



**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Compliance Examination

For The Two Years Ended June 30, 2013

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

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Compliance Examination

For the Two Years Ended June 30, 2013

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Related Reports Published Under Separate Cover:

The Department's financial statement report for the years ended June 30, 2013 and 2012, which includes the Independent Auditors' Report, Basic Financial Statements and Notes to the Basic Financial Statements, and the Independent Auditors' 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* has been issued separately.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Department Officials

For the Two Years Ended June 30, 2013

Director	Michael Jones – effective October 10, 2011 (confirmed by Illinois State Senate February 8, 2012) Victor Golden (Acting) – July 1, 2011 to October 9, 2011
Deputy Director	Victor Golden – effective July 1, 2011
Chief of Staff	Sara Barnett – effective January 17, 2012 Vacant – July 1, 2011 to January 16, 2012
Chief Financial Officer	James Scroggins – effective April 2, 2012 Vacant – July 1, 2011 to April 1, 2012
Chief Operations Officer	Harold Mays – effective January 16, 2013 Michele Eichhorn (Acting) – July 1, 2011 to January 9, 2013
General Counsel	Daymon Rутtenberg – effective November 11, 2012 Agostino Lorenzini – February 14, 2012 to September 10, 2012 Vacant – July 1, 2011 to February 13, 2012
Chief Internal Auditor	Melinda Westwater – effective June 16, 2013 Vacant – May 6, 2013 to June 15, 2013 Shelly Banks – September 17, 2012 to May 5, 2013 Vacant – July 1, 2011 to September 16, 2012

Department offices are located at:
101 West Jefferson Street
Springfield, Illinois 62702

122 South Michigan Avenue
Chicago, Illinois 60603



June 13, 2014

KPMG LLP
200 East Randolph Street, Suite 5500
Chicago, IL 60601

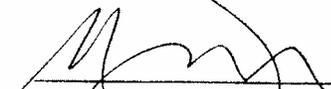
To Whom It May Concern:

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 State of Illinois Department of the Lottery (the 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 assertions during the two-year period ended June 30, 2013. Based on this evaluation, we assert that during the two-year period ended June 30, 2013, the Department has materially complied with the assertions below.

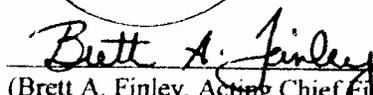
- A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. 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,

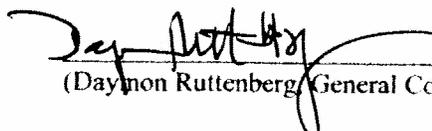
State of Illinois Department of the Lottery



(Michael Jones, Director)



(Brett A. Finley, Acting Chief Financial Officer)



(Daynon Ruttenberg, General Counsel)

Pat Quinn
Governor

Michael J. Jones
Director

100 W. Randolph
Suite 7-274, MC: 7-901
Chicago, IL 60601
312.793.1681
TDD: 312.793.3038

101 W. Jefferson Street
Springfield, IL 62702
217.524.6288
TDD: 217.524.5250

www.illinoislottery.com

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Compliance Report Summary

For the Two Years Ended June 30, 2013

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

Accountants' Report

The Independent Accountants' 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 contain report qualifications for compliance and internal control.

Summary of Findings

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report *</u>
Findings	7	2
Repeated findings	2	—
Prior recommendations implemented or not repeated	8 **	—

* Prior report was a financial statement audit only for the year ended June 30, 2012.

** The prior findings were related to the Lottery Private Manager procurement and were initially reported in the Illinois Department of Revenue compliance report for the two years ended June 30, 2010. In accordance with Public Act 97-0464, effective October 15, 2011, the Department of Revenue transferred all functions performed for the Illinois Lottery and all associated powers, rights, duties, and responsibilities to the Illinois Department of the Lottery. These compliance findings were followed up on in this compliance examination.

Schedule of Findings

Findings (Government Auditing Standards)

Finding No.	Page No.	Description	Finding Type
2013-001	12	Weaknesses in Preparation of Accurate GAAP Reporting Forms Submitted to the Illinois Office of the Comptroller and Preparation of Year-End Department Financial Statements	Material weakness
2013-002	15	Weaknesses in the General IT Control Environment Over Key Systems	Material weakness

Findings (State Compliance)

Finding No.	Page No	Description	Finding Type
2013-003	18	Weaknesses Regarding the Security and Control of Confidential Information	Significant deficiency and noncompliance
2013-004	20	Inadequate Disaster Contingency Planning or Testing to Ensure Recovery of all Computer Systems	Significant deficiency and noncompliance
2013-005	22	Failure to Comply With the Fiscal Control and Internal Auditing Act	Significant deficiency and noncompliance
2013-006	24	Failure to Submit, or Timely Submit Required Reports, Documents, and Policies	Significant deficiency and noncompliance
2013-007	26	Exceptions in Testing Property and Equipment	Significant deficiency and noncompliance

In addition, the following findings which are reported as current findings related to *Government Auditing Standards* also meet the reporting requirements for State Compliance:

2013-001		Weaknesses in Preparation of Accurate GAAP Reporting Forms Submitted to the Illinois Office of the Comptroller and Preparation of Year-End Department Financial Statements	Material weakness and material noncompliance
2013-002		Weaknesses in the General IT Control Environment Over Key Systems	Material weakness and noncompliance

Prior Findings Not Repeated

	Page	
A.	28	Lottery Private Manager Procurement- Use of Transaction Advisor
B.	28	Lottery Private Manager Procurement- Documentation to Support Payment to Transaction Advisor
C.	28	Lottery Private Manager Procurement- Evaluation Team Diligence
D.	28	Lottery Private Manager Procurement- Evaluation Clarification Process
E.	29	Lottery Private Manager Procurement- Scoring Evaluation Irregularities
F.	29	Lottery Private Manager Procurement- Probity Investigations
G.	29	Lottery Private Manager Procurement- Protest Process
H.	29	Lottery Private Manager Procurement- Private Manager Agreement

Exit Conference

The Department of the Lottery elected to waive a formal exit conference for the State Compliance Examination. The responses to the recommendations were provided by Melinda Westwater, Chief Internal Auditor, in an e-mail dated June 9, 2014.



KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Accountants' Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois Department of the Lottery's (the Department) compliance with the 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, 2013. The management of the Department is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

- 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 as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.

As described in finding 2013-001 in the accompanying schedule of findings, the Department did not comply with requirements regarding the applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2013. However, the results of our procedures disclosed other instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2013-002 through 2013-007. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Department's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements



listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-001 and 2013-002 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-003 through 2013-007 to be significant deficiencies.

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

The Department's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Department's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited and issued under separate cover, the basic financial statements of the Department as of and for the year ended June 30, 2013, and have issued our report thereon dated February 27, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Department's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to February 27, 2014. The accompanying supplementary information for the year ended June 30, 2013 in Schedules 1 and 3 through 11 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2013 in Schedules 1 and 3 through 11 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2013 in Schedules 1 and 3 through 11 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

The accompanying supplementary information for the year ended June 30, 2012 in State Compliance Schedules 2 through 11 and the Analysis of Operations Section is presented for the



purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of the State of Illinois, Department management, and the Lottery Control Board and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois

June 13, 2014, except for the Supplementary
Information for State Compliance Purposes,
as to which the date is February 27, 2014



KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' 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 William G. Holland
Auditor General
State of Illinois

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 financial statements of the State of Illinois Department of the Lottery (the Department), which comprise the statement of financial position as of June 30, 2013, and the related statements of Revenues, Expenses, and Changes in Net Position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department'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 to be material weaknesses and are listed as 2013-001, 2013-002.



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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to 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 the responses.

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.

KPMG LLP

Chicago, Illinois
February 27, 2014

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *Government Auditing Standards*

Finding 2013-001 Weaknesses in Preparation of Accurate GAAP Reporting Forms Submitted to the Illinois Office of the Comptroller and Preparation of Year-End Department Financial Statements

The State of Illinois Department of the Lottery's (Department or Lottery) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller contained numerous errors/inaccuracies and incomplete data.

