



**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2021

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



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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2021

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
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AGENCY OFFICIALS

Director (03/22/22 – Present)	Mr. Harold Mays
Director (Acting) (07/01/19 – 03/21/22)	Mr. Harold Mays
Chief of Staff	Mr. Scott Gillard
Chief Financial Officer	Ms. Carol Radwine
General Counsel	Mr. Cornell Wilson
Chief Operations Officer (05/17/21 – Present)	Mr. Matthew Bell
Chief Operations Officer (Acting) (07/01/19 – 05/16/21)	Mr. James Bartlett
Chief Internal Auditor	Mr. Darick Clark

LOTTERY CONTROL BOARD OFFICER

Chair (09/02/20 – Present)	Ms. Dianna Sheehan
Chair (07/01/19 – 09/01/20)	Vacant

LOTTERY CONTROL BOARD MEMBERS

Member (06/18/20 – Present)	Vacant
Member (07/01/19 – 06/17/20)	Ms. Elba Aranda-Suh
Member (08/23/21 – Present)	Ms. Sarah Alter
Member (07/02/21 – 08/22/21)	Vacant
Member (07/01/20 – 07/01/21)	Ms. Sarah Alter
Member (07/01/19 – 06/30/20)	Vacant
Member (08/21/19 – Present)	Vacant
Member (07/01/19 – 08/20/19)	Mr. James Floyd
Member (03/26/21 – Present)	Ms. Alejandra Garza
Member (08/23/19 – 03/25/21)	Ms. Tarrah Cooper Wright
Member (07/01/19 – 08/22/19)	Vacant
Member (07/10/20 – Present)	Ms. Dianna Sheehan
Member (07/01/19 – 07/09/20)	Vacant

The Department's primary administrative offices are located at:

122 S. Michigan Avenue, 19th Floor
Chicago, Illinois 60603

101 W. Jefferson Street
Springfield, Illinois 62702

MANAGEMENT ASSERTION LETTER - STATE COMPLIANCE EXAMINATION



MANAGEMENT ASSERTION LETTER

April 29, 2022

Sikich LLP
3201 West White Oaks Dr. Suite 102
Springfield, IL 62704

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Department of the Lottery (Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following specified requirements during the two-year period ended June 30, 2021. Based on this evaluation, we assert that during the years ended June 30, 2020, and June 30, 2021, the Department has materially complied with the specified requirements listed below.

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

Yours truly,

State of Illinois, Department of the Lottery

SIGNED ORIGINAL ON FILE

Harold Mays, Director

SIGNED ORIGINAL ON FILE

Carol Radwine, Chief Fiscal Officer

SIGNED ORIGINAL ON FILE

Cornell Wilson III, General Counsel

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2021

STATE COMPLIANCE REPORT

SUMMARY

The State compliance testing performed during this 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*.

ACCOUNTANT'S REPORT

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

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Reports</u>
Findings	14	14
Repeated Findings	8	5
Prior Recommendations Implemented or Not Repeated	6	3

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2021-001	11	2020/ 2017	Noncompliance with Fund Transfer Provisions	Material Weakness and Material Noncompliance
2021-002	14	2020/ 2020	Inadequate Internal Controls over Census Data	Significant Deficiency Noncompliance
2021-003	17	2020/ 2017	Inadequate Controls over Specialty Tickets	Significant Deficiency and Noncompliance
2021-004	20	2020/ 2019	System Access Weaknesses	Significant Deficiency and Noncompliance

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2021

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings (Continued)				
2021-005	22	NEW	Inadequate Controls over SOC Report Reviews	Significant Deficiency and Noncompliance
2021-006	24	NEW	Inadequate Controls over Change Management	Significant Deficiency and Noncompliance
2021-007	26	NEW	Failure to Implement Lottery Sports Wagering	Material Weakness and Material Noncompliance
2021-008	30	2019/ 2019	Inadequate Controls over Personal Services	Significant Deficiency and Noncompliance
2021-009	33	2019/ 2019	Inadequate Controls over State Vehicles	Significant Deficiency and Noncompliance
2021-010	36	2019/ 2013	Inadequate Controls over Reporting Requirements	Significant Deficiency and Noncompliance
2021-011	39	2019/ 2019	Weaknesses in Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance
2021-012	42	NEW	Disaster Recovery Planning Weaknesses	Significant Deficiency and Noncompliance
2021-013	44	NEW	Inadequate Controls over Remote Access	Significant Deficiency and Noncompliance
2021-014	46	NEW	Insufficient Number of Lottery Control Board Members	Noncompliance

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2021

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Prior Findings Not Repeated				
A	48	2020/ 2019	Untimely Review of Credit Card Security	
B	48	2019/ 2019	Failure to Obtain Timely Assurance over the Trust Services Criteria and Information Integrity for the Central Gaming System	
C	48	2019/ 2018	Excess Transfers to the Common School Fund	
D	49	2019/ 2019	Ineffective Oversight of the Evaluation Team Selecting the New Private Manager	
E	49	2019/ 2019	Inadequate Control over Contractual Services	
F	49	2019/ 2017	Noncompliance with Lottery Control Board Requirements	

EXIT CONFERENCE

Findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 13, 2022.

Attending were:

Department of the Lottery

Harold Mays, Director
 Carol Radwine, Chief Financial Officer
 Cornell Wilson, General Counsel
 Darick Clark, Chief Internal Auditor
 Amber Chappell, Finance Manager

Sikich LLP

Amy L. Sherwood, Partner
 Shannon Leach, Manager

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2021

EXIT CONFERENCE (Continued)

Office of the Auditor General

Daniel J. Nugent, Technical Specialist

Reddy Bommareddi, Senior Information Systems Audit Manager

The responses to the recommendations were provided by Darick Clark, Chief Internal Auditor, in a correspondence dated April 18, 2022.

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**INDEPENDENT ACCOUNTANT’S REPORT
ON STATE COMPLIANCE AND ON INTERNAL
CONTROL OVER COMPLIANCE**

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State of Illinois, Department of the Lottery (Department) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2021. Management of the Department is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Department’s compliance with the specified requirements based on our examination.

The specified requirements are:

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

- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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

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

Our examination disclosed material noncompliance with the following specified requirements applicable to the Department for the two years ended June 30, 2021. As described in the accompanying Schedule of Findings as items 2021-001 and 2021-007, the Department had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material noncompliance with the specified requirements described in the preceding paragraph, the Department complied with the specified requirements during the two years ended June 30, 2021, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and which are described in the accompanying Schedule of Findings as items 2021-002 through 2021-006 and 2021-008 through 2021-014.

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

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

Report on Internal Control Over Compliance

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. *A material weakness in internal control* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2021-001 and 2021-007 to be material weaknesses.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2021-002 through 2021-006 and 2021-008 through 2021-013 to be significant deficiencies.

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

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

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
April 29, 2022

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-001 **FINDING** (Noncompliance with Fund Transfer Provisions)

The Department of the Lottery (Department) has not yet resolved prior period excess cash transfers from the State Lottery Fund (Fund 711) to the Common School Fund (Fund 412) or performed all transfers to the Capital Projects Fund (Fund 694) from Fund 711.

On June 30, 2021, the Illinois Lottery Law (Law) (20 ILCS 1605/9.1(o)) required the Department to distribute the proceeds of lottery tickets and shares sold in the following priority order and manner:

- 1) to pay prizes and retailer bonuses;
- 2) to pay costs related to operating and administering the Lottery, including all amounts due to the Private Manager under the Private Management Agreement;
- 3) to distribute the net revenue from specialty tickets into specific State funds, as provided by § 21.5, § 21.6, § 21.7, § 21.8, § 21.9, § 21.10, § 21.11, § 21.12, and § 21.13 of the Law;
- 4) to transfer into Fund 412 an amount equal to the proceeds transferred into Fund 412 from Fund 711 in Fiscal Year 2009, adjusted for inflation, on the last day of each month or as soon thereafter as possible; and,
- 5) to annually deposit, on or before September 30, any estimated remaining proceeds from the prior fiscal year into Fund 694, with an adjustment in the subsequent annual transfer for any difference between the estimated amount and the actual audited amount reported in the Department’s annual financial audit report.

