



STATE OF ILLINOIS  
**OFFICE OF THE  
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**DEPARTMENT OF THE LOTTERY**  
**STATE LOTTERY FUND**

**Financial Audit**  
**For the Year Ended June 30, 2021**

**Release Date: May 26, 2022**

FINDINGS THIS AUDIT: 6	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>1</b>	<b>1</b>	2020		21-02, 21-04	
<b>Category 2:</b>	2	3	5	2017	<b>20-01</b>	21-03	
<b>Category 3:</b>	<u>0</u>	<u>0</u>	<u>0</u>				
<b>TOTAL</b>	<b>2</b>	<b>4</b>	<b>6</b>				
<b>FINDINGS LAST AUDIT: 5</b>							

**INTRODUCTION**

This digest covers the financial audit of the State Lottery Fund as of and for the year ended June 30, 2021, and the six findings arising from the financial audit reported under *Government Auditing Standards*. A separate digest covers the Department’s compliance examination for the two years ended June 30, 2021.

**SYNOPSIS**

- **(21-03)** The Department had not fully implemented corrective action to quantify the impact of improper prior period overhead charges and had not performed a “true up” of its estimated prize liabilities to prizes paid.
- **(21-06)** The Department did not maintain adequate controls over changes to its Internal Control System.

<p><b>Category 1:</b> Findings that are <b>material weaknesses</b> in internal control and/or a <b>qualification</b> on compliance with State laws and regulations (material noncompliance).</p> <p><b>Category 2:</b> Findings that are <b>significant deficiencies</b> in internal control and <b>noncompliance</b> with State laws and regulations.</p> <p><b>Category 3:</b> Findings that have <b>no internal control issues but are in noncompliance</b> with State laws and regulations.</p>
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**DEPARTMENT OF THE LOTTERY  
STATE LOTTERY FUND  
FINANCIAL AUDIT  
For The Year Ended June 30, 2021**

<b>STATEMENT OF NET POSITION (DEFICIT) (in thousands)</b>	<b>2021</b>	<b>2020</b>
<b>Assets and Deferred Outflows of Resources</b>		
Cash and cash equivalents.....	\$ 116,674	\$ 59,206
Investments.....	289,611	297,085
Receivables (net).....	47,464	112,436
Capital assets (net).....	11	29
Other.....	207	226
Deferred Outflows of Resources - pensions and OPEB.....	11,782	12,449
Total.....	<u>465,749</u>	<u>481,431</u>
<b>Liabilities and Deferred Inflows of Resources</b>		
Prizes payable.....	96,410	88,030
Accounts payable and accrued liabilities.....	4,426	11,082
Annuity prizes payable.....	260,216	248,867
Unearned revenue.....	1,493	1,411
Due to other State funds.....	139,598	148,872
Net pension liability.....	81,418	77,407
Net OPEB liability.....	44,977	52,140
Other.....	1,369	1,342
Deferred Inflows of Resources - pensions and OPEB.....	14,001	19,961
Total.....	<u>643,908</u>	<u>649,112</u>
<b>Net Position</b>		
Net investment in capital assets.....	11	12
Unrestricted.....	(178,170)	(167,693)
Total.....	<u>\$ (178,159)</u>	<u>\$ (167,681)</u>
<b>REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT) (in thousands)</b>		
	<b>2021</b>	<b>2020</b>
<b>Operating Revenues</b>		
Charges for sales and services.....	\$ 3,447,686	\$ 2,841,724
Other.....	6,863	6,780
Total.....	<u>3,454,549</u>	<u>2,848,504</u>
<b>Operating Expenses</b>		
Costs of sales and services.....	186,247	154,938
Prizes and claims.....	2,329,353	1,842,188
General and administrative.....	162,524	153,614
Other.....	201	27
Total.....	<u>2,678,325</u>	<u>2,150,767</u>
Operating income.....	776,224	697,737
<b>Nonoperating revenues (expenses)</b>		
Investment income (expense).....	(9,875)	32,346
Interest expense.....	(8,946)	(9,008)
Other.....	(298)	(3)
Total.....	<u>(19,119)</u>	<u>23,335</u>
Transfers to other State Funds.....	(776,333)	(696,068)
Change in net position.....	<u>\$ (19,228)</u>	<u>\$ 25,004</u>
Restatement of a prior period error.....	\$ 8,750	-
Net change in net position.....	<u>\$ (10,478)</u>	<u>\$ 25,004</u>
<b>DEPARTMENT DIRECTOR</b>		
During Audit Period: Mr. Harold Mays (Acting)		
Currently: Mr. Harold Mays		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**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 had not performed a “true up” of its estimated prize liabilities to prizes paid.

During testing, we noted the following problems:

**Prior period errors first identified in  
Fiscal Year 2017 were not corrected**

- During the Fiscal Year 2017 and Fiscal Year 2018 annual audits, predecessor auditors had questioned whether the Department’s practice of allocating an overhead charge to specialty tickets conformed with the Illinois Lottery 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.

**Adjustments to correct differences  
between estimated prize liabilities  
and actual cash payments made have  
not been performed**

- 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.

**Financial data sent to other agencies  
was not complete and accurate**

- 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.

**Management has been unsuccessful  
in implementing corrective action**

In addition, this finding was first noted during the Department’s Fiscal Year 2017 engagement, five years ago. As such, Department management has been unsuccessful in implementing a corrective action plan to remedy these deficiencies. (Finding 3, pages 56-59) **This finding has been repeated since 2017.**

**Recommendation**

We recommended 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 officials agree**

Department officials accepted our recommendation.

### **INADEQUATE CONTROLS OVER CHANGE MANAGEMENT**

The Department did not maintain adequate controls over changes to its Internal Control System (ICS).

**ICS documentation was out of date and lacked certain key controls**

The Department utilizes ICS to process lottery drawing transactions and validate the online gaming system. During our review of the Department's *ICS Change Management Procedures*, we noted it had not been updated since September 2014 and did not document:

- guidelines for prioritization and classification of changes;
- testing and documentation requirements; and,
- controls over emergency changes.

**Department does not have policies controlling developers' access to ICS' production environment**

Further, we requested the Department's documentation controlling developers' access to ICS' production environment; however, this documentation was not provided. Therefore, we were unable to determine if developer access was appropriate. (Finding 6, pages 64-65)

**Recommendation**

We recommended the Department update the *ICS Change Management Procedures* to ensure they address:

- guidelines for prioritization and classification of changes;
- testing and documentation requirements; and,
- controls over emergency changes.

We further recommended the Department ensure the developers of ICS have appropriate access with documentation maintained of such.

**Department officials agree**

Department officials accepted our recommendation.

### **OTHER FINDINGS**

The remaining findings pertain to noncompliance with fund transfer provisions, inadequate controls over census data and SOC report reviews, and system access weaknesses. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

**AUDITOR'S OPINION**

The auditors stated the financial statements of the State Lottery Fund as of and for the year ended June 30, 2021, are fairly stated in all material respects.

This financial audit was conducted by Sikich, LLP.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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