During the audit of the June 30, 2013 Department financial statements, auditors noted errors in the Department's GAAP Reporting forms submitted to the Office of the Comptroller and Department financial statements and deficiencies in internal controls over financial reporting as follows:

- During testing of the estimate of the Prizes payable liability for instant games errors and inaccuracies in the calculation were identified. The errors and inaccuracies included the following:
 - Auditors noted the prize structure utilized in the calculation of the Instant prize liability, for numerous instant games, was inaccurate. The inaccuracies resulted in Prize expense and the associated liability being understated by \$18,538,189. These inaccuracies were discussed with Department management at which time they made a correcting entry.
 - Auditors determined the estimate of the Prizes payable liability for Instant games was inaccurately updated for prizes that were validated prior to year end and where the prize would be paid with an annuity. This resulted in Prize expense and the associated liability being understated by \$1,925,301 for fiscal year 2013. During the fiscal year 2012 audit, auditors identified similar differences which resulted in Prize expense and the associated liability being overstated by \$2,473,006. Department management considered the fiscal year 2012 amount to be immaterial and did not make a correcting entry. By not correcting the fiscal year 2012 amount, the error resulted in an understatement of fiscal year 2013 expense of the same amount. The net effect of the fiscal year 2012 and 2013 differences was an understatement of fiscal year 2013 expense of \$4,398,307. Department management considered this amount to be immaterial to the financial statements and did not record a correcting entry.
- During testing of the Department's accounts payable an error in recording "vouchers in transit" as of June 30, 2013 was identified. Auditors noted total payments made by the Department subsequent to June 30, 2013 for expenses incurred during fiscal year 2013 (lapse period) did not agree to payments disbursed by the Comptroller. The difference/reconciling item related to "vouchers in transit"; i.e., the warrants/checks requested to be paid by the

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *Government Auditing Standards*

Department before year-end, but were not issued by the Comptroller until after year-end. Such amounts were not recorded by the Department in fiscal year 2013 resulting in Accounts payable – General and Operating expenses each being understated by \$12,105,750. These inaccuracies were discussed with Department management at which time they made a correcting entry.

- Auditors found an error in recording payments as of year-end. The Department made a journal entry to correct a previously identified error which inappropriately debited Operating expense instead of Prizes payable, resulting in Operating expense and Prizes payable each being overstated by \$13,111,389. These inaccuracies were discussed with Department management at which time they made a correcting entry.
- During evaluation of the financial statements, auditors identified an error where revenue for subscriptions sales was not recorded. This error resulted in both Deferred revenue and Accounts receivable being understated by \$3,515,266. Department management considered this amount to be immaterial to the financial statements and did not record a correcting entry.
- The Illinois Lottery Law (20 ILCS 1605/9.1(o)), as amended by Public Act 96-0034 effective July 1, 2009, requires the Department to distribute all proceeds of lottery tickets and shares sold in a specific priority and manner. The last priority requires the Department to transfer any remaining proceeds to the Capital Projects Fund on or before the last day of each fiscal year. Since the change in the Lottery Law, the Department has made an estimate of the remaining proceeds and made the required transfer based on that estimate. As a result of normal end of year financial adjustments and completion of the annual audit, there has been a difference between transfers of estimated remaining proceeds and actual net income. The Department made approximately \$47.5 million in adjustments to record the effects of the audit for Capital Projects Fund transfers. As of June 30, 2013, the Department has a balance of \$44.4 million due to the Capital Projects Fund, reflecting actual net income in excess of amounts previously transferred to the Capital Projects Fund through that date.

The aggregate impact of all auditor recommended adjustments made by the Department since the initial June 30, 2013 GAAP Reporting forms were submitted to the Illinois Office of the Comptroller was approximately a \$17.5 million increase in liabilities and expenses.

Lottery management indicated that similar to the fiscal year 2012 audit, certain issues emerged during fiscal year 2013 with the financial data generated by the private manager's gaming system leading to certain inaccuracies. Lottery management also indicated that certain year end processes did not detect the incorrect recording of certain vouchers.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *Government Auditing Standards*

The Illinois Office of the Comptroller requires State agencies to prepare GAAP Reporting Packages for each of their funds to assist in the annual preparation of the Statewide financial statements and the Lottery financial statements. GAAP Reporting Package instructions are specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal and administrative controls which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports and to maintain accountability over the State's resources.

Because of the significance of the errors and inaccuracies noted, we consider this to be a material weakness in the Lottery's internal control over financial and fiscal operations. 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 occur and not be prevented or detected and corrected on a timely basis.

The errors and inaccuracies noted, if not detected and corrected, could materially misstate the Lottery's financial statements and negatively impact the Statewide financial statements. Accurate and timely preparation of the Lottery's financial information for GAAP reporting purposes is important due to the impact Lottery adjustments have on the Statewide financial statements. (Finding Code No. 2013-001, 12-01).

Recommendation:

We recommend the Lottery implement procedures to ensure GAAP Reporting Packages and financial statements are prepared in an accurate and complete manner. This should include allocating sufficient staff resources and following formal procedures to ensure financial information is prepared and submitted to the Illinois Office of the Comptroller in accordance with GAAP, and that supporting documentation be maintained in a contemporaneous manner to support the financial information being reported.

Lottery Response:

The Lottery agrees and will continue to review current procedures to ensure they are up-to-date and implement any additional procedures, as necessary, to ensure GAAP financial reporting and the financial statements are prepared completely, accurately and timely with appropriate supporting documentation. The Lottery will also ensure sufficient staff resources are allocated to this process.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *Government Auditing Standards*

Finding 2013-002 - Weaknesses in the General IT Control Environment over Key Systems

The State of Illinois Department of the Lottery (Department or Lottery) had not implemented controls over its computing environment to ensure the controls provided sufficient protection.

During the audit of the June 30, 2013 financial statements, auditors noted a number of control deficiencies related to the various computer systems utilized by the Department. Several of the Department's computer systems generate reports that are used to process, accumulate and analyze financial information. Specific weaknesses identified are as follows:

- **Access Reviews**-Although access was reviewed on an ad hoc basis, documentation was not maintained.
- **Access Provisioning and Termination**-Requests to grant one user's access to one application was not maintained. Additionally, access rights were not timely removed for eight terminated users.
- **Change Management**-A system generated list of changes was not available for one of the Department's applications. A change ticketing tool was not in use and there was not a logging feature within the application. The Department manually compiled a listing of four changes to the application, which we reviewed. The review indicated the testing documentation was not retained for all the changes implemented into the production environment.
- **Segregation of Duties**-From July 2012 through April 2013, one user was responsible for the development and migration of changes to the production environment. In April 2013, the Department implemented a control where the developer had to request the Department to provide access to the production environment once changes had been tested and approved.
- **Access to Drawing Room**-The Department could not provide documentation confirming the Drawing Room was locked at all times when Department staff was not present.
- **Monitoring of Service Providers**-The Department reviewed the two Service Organizations' Control Reports, but the documentation did not evidence the impact assessment of noted deficiencies on the Department's IT environment. In addition, the Department had not ensured the Complimentary User Controls identified in one Service Organizations' Control Report were in place and operating effectively.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *Government Auditing Standards*

Lottery management stated that this finding is for the most part a duplicate of the finding issued with the fiscal year 2012 audit which was received by the Department in late fiscal year 2013 with little time for corrective actions prior to the end of fiscal year 2013.

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

Due to the severity of the deficiencies noted, auditors were unable to rely upon the IT environment controls. As such, auditors consider the weaknesses to be a material weakness in the Department's internal control over financial and fiscal operations. (Finding Code No. 2013-002, 12-02)

Recommendation:

We recommend the Department implement and document adequate controls over its computing environment and ensure the controls provide sufficient protection. Specifically, we recommend the Department:

- Review access rights to systems and applications on a periodic basis. Additionally, the Department should retain documentation of such reviews.
- Maintain documentation of access provisioning and termination. In addition, the Department should timely terminate user access rights.
- Implement a process to create a system generated list of changes for Department applications. If a system generated list is not feasible, develop a method of logging and tracking all changes. Additionally, the Department should ensure all documentation related to changes is maintained.
- Ensure the segregation of development activities and migration activities.
- Maintain documentation for the security of the Drawing Room.
- Develop and document a monitoring process to determine the impact of noted deficiencies in the Service Organizations' Control Reports to the Department's environment. In addition, the Department should review the Complimentary User Controls identified in the Service Organizations' Control Reports to ensure they were in place and operating effectively.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *Government Auditing Standards*

Lottery Response:

The Lottery agrees with the recommendations the auditors have put forth.

