

REPORT DIGEST

DEPARTMENT OF THE LOTTERY

FINANCIAL AND COMPLIANCE AUDIT

For the Year Ended:
June 30, 1997

Summary of Findings:

Total this audit	6
Total last audit	9
Repeated from last audit	2

Release Date:



State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- ◆ The Department made electronic fund transfers to pay for various operating expenses without statutory authority. *The Attorney General issued an opinion agreeing with the Auditor General that the transfers are not authorized under current law.*
- ◆ The Department did not perform employee evaluations on a timely basis for approximately 61% of its employees.
- ◆ The Department's Office of Internal Audit did not audit all major systems and did not file an annual report for the fiscal year.
- ◆ The Department did not perform a detailed evaluation of its systems of internal fiscal and administrative controls to support the required annual certification to the Auditor General and filed the certification after the required date.
- ◆ The Department did not perform semi-annual reviews of the control procedures and related systems used by their distributor for the receipt and distribution of instant tickets.
- ◆ The Department did not maintain a comprehensive, up-to-date policies and procedures manual.

{Expenditures and Activity Measures are summarized on the reverse page.}

DEPARTMENT OF THE LOTTERY
COMPLIANCE AUDIT
For The Year Ended June 30, 1997

EXPENDITURE STATISTICS	1997	1996	1995
! Total Expenditures (All Funds).....	\$998,263,590	\$1,005,550,281	\$1,024,941,711
<u>OPERATIONS TOTAL</u>	\$63,228,674	\$57,626,436	\$59,393,365
% of Total Expenditures.....	6.3%	5.7%	5.8%
Personal Services.....	\$8,632,792	\$8,277,012	\$7,834,993
% of Operations Expenditures.....	13.6%	14.3%	13.1%
Average No. of Employees.....	296	290	294
Other Payroll Costs (FICA, Retirement).....	\$2,460,391	\$2,349,577	\$2,330,254
% of Operations Expenditures.....	3.9%	4.1%	3.9%
Contractual Services.....	\$25,588,390	\$25,412,288	\$25,367,434
% of Operations Expenditures.....	40.5%	44.1%	42.7%
Game Promotion.....	\$13,882,625	\$10,028,740	\$12,363,618
% of Operations Expenditures.....	22.0%	17.4%	20.8%
Electronic Data Processing.....	\$2,705,678	\$2,458,276	\$2,081,328
% of Operations Expenditures.....	4.3%	4.3%	3.5%
Telecommunications.....	\$8,685,092	\$7,762,406	\$8,111,698
% of Operations Expenditures.....	13.7%	13.5%	13.7%
All Other Operations Items.....	\$1,273,706	\$1,338,137	\$1,304,040
% of Operations Expenditures.....	2.0%	2.3%	2.3%
<u>COMMISSIONS AND FEES</u>	\$107,621,385	\$108,955,999	\$106,529,874
% of Total Expenditures.....	10.8%	10.9%	10.4%
<u>PRIZES</u>	\$827,413,531	\$838,967,846	\$859,018,472
% of Total Expenditures.....	82.9%	83.4%	83.8%
! Cost of Property and Equipment.....	\$4,799,468	\$4,923,876	\$4,756,687

YEAR ENDED JUNE 30,			
SELECTED ACTIVITY MEASURES	1997	1996	1995
! Ticket Sales	\$1,569,442,916	\$1,582,769,640	\$1,574,384,917
! Operating Transfers To Common School Fund	\$582,586,599	\$602,870,334	\$584,907,500

AGENCY DIRECTOR(S)
During Audit Period: Desiree Glapion Rogers, (Through 2/28/97) Lori Montana, (Effective 3/1/97) Currently: Lori Montana, Director

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**LACK OF APPROPRIATION AND VOUCHERING
CONTROLS**

**Payments made without
statutory authority**

The Department made electronic funds transfers to pay various operating expenses without statutory authority. The operating expenses consisted of contractual payments to the Department's ticket distribution contractor, to its on-line computer service contractor, and also fixed monthly rental payments to the lessor of its instant ticket vending machines. In the current audit period, a total of \$26,908,542 was paid to these three contractors. These payments were not subject to appropriation control nor made through the vouchering process.

Department personnel believed the Illinois Lottery Law at 20 ILCS 1605/20 authorized these payments. This paragraph provides for the creation in the State Treasury of a State Lottery Fund and states in part: "Such fund shall consist of all revenues received from the sale of lottery tickets or shares, net of commissions, fees and prizes of less than \$600 *which have been validly paid at the agent level...* (emphasis added)."

The Department is in compliance with the law in allowing agents to retain from lottery sales revenue any amounts due to the agents for commissions and lottery prizes under \$600 paid directly by the agents. However, the questioned payments totaling \$26,908,542 were paid to Department contractors - not to lottery agents.

The Department should comply with the provisions of the law requiring the deposit of State funds in the State Treasury and expenditure of those funds through the appropriation process.

