Revenue Fund.

State Lottery Fund (0711)

Telecommunications Services

During Fiscal Year 2019, the Department incurred an increase in the telecommunications line due to implementation of a new Voice Over Internet Protocol (VoIP) system.

Expenses of Developing and Promoting Lottery Games

During Fiscal Year 2019, the Department paid out the residual value expense of approximately \$33 million in accordance with the Letter Agreement of Termination with Northstar Lottery Group. The executed letter extended the supply agreement with International Game Technology (IGT), Northstar's Draw-Based Game Significant Contractor, which was assumed by Camelot Illinois, LLC, the Department's new private manager. The letter required the Department to pay a residual value if the new private manager did not continue services with IGT. The remaining difference was due to the change in the *Private Management Agreements* terms as to how the private manager is paid under the new agreement.

Prize Payments for Winning Tickets

The total amount expended each year for prize payments is dependent upon the prize expense incurred. In August 2017, Mega Millions was won in the State at a jackpot of \$393 million. While the State only incurred the expense specific to the State's portion, the entire prize payment was processed through the Department's prize appropriation line. In Fiscal Year 2019, there were no multi-state jackpot winners in the State.

Deposit into Capital Projects Fund

The amount transferred to the Capital Projects Fund each year is dependent upon the remaining proceeds in the given Fiscal Year per the Illinois Lottery Law (20 ILCS 1605/9.1(o)). In Fiscal Year 2019, there were more remaining proceeds than in Fiscal Year 2018. Therefore, the amount of money transferred increased from Fiscal Year 2018 to Fiscal Year 2019.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2019
(Not Examined)

ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN FISCAL YEARS 2017 AND 2018

State Lottery Fund (0711)

Personal Services, State Contributions to State Employee's Retirement System, State Contributions to Social Security, and Group Insurance

During Fiscal Year 2018, the Department revised its budget and spending plan to include the salary and related benefits of those employees under the employee use agreement to be paid out of the expenses of developing and promoting lottery games line as opposed to the personal services and related benefits lines used in Fiscal Year 2017.

Electronic Data Processing

During Fiscal Year 2018, the Department had a decreased cost in the electronic data processing line due to the change in personnel and decrease in employee headcount.

Prize Payments for Winning Tickets

The total amount expended each year for prize payments is dependent upon the prize expense incurred. In August 2017, Mega Millions was won in the State at a jackpot of \$393 million. While the State only incurred the expense specific to the State's portion, the entire prize payment was processed through the Department's prize appropriation line. In Fiscal Year 2017, the Mega Millions was won in the State at a jackpot of \$133 million. This was much less than the jackpot won in Fiscal Year 2018 and did not have as much of an impact on the Department's prize line.

Shared Services

The Administrative and Regulatory Shared Services Center disbanded in Fiscal Year 2016 for the majority of the activities where the Department received benefit; however, the Department still utilized Shared Service Center for payroll operations in Fiscal Year 2017.

Deposit into Capital Projects Fund

The amount transferred to the Capital Projects Fund each year is dependent upon the remaining proceeds in the given Fiscal Year per the Illinois Lottery Law (20 ILCS 1605/9.1(o)). In Fiscal Year 2017, there were more remaining proceeds than in Fiscal Year 2018 and the amount transferred in Fiscal Year 2018 was to complete the total amount due for Fiscal Year 2017. Therefore, the amount of money transferred decreased from Fiscal Year 2017 to Fiscal Year 2018.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2019
(Not Examined)

Deferred Lottery Prize Winners Fund (0978)

Deferred Prize Payments for Winning Tickets

The payments made are strictly for those claimants that either selected the annuity over the cash option or the game was annuity based, which fluctuate in amount from quarter to quarter and year to year. The amount paid is strictly based upon the amount won by the claimant. In Fiscal Year 2018, the Department owed less monies to annuity winners than in Fiscal Year 2017.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2019
(Not Examined)

ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN FISCAL YEARS 2018 AND 2019

Special Olympics Illinois and Special Children’s Charities Fund (0073)

Scratch-Off Game Proceeds

In Fiscal Year 2018, the Special Olympics instant ticket game launched in February 2018; however, in Fiscal Year 2019, the ticket was not launched until April 2019. The Department only launches one designated ticket per special cause per Fiscal Year. Therefore, the ticket launched in Fiscal Year 2018 had run down and was generating very little sales until the new ticket was launched in Fiscal Year 2019. The timing and nature of the ticket launch and selling structure accounted for the decrease in proceeds between fiscal years.