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

During testing, we noted the following:

- The Department has been unable to resolve excess transfers to Fund 412 from Fund 711, totaling \$133.966 million. This amount consists of \$64.124 million in excess transfers which occurred in Fiscal Year 2018 and \$69.842 million in excess transfers which occurred in periods prior to Fiscal Year 2010.

During discussions with Department officials regarding the \$69.842 million, they indicated Fund 711 annually transferred more cash into Fund 412 than required on an accrual basis during periods prior to Fiscal Year 2010. To account for the accumulation of excess transfers, the Department’s predecessor agency booked a due from Fund 412 (accounts receivable) for the amount of excess cash transferred from Fund 711. During the Department’s Fiscal Year 2012 financial audit, it was determined this due from no longer met the criteria established by the Governmental Accounting Standards Board to be reported and the Department cured the issue by reclassifying the balance as a transfer.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-001 **FINDING** (Noncompliance with Fund Transfer Provisions) (Continued)

This remedy, however, created a cash deficit within Fund 711, as Fund 412 now had the cash that otherwise should have been deposited into Fund 694 under the waterfall calculation set forth in the Law.

Further, during discussions with Department officials regarding the \$64.124 million, they indicated this was due to the Department previously interpreting the amount to transfer to Fund 412 as an absolutely mandatory monthly amount, regardless of the amount of actual proceeds remaining on an accrual basis under the waterfall calculation set forth in the Law.

- The Department has been unable to transfer \$89.045 million from Fund 711 to Fund 694. This amount consists of \$69.842 million in excess transfers which occurred in periods prior to Fiscal Year 2010 as discussed above and \$19.203 million in unperformed prior period transfers not performed in periods prior to Fiscal Year 2019.

During discussions with Department officials regarding the \$19.203 million, they indicated that prior to Public Act 100-0587's enactment in June 2018, the Department was required to annually transfer cash from Fund 711 to Fund 694 on June 30. Due to both timing issues arising from the conversion of accounts receivable into cash and difficulties determining the exact amount to transfer, the Department was not able to timely transfer this balance into Fund 694.

Department officials indicated, due to other competing priorities and the COVID-19 pandemic, a legislative remedy has not been obtained to correct these balances.

Failure to make transfers into Fund 412 in conformity with the priority waterfall order for the distribution and use of proceeds established by the Law created a cash deficit within Fund 711. Additionally, failure to make transfers into Fund 694 in conformity with the Law has delayed Fund 694's receipt of cash. (Finding Code No. 2021-001, 2020-001, 2019-003, 2018-002, 2017-001)

RECOMMENDATION

We recommend the Department work with the General Assembly and the Governor to resolve the \$133.966 million due from Fund 412 to Fund 711 and the \$89.045 million due from Fund 711 to Fund 694.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-001 **FINDING** (Noncompliance with Fund Transfer Provisions) (Continued)

DEPARTMENT RESPONSE

The Department agrees with the finding and recommendation. As noted in the finding, excess transfers to Fund 412 in the amount of \$69.842 million did occur prior to 2010 and have never been recouped. The write-off of this amount, previously categorized as a due to Fund 412, resulted in a cash shortage which affects our prior and future transfers. Additionally, the Department transferred an excess of \$64.124 million to Fund 412 in 2018, which further increases our cash deficit in Fund 711. These over transfers lead to the Department’s inability to transfer the remaining proceeds to Fund 694 due to the cash deficit.

The Department has implemented controls and revised procedures to transfer proceeds in the priority order per 20 ILCS 1605/9.1(o) by transferring amounts based upon the available net profit and not the prescribed amount. Additionally, the Department worked diligently with the Governor’s Office of Management and Budget to reach a legislative remedy regarding the prior year overpayments to Fund 412, underpayments to Fund 694, and to revise the language in the Law to better meet the operating needs of the Department as the true net profit is not known until the year-end audited financials are complete, while respecting the need for expediency in making monthly transfers to Fund 412. These proposed changes were passed into law as a part of Public Act 102-0699, which will be put into effect during Fiscal Year 2023.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-002 **FINDING** (Inadequate Internal Controls over Census Data)

The Department of the Lottery (Department) did not develop or retain adequate supporting documentation for its personnel transactions and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the State Lottery Fund (Fund).

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Department's employees within the Fund are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, we noted CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

During testing, we noted the following:

- 1) The Department had not performed an initial complete reconciliation of its census data recorded by SERS to its internal records to establish a base year of complete and accurate census data.
- 2) After establishing a base year, the Department had not developed a process to annually obtain from SERS the incremental changes recorded by SERS in their census data records and reconcile these changes back to the Department's internal supporting records.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-002 **FINDING** (Inadequate Internal Controls over Census Data) (Continued)

For employers participating in plans with multiple-employer and cost-sharing characteristics, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the State Records Act (5 ILCS 160/8) requires the Department make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Department officials attributed these exceptions to competing priorities and oversight during the census data accumulation years before this current fiscal year.

Failure to reconcile active members' census data reported to and held by SERS to the Department's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Fund's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2021-002, 2020-002)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-002 **FINDING** (Inadequate Internal Controls over Census Data) (Continued)

RECOMMENDATION

We recommend the Department work with SERS to develop an annual reconciliation process of its active members' census data from its underlying records to a report of the census data submitted to each plan's actuary. After completing an initial full reconciliation, the Department may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department has resolved this issue in Fiscal Year 2022 by implementing a process with SERS to annually reconcile the Department's census data. In addition, the Department completed a complete reconciliation of its' census data in the first quarter of Fiscal Year 2022.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-003 **FINDING** (Inadequate Controls over Specialty Tickets)

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

As of June 30, 2021, the Illinois Lottery Law (Law) required the Department offer specialty scratch-off games to fund:

- breast cancer research grants appropriated by the General Assembly to the Department of Public Health from the Carolyn Adams Ticket For The Cure Grant Fund (Fund 208) (20 ILCS 1605/21.5);
- assistance for veterans appropriated by the General Assembly to the Department of Veterans’ Affairs for grants from the Illinois Veterans Assistance Fund (Fund 236) (20 ILCS 1605/21.6);
- multiple sclerosis research grants appropriated by the General Assembly to the Department of Public Health from the Multiple Sclerosis Research Fund (Fund 429) (20 ILCS 1605/21.7);
- HIV/AIDS prevention grants appropriated by the General Assembly to the Department of Public Health from the Quality of Life Endowment Fund (Fund 437) (20 ILCS 1605/21.8);
- Special Olympics grants appropriated by the General Assembly to the Department of Human Services from the Special Olympics Illinois and Special Children’s Charities Fund (Fund 073) (20 ILCS 1605/21.9);
- the Chicago Police Memorial Foundation Fund, the Police Memorial Committee Fund, and the Illinois State Police Memorial Park Fund grants appropriated by the General Assembly to the Illinois Criminal Justice Information Authority from the Criminal Justice Information Projects Fund (Fund 335) (20 ILCS 1605/21.10);
- homelessness prevention grants appropriated by the General Assembly to the Department of Human Services from the Homelessness Prevention Revenue Fund (Fund 889) (20 ILCS 1605/21.11);
- science, technology, engineering, art, and math (STEAM) programming grants appropriated by the General Assembly to the Illinois State Board of Education from the School STEAM Grant Program Fund (Fund 987) (20 ILCS 1605/21.12); and,
- Alzheimer’s care, support, education, and awareness grants appropriated by the General Assembly to the Office of the Secretary of State from the Alzheimer’s Awareness Fund (Fund 020) (20 ILCS 1605/21.13).

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Year Ended June 30, 2021

2021-003 **FINDING** (Inadequate Controls over Specialty Tickets) (Continued)

On June 30, 2021, the Law (20 ILCS 1605/21.5(b), 20 ILCS 1605/21.6(b), 20 ILCS 1605/21.7(b), 20 ILCS 1605/21.8(b), 20 ILCS 1605/21.9(b), 20 ILCS 1605/21.10(b), 20 ILCS 1605/21.11(b), 20 ILCS 1605/21.12(b), and 20 ILCS 1605/21.13(b)) required the deposit of net revenue from each game to its respective fund within the State Treasury pursuant to the following statutory formula: Net Revenue = Tickets Sold – Amounts Paid Out in Prizes – Actual Administrative Expenses of the Department solely related to each specific specialty scratch-off game.