Department officials strongly disagreed with this finding and, during the current audit period, requested an opinion from the Attorney General. On November 12, 1997, the Attorney General issued an opinion which stated "the Department does not possess the authority to make payment for the specified operating expenses from Lottery ticket sales prior to their deposit into the State Lottery Fund". (Finding

**Attorney General's Opinion
stated "...transfers not
authorized under current
law"**

97-1, pages 12-13; first reported in 1995)

Despite opinions to the contrary from both the Auditor General and the Attorney General, the Department does not concur with the finding. They have, however, indicated they will seek legislation in the Spring 1998 session to provide specific authorization to net certain expenses from receipts prior to depositing them into the State Treasury.

FAILURE TO TIMELY COMPLETE EMPLOYEE EVALUATIONS

Evaluations not performed timely for 61% of employees

The Department had not performed employee evaluations on a timely basis for approximately 61% of its employees.

The Illinois Administrative Code provides that, "For a certified employee, each agency shall prepare such evaluation not less than each time an employee receives a satisfactory or superior performance increase under the Department's Pay Plan". The Department's Plan provides for annual evaluations. Without timely evaluations employees could not be aware of supervisors' assessments of their performance, and consequently, they would not have performance goals and objectives for the next reporting period. (Finding 97-2, page 14)

The Department concurred with our recommendation and renewed their resolve to ensure evaluations are completed timely.

FAILURE TO COMPLY WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT

The Department's Office of Internal Audit did not audit all major systems of internal accounting and administrative control at least once every two years and did not file an annual report to the chief executive officer of the Department.

The Act provides that audits be conducted on a periodic basis so that all major systems are reviewed at least once every two years. The Act further provides that, "By September 30 of each year the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended

changes were implemented.”

**Chief Internal Audit position
vacant for more than seven
months**

The position of Chief Internal Auditor was vacant for more than seven months of the fiscal year, and the only support staff position was vacant for 10 months. (Finding 97-4, pages 17 & 18)

Department officials stated that the Chief Internal Auditor position was filled effective May 1, 1997 and the unit is currently working to complete the FY '97 Audit Plan.

**LACK OF COMPREHENSIVE AND TIMELY
EVALUATION OF CONTROLS**

The Department did not perform a detailed evaluation of its systems of internal fiscal and administrative controls to support the required annual certification to the Auditor General and filed the certification after the required date.

**Detailed evaluation not
performed**

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3003) provides that “By May 1, of each year, each chief executive officer of all State agencies shall, on the basis of an evaluation conducted in accordance with prescribed guidelines prepare and transmit to the Auditor General a certification that: (1) the systems of internal fiscal and administrative controls of the State agency fully comply with the requirements of the Act; or (2) the systems do not...” If the systems do not fully comply, the certification must include a report describing the material weaknesses, the plans and schedule for correction or the reasons the weaknesses cannot be corrected.

The deficiencies resulted from the fact that the Department has relied upon its internal auditor to perform this procedure and the position had been vacant for more than seven months and was filled on the day the certification was due. (Finding 97-3, page 15 and 16)

The Department concurred with our recommendation and stated they now have sufficient resources to perform more comprehensive internal control evaluations and submit the annual certifications by the May due date.

**FAILURE TO PERFORM AUDITS OF INSTANT
TICKET DISTRIBUTOR'S PROCEDURES**

The Department had not performed semi-annual reviews of the control procedures and related systems used by their distributor for the receipt and distribution of instant tickets.

**No monitoring of ticket
distribution contractor**

Monitoring of the performance of the contract distributor constitutes an important internal control procedure over instant ticket game operations. Failure to monitor the performance of this function constitutes a deficiency in operation of the system of internal control of the Department. Sales of instant tickets for 1997 exceeded \$582,000,000. Fees to the distributor totaled \$3,870,164. (Finding 97-6, page 20)

The Department concurred with our recommendation. They also stated that an external audit review was released on August 15, 1997. They said semi-annual reviews would be conducted as provided for in the contract between the Agency and the instant ticket distributor.

**FAILURE TO MAINTAIN CURRENT POLICIES AND
PROCEDURES MANUAL**

The Department did not maintain a comprehensive, up-to-date policies and procedures manual.

In order to maintain adequate administrative control and operational efficiency, a complete and updated policies and procedures manual should be maintained at all times and be available to appropriate personnel.

**Outdated policies and
procedures**

During the audit period outdated policies and procedures from various divisions were compiled into one policies and procedures manual. Updates have not been made to the manual as circumstances change. Instead, established policies and procedures are sometimes changed via the distribution of memos to affected personnel. Also, the individual sections of the manual were written in several different formats and did not contain uniform indexing methods. (Finding 97-5, page 19)

The Department concurred with our recommendation and stated the Internal Audit Unit is currently working with management staff to revise and maintain a manual for the agency.

AGENCY RESPONSE

Ms. Lori Montana, Director, provided the responses in a letter dated November 25, 1997.

AUDITORS' OPINION

The auditors stated the financial statements of the Department of the Lottery at June 30, 1997 are fairly stated.

WILLIAM G. HOLLAND, Auditor General

WGH:TEE:pp

SPECIAL ASSISTANT AUDITORS

Sleeper, Disbrow, Morrison, Tarro & Lively were our special assistant auditors for this audit.