Illinois Veterans Assistance Fund (0236)

Scratch-Off Game Proceeds

In Fiscal Year 2019, the Department sold two non-branded tickets the entire year. As a result, ticket sales slightly exceeded those in Fiscal Year 2018 when the Department sold one non-branded ticket. A non-branded ticket refers to the type of ticket that does not display the cause of the proceeds, but while the ticket is not branded, it is still advertised that all proceeds will go to specific causes.

Capital Projects Fund (0694)

Interfund Cash Transfers from the State Lottery Fund

A change to the Illinois Lottery Law (20 ILCS 1605/9.1(o)) became effective June 4, 2018 in Public Act 100-587. As a result, the Department does not have to make a transfer to the Capital Projects Fund until September 30 of each year. No transfers were made to the Capital Projects Fund in Fiscal Year 2019.

State Lottery Fund (0711)

Lottery Agents – Licenses and Fees

The last sweep in the bank account where these receipts are processed occurred in the week which crossed the end of Fiscal Year 2019 and the beginning of Fiscal Year 2020. The deposit occurred in Fiscal Year 2020. As a result, this receipt account decreased in Fiscal Year 2019 from the amount reported in Fiscal Year 2018.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2019
(Not Examined)

Repayment to State Pursuant to Law

This receipt line is utilized primarily for monies received from multi-state games. During Fiscal Year 2019, there were no Mega Millions or Powerball winners in the State. The monies received were due to other aspects of being part of the multi-state games, including play settlements.

ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN FISCAL YEARS 2017 AND 2018

Special Olympics Illinois and Special Children's Charities Fund (0073)

Scratch-Off Game Proceeds

In Fiscal Year 2018, the Department elected to utilize a non-branded ticket because it found that branded tickets do not sell as well. The sales of the non-branded ticket outperformed the branded ticket utilized in Fiscal Year 2017. A non-branded ticket refers to the type of ticket that does not display the cause of the proceeds, but while the ticket is not branded, it is still advertised that all proceeds will go to specific causes.

Illinois Veterans Assistance Fund (0236)

Scratch-Off Game Proceeds

The non-branded ticket launched in Fiscal Year 2018 outperformed the branded ticket utilized in Fiscal Year 2017.

Capital Projects Fund (0694)

Interfund Cash Transfers from the State Lottery Fund

A change to the Illinois Lottery Law (20 ILCS 1605/9.1(o)) became effective June 4, 2018 in Public Act 100-587. As a result, the Department does not have to make a transfer to the Capital Projects Fund until September 30 of each year. Given this change, the Department did not have excess proceeds to transfer to the Capital Projects Fund in Fiscal Year 2018; however, the Department transferred the remaining amount from Fiscal Year 2017 during Fiscal Year 2018.

State Lottery Fund (0711)

Repayment to State Pursuant to Law

The receipt line is utilized primarily for monies received from multi-state games. In Fiscal Year 2018, Illinois had one Mega Millions who won \$146 million. In Fiscal Year 2017, the State had one Mega Millions winner who won \$43 million. The increase in this receipt line was due primarily to the difference in jackpot amount won and each State's portion.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2019
(Not Examined)

Deferred Lottery Prize Winners Trust Fund (0978)

Investment Income

Investment income represents the amount matured on a quarterly basis to fund annuity winners' prize payment throughout the Fiscal Year. The decrease from Fiscal Year 2017 to Fiscal Year 2018 corresponds with the decrease in the liability for annuity winners' prize payments.

STATE OF ILLINIOS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN LAPSE PERIOD EXPENDITURES
For the Two Years ended June 30, 2019
(Not Examined)

Fiscal Year 2019

<u>Fund, Fund Number, and Explanation</u>	<u>Total Expenditures</u>	<u>Lapse Period Expenditures</u>	<u>Percent</u>
General Revenue Fund – 0001 (Unpaid Wage Increase) This amount was appropriated from the General Revenue Fund for previously unpaid wage increases for personal services, related payroll costs, and interest costs. The Department did not receive instructions concerning how to pay this amount until the lapse period.	\$588,232	\$588,232	100%
State Lottery Fund – 0711 (Deposit into Capital Projects Fund) The law changed in Fiscal Year 2019 and moved the deadline for the transfer into the Capital Projects Fund from June 30 to September 30. The Department made this deposit on September 26, 2019.	\$18,503,860	\$18,503,860	100%