During testing, we noted the following problems:

- During the Fiscal Year 2017 and Fiscal Year 2018 annual audits, predecessor auditors had questioned whether the Department’s practice of allocating an overhead charge to specialty tickets conformed with the Law’s net revenue formula. Department officials ultimately agreed with the predecessor auditors and ceased allocating the overhead charge during Fiscal Year 2019. However, the Department has not yet quantified the difference between the overhead charge and its actual administrative costs solely related to each specialty scratch-off game from October 2008 through June 2018. As such, the Department has not posted adjusting entries to correct prior period errors.
- The Department has not performed its “true up” for its initial estimated prize liability for specialty ticket games ending during the two years prior to June 30, 2018. This true up would recalculate the amount of net revenue based upon actual known prizes paid after the game had formally ended, with adjusting entries being posted to correct for estimation differences.
- Due to the two preceding problems, the “accrual only” information sent by the Department to the Department of Public Health, the Department of Veterans’ Affairs, and the Department of Human Services during the State’s annual financial reporting process was not complete and accurate.

In addition, this finding was first noted during the Department’s Fiscal Year 2017 engagement, **five years ago**. As such, Department management has been unsuccessful in implementing a corrective action plan to remedy these deficiencies.

The Statewide Accounting Management System (Procedure 27.50.10) requires the Department prepare a complete set of manual forms to report “accrual only” entries to the administering agency for financial reporting purposes for the State Treasury-held funds receiving “net revenues” from the Department’s specialty scratch-off games. Good internal controls include ensuring accurate and timely information is reported to each administering agency to ensure these agencies can properly record and account for transactions used in preparing its financial reports for the Office of the State Comptroller, which are then used to prepare the State’s financial statements.

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2021-003 **FINDING** (Inadequate Controls over Specialty Tickets) (Continued)

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance revenues, transfers, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

Finally, Department officials are responsible for taking timely and prompt corrective action on a finding to correct and prevent further occurrences of noncompliance with the law and control deficiencies.

Department officials indicated while some work on implementing corrective action has been taken, it was hampered by other competing priorities.

Failure to determine the impact of prior period errors and perform a "true up" of actual prizes paid to estimated prizes paid hinders the overall reliability of financial reporting and represents noncompliance with the specialty ticket provisions of the Law. (Finding Code No. 2021-003, 2020-003, 2019-004, 2018-004, 2017-003)

RECOMMENDATION

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

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department was made aware of the finding at conclusion of Fiscal Year 2018 when the report was finalized on May 15, 2018. The Department promptly revised our specialty ticket procedures to charge actual administrative costs incurred to each ticket as opposed to the overhead rate in Fiscal Year 2019 and started researching old Department records to compile actual administrative expenses incurred for prior periods. These costs do not encompass all administrative costs incurred by the Department in administering these tickets while performing administrative duties related to all games that aren't specifically separated. Work occurs through our instant ticket processes, marketing processes, and financial processes. We are able to identify direct costs incurred by our vendor for specific products or services to the development and marketing of specialty games, but we are unable to identify the hourly efforts of the Department's staff and the Private Manager's staff which was previously factored into the overhead rate.

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2021-004 **FINDING** (System Access Weaknesses)

The Department of the Lottery (Department) failed to perform user access reviews as well as timely revoke access for separated employees.

During testing, we noted the following:

- The Department had not performed annual user access reviews within the engagement period for the Back Office System (BOS), iLottery, and iSecure. BOS is an integral part of the Department's gaming system, iLottery allows Lottery players to purchase tickets online, and iSecure validates winning tickets.
- Two of five (40%) security software user's access tested was not timely revoked, and/or removed.

The Department's *User Provisioning and Access Rights Review Procedure (Procedure)* states an authorized coordinator regularly reviews and documents user access on the Department's network and key systems to ensure authorized access is appropriate.

In addition, the *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53 (Fifth Revision)) published by the National Institute of Standards and Technology (NIST), Access Control section, sanctions the periodic review of access rights to ensure appropriateness and timely removal after termination.

- The Department's *Procedure* has not been updated to reflect the Department's current environment. We noted the *Procedure*:
 - 1) referred to one system which was no longer used by the Department;
 - 2) did not address a newer system used by the Department; and,
 - 3) had not been updated to reflect the movement of responsibilities from the Department of Central Management Services to the Department of Innovation and Technology.

The *Procedure*, which was last updated in August 2014, notes it was scheduled to have been reviewed for potential updates by the Department's staff no later than February 2015, more than six years ago.

Further, NIST's Special Publication 800-53 (Fifth Revision), Access Control section, sanctions the development, review, and dissemination of access control procedures.

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2021-004 **FINDING** (System Access Weaknesses) (Continued)

Department officials indicated the issues noted were due to personnel vacancies and turnover in areas responsible for the reviews.

Failure to perform regular user access reviews and timely terminate access increases the risk of unauthorized access to the Department's applications and data. In addition, failure to update the *Procedure* to reflect the Department's current operating environment could result in unidentified risks not being mitigated or employees not performing their duties in accordance with management's intent. (Finding Code No. 2021-004, 2020-005, 2019-013)

RECOMMENDATION

We recommend the Department perform a periodic review of system access rights to ensure users are removed or access rights are deactivated for users who do not need access. In addition, the Department should update its *Procedure* to reflect its current operating environment.

DEPARTMENT RESPONSE

The Department accepts the finding. During Fiscal Year 2022, the Department has worked diligently to fully resolve the issues noted. The Department updated its procedure to reflect the current operating environment and has performed user access reviews on the various systems in place.

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2021-005 **FINDING** (Inadequate Controls over SOC Report Reviews)

The Department of the Lottery (Department) did not conduct adequate independent internal control reviews over its service providers' System and Organization Control (SOC) reports.

The Department receives SOC reports from four different service providers and performs an independent internal control review of each SOC report to determine whether any areas of concern are noted. In total, the Department received nine SOC reports during the fiscal year ended June 30, 2021.

During our testing of the nine SOC reports, we noted:

- Three of nine (33%) SOC reports had qualified opinions due to deficiencies noted by the SOC auditors. The Department did not perform an analysis on whether they could rely on the service providers' controls due to deficiencies noted in the SOC reports with qualified opinions. Through our assessment of the types of deficiencies noted by the SOC auditors, and the substantive testing we performed in other areas of our audit, we were able to rely on the testing and assurance provided by the SOC reports.
- One of nine (11%) SOC reports, while not qualified, identified a deficiency noted by the SOC auditors. The Department did not perform an analysis on the impact of the deficiency to the Department.

The National Institute of Standards and Technology (NIST), Special Publication 800-35, *Guide to Information Technology Security Services*, states the organization should ensure operational success by consistently monitoring service providers and organizational security performance against identified requirements, periodically evaluating changes in risks and threats to the organization and ensuring the organizational security solution is adjusted as necessary to maintain an acceptable security posture. As such, reviews of assessments, audits and inspections should be completed to determine the controls are in place at all vendors, service providers, and subservice providers.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal administrative controls, to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds application 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. Strong management controls, due diligence, and fiduciary responsibility require adequate supervision of external service providers.

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2021-005 **FINDING** (Inadequate Controls over SOC Report Reviews) (Continued)

Department officials indicated the issues noted were due to oversight and employee turnover.

Failure of the Department to consider deficiencies noted within their reviews of SOC reports and the deficiencies effect on the Department could result in inaccurate data, or the loss of data. (Finding Code No. 2021-005)

RECOMMENDATION

We recommend the Department conduct adequate reviews over SOC reports to ensure the reviews capture the Department’s disposition on the effect of any discrepancies noted within the SOC reports.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department performed SOC report reviews for its’ service providers during the current audit period and will ensure the analysis going forward includes a documented disposition on the effect of any discrepancies noted within the SOC Reports.