- Access Reviews – The Department continues to perform periodic access reviews of key systems. We have also begun to ensure proper related documentation is kept to track the reviews.
- Access Provisioning and Termination – The Department had one instance of lack of documentation for access provisioning and strives to have zero instances in the future. Access rights termination time frames have improved due to a tighter control over our user de-provisioning practice.
- System Change Control – The system in question as designed does not have a formal change logging capability nor can it produce a system generated list of changes. The Department instituted a manual process of tracking, managing and approving system changes for this system in late FY13 and has begun to fully implement the process that includes maintaining all test data produced to support approved changes. The process also serves as a compensating control to mitigate the risk associated with the Department's inability to segregate development activities and production migration activities by leveraging the Department's ability to control access to the production environment of the system. The system manager cannot make any system changes without getting access from the Department.
- Draw Room Security – The Department has relocated and instituted procedures to fully secure its draw room in early fiscal year 14.
- Monitoring of Service Providers – The Department will improve its process of review of the Service Organization Control reports of its service providers to determine the impact to its environment.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Finding 2013-003 Weaknesses Regarding the Security and Control of Confidential Information

During the review of the Illinois Department of the Lottery (Department), the following weaknesses were noted in regard to the Department's security and control of confidential information:

- Failure to perform a risk assessment of the Department's computer resources.
- Lack of a formalized breach of Security procedures.
- Lack of a formal Identity Protection Policy.

The Department has several computer systems that contained confidential or personal information including employee and customer names, addresses, Social Security numbers, and credit card numbers.

Auditors noted the Department had not performed a risk assessment of its computing resources to identify confidential or personal information to ensure such information is protected from unauthorized disclosure. The Identity Protection Act (PA 96-0874) promotes the protection of social security numbers from unauthorized disclosure.

During the examination the auditors also noted the Department had not developed formal policies and procedures to promote timely compliance with requirements outlined in the Personal Information Protection Act (815 ILCS 530), in the event of a breach of personal information.

In addition, the Department had not developed and approved an identity protection policy as required in the Identity Protection Act (5 ILCS 179).

Department management indicated that after it deconsolidated from the Department of Revenue during fiscal year 2012, it continues to create and/or update all of its policies.

The Department had the responsibility to ensure that confidential information is protected from accidental or unauthorized disclosure. Policies and procedures help ensure prompt notification of security breaches to all involved parties in an effort to minimize the potential impact and costs resulting from identity thefts. Further, a risk assessment to identify confidential information requiring protection is a key component of that process. (Finding Code No. 2013-003)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Recommendation:

We recommend the Department:

- Develop policies and procedures to ensure timely compliance with the requirements outlined in the Personal Information Protection Act (815 ILCS 530), in the event of a breach of confidential information.
- Develop and approve an identity protection policy as required in the Identity Protection Act (5 ILCS 179).
- Perform a comprehensive risk assessment to identify all forms of confidential or personal information and ensure adequate security controls, including adequate physical and logical access restrictions, have been established to safeguard data and resources.

Lottery Response:

The Department agrees with the finding and recommendations. The Department will continue its efforts to complete its risk assessment, finalize its identity protection policy and develop policies and procedures to ensure prompt notification of security breaches. The Confidential Personal Information Policy required under the Illinois Identity Protection Act has been drafted and is under final review.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Finding 2013-004 Inadequate Disaster Contingency Planning or Testing to Ensure Recovery of all Computer Systems

The Illinois Department of the Lottery (Department) does not have adequate disaster recovery procedures in place.

During the examination the auditors noted the Department had not updated its disaster recovery plan since August 2004. The recovery plan did not reflect the separation from the Department of Revenue and the consolidation of the Information Technology infrastructure into the Department of Central Management Services. The auditors also noted the plan has not been tested in recent years.

The Department utilizes third party applications to receive financial, gaming, and winner information; however, we noted the third parties' recovery plans had not been developed. Additionally, the auditors noted two of the three third party applications had not been tested.

Information technology guidance (including the National Institute of Standards and Technology and Government Accountability Office) endorse the formal development and testing of disaster recovery plans. Tests of disaster recovery plans (and the associated documentation of the test results) verify that the plan, procedures, resources provide the capability to recover critical systems within the required timeframe.

Department management stated that while during fiscal year 2013 it continued efforts to deconsolidate from the Department of Revenue as well as define and stabilize its environment and operations, it had yet to physically or logically separate. This complicated efforts to make substantial progress on updating and testing its overall agency Disaster Contingency plan. Updating the Disaster Contingency plan will also require additional resources to help facilitate its completion.

Failure to adequately update and test the disaster recovery plan leaves the Department exposed to the possibility of major disruptions of services. A comprehensive test of the plan across all third parties utilized will assist management in identifying weaknesses to ensure recovery procedures are adequate in the event a disaster. Continuous reviews and tests of the plan would help management ensure the plan is appropriately modified as the Department's computing environment and disaster recovery needs change. (Finding Code No. 2013-004)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Recommendation:

The Department should review and update its plan at least annually or when significant changes occur. The Department should perform and document tests of its disaster recovery plan at least once a year. In addition, the Department should work with the third parties to ensure the third parties' disaster recovery plans have been developed, approved, and tested.

Lottery Response:

The Department agrees with the finding and recommendations. The Department will continue its efforts to update and test its agency Disaster Contingency plan by fully completing the physical and logical separation from the Dept. of Revenue and procuring the necessary resources to assist in drafting and finalizing the plan. It has received finalized plans from its third party vendors and will formally test the plans as required.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Finding 2013-005 Failure to Comply with the Fiscal Control and Internal Auditing Act

The Illinois Department of the Lottery (Department) has not complied with the Fiscal Control and Internal Auditing Act (Act).

During testing auditors noted the following exceptions:

- The Department’s internal audit function did not perform internal audits of all of their major systems of internal accounting and administrative control during the period under audit.
- The Department did not certify its internal controls at May 1, 2012 as required by the Act.
- The Department drafted but had not approved or implemented internal policies and procedures related to Revenues, Refunds & Receivables. A key component to establishing an adequate system of internal fiscal controls is the approval and implementation of policies and procedures.

The Act (30 ILCS 10/2003) requires State agencies to perform “audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years.”

The Act (30 ILCS 10/ 3003(a)) also requires “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 guidelines established under Section 3002, 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 requirements of this Act, or (2) the systems of internal fiscal and administrative controls of the State agency do not fully comply with the requirements of this Act.”

In addition, the Act (30 ILCS 3001) requires that “All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: “...(4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.”

Department management indicated the Department did not become its own agency until October 2011 and the Internal Audit function was not established until September 2012 with the hiring of the Department’s first Chief Internal Auditor.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Failure to implement provisions of the Fiscal Control and Internal Auditing Act results in non compliance with the Act and can lead to unidentified significant deficiencies and material weaknesses within the Department's operation.

The lack of internal policies and procedures can weaken the Department's ability to ensure (1) resources are utilized efficiently and effectively; (2) assets are properly recorded, managed and safeguarded; and (3) revenues, expenditures, and transfers of assets applicable to operations are properly recorded and accounted for. (Finding Code No. 2013-005)

Recommendation:

We recommend the Department comply with required provisions of the Fiscal Control and Internal Auditing Act.

Lottery Response:

The Department agrees with the recommendation. The Internal Audit function was only operational for 9 months during this 2 year audit cycle but the Department will ensure all internal audits and required filings are performed in future periods. The Department is continuing its efforts to update and/or create several policies including those mentioned above.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Finding 2013-006 Failure to Submit, or Timely Submit Required Reports, Documents and Policies

The Illinois Department of the Lottery (Department) failed to submit, or timely submit certain required reports, documents and policies to the required oversight entities.