Fiscal Year 2018

The Department did not have any significant Lapse Period spending in Fiscal Year 2018.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Fiscal Years Ended June 30, 2019, 2018, and 2017
(Not Examined)
(In Thousands)

The comparative aging of accounts receivable for the fiscal years ended June 30, 2019, 2018, and 2017, per Department records, are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Not in protest:			
Current	\$ 19,047	\$ 19,181	\$ 16,882
Past due:			
1-30 days	2,700	121	630
31-90 days	250	274	31
91-180 days	538	298	351
181 days - 1 year	717	561	664
Over 1 year	<u>26,253</u>	<u>25,543</u>	<u>22,468</u>
Total past due	<u>49,505</u>	<u>45,978</u>	<u>24,144</u>
Gross receivables	49,505	45,978	41,026
Estimated Uncollectible	24,057	21,157	19,197
Total net receivables	<u><u>\$ 25,448</u></u>	<u><u>\$ 24,821</u></u>	<u><u>\$ 21,829</u></u>

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.

Accounts receivable statements are mailed to Lottery retailers on a monthly basis. If an account becomes seriously delinquent, which is failing to pay 30 days after a second statement is rendered, a retailer's license may be revoked and a Notice of Assessment (NOA) will be issued with a debt being submitted for collection action, including involuntary withholding. The Department may enter into a repayment agreement for a receivable at any point during the collection process, and may also file liens against the retailer's real and personal property and file offset requests with the State Comptroller. If in-house collection efforts are unsuccessful, an account may be referred to a collection agency and involuntary withholding requests will be filed with the State Comptroller. Uncollectible accounts may be written off pursuant to the provisions of the Illinois State Collection Act of 1986.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Years ended June 30, 2019
(Not Examined)

General Operations

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

Department Functions

Divisions of the Department

Operations and Technology – The electronic data processing and information systems operations of the Department are comprised of five primary components: managing the use of back-office support systems, oversight of a gaming system supplied and operated by an outside vendor pursuant to contract, managing and operating an internal control system (ICS) supplied by an outside vendor pursuant to contract, conducting primary lottery drawings, and managing the logical security for all Lottery-owned infrastructure. The in-house functions are performed by the Department's Information Technology Section and Department of Innovation and Technology (DoIT).

Sales – Sales and marketing functions were managed during the examination period by the Private Manager, Northstar Lottery Group, LLC (Northstar) through January 1, 2018, and Camelot Illinois, LLC (Camelot) beginning January 2, 2018. A combination of Department employees, who report to the Private Manager pursuant to an Employee Use Agreement, and the Private Manager's own employees were utilized for these functions. Sales personnel operate out of the Private Manager's sub-contractor offices in McCook, IL (Lottery Sales Regions 1, 2 and 6), as well as from Springfield (Region 5), and the Department's satellite offices in Rockford (Region 3) and Fairview Heights (Region 4). Marketing personnel operate primarily from the Private Manager's administrative office.

The Department generates revenue from the sale of draw-based games and instant tickets. Draw-based games may be purchased in retail and through Lottery's online and mobile platform, which is administered by the Private Manager. Instant tickets may be purchased by players at a retail location, only. The Department has over 7,000 retail locations across the State. During fiscal year 2019, the Department underwent a complete technology transition. The Department replaced its gaming system, instant ticket management system, online and mobile platform, internal control system and all retail equipment and peripherals. These systems directly support the sales function.

Finance – The finance section collects, deposits, and transfers, as required by law, all lottery proceeds; pays prize winners; develops and distributes reports; and coordinates support services, including annual budget process, accounting, personnel, and data processing.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Years ended June 30, 2019
(Not Examined)

Key Metric Analysis – Sales Revenue

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Sales Revenue (in thousands)	\$ 2,974,539	\$ 2,926,375	\$ 2,843,956
Change from the Prior Year	1.646%	2.898%	-0.405%

Fiscal Year 2019’s sales were the highest ever generated by the Department. In general, Fiscal Year 2019 was a strong sales year for most state lotteries due to the sales generated by the record breaking \$1.5 billion Mega Millions® jackpot in October 2018.