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2021-006 **FINDING** (Inadequate Controls over Change Management)

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

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

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

Further, we requested the Department's documentation controlling developers' access to ICS' production environment; however, this documentation was not provided. Therefore, we were unable to determine if developer access was appropriate.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53 (Fifth Revision)) published by the National Institute of Standards and Technology (NIST), Configuration Management and System and Communication Protection sections, requires entities to develop and document control over changes, for changes to follow the documented controls, and developers' access be properly restricted.

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

Department management indicated the weaknesses were due to the lack of resources.

Failure to implement and maintain adequate internal controls over the changes to the Department's application increases the risk of not having the required accuracy, integrity, and availability. (Finding Code No. 2021-006)

RECOMMENDATION

We recommend the Department update the *Procedures* to ensure they address:

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

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

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2021-006 **FINDING** (Inadequate Controls over Change Management) (Continued)

DEPARTMENT RESPONSE

The Department accepts the finding. The Department had ICS change management procedures in place during the audit period and the Department treated normal changes and emergency changes to the system in the same manner for the low volume of changes that took place. In each instance, the Department had controls in place to control the developers' access to the ICS production environment and moving forward the Department will ensure that documentation is maintained. During Fiscal Year 2022, the Department created a Change Manager position and has recently filled that position. The Department is currently working on updating its change management procedures.

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2021-007 **FINDING** (Failure to Implement Lottery Sports Wagering)

The Department of the Lottery (Department) has not implemented the Lottery Sports Wagering Pilot Program (SWP) as mandated by the Sports Wagering Act (Act) (230 ILCS 45/25-70).

Public Act 101-0031, effective on June 28, 2019, created the Act and the Department’s SWP for parlay wagers and fixed odds parlay wagers as part of a funding mechanism for vertical capital projects. Under § 25-70, the Department is mandated to issue one SWP central system provider license for a fee of \$20 million following an open and competitive bidding process for 2,500 retail locations through June 22, 2020, which then increased to 5,000 retail locations thereafter. Further, after the General Assembly found an emergency existed and it was necessary to the public interest, safety, and welfare for the Department to promulgate emergency rules to get the SWP operational as soon as possible, § 25-70(i) authorized the adoption of emergency rules to administer the SWP. Finally, § 25-70(k) sunsets the SWP on January 1, 2024.

In response, the Department took the following actions during the examination period:

Date(s)	Event
September 27, 2019	The Department posted a Request for Information (RFI) on three gaming industry websites.
October 1-11, 2019	The Department received 10 replies from various gaming entities to its RFI.
October 28-30, 2019 November 12-14, 2019	During the General Assembly’s Fall 2019 Veto Session, the Department sought an amendment to § 25-70 in the trailer bill. This bill, like subsequently introduced bills, attempted to (1) allow for integration between the SWP’s independent central system and the Department’s system, (2) allow debit and credit card transactions, (3) reduce the \$20 million fee paid by the successful SWP, (4) change the flow of funds received by the Department from the SWP, and (5) extend the sunset date of the SWP.
Spring 2020 Session	The Department sought an amendment to § 25-70 similar to the amendment sought during the General Assembly’s Fall 2019 Veto Session.
June 8, 2020	The Department sent pre-draft administrative rules to the Joint Committee on Administrative Rules (JCAR), which were written assuming the Department’s changes would be approved by the General Assembly.

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2021-007 **FINDING** (Failure to Implement Lottery Sports Wagering) (Continued)

Date(s)	Event
June 18, 2020	JCAR sent a letter of comments to the Department about the pre-draft administrative rules, noting the Department had several proposed rules which were not supported by the current statutory text of § 25-70. As of June 30, 2021, the Department had not yet cleared JCAR’s comments.
Fall 2020 Veto Session	The Department continued to seek an amendment to § 25-70 similar to the amendment sought during the General Assembly’s Fall 2019 Veto Session.
Spring 2021 Session	The Department sought an amendment to § 25-70 similar to the amendment sought during the General Assembly’s Fall 2019 Veto Session.
March 2021	The Department completed a draft Request for Proposals (RFP) to issue the SWP’s Central System Provider, who will serve as the private manager overseeing the SWP’s terminals, which was written assuming the Department’s changes would be approved by the General Assembly.

During testing, we noted the following:

- The Department has not implemented the SWP by issuing an RFP or adopting administrative rules under current law, which was effective over two years ago.

The primary responsibility of the Department is to administer the functions given to it by the General Assembly in accordance with State law as written.

Department officials indicated they believe the General Assembly did not set a time frame for when the Department was required to fully implement the SWP.

- The Department did not post the RFI in the State’s online procurement bulletin, BidBuy.

The Illinois Administrative Code (IAC) (44 Ill. Admin. Code 1.2050(j)) requires the Department, when its staff lacks sufficient information about available supplies or services to issue a solicitation, issue a pre-solicitation RFI inviting vendors to submit non-price information about the availability of specified types of supplies and services by public posting of the RFI in the Illinois Procurement Bulletin at least 14 days before the date set for receiving responses to the RFI.

Department officials indicated the Chief Procurement Officer did not give the Department authorization to post the RFI on BidBuy.

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2021-007 **FINDING** (Failure to Implement Lottery Sports Wagering) (Continued)

While it is possible an RFP issued under current law may fail to yield any responses, failure to adopt administrative rules and issue an RFP as soon as possible after Public Act 101-0031 passed and implement the SWP guaranteed the Department (1) would not collect the \$20 million license fee and (2) forewent potential revenues from wagers not placed which support both the Capital Projects Fund and Lottery retailers wanting to participate in the SWP. In addition, failure to post the RFI on BidBuy reduced public exposure of the Department’s RFI and resulted in noncompliance with the IAC. (Finding Code No. 2021-007)

RECOMMENDATION

We recommend the Department issue an RFP to implement the SWP. Further, the Department should work with the Chief Procurement Officer to implement controls so future RFIs are posted on BidBuy in strict adherence with the provisions of the IAC.

DEPARTMENT RESPONSE

The Department accepts the finding. Public Act 101-0031, effective on June 28, 2019, created the Act. Section 25-70 of the Act created the SWP. Prior to its passage the Department sanctioned Illinois-specific research to assess the impact and opportunity of legalized sports betting in the lottery environment. The Department also identified the initial concerns it had regarding the language included in the bills which later became Public Act 101-0031 and unsuccessfully lobbied for changes. Upon passage of the Act, the Department continued its due diligence for the purpose of implementing the SWP. The Department began project planning, conducted additional research and analysis, and initiated the development of a RFI for the purpose of determining the feasibility of the SWP under the current law.

The Department compiled and released the RFI on the Department’s website as well as reputable gaming websites used by vendors that support the lottery industry domestically and abroad. The RFI was also forwarded to all interested parties listed on Bid Buy, the state’s online procurement bulletin, but as noted in the finding, the RFI was not posted on Bid Buy itself. The Department considered posting the RFI on Bid Buy, but after consultation with the state’s CPO, agreed the RFI should be part of the central system provider license bid process which the Department had statutory authority to complete outside of the state’s procurement process. Even without the use of Bid Buy, the RFI elicited 10 responses.

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2021-007 **FINDING** (Failure to Implement Lottery Sports Wagering) (Continued)

The preliminary research conducted by the Department and the results from the RFI indicated the SWP was not feasible in its current form. These results supported the Department's initial assessment. Additional research and consultation with other states who have implemented similar programs, validated the Department's assessment. Despite those results, the Department continues implementation efforts by further developing its plan, finalizing an RFP for the central system provider, increasing authorized headcount, and drafting administrative rules. The Department continues these efforts while concurrently identifying modifications to Public Act 101-0031 and lobbying for their passage.

The Department believes it is in the best interest of the State to apply the results of the RFI and research conducted in making modifications to the law that have been found critical in order to stand up a viable SWP program. The Department remains vigilant in its efforts to create the best program it can in accordance with the law.

ACCOUNTANT'S COMMENT

At this time, despite the Department's repeated efforts to seek a legislative change, the General Assembly, as is their exclusive right, has chosen not to adopt the Department's proposals and change § 25-70 of the Act. This fact – when considered in light of both (1) the ever diminishing likelihood an RFP issued under current law would yield any responses due to the approaching sunset date on January 1, 2024, and (2) the General Assembly's determination that time was of the essence by authorizing the adoption of emergency rules to get the SWP operational as soon as possible – strongly supports our recommendation Department management should issue an RFP to implement the SWP.