During testing of the statutes applicable to the Department, the auditors noted the following exceptions:

- There were no quarterly reports on activities and actions of the private manager submitted to the Governor or the General Assembly during the period under audit. Illinois Lottery Law (Lottery Law) (20 ILCS 1605/9.1(p)(1)) states “ ... the Department shall submit written quarterly reports to the Governor and the General Assembly on the activities and actions of the private manager selected under this Section...”
- The Department did not timely submit the findings and recommendations of the Internet Lottery Study to the members of the Internet Lottery Study Committee (Committee). The auditors noted the findings and recommendations should have been submitted by February 27, 2013, but were not submitted until November 21, 2013, approximately nine months late. Lottery Law (20 ILCS 1605/7.12(c)) states “No later than 6 months after the effective date of this amendatory Act of the 97th General Assembly, the Department shall provide to the members of the Study Committee the proposed findings and recommendations of the study in order to solicit input from the Study Committee.” Public Act 97-1121 was effective August 27, 2012.
- The Department did not file their required Agency Workforce Report due January 1, 2013. The State Employment Records Act (5 ILCS 410/20) states “... State agencies shall collect, classify, maintain, and report all information required by this Act on a fiscal year basis. Agencies shall file, as public information and by January 1, 1993 and each year thereafter, a copy of all reports required by this Act with the Office of the Secretary of State, and shall submit an annual report to the Governor...”
- The Department failed to submit their vehicle use policy to the Department of Central Management Services (CMS). The State Vehicle Use Act (30 ILCS 617/10 (b)), states “Each State agency...shall draft a vehicle use policy. All vehicle use policies, other than those drafted by a constitutional officer, shall be submitted to the Division of Vehicles within the Department of Central Management Services...” In addition, the vehicle use policy is to be made publicly available on CMS’s official Internet website.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

- The Department failed to submit their required Travel Headquarter Reports (TA-2) to the Legislative Audit Commission during the period under audit. The State Finance Act (30 ILCS 105/12-3) requires State agencies to file reports of all of its officers and employees whose official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. Agencies are required to file negative reports if none of the agency’s officers or employees meet the reporting criteria. The TA-2 Reports are to be filed with the Legislative Audit Commission no later than each July 15 for the period from January 1 through June 30 of that year and no later than each January 15 for the period from July 1 through December 31 of the preceding year.

Department management stated the delay in submitting the findings and recommendations of the Internet Lottery Study were due to the procurement process slowing down the Committee’s activity. The Committee was tasked with reviewing the feasibility of a shared value card. Department management also stated that several workforce analysis reports were timely filed but one was inadvertently omitted. Department management indicated they could not verify the vehicle use policy had or had not been submitted to CMS.

Failure to submit the required reports, documents and policies results in noncompliance with the applicable statutory requirements, and diminishes oversight and communication to those charged with governance. (Finding Code No. 2013-006)

Recommendation:

We recommend the Department comply with the applicable statutory requirements and submit the required reports, documents and policies as required.

Lottery Response:

The Department agrees with the recommendation and has subsequently filed all required reports, documents and policies, and implemented processes to ensure future filings are timely.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

Finding 2013-007 Exceptions in Testing Property and Equipment

The Illinois Department of the Lottery (Department) does not have adequate controls over the recording and monitoring of property and equipment.

During testing of the Department’s property and equipment, the auditors noted the following exceptions:

- Two vehicles assigned to the Department as part of the Department of Central Management Services (CMS) vehicle usage program were incorrectly reported as Department purchases to the Illinois Office of the Comptroller (Comptroller) in the Department’s quarterly property reporting during fiscal year 2013. The two vehicles were valued at \$31,834.
- During fiscal year 2013 the Department incorrectly removed two vehicles from their property records that had been sent to CMS for disposal. Documentation provided by the Department to the auditors supporting acceptance of the vehicles by CMS was dated subsequent to June 30, 2013. Specifically, documentation from CMS was dated August 30, 2013 and September 14, 2013. The two vehicles were valued at \$31,273.
- One piece of equipment, a ball-drop machine valued at \$5,100, was not properly tagged.

The Comptroller’s Statewide Accounting Management System (SAMS) manual section 29.10.10 notes purchased assets should be included on the "Agency Report of State Property" (C-15 Report) in the quarter the assets were received. Vehicles assigned to the Department as part of the CMS vehicle usage program should not be considered purchases or reported on the Department’s C-15 Report.

As noted at 44 Illinois Administrative Code 5010.1110 (b), Vehicles to be Turned Over to the Property Control Division, states “Vehicles shall remain the responsibility of the possessing agency until the vehicle is accepted by the Property Control Division.”

In addition, 44 Illinois Administrative Code 5010.210 (a), Marking of State-Owned Equipment, states “The agencies are responsible for marking each piece of State-owned equipment in their possession with a unique six digit identification number to be assigned by the agency holding the property.”

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2013
Current Findings – *State Compliance*

shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Department management stated the vehicles noted in the first bullet exception were reported on the C-15 in the quarter they were received but, as the vehicle usage program was new, it was not clear that vehicles “received” as part of the vehicle usage program from CMS were to be excluded. Department management also stated the two pieces of equipment disposed of subsequent to June 30, 2013 were vehicles that had been taken to CMS garages for disposal prior to June 30, 2013 and were removed from the Department’s fleet at that time. The documentation requesting their formal disposition was not returned by CMS prior to June 30, 2013. Department management noted the piece of equipment missing a tag must have been the result of the tag coming off during its transport from a Springfield location to a Chicago location. A replacement tag will be issued.

The exceptions noted above lead to inaccurate Department property and equipment records, which in turn cause inaccuracies in the State property and equipment reporting. (Finding Code No. 2013-007).

Recommendation:

We recommend the Department follow the applicable statutes, administrative rules and SAMS procedures in maintaining and reporting their property and equipment records.

Lottery Response:

The Department agrees with the recommendation. A replacement tag will be issued for the ball drop machine and new reconciliation steps will be performed to ensure better alignment with the Department of Central Management Services’ vehicle usage program and inventory tracking practices.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

PRIOR FINDINGS NOT REPEATED

The prior findings not repeated relate to the Lottery Private Manager procurement and were initially reported in the Illinois Department of Revenue (DOR) compliance report for the two years ended June 30, 2010. In accordance with Public Act 97-0464, effective October 15, 2011, the DOR transferred all functions performed for the Illinois Lottery and all associated powers, rights, duties, and responsibilities to the Illinois Department of the Lottery.

A. Prior Finding (Lottery Private Manager Procurement- Use of Transaction Advisor)

The DOR allowed the transaction advisor hired to assist in the procurement of a Private Manager for the Lottery to work without an executed contract; to not meet contractual milestone dates; to subcontract with an entity which may have had a perceived objectivity issue; and paid for services in violation of the contractual arrangement with the advisor. (Finding Code No. 10-13)

In the current period, similar instances were not identified.

B. Prior Finding (Lottery Private Manager Procurement- Documentation to Support Payment to Transaction Advisor)

The DOR failed to adequately monitor and review payments made to the transaction advisor for services provided by the advisor and its subcontractors. Additionally, the legal fees cap was not timely memorialized in the contract with the transaction Advisor. (Finding Code No. 10-14)

In the current period, similar instances were not identified.

C. Prior Finding (Lottery Private Manager Procurement- Evaluation Team Diligence)

During the prior examination period, the DOR's evaluation team members for the procurement of a Private Manager failed to attend all evaluation meetings and/or presentations by the vendors proposing on the procurement. (Finding Code No. 10-15)

In the current period, similar instances were not identified.

D. Prior Finding (Lottery Private Manager Procurement- Evaluation Clarification Process)

The DOR failed to document clarification needed during the procurement evaluation process. (Finding Code No. 10-16)

In the current period, similar instances were not identified.

E. Prior Finding (Lottery Private Manager Procurement- Scoring Evaluation Irregularities)

The DOR failed to certify scores by evaluation team members and failed to submit scores timely (i.e., prior to the decision being made and publicly reported). (Finding Code No. 10-17)

In the current period, similar instances were not identified.