Fiscal Year 2018’s sales were a strong increase over the prior year. In general, Fiscal Year 2018’s results were due to an increase in the sales of the Mega Millions® multi-state game. During October 2017, Mega Millions® was enhanced with a starting jackpot of \$40 million that was designed to grow quicker. The revised game featured better odds and the ticket price rose to \$2. Additionally, the Department experienced a slight increase in sales from the in-State draw games.

The Department continues to strive to increase sales in a socially responsible way and to control operational costs to enable approximately 25% or more of sales to be returned back to the State to benefit good causes.

Mission Statement

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.

Planning Program

The Department’s goal objectives are to develop, market, conduct and offer fun Lottery games in a socially responsible manner with the intent to grow the Lottery by expanding the player base while focusing attention on the various good causes the Lottery funds. To ensure success, the Department works closely with its private manager to ensure the manager’s advertising, marketing, promotions, and sales programs are conducted in an appropriate and socially responsible manner. The Department oversees the administration of an Internet sales program as a means to increase sales and to expand the player base. The Department also strives to award all prizes and incentives in a timely, efficient, and secure manner.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
BUDGET IMPASSE DISCLOSURES
For the Two Years Ended June 30, 2019
(Not Examined)

Payment of Prior Year Costs in Future Fiscal Years

Article 998 of Public Act 100-0021 authorized the Department to pay its unpaid Fiscal Year 2016 and Fiscal Year 2017 costs using either the Department's Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Department did not have any outstanding invoices from Fiscal Year 2016 or Fiscal Year 2017 after the close of the Fiscal Year 2016 Lapse Period and the Fiscal Year 2017 Lapse Period, respectively. Therefore, the Department did not use its Fiscal Year 2017 appropriations to pay its Fiscal Year 2016 costs and did not use either its Fiscal Year 2017 or Fiscal Year 2018 appropriations to pay its Fiscal Year 2016 or Fiscal Year 2017 costs.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
AVERAGE NUMBER OF EMPLOYEES
For the Years Ended June 30, 2019, 2018, and 2017
(Not Examined)

The following table, prepared from Department records, presents the average number of employees for the fiscal years ended June 30, 2019, 2018, and 2017.

<u>Division</u>	<u>Fiscal Year</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operations	58	56	55
Employee Use Agreement	82	83	83
Electronic Data Processing	9	11	9
Shared Services Center	-	-	3
Contractual	2	2	1
 Total average full-time employees	 <u>151</u>	 <u>152</u>	 <u>151</u>

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
EMERGENCY PURCHASES
For the Two Years Ended June 30, 2019
(Not Examined)

The Department reported the following emergency purchase during fiscal years 2018 and 2019:

<u>Fiscal Year</u>	<u>Vendor</u>	<u>Description</u>	<u>Estimated Amount</u>	<u>Actual Amount</u>
2019	BMM North America	To provide 90 additional days of Customer Acceptance Testing (CAT) and system testing as well as certification work in order to minimize disruption in critical State services which affects the collection of substantial State revenues. The immediate testing that is required must be completed by a single vendor and certified to avoid the potential cost of rework that would be necessary if using a vendor different than BMM who had begun the testing under a previous contract.	<u>\$ 60,000</u>	<u>\$ 60,000</u>

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
MEMORANDUM OF UNDERSTANDING
For the Two Years Ended June 30, 2019 and 2018
(Not Examined)

The Department of the Lottery (Department) entered into the following Memorandums of Understanding (MOU) during the engagement period.

Department of Innovation and Technology and AFSCME Council 31

This was the impact of Executive Order 2016-01, which created the Department of Innovation and Technology (DoIT). It stated that employees for whom the majority of their time is spent performing IT functions shall become DoIT employees after January 1, 2018. The MOU outlines the employees. It was effective September 27, 2017.

Comptroller

This MOU defines the roles and responsibilities regarding the Lottery's direct entry of payment vouchers (PV) documents into the Statewide Accounting Management System via the C-14 document. Coverage began on April 12, 2017, and will continue until termination by either party.

Department of Insurance

This MOU promotes cooperation and coordination between the Lottery and Department of Insurance (DOI). The parties agree with respect to the front desk located at 122 South Michigan Avenue, 19th floor, Chicago, Illinois, that DOI will provide limited reception services to the Lottery such as announcing visitors without cost to the Lottery. Coverage began on April 15, 2015, and will continue until termination by either party.