Further, as requested by the auditors during the exit conference, Department management has not provided documentation which supports its assertion the SWP is not subject to the State's procurement process, including the provisions of the Illinois Procurement Code (Code) and related administrative rules within the IAC. Unlike the procurement process for the Department's Private Manager which is specifically exempted from the provisions of the Code unless specifically required by the management agreement entered into by the Department and the Private Manager by the Illinois Lottery Law (20 ILCS 1605/9.1(e)), the Code is not even mentioned in the Act. As such, we continue to believe the SWP is subject to the State's procurement process, including the requirements for publishing RFIs within the IAC. If Department management continues to disagree with our recommendation, we recommend they seek a formal, written opinion from the Attorney General on the applicability of the State's procurement process to the SWP.

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2021-008 **FINDING** (Inadequate Controls over Personal Services)

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

During our testing, we noted the following:

- The Department did not include fringe benefits for the personal use of a State vehicle within its Lottery Sales Representatives' taxable income during the engagement period. These employees extensively use their State vehicle to commute from their home to retailer locations as part of their full-time job.

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

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

Department officials indicated the Department had ceased including the fringe benefit for the personal use of a State vehicle in its employees' taxable income after a union grievance in 2006. In addition, Department officials indicated that corrective action has not been taken due to a key employee being on multiple leaves of absence during the examination period.

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

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2021-008 **FINDING** (Inadequate Controls over Personal Services) (Continued)

- During testing of 16 employees who should have undergone 28 performance evaluations during the examination period, we noted the following:
 - The Department did not conduct 20 of 28 (71%) performance evaluations in a timely manner, as they were completed between 9 and 406 days after the final day in the employee’s evaluation period.
 - The Department lacked documentary evidence 4 of 28 (14%) performance evaluations in the sampled employees’ personnel files had occurred.

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

Department officials indicated these exceptions were due to oversight and supervisor turnover.

Performance evaluations are a systemic and uniform approach used for the development of employees and communication of performance expectations. These evaluations should serve as the foundation for salary adjustments, promotion, demotion, discharge, layoff, recall, and reinstatement decisions.

- During our testing of the Department’s personal training procedures, we noted the following:
 - One of 16 (6%) employees did not complete their Fiscal Year 2020 sexual harassment training.

The State Officials and Employees Ethics Act (5 ILCS 430/5-10.5) requires Department employees complete, at least annually, a harassment and discrimination prevention training program.
 - Two of 18 (11%) employees did not complete their 2020 cybersecurity training.

The Data Security on State Computers Act (20 ILCS 450/25) mandates every Department employee annually undergo training by the Department of Innovation and Technology concerning cybersecurity.

Department officials indicated these exceptions were due to oversight.

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2021-008 **FINDING** (Inadequate Controls over Personal Services) (Continued)

Failure to timely complete required trainings represents noncompliance with statutory requirements, and could lead to misinformation and misconduct within the workspace. (Finding Code No. 2021-008, 2019-007)

RECOMMENDATION

We recommend the Department implement controls to ensure:

- 1) fringe benefits related to its employees' commuting in State vehicles are either added to each affected employee's taxable income or each employee provides a reimbursement to the State for the commuting use of the State's vehicle in strict adherence with IRS regulations;
- 2) all required performance evaluations are conducted timely; and,
- 3) all required trainings are timely completed.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department is updating its procedures to ensure all employees complete required training. The Department has had a process in place to track training for permanent employees and going forward the Department will be implementing a process to ensure temporary and contractual employees complete the training as well. Supervisors have been reminded to complete and submit evaluations timely and Human Resources is currently reminding supervisors when an evaluation is coming due. In addition, the Department will be implementing the fringe benefits for employees assigned a State vehicle.

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2021-009 **FINDING** (Inadequate Controls over State Vehicles)

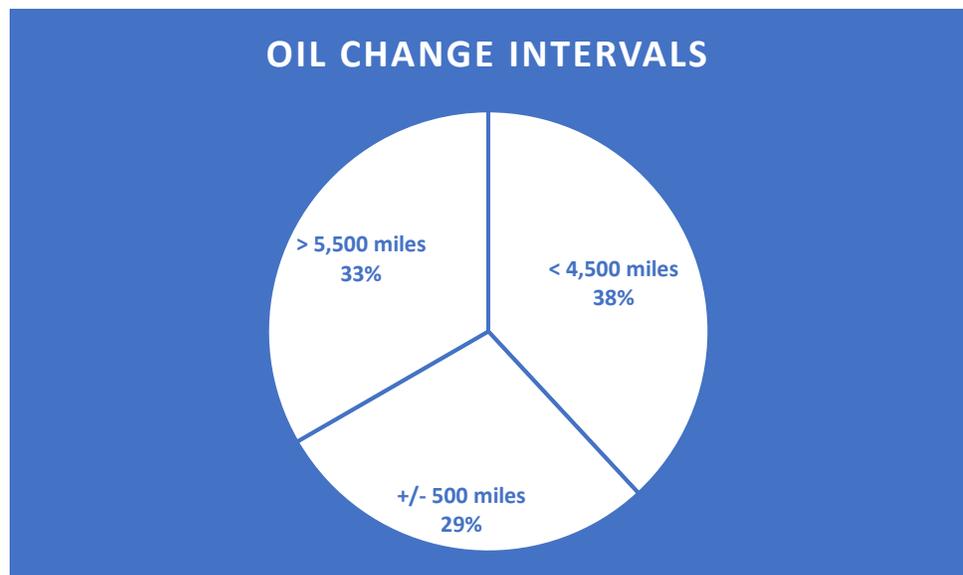
The Department of the Lottery (Department) did not exercise adequate control over its State vehicles.

During testing, we noted the following:

- While examining the Department’s documentation for four incidents, we noted the Illinois Motorist Report form (Form SR-1) in all four (100%) incidents was not signed nor dated by the driver.

The Illinois Administrative Code (44 Ill. Admin. Code 5040.520(c)) requires the driver of a vehicle which is involved in any kind of an accident complete the Form SR-1 in its entirety.

- While examining the Department’s maintenance records for seven vehicles, we noted the following:
 - For six (86%) of the vehicles, we noted these vehicles had 21 oil changes during the examination period. In accordance with CMS’ Vehicle Usage Policy, each of the vehicles should have received an oil change every 5,000 miles, which we deemed as reasonably timely if the oil change occurred within +/- 500 miles of the interval. We noted oil change intervals occurring between 2,208 and 20,609 miles, with 71% of the oil changes occurring significantly early or very late, as graphically noted below:



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2021-009 **FINDING** (Inadequate Controls over State Vehicles) (Continued)

- For four (57%) of the vehicles, we noted the vehicles did not have their tires rotated timely.

CMS' Vehicle Usage Policy requires changing a vehicle's oil annually or every 5,000 miles for vehicles less than 10 years old, whichever occurs first, and rotating a vehicle's tires every other oil change.

- One (14%) vehicle tested did not have its odometer reading recorded at the beginning of the examination period. As such, we could not determine whether the vehicle's periodic maintenance, such as oil changes and tire rotations, were performed timely or if the vehicle's use was reasonable and necessary during the examination period.

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

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

- We examined the Department's driver's licensure and insurance records for 14 personally-assigned vehicles during the examination period and noted 1 (7%) individual did not have the required certification covering Fiscal Year 2019.

The Illinois Vehicle Code (625 ILCS 5/7-601(c)) requires employees assigned a specific Department vehicle complete an annual certification affirming they are duly licensed to drive and either (1) carry sufficient liability coverage or (2) have a bond filed with the Secretary of State as proof of financial responsibility extending to when the employee is using the vehicle for other than official State business.

In addition, the State Records Act (5 ILCS 160/8) requires the Department's Director to make and preserve records contain documentation of the functions and essential transactions of the Department to protect the legal and financial rights of the State and of persons directly affected by its activities.

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2021-009 **FINDING** (Inadequate Controls over State Vehicles) (Continued)

Department officials indicated these exceptions were due to oversight and turnover.