F. Prior Finding (Lottery Private Manager Procurement- Probity Investigations)

Inadequate documentation to support the increase in scope of the probity investigations utilized in the procurement of the Private Manager. (Finding Code No. 10-18)

In the current period, similar instances were not identified.

G. Prior Finding (Lottery Private Manager Procurement- Protest Process)

Inadequacy of the procurement protest process. (Finding Code No. 10-19)

In the current period, similar instances were not identified.

H. Prior Finding (Lottery Private Manager Procurement- Private Manager Agreement)

The DOR, failed to file a copy of the Private Manager Agreement with the Comptroller. (Finding Code No. 10-20)

In the current period, similar instances were not identified.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Supplementary Information for State Compliance Purposes Summary

For the Two Years Ended June 30, 2013

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

Fiscal Schedules and Analysis:

- Schedules of Appropriations, Expenditures and Lapse Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapse Balances
- Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) -
 - Locally Held Funds
- Schedules of Changes in State Property
- Comparative Schedule of Cash Receipts and Reconciliation Schedule of Cash Receipts to
 - Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances
- Analysis of Accounts Receivable

Analysis of Operations:

- Agency Functions and Planning Program (Unaudited)
- Average Number of Employees (Unaudited)
- Emergency Purchases (Unaudited)
- Service Efforts and Accomplishments (Unaudited)

The Independent Auditors' Report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states Schedules 1 and 3 through 11 for the year ended June 30, 2013 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, it is fairly stated, in all material respects, in relation to the basic financial statements as a whole from which it has been derived.

The Independent Auditors' Report also states the information for the year ended June 30, 2012 in Schedules 2 through 11 as well as the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2013
Fourteen Months Ended August 31, 2013

Schedule 1

Public Acts 97-0727

<u>Appropriated Funds</u>	Appropriations (Net of Transfers)	Through June 30, 2013	Lapse Period Expenditures July 1 to August 31, 2013	Total Expenditures 14 Months Ended August 31, 2013	Balances Lapse August 31, 2013
<u>State Lottery Fund - 711</u>					
Personal Services	\$ 11,433,300	\$ 8,180,396	\$ 365,518	\$ 8,545,914	\$ 2,887,386
Retirement System	4,343,200	3,112,730	139,113	3,251,843	1,091,357
Social Security	877,700	599,884	26,897	626,781	250,919
Group Insurance	3,956,000	2,909,484	130,952	3,040,436	915,564
Contractual Services	5,685,300	1,980,038	369,269	2,349,307	3,335,993
Travel	135,000	51,479	5,031	56,510	78,490
Commodities	50,000	35,643	713	36,356	13,644
Printing	29,800	7,059	1,489	8,548	21,252
Equipment	450,000	5,600	-	5,600	444,400
Electronic Data Processing	5,315,400	2,825,731	550,249	3,375,980	1,939,420
Telecommunications Services	964,000	166,607	29,651	196,258	767,742
Operation of Auto Equipment	376,000	186,890	70,477	257,367	118,633
Expenses of Lottery Games	192,800,000	96,846,000	26,647,310	123,493,310	69,306,690
Expenses of Lottery Board	8,300	1,165	-	1,165	7,135
Payment/Winning Lottery Tickets	815,000,000	443,148,501	15,885,354	459,033,855	355,966,145
Refunds	100,000	17,215	352	17,567	82,433
Shared Services Center	520,300	353,048	34,376	387,424	132,876
Total Appropriated Funds	\$ 1,042,044,300	\$ 560,427,470	\$ 44,256,751	\$ 604,684,221	\$ 437,360,079
<u>Non-Appropriated Funds</u>					
<u>State Lottery Fund - 711</u>					
Deposit Into Capital Projects Fund		135,000,000	-	135,000,000	
<u>Deferred Prize Winners Fund - 978</u>					
Deferred Payment Prizes Winning Tickets		57,839,434	-	57,839,434	
Total Non-Appropriated Funds		192,839,434	0	192,839,434	
Department Total-All Funds		\$ 753,266,904	\$ 44,256,751	\$ 797,523,655	

Notes:

- (a) Appropriations, expenditures and lapse balances were obtained from the State Comptroller's records which have been reconciled to the Department records.
(b) Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2012
Eighteen Months Ended December 31, 2012

Schedule 2

Public Acts 97-0057

<u>Appropriated Funds</u>	Appropriations (Net of Transfers)	Expenditures Through June 30,	Lapse Period Expenditures July 1 to December 31, 2012	Total Expenditures	Balances Lapse
Personal Services	\$ 10,915,000	\$ 8,524,975	\$ 418,111	\$ 8,943,086	\$ 1,971,914
Retirement System	3,731,800	2,920,502	143,268	3,063,770	668,030
Social Security	835,000	628,930	30,752	659,682	175,318
Group Insurance	2,630,000	2,367,407	108,582	2,475,989	154,011
Contractual Services	4,869,500	1,598,896	162,794	1,761,690	3,107,810
Travel	110,400	42,380	13,844	56,224	54,176
Commodities	33,600	10,036	2,183	12,219	21,381
Printing	29,800	1,371	3,016	4,387	25,413
Equipment	436,000	-	76,087	76,087	359,913
Electronic Data Processing	4,062,100	3,036,737	381,553	3,418,290	643,810
Telecommunications Services	2,614,000	229,818	34,098	263,916	2,350,084
Operation of Auto Equipment	495,000	416,157	74,313	490,470	4,530
Expenses of Lottery Games	167,900,000	97,351,250	31,358,750	128,710,000	39,190,000
Expenses of Lottery Board	8,300	-	-	-	8,300
Payment/Winning Lottery Tickets	750,000,000	517,683,836	25,470,195	543,154,031	206,845,969
Refunds	48,000	47,813	-	47,813	187
Shared Services Center	466,400	411,448	39,577	451,025	15,375
Total Appropriated Funds	\$ 949,184,900	\$ 635,271,556	\$ 58,317,123	\$ 693,588,679	\$ 255,596,221
<u>Non-Appropriated Funds</u>					
<u>State Lottery Fund - 711</u>					
Deposit Into Capital Projects Fund		65,200,000	-	65,200,000	
<u>Deferred Prize Winners Fund - 978</u>					
Deferred Payment Prizes Winning Tickets		68,653,418	-	68,653,418	
Total Non-Appropriated Funds		133,853,418	-	133,853,418	
Department Total-All Funds		\$ 769,124,974	\$ 58,317,123	\$ 827,442,097	

Notes:

(a) Appropriations, expenditures and lapse balances were obtained from the State Comptroller's records which have been reconciled to the Department records.

(b) Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPARATIVE SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Budget years of fiscal 2013 and 2012

Schedule 3

	2013		2012	
	P.A. 97-0727		P.A. 97-0057	
State Lottery Fund - 711				
Appropriations (Net of Transfers)	\$	1,042,044,300	\$	949,184,900
<u>Expenditures</u>				
Personal Services	\$	8,545,914	\$	8,943,086
Retirement System		3,251,843		3,063,770
Social Security		626,781		659,682
Group Insurance		3,040,436		2,475,989
Contractual Services		2,349,307		1,761,690
Travel		56,510		56,224
Commodities		36,356		12,219
Printing		8,548		4,387
Equipment		5,600		76,087
Electronic Data Processing		3,375,980		3,418,290
Telecommunications Services		196,258		263,916
Operation of Auto Equipment		257,367		490,470
Expenses of Lottery Games		123,493,310		128,710,000
Expenses of Lottery Board		1,165		-
Payment/Winning Lottery Tickets		459,033,855		543,154,031
Refunds		17,567		47,813
Shared Services Center		387,424		451,025
Total Expenditures	\$	604,684,221	\$	693,588,679
Lapsed Balances	\$	437,360,079	\$	255,596,221
<u>State Officers' Salaries</u>				
Appropriations (Net of Transfers)	\$	284,000	\$	142,000
<u>Expenditures</u>				
Director		142,000		82,833
Lapsed Balance	\$	142,000	\$	59,167

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
(CASH BASIS) LOCALLY-HELD FUNDS
Budget years of fiscal 2013 and 2012

Schedule 4

<u>Fund Name/ Fund Number</u>	<u>2013</u>	<u>2012</u>
Agent Security Deposit (1309)		
Beginning Cash Balance- July 1,	\$ 936,402	\$ 786,692
Receipts:		
Fund Transfers-In	405,059	248,183
Investment Income	681	605
Miscellaneous	1,019,703	540,776
Disbursements:		
Refunds	1,406,562	639,854
Ending Cash Balance- June 30,	<u>955,283</u>	<u>936,402</u>
Prize Payment Fund (1279)		
Beginning Cash Balance- July 1,	2,027,469	3,550,587
Receipts:		
Fund Transfers-In	116,947,142	103,437,352
Disbursements:		
Awards or Grants	111,646,587	104,960,470
Ending Cash Balance- June 30,	<u>7,328,024</u>	<u>2,027,469</u>
Agent Sales Sweep Account (1373)		
Beginning Cash Balance- July 1,	7,513,001	2,013,989
Receipts:		
Other- Lottery Sales, net	1,330,626,178	1,273,903,048
Disbursements:		
Fund Transfers-Out	1,330,691,619	1,268,404,036
Ending Cash Balance- June 30,	<u>7,447,560</u>	<u>7,513,001</u>
Agent Sales Concentration Account (1374)		
Beginning Cash Balance- July 1,	2,548,008	713,182
Receipts:		
Fund Transfers-In	1,330,691,619	1,268,404,036
Other-Lottery Sales, net	11,271,792	6,514,332
Disbursements:		
Contractual Services	-	5,074,430
Fund Transfers-Out	1,341,963,220	1,268,009,112
Ending Cash Balance- June 30,	<u>\$ 2,548,199</u>	<u>\$ 2,548,008</u>

See accompanying independent accountants' report.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF CHANGES IN STATE PROPERTY
For the year ended June 30, 2013
(In Thousands)**

Schedule 5

	Balance July 1, 2012	Additions	Deletions	Net Transfers	Balance June 30, 2013
Equipment	\$ 2,412	\$ 108	\$ -	\$ (99)	\$ 2,421
Total	\$ 2,412	\$ 108	\$ -	\$ (99)	\$ 2,421

Notes:

- (a) This schedule has been reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the State Comptroller.
- (b) This summary schedule was prepared using State property records required by 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 in accordance with generally accepted accounting principles.

See accompanying independent accountants' report.

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF CHANGES IN STATE PROPERTY
For the year ended June 30, 2012
(In Thousands)**

Schedule 5 (Continued)

	Balance July 1, 2011	Additions	Deletions	Net Transfers	Balance June 30, 2012
Equipment	\$ -	\$ -	\$ -	\$ 2,412	\$ 2,412
Total	\$ -	\$ -	\$ -	\$ 2,412	\$ 2,412

Notes:

(a) This schedule has been reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the State Comptroller.

(b) This summary schedule was prepared using State property records required by 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 in accordance with generally accepted accounting principles.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPARATIVE SCHEDULE OF CASH RECEIPTS
AND RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE COMPTROLLER
For the years ended June 30, 2013 and 2012

Schedule 6

<u>FUND/ TAX SOURCE</u>	<u>FUND</u>	<u>2013</u>	<u>2012</u>
Carolyn Adams Ticket for the Cure Grant Fund	0208	\$ 724,052	\$ 416,373
Illinois Veterans Assistance Fund	0236	716,679	792,939
Multiple Sclerosis Research Fund	0429	877,933	565,041
Quality of Life Endowment Fund	0437	602,986	601,942
Capital Projects Fund	0694	135,000,000	-
State Lottery	0711	1,385,079,197	1,199,710,025
Deferred Lottery Prize Winners Trust Fund	0978	58,048,000	50,530,142
Total Receipts Collected by the Department		<u>\$ 1,581,048,847</u>	<u>\$ 1,252,616,462</u>
Items not considered Collection by the Department:			
Add: deposits in transit, beginning of year		\$ 280,173	\$ 44,799
Less: deposits in transit, end of year		\$ -	\$ (280,173)
Total of items not considered Collection by the Department		<u>\$ 280,173</u>	<u>\$ (235,374)</u>
Total Deposit into the State Treasury		<u><u>\$ 1,581,329,020</u></u>	<u><u>\$ 1,252,381,088</u></u>

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SIGNIFICANT VARIANCE IN EXPENDITURES
For the years ended June 30, 2013 and 2012

Schedule 7

	Fund	June 30		Increase (decrease)	Percentage change	Notes
		2013	2012			
Personal Services	711	\$ 8,545,914	\$ 8,943,086	\$ (397,172)	-4%	
Retirement System	711	3,251,843	3,063,770	188,073	6%	
Social Security	711	626,781	659,682	(32,901)	-5%	
Group Insurance	711	3,040,436	2,475,989	564,448	23%	
Contractual Services	711	2,349,307	1,761,690	587,618	33%	
Travel	711	56,510	56,224	285	1%	
Commodities	711	36,356	12,219	24,137	198%	
Printing	711	8,548	4,387	4,161	95%	
Equipment	711	5,600	76,087	(70,487)	-93%	
Electronic Data Processing	711	3,375,980	3,418,290	(42,310)	-1%	
Telecommunications Services	711	196,258	263,916	(67,659)	-26%	
Operation of Auto Equipment	711	257,367	490,470	(233,103)	-48%	
Expenses of Lottery Games	711	123,493,310	128,710,000	(5,216,690)	-4%	Note 4
Expenses of Lottery Board	711	1,165	-	1,165	-100%	
Deposit Into Captial Projects Fund	711	135,000,000	65,200,000	69,800,000	107%	Note 1
Payment/Winning Lottery Tickets	711	459,033,855	543,154,031	(84,120,176)	-15%	Note 2
Refunds	711	17,567	47,813	(30,246)	-63%	
Deferred Payment Prizes Winning Tickets	978	57,839,434	68,653,418	(10,813,984)	-16%	Note 3
Shared Services Center	711	387,424	451,025	(63,601)	-14%	
		\$ 797,523,655	\$ 827,442,097			

Note 1 Increase in operating income supported additional transfer to Captial Projects Fund.

Note 2 FY12 expenditures include large multi-state game jackpot winner from Illinois.

Note 3 Decrease in deferred prize payments result of more winners opting for cash payout versus deferred.

Note 4 FY13 expenditures offset by FY12 PMA penalty payment of \$21.8 million.

See accompanying independent accountants' report.

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SIGNIFICANT VARIANCE IN EXPENDITURES
For the years ended June 30, 2013 and 2012**

Schedule 7 (Continued)

	Fund	June 30		Increase (decrease)	Percentage change	Notes
		2012	2011			
Personal Services	711	\$ 8,943,086	\$ 9,591,715	\$ (648,629)	-7%	
Retirement System	711	3,063,770	2,813,673	250,097	9%	
Social Security	711	659,682	708,267	(48,585)	-7%	
Group Insurance	711	2,475,989	2,443,955	32,034	1%	
Contractual Services	711	1,761,690	28,050,162	(26,288,472)	-94%	Note 1
Travel	711	56,224	35,952	20,272	56%	
Commodities	711	12,219	8,620	3,599	42%	
Printing	711	4,387	18,615	(14,228)	-76%	
Equipment	711	76,087	64,569	11,518	18%	
Electronic Data Processing	711	3,418,290	2,889,919	528,371	18%	
Telecommunications Services	711	263,916	6,555,690	(6,291,774)	-96%	Note 2
Operation of Auto Equipment	711	490,470	464,085	26,385	6%	
Expenses of Lottery Games	711	128,710,000	7,024,459	121,685,541	1732%	Note 3
Expenses of Lottery Board	711	-	-	-	0%	
Deposit Into Captial Projects Fund	711	65,200,000	54,125,000	11,075,000	20%	Note 4
Payment/Winning Lottery Tickets	711	543,154,031	361,345,041	181,808,990	50%	Note 5
Refunds	711	47,813	16,317	31,496	193%	
Deferred Payment Prizes Winning Tickets	978	68,653,418	89,441,404	(20,787,986)	-23%	Note 6
Shared Services Center	711	451,025	364,440	86,585	24%	
		<u>\$ 827,442,097</u>	<u>\$ 565,961,883</u>			

Note 1 Decrease in contractual services expenditures related to shift of responsibilities to Private Manager.