Failure to exercise adequate internal control over State vehicles may result in the early deterioration or obsolescence of the State's vehicles and may result in additional repair costs that could have been avoided by routine maintenance. Further, failure to ensure employees with a personally-assigned vehicle complete their licensure and insurance or bond certifications could expose the State to unnecessary legal risks and represents noncompliance with State law. (Finding Code No. 2021-009, 2019-009)

RECOMMENDATION

We recommend the Department implement controls to ensure:

- 1) Form SR-1s are completed;
- 2) odometer readings are accurately recorded;
- 3) all required maintenance on State vehicles is performed timely; and,
- 4) employees with a personally-assigned vehicle timely complete their licensure and insurance or bond certifications.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department transitioned to a new Fleet Management System shortly prior to the audit period. During the implementation of the new system and the audit period, the Department experienced turnover in the Vehicle Coordinator position which oversees the Fleet Management System and coordinates with staff who are assigned vehicles. The Department is updating its current processes in place to ensure the employees assigned a vehicle along with their supervisor and manager are made aware of when an employee's car maintenance is coming due. Also, additional controls are being put in place to ensure the Form SR-1s are completed and all insurance forms are turned in timely.

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2021-010 **FINDING** (Inadequate Controls over Reporting Requirements)

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

During testing, we noted the following:

Inaccurate Reporting

- We continued to note the following problems with the Department’s annual Agency Workforce Report (Report) submitted to the Office of the Governor and the Office of the Secretary of State:
 - The number of Hispanic employees reported as earning between \$80,000 to \$99,999 annually in the Department’s Fiscal Year 2019 Report filed in Fiscal Year 2020 was not mathematically accurate, which resulted in the percentages calculated within this line to be incorrect.
 - The number of physically disabled females with an income of \$40,000 to \$49,999 in the Department’s Fiscal Year 2020 Report filed in Fiscal Year 2021 did not agree with the Department’s records.

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

Noncompliance with Report Distribution Requirements

- The Department’s controls over the submission its reports and publications to the Illinois State Library (Library) were not operating effectively. Of the reports we were aware of and which should have been submitted to the Library, we noted the following:
 - The quarterly report on the private manager’s actions and activities required by the Illinois Lottery Law (Law) (20 ILCS 1605/9.1(p)(1)) was not submitted for the first quarter of Fiscal Year 2020 and the last three quarters of Fiscal Year 2021.
 - The Fiscal Year 2021 annual report on the private manager’s activities as required by the Law (20 ILCS 1605/9.1(p)(3)) was not submitted to the Library.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-010 **FINDING** (Inadequate Controls over Reporting Requirements) (Continued)

- The eight quarterly reports on prize payments up to \$25,000 from a locally held fund and the costs associated with the locally held fund as required by the Law (20 ILCS 1605/20.1(a)) during the examination period were not submitted to the Library.
- The *Game Rules: Pick 3, Pick 4, Lotto/Extra Shot®*, *Lucky Day Lotto® with EZmatch™*, *MegaMillions®/Megaplier®*, and *Powerball®/Power Play®* publication was not submitted to the Library.

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

- The Department did not comply with notification requirements to the Library as noted below:
 - The Department did not notify the Government Documents Section of the Library of its person responsible for the distribution of publications during Fiscal Year 2020.
 - The Department notified the Government Documents Section of the Library of its person responsible for the distribution of publications during Fiscal Year 2021 on December 14, 2020, 152 days late.

The Illinois Administrative Code (23 Ill. Admin. Code 3020.150) requires the Department annually inform the Government Documents Section of the Library in writing by July 15 of each person or position responsible for the distribution of its publications, with any changes reported to the Government Documents Section of the Library no later than two weeks after the change.

In addition, this finding was originally noted during the compliance examination of the two years ended June 30, 2013, **eight years ago**. As such, Department management has been unsuccessful in implementing a corrective action plan to remedy these deficiencies.

Department officials indicated these exceptions were due to employee turnover and oversight.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-010 **FINDING** (Inadequate Controls over Reporting Requirements) (Continued)

Failure to report accurate information to the Office of the Governor and the Office of the Secretary of State hinders governmental oversight and the achievement of a more diversified workforce. In addition, failure to deposit reports and publications in the Library limits public access to the Department’s documents, hinders the archival responsibilities of the Library, and represents noncompliance with the Act. Finally, failure to inform the Government Documents Section of the Library with the names of the person or persons responsible for distributing publications at the Department could hinder the Library’s efforts to ensure the collection is complete. (Finding Code No. 2021-010, 2019-010, 2017-004, 2015-007, 2013-006)

RECOMMENDATION

We recommend the Department prepare and submit a corrected Fiscal Year 2019 and Fiscal Year 2020 Report with the Office of the Governor and the Office of the Secretary of State within 30 days from the release of this report, as required by the Illinois State Auditing Act (30 ILCS 5/3-2.2(b)). Further, the Department should ensure its annual Report is properly prepared from its underlying records, with the final Report reviewed by a supervisor to help ensure the accuracy and reliability of the Report.

In addition, the Department should ensure its controls which are designed to submit all of its reports and publications to the Library operate effectively and that each person responsible for the Department’s publications are timely disclosed to the Government Documents Section of the Library.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department will be submitting corrected Agency Workforce reports to the appropriate parties. During Fiscal Year 2022, the Department has designated staff to ensure reports are completed and submitted to the appropriate parties and the Illinois State Library.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-011 **FINDING** (Weaknesses in Cybersecurity Programs and Practices)

The Department of the Lottery (Department) had not implemented adequate internal controls related to cybersecurity programs, practices, and control of confidential information.

As part of its mission, the Department utilizes several environments, applications, and databases which contain volumes of confidential and personal information of citizens.

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

- developed a formal, comprehensive, adequate, and communicated security program (including policies, procedures, and processes as well as clearly defined responsibilities over the security of computer programs and data) to manage and monitor;
- developed a project management framework to ensure new applications are adequately developed and implemented in accordance with management's expectations;
- developed a cybersecurity plan;
- developed a risk management methodology, conducted a comprehensive risk assessment, or implemented risk reducing internal controls;
- developed policies and procedures related to the reporting of security violations and suspected violations;
- developed a data classification methodology or classified its data to identify and ensure adequate protection of information;
- required employees or contractors to acknowledge receipt of the Department's policies;
- documented the security solutions in place; and,
- ensured vulnerability scanning tools monitor the Department's applications and networks to identify security vulnerabilities.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-011 **FINDING** (Weaknesses in Cybersecurity Programs and Practices) (Continued)

The *Framework for Improving Critical Infrastructure Cybersecurity and the Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST) requires entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives, and constraints in order to ensure the security of its applications, data, and continued business mission.

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

Department officials indicated a lack of resources and management's belief the Department of Innovation and Technology (DoIT) was responsible for cybersecurity controls resulted in the weaknesses.

The lack of adequate cybersecurity programs and practices could result in unidentified risk and vulnerabilities, which could ultimately lead to the Department's confidential and personal information being susceptible to cyberattacks and unauthorized disclosure. (Finding Code No. 2021-011, 2019-011)

RECOMMENDATION

We recommend the Department:

- develop a formal, comprehensive, adequate, and communicated security program to manage and monitor;
- develop a project management framework to ensure new applications are adequately developed and implemented in accordance with management's expectations;
- develop a cybersecurity plan;
- develop a risk management methodology, conduct a comprehensive risk assessment, and implement risk reducing internal controls;
- develop policies and procedures related to the reporting of security violations and suspected violations;
- develop a data classification methodology and classify its data to identify and ensure adequate protection of information;
- require employees and contractors to acknowledge receipt of the Department's policies;
- document the security solutions in place; and,
- ensure vulnerability scanning tools monitor the Department's applications and networks to identify security vulnerabilities.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-011 **FINDING** (Weaknesses in Cybersecurity Programs and Practices) (Continued)

DEPARTMENT RESPONSE

The Department accepts the finding. The Department has worked diligently to address the items noted in the finding. The Department has created a Security and Quality Control position and a Change Manager position. The Department has filled both those positions along with the Chief of Operations and Technology and Information System Manager positions. Since then, the Department has been working on updating all of the existing information system policies and procedures including new policies and procedures. The updated information systems policy, acceptable use policy, and new comprehensive security policies will require employees and contractors to acknowledge receipt. In addition, the Department completed a comprehensive risk assessment during Fiscal Year 2022.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-012 **FINDING** (Disaster Recovery Planning Weaknesses)

The Department of Lottery (Department) had weaknesses in their disaster recovery planning and testing.

The Department utilizes a myriad of applications to conduct the State's lottery activities. Therefore, it is essential for the Department to be able to conduct a timely and complete recovery of the Department's environments, applications, and databases.

During our review of the Department's disaster recovery plans, we noted the following:

- A comprehensive continuity plan, incorporating out sourced applications, had not been developed.
- The Business Impact Analysis did not depict the current environment and did not document the prioritization of the Department's applications.
- The Information System Contingency Plans documented responsibilities of the Department of Innovation and Technology (DoIT), not the Department.
- The Information System Contingency Plans did not document detailed recovery scripts.
- The detailed network diagram within the Information System Contingency Plan was outdated and did not depict the current environment.

In addition, we noted the Department had not conducted testing of all of its critical applications. For the testing completed in October 2020, the documentation indicated a number of tasks and issues which were open or in progress.

Finally, we noted the Department did not ensure successful backups were conducted by its service providers.

The complementary user entity controls documented in the service providers' system and organization control (SOC) reports states user entities are responsible for (1) maintaining their own system(s) of record for backups and (2) developing their own disaster recovery and business continuity plans which addresses the inability to access or utilize the service providers' services.

In addition, the *Contingency Planning Guide for Information Technology Systems* published by the National Institute of Standards and Technology (NIST) requires entities to have an updated and regularly tested disaster contingency plan to ensure the timely recovery of applications and data.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-012 **FINDING** (Disaster Recovery Planning Weaknesses) (Continued)

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

Department officials indicated the lack of resources resulted in the noted weaknesses.

Without adequately documented and tested contingency plans, the Department cannot ensure its critical systems could be recovered within an acceptable period which would minimize the impacts associated with a disaster. (Finding Code No. 2021-012)

RECOMMENDATION

We recommend the Department develop and review disaster recovery plans and ensure the plans depict the current environment and address all applications, responsibilities, and detailed recovery scripts. Further, the Department should conduct recovery testing of all of its critical applications at least annually and update the disaster recovery plans accordingly.

Finally, we recommend the Department obtain and maintain documentation the service providers have conducted successful backups.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department works closely with its vendors who provide the various systems the Department utilizes. While the system providers have their own disaster recovery plans for the systems, the Department will work to update the Department's disaster recovery plan to incorporate the providers' service plans and that the Department's disaster recovery plan reflects the current environment and recovery scripts as applicable. These plans will be tested at least annually. In addition, the Department will be working with the vendors to ensure applications are tested and documentation is maintained for successful backups.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-013 **FINDING** (Inadequate Controls over Remote Access)

The Department of Lottery (Department) did not ensure adequate security controls over remote access to its environment, applications, and data.

As a result of the COVID-19 pandemic, the Governor issued Executive Order 2020-10 ordering all businesses and operations to cease and for citizens to remain at their residence. In order to comply with the executive order, the Department instructed staff to perform their work from home.

To establish the ability to work from home, the Department allowed staff remote access to their environment, applications, and data. Our review of the Department's controls over remote access noted the Department had not:

- established policies and procedures to control remote access;
- communicated requirements to users;
- maintained documentation authorizing staff remote access;
- periodically reviewed staff members' remote access;
- maintained documentation the information technology equipment utilized by staff contained updated antivirus and the latest security patches; and,
- maintained documentation multi-factor authentication was utilized.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control and System and Communication Protection sections, requires entities to implement adequate internal controls over access to its environment, applications, and data.

Department officials indicated they were unaware of the need to maintain controls, as they believed the Department of Innovation and Technology (DoIT) was responsible for these functions.

Without adequate controls over remote access, unauthorized individuals may have access, resulting in potential malicious activity. (Finding Code No. 2021-013)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-013 **FINDING** (Inadequate Controls over Remote Access) (Continued)

RECOMMENDATION

We recommend the Department implement controls to ensure the security over remote access to their environment, applications, and data. Specifically, we recommend the Department:

- establish policies and procedures to control remote access;
- communicate requirements to users;
- maintain documentation authorizing staff remote access;
- periodically review staff members' remote access;
- maintain documentation the information technology equipment utilized by staff contain updated antivirus and the latest security patches; and,
- maintain documentation ensuring multi-factor authentication was utilized.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department is in the process of finalizing updated information system policies and procedures which includes remote access and is expected to be completed during Fiscal Year 2022. These policies and procedures will be communicated to all staff and will also require periodic review of remote user's access. The Department is working on acquiring laptops for remote users which will help enable the Department to ensure the most updated antivirus and security patches are in place.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-014 **FINDING** (Insufficient Number of Lottery Control Board Members)

The independent Lottery Control Board (Board) within the Department of the Lottery (Department) did not have five members.

Under the Illinois Lottery Law (Law), the Board must:

- 1) conduct a quarterly meeting and keep a complete and accurate record of its meetings (20 ILCS 1605/6);
- 2) designate hearing officers to hear complaints charging violations of the Law or regulations and hear appeals from these hearings (20 ILCS 1605/7.3);
- 3) report to the Governor, the Attorney General, the Speaker and Minority Leader of the House of Representatives, the President and Minority Leader of the Senate, and other State officers about matters the Board deems to require an immediate change in the laws to prevent abuses and evasions of the Law or regulations or rectify undesirable conditions in connection with the operation or administration of the Lottery (20 ILCS 1605/7.5);
- 4) confer with the Department's Director not less than once a month (20 ILCS 1605/9);
- 5) advise and make recommendations to the Department's Director on the functions and operations of the Lottery, with all recommendations made sent to the Governor, the Attorney General, the Speaker and Minority Leader of the House of Representatives, and the President and Minority Leader of the Senate (20 ILCS 1605/7.6); and,
- 6) establish the Lottery's advertising policy to the Lottery's ensure advertising content and practices do not target with the intent to exploit specific groups or economic classes of people and that the content is accurate and not misleading and to review past advertising for major media campaigns every quarter (20 ILCS 1605/7.8a).

During testing, we noted one member position on the five-member Board was vacant on June 30, 2021. As of the end of fieldwork, we noted two member positions on the five-member Board were vacant for terms expiring on July 1 in 2022 and 2023.

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

Department officials indicated these vacancies resulted from former Board members not completing their full term and that the Governor has not made appointments to fill these positions.

Failure to fill vacant positions may hinder the Board's ability to properly formulate the functions of the Board. (Finding Code No. 2021-014)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – STATE COMPLIANCE FINDINGS
For the Two Years Ended June 30, 2021

2021-014 **FINDING** (Insufficient Number of Lottery Control Board Members) (Continued)

RECOMMENDATION

We recommend the Department work with the Governor to ensure all Board member vacancies are filled in a timely manner.

DEPARTMENT RESPONSE

The Department accepts the finding. While the Board was able to fulfill all of its statutory obligations during the audit period while maintaining a quorum for all meetings, the Department will continue to work as needed with the Governor's Office to help ensure vacancies on the Board are filled in a timely manner.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – NOT REPEATED FINDINGS
For the Two Years Ended June 30, 2021

A. **FINDING** (Untimely Review of Credit Card Security)

During the financial audit of the State Lottery Fund for the year ended June 30, 2020, the Department of the Lottery (Department) did not timely demonstrate its compliance with the Payment Card Industry Data Security Standards (PCI DSS).

During the current engagement, our testing indicated the Department timely completed its annual Self-Assessment Questionnaire (SAQ). (Finding Code No. 2020-004, 2019-012)

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

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2019, the Department did not ensure timely compliance by its Private Manager with obtaining a timely System Organization and Control (SOC) examination of the Central Gaming System (CGS) by an Independent Service Auditor for the Trust Services Criteria (TSC), a critical piece of attestation evidence.