Note 2 Decrease in telecommunications expenditures related to shift of responsibilities to Private Manger.

Note 3 Increase in Expenses of Lottery Games due to shift of responsibilities to Private Manager.

Note 4 Increase in net income supported increase in transfer to Captial Projects Fund.

Note 5 FY12 prize payments increase due to large multi-state game jackpot winner from Illinois.

Note 6 Decrease in deferred prize payments result of more winners opting for cash payout versus deferred.

See accompanying independent accountants' report.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SIGNIFICANT VARIATIONS IN CASH RECEIPTS
For the years ended June 30, 2013 and 2012**

<u>FUND DESCRIPTION</u>	<u>CODE</u>	<u>2013</u>	<u>2012</u>	<u>Increase (decrease)</u>	<u>Percentage change</u>	<u>Notes</u>
Carolyn Adams Ticket for the Cure Grant Fund	0208	\$ 724,052	\$ 416,373	\$ 307,679	74%	Note 1
Illinois Veterans Assistance Fund	0236	716,679	792,939	(76,260)	-10%	Note 2
Multiple Sclerosis Research Fund	0429	877,933	565,041	312,892	55%	Note 3
Quality of Life Endowment Fund	0437	602,986	601,942	1,044	0%	
Capital Projects Fund	0694	135,000,000	-	135,000,000	100%	Note 4
State Lottery	0711	1,385,079,197	1,199,710,025	185,369,172	15%	Note 5
Deferred Lottery Prize Winners Trust Fund	0978	58,048,000	50,530,142	7,517,858	15%	Note 6
Total Receipts Collected by the Department		<u>\$ 1,581,048,847</u>	<u>\$ 1,252,616,462</u>	<u>328,432,385</u>	26%	Note 7

Note 1 Deposits into this fund are based upon ticket sales of specific games. Ticket sales for those games were higher in fiscal year 2013 than in 2012.

Note 2 Deposits into this fund are based upon ticket sales of specific games. Ticket sales for those games were lower in fiscal year 2013 than in 2012.

Note 3 Deposits into this fund are based upon ticket sales of specific games. Ticket sales for those games were higher in fiscal year 2013 than in 2012.

Note 4 20 ILCS 1605/9 of the State Lottery Act establishes the priority and manner in which Department proceeds of lottery tickets sold shall be distributed. After other required transfers are made, the Department must deposit any remaining proceeds into the Capital Projects Fund. Remaining proceeds were higher in fiscal year 2013 than in 2012 due to increased ticket sales.

Note 5 Overall ticket sales were higher in fiscal year 2013 than in 2012.

Note 6 These deposits represent proceeds from investment maturities. Investments are purchased with maturity dates corresponding to related annuity payments due to prize winners.

Note 7 Overall ticket sales were higher in fiscal year 2013 than in 2012.

See accompanying independent accountants' report.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SIGNIFICANT LAPSE PERIOD EXPENDITURES
For the years ended June 2013 and 2012**

Schedule 9

	Fund	Lapse Period			Lapse Period		
		Expenditures July 1 to August 31, 2013	Total Expenditures 14 Months Ended August 31, 2013	Percentage	Expenditures July 1 to December 31, 2012	Total Expenditures 18 Months Ended December 31, 2012	Percentage
Personal Services	711	\$ 365,518	\$ 8,545,914	4.3%	\$ 418,111	\$ 8,943,086	4.7%
Retirement System	711	139,113	3,251,843	4.3%	143,268	3,063,770	4.7%
Social Security	711	26,897	626,781	4.3%	30,752	659,682	4.7%
Group Insurance	711	130,952	3,040,436	4.3%	108,582	2,475,989	4.4%
Contractual Services	711	369,269	2,349,307	15.7% Note 1	162,794	1,761,690	9.2%
Travel	711	5,031	56,510	8.9%	13,844	56,224	24.6%
Commodities	711	713	36,356	2.0%	2,183	12,219	17.9%
Printing	711	1,489	8,548	17.4%	3,016	4,387	68.7%
Equipment	711	-	5,600	0.0%	76,087	76,087	-
Electronic Data Processing	711	550,249	3,375,980	16.3% Note 2	381,553	3,418,290	11.2% Note 4
Telecommunications Services	711	29,651	196,258	15.1%	34,098	263,916	12.9%
Operation of Auto Equipment	711	70,477	257,367	27.4%	74,313	490,470	15.2%
Expenses of Lottery Games	711	26,647,310	123,493,310	21.6% Note 3	31,358,750	128,710,000	24.4% Note 5
Expenses of Lottery Board	711	-	1,165	0.0%	-	-	-
Payment/Winning Lottery Tickets	711	15,885,354	459,033,855	3.5%	25,470,195	543,154,031	4.7%
Refunds	711	352	17,567	2.0%	-	47,813	0.0%
Shared Services Center	711	34,376	387,424	8.9%	39,577	451,025	8.8%
		<u>\$ 44,256,751</u>	<u>\$ 604,684,221</u>		<u>\$ 58,317,123</u>	<u>\$ 693,588,679</u>	

Note 1 The lapse period expenditures included a \$130 thousand payment to a vendor for their work on the Lottery Internet pilot study as noted in Finding 2013-006. This was a non-repetitive expense. The majority of the remaining expenditures were standard monthly invoices primarily for services received in June, including \$32 thousand in legal fees which were invoices from prior months not received until June.

Note 2 This includes five months of invoices for the Statistical Services Fund from Central Management Services (CMS) for EDP services. Additionally, new PC leasing fees of \$69 thousand were included on the May 2013 invoice. As the program is new, no such similar fees were applicable to FY12. EDP fees account for the majority of the expenditures paid in this category (5 months x average monthly amount of \$67 thousand + \$69 thousand for PC Refresh = \$404 thousand). Additionally, this category includes a late billing from a vendor for consulting fees for the month of May for \$22 thousand.

Note 3 The \$26.6 million represents the final four months of budgeted management fees to Northstar at approximately \$12 million each reduced by a \$21 million shortfall penalty owed by Northstar for FY12. \$48 million less \$21 million approximates \$27 million.

Note 4 This category includes four months of invoices for the Statistical Services Fund from CMS for EDP services. It is typical for billings to lag behind until year end (approximately 4 months x \$67 thousand average monthly billing = \$268 thousand). This represents the majority of expenditures in this category during lapse.

Note 5 The \$31.4 million represents the final three months of budgeted management fees to Northstar at approx \$10.5 million each.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SIGNIFICANT ACCOUNT BALANCES
For the years ended June 30, 2013 and 2012

Schedule 10

ACCOUNT NAME	2013	2012	Increase (decrease)	Percentage change	Notes
Prizes and Claims Expense (Fund 711)	\$ 1,743,686,000	\$ 1,620,405,000	\$ 123,281,000	7.6%	Note 1
Transfers-Out (Fund 711)	819,390,000	758,236,000	61,154,000	8.1%	Note 2
Cost of Sales and Services	163,966,000	151,421,000	12,545,000	8.3%	Note 3
Accounts Payable - General	52,454,000	34,679,000	17,775,000	51.3%	Note 4
Cash Equity in State Treasury (Fund 711)	116,847,000	141,435,000	(24,588,000)	-17.4%	Note 5
Investments (Fund 978)	312,785,000	359,564,000	(46,779,000)	-13.0%	Note 6
Due to/from Other State Funds (Fund 711)	44,449,000	18,624,000	25,825,000	138.7%	Note 7
Ticket Sales, Instant	1,768,382,000	1,622,545,000	145,837,000	9.0%	Note 8

Note 1 Increase of \$123,281,000, or 7.6%, is a result of increased overall ticket sales as well as a number of grand prize winners who selected the lump-sum payout option over the annuity option.

Note 2 Increase of \$61,154,000, or 8.1%, mainly relates to the increase in operating income.

Note 3 Increase of \$12,545,000, or 8.3%, was due to increased commissions. Overall ticket sales increased and commissions are based on ticket sales.

Note 4 Increase of \$17,775,000, or 51.3% mainly relates to overall timing of payment issuance related to Northstar fees. As of June 30, 2013, Lottery had four monthly payments (\$12.1 million each) outstanding to Northstar for a total of \$48.4 million versus three monthly payments (\$10.5 million each) outstanding to Northstar for a total of \$31.4 million as of June 30, 2012.

Note 5 Decrease of \$24,558,000, or 17.4%, mainly relates to overall timing of payment issuance, Jackpot payouts and transfers to the Common School Fund.

Note 6 Decrease of \$46,779,000 or 13.0%, relates to (1) FY13 security redemption sales exceeding new security purchases as grand prize winners selected the lump-sum payout option over the annuity option and (2) changes in market values of securities.

Note 7 The account is a function of the difference in the cash amounts transferred based on estimated net operating income and the actual net operating income once all post closing entries are made. Fluctuations are anticipated due to the inherent nature of the account.

Note 8 Increase of \$145,837,000, or 9.0%, was due to the introduction of new games, prize structures, and promotions designed to bolster sales.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF ACCOUNTS RECEIVABLE
For the years ended June 30, 2013 and 2012
(in Thousands)

Schedule 11

	2013	2012
<u>Not in Protest</u>		
<u>Current:</u>	\$ 21,615	\$ 18,966
<u>Past Due:</u>		
1 to 90 days	463	1,199
91 to 180 days	563	297
181 days to 1 year		
Over 1 year	13,636	10,129
2 years <= 3 years	-	-
3 years <= 4 years	-	-
4 years <= 5 years	-	-
5 years <= 10 years	-	-
10 years <= 20 years	-	-
>20 years	-	-
Total Past Due	\$ 14,662	\$ 11,625
Gross Receivables	\$ 36,277	\$ 30,591
Estimated Uncollectible	\$ 11,367	\$ 8,485
Total Net Receivables	\$ 24,910	\$ 22,106

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF OPERATIONS
For the years ended June 30, 2013 and 2012
(Unaudited)

General Operations

The Illinois Lottery is a Department within the State of Illinois and administered by the Illinois Department of Lottery. Approximately, 60 percent of the money goes to prizes, one-third to the Common School and Capital Projects Funds and the remainder to retail commissions, and operating and marketing expenses. In addition to raising money for K-12 public education, the Lottery contributes to good causes through four "specialty" instant games that benefit such causes as: veterans support programs, breast cancer research and education, HIV/AIDS awareness and multiple sclerosis research.

Agency Functions

Divisions of the Department

Operations and Technology - The electronic data processing and information systems operations of the Lottery 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 Lottery's Information Technology Section and Department of Central Management Services (CMS), although the Lottery still utilized some Department of Revenue facilities and services such as servers and LAN administration pursuant to an Intergovernmental Agreement ("IGA") through August 2013.

Sales - Sales and marketing functions are managed by the Private Manager, Northstar Lottery Group (Northstar), utilizing a combination of Illinois Lottery employees, who report to Northstar supervisors pursuant to an Employee Use Agreement, and Northstar's own employees. Sales personnel operate out of Northstar's offices in Bolingbrook (Lottery Sales Regions 1, 2 and 6) and Springfield (Region 5), as well as from the Lottery's satellite offices in Rockford (Region 3) and Fairview Heights (Region 4). Marketing personnel operate primarily from Northstar's administrative office located at 160 N. LaSalle, Chicago.

Finance – 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.

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.

(Continued)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF OPERATIONS
For the years ended June 30, 2013 and 2012
(Unaudited)

Program Goals and Objectives:

The Lottery was established in 1974. Its focus is to raise funds for the Common School Fund, Specialty Cause funds for HIV, Veterans, Breast Cancer and MS programs as well as the Capital Fund. The Lottery oversees the private manager, Northstar. Additionally, the Lottery conducts drawings, issues licenses, manages/pays claims.

The Illinois Lottery strives to enrich the communities and improve the lives of those who live and work in them. Part of Lottery's mission is to leave a positive "footprint" throughout Illinois by responsibly delivering growth, and providing resources to support the Common School Fund and Capital Improvements throughout the state. In addition, the Lottery is committed to providing funding for the needs of Illinois Veterans, and raising awareness about life changing illnesses such as Breast Cancer, HIV/AIDS and Multiple Sclerosis through specialty tickets.

The goal of the Lottery is to raise funds to support public education, capital projects, and other good causes. Goals include:

- 1) To develop, market and conduct Lottery games in a socially responsible manner that grows by expanding the player base and focuses attention on the various good causes the Lottery funds.
 - a) Work closely with the Lottery's private management company to ensure the manager's advertising, marketing, promotions and sales programs are conducted in an appropriate and socially responsible manner.
 - b) Administer an Internet sales pilot program as a means of expanding the player base.
- 2) To award all prizes and incentives in a timely, efficient and secure manner.

Unaudited - See accompanying independent accountants' report.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
AVERAGE NUMBER OF EMPLOYEES
For the years ended June 30, 2013 and 2012
(Unaudited)**

<u>DIVISION</u>	<u>2013</u>	<u>2012</u>
Operations	56	56
Employee Use Agreement	77	82
Electronic Data Processing	17	18
Lottery Interagency Agreement	1	2
Shared Services Center	4	5
Total Department	<u>155</u>	<u>163</u>

Unaudited - See accompanying independent accountants' report.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
EMERGENCY PURCHASES
For the years ended June 30, 2013 and 2012
(Unaudited)**

The Department reported the following emergency purchases to the Office of the Auditor General:

<u>DESCRIPTION OF EMERGENCY PURCHASE</u>	<u>Amount</u>	
	<u>2013</u>	<u>2012</u>
1 Migration of critical back office systems from a mainframe to a server-based platform (affected systems include but are not limited to accounts receivable and deferred prize winner annuity payments). Several key IT employees retired December 31, 2011, including the Lottery IT manager.	\$ -	\$ 33,781
2 Emergency contract for verifying audit services for Illinois Lottery's midday game drawings while it restructures its drawing observation contracts and issues a new Invitation for Bids (IFB).	25,000	-
3 150-day emergency extension to contract for provision of verifying audit services for Illinois Lottery's midday game drawings while it restructures drawing observation contracts and issues new Request for Proposal (RFP).	54,400	-
4 Emergency contract for provision of primary audit services for Illinois Lottery's midday game drawings while it restructures drawing observation contracts and issues new Invitation for Bids (IFB).	25,000	-
5 150-day emergency extension to contract for provision of primary audit services for Illinois Lottery's midday game drawings while it restructures drawing observation contracts and issues new Request for Proposal (RFP).	66,300	-
	<u>\$ 170,700</u>	<u>\$ 33,781</u>

Unaudited - See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
PERFORMANCE MEASURES
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the years ended June 30, 2013 and 2012
(Unaudited)

	<u>2013</u>		<u>2012</u>		<u>Difference</u>
Outcome Indicators:					
Prizes paid (in millions)	\$ 1,728.3		\$ 1,561.2		\$ 167.1
Retailer & vendor commissions (in millions)	\$ 164.0		\$ 151.4		\$ 12.6
Transfers to Common School Fund (in millions)	\$ 655.6	A	\$ 639.9	A	\$ 15.7
Output Indicators:					
Sales (in millions)	\$ 2,832.6	B	\$ 2,677.0	B	\$ 155.6
Input Indicators:					
Expense of operations (in millions)	\$ 153.7		\$ 152.2		\$ 1.5
Number of personnel	155	C	157	C	(2)
Efficiency/Cost-Effectiveness:					
Percentage of sales needed for other operating expenses	5.4%		5.7%		(0.3%)
Percentage of sales transferred to Common School Fund	23.1%		23.9%		(0.8%)
Percentage of sales paid in prizes	61.0%		58.3%		2.7%
Percentage of sales paid as retailer & vendor commissions	5.8%		5.7%		0.1%

(A) Amount reported using cash-basis method of accounting.

(B) Amount includes free tickets.

(C) Total number of personnel on June 30.

Unaudited - See accompanying independent accountants' report.