During the current examination, our testing indicated the Department obtained a timely SOC examination of the CGS by an Independent Service Auditor for the TSC. (Finding Code No. 2019-005)

C. **FINDING** (Excess Transfers to the Common School Fund)

During the financial audit of the State Lottery Fund for the year ended June 30, 2019, the Department of the Lottery (Department) had not resolved the prior period excess cash transfers from the State Lottery Fund (Fund 711) to the Common School Fund (Fund 412), totaling \$64.124 million. Additionally, the Department's process still called for, in years where the Illinois Lottery does not have sufficient profitability to fully satisfy the amounts to transfer into Fund 412, the Department to perform excess transfers into Fund 412 from Fund 711 based on the prescribed amount.

During the current engagement, written confirmation from the Department's General Counsel and Finance Manager was received indicating the Department's current policy is only to transfer proceeds to Fund 412 where sufficient funds remain after (1) paying prizes and retailer bonuses, (2) paying costs related to administering the Lottery (including all amounts due under the Management Agreement to the Private Manager), and (3) distributing net revenues from specialty tickets into specifically-designated funds. Due to the commonality of the remaining condition with the repeated conditions in Finding 2019-003, these conditions were reported together within Finding 2020-001. (Finding Code No. 2019-002, 2018-001)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – NOT REPEATED FINDINGS
For the Two Years Ended June 30, 2021

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

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2019, the Department failed to effectively oversee and monitor its evaluation team selecting the new Private Manager.

During the current examination, the Department did not select a new private manager. As such, the condition noted in this finding could not exist during the current examination period and this finding was not repeated. (Finding Code No. 2019-006)

E. **FINDING** (Inadequate Control over Contractual Services)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2019, the Department failed to exercise adequate internal control over contractual services.

During the current examination, our testing indicated the Department's controls improved significantly. As such, this finding was not repeated. (Finding Code No. 2019-008)

F. **FINDING** (Noncompliance with Lottery Control Board Requirements)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2019, the independent Lottery Control Board (Board) within the Department of the Lottery (Department) did not comply with various provisions of the Illinois Lottery Law (Law).

During the current engagement, our testing indicated the Board met with a quorum during the examination period and performed its duties in accordance with the Law. However, we continued to note the Board lacks five members as required by the Law, as noted in Finding 2021-015. (Finding Code No. 2019-014, 2017-005)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
DISCLOSURES ACCOMPANYING A STATE
COMPLIANCE EXAMINATION REPORT
For the Two Years Ended June 30, 2021

DISCLOSURES REPORT

SUMMARY

A reading of the accompanying report components of the Department of the Lottery (Department) was performed by Sikich LLP.

ACCOUNTANT'S REPORT

The accountants did not conclude an omission or uncorrected material misstatement of the other information exists in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report.

EXIT CONFERENCE

This report was discussed with Department personnel at an exit conference on April 13, 2022.

Attending were:

Department of the Lottery

Harold Mays, Director
Carol Radwine, Chief Financial Officer
Cornell Wilson, General Counsel
Darick Clark, Chief Internal Auditor
Amber Chappell, Finance Manager

Sikich LLP

Amy L. Sherwood, Partner
Shannon Leach, Manager

Office of the Auditor General

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

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**INDEPENDENT ACCOUNTANT'S REPORT
ON DISCLOSURES ACCOMPANYING A STATE
COMPLIANCE EXAMINATION REPORT**

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Disclosures Accompanying a State Compliance Examination Report

Management of the State of Illinois, Department of the Lottery (Department) is responsible for the *Disclosures Accompanying a State Compliance Examination Report* (other information), which consists of the Fiscal Schedules and Analysis and Analysis of Operations report components as listed in the Table of Contents. The other information comprises disclosures which must be presented by management in accordance with *Report Components* memorandum published by the Auditor General of the State of Illinois, but does not include our *Independent Accountant's Report on State Compliance and on Internal Control over Compliance* found in the separate *State Compliance Examination Report* included within this document. Our opinion on the Department's State compliance and internal control over compliance does not cover this other information, and we do not express an opinion or any form of assurance thereon.

In connection with our examination of the Department, our responsibility is to read the other information and consider whether:

1. a material inconsistency exists between the other information and our knowledge and facts of the Department we obtained as part of the Department's State compliance examination;
2. the other information appears to have been omitted; or,
3. the other information appears to be materially misstated.

If, based on the work performed, we concluded an omission or uncorrected material misstatement of the other information exists, we are required to describe it in this report.

SIGNED ORIGINAL ON FILE

Springfield, IL
April 29, 2022

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Expenditure Authority for Fiscal Year 2021

Fifteen Months Ended September 30, 2021

Public Act 101-0637	Expenditure Authority (Net of Transfers)	Expenditures Through June 30, 2021	Lapse Period Expenditures July 1 to September 30, 2021	Total Expenditures 15 Months Ended September 30, 2021	Balances Lapsed September 30, 2021
<u>APPROPRIATED FUND</u>					
State Lottery Fund - 0711					
Personal services	\$ 5,753,400	\$ 4,292,294	\$ 19,605	\$ 4,311,899	\$ 1,441,501
State contributions to State Employees' Retirement System	3,154,700	2,356,542	16,614	2,373,156	781,544
State contributions to Social Security	440,100	306,395	1,836	308,231	131,869
Group insurance	2,067,000	1,291,941	73,334	1,365,275	701,725
Contractual services	5,302,000	1,269,991	508,568	1,778,559	3,523,441
Travel	63,500	1,262	251	1,513	61,987
Commodities	36,500	36,414	-	36,414	86
Printing	11,600	1,573	2,610	4,183	7,417
Equipment	9,500	-	-	-	9,500
Electronic data processing	4,233,600	1,597,621	388,448	1,986,069	2,247,531
Telecommunications services	478,200	116,260	28,672	144,932	333,268
Operations of automotive equipment	239,100	113,029	28,083	141,112	97,988
Expenses of developing and promoting lottery games	240,065,400	145,530,182	131,646	145,661,828	94,403,572
Expenses of Lottery Control Board	8,300	1,950	-	1,950	6,350
Prize payments for winning tickets	2,000,000,000	514,405,686	23,848,008	538,253,694	1,461,746,306
Refunds	100,000	24,843	1,034	25,877	74,123
Total, State Lottery Fund - 0711, All Appropriated Funds	<u>\$ 2,261,962,900</u>	<u>\$ 671,345,983</u>	<u>\$ 25,048,709</u>	<u>\$ 696,394,692</u>	<u>\$ 1,565,568,208</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Expenditure Authority for Fiscal Year 2021

Fifteen Months Ended September 30, 2021

Public Act 101-0637	Expenditure Authority (Net of Transfers)	Expenditures Through June 30, 2021	Lapse Period Expenditures July 1 to September 30, 2021	Total Expenditures 15 Months Ended September 30, 2021	Balances Lapsed September 30, 2021
<u>NONAPPROPRIATED FUNDS</u>					
Deferred Lottery Prize Winners Fund - 0978					
Deferred prize payments for winning tickets		\$ 24,644,469	\$ (28,420)	\$ 24,616,049	
Subtotal - Nonappropriated Funds		<u>\$ 24,644,469</u>	<u>\$ (28,420)</u>	<u>\$ 24,616,049</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 695,990,452</u>	<u>\$ 25,020,289</u>	<u>\$ 721,010,741</u>	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records and have been reconciled to the State Comptroller's records as of September 30, 2021.

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

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Expenditure Authority for Fiscal Year 2020

Fifteen Months Ended September 30, 2020

Public Act 101-0007	Expenditure Authority (Net of Transfers)	Expenditures Through June 30, 2020	Lapse Period Expenditures July 1 to September 30, 2020	Total Expenditures 15 Months Ended September 30, 2020	Balances Lapsed September 30, 2020
<u>APPROPRIATED FUND</u>					
State Lottery Fund - 0711					
Personal services	\$ 5,579,900	\$ 3,924,344	\$ 27,951	\$ 3,952,295	\$ 1,627,605
State contributions to State Employees' Retirement System	3,029,500	2,132,818	15,175	2,147,993	881,507
State contributions to Social Security	393,200	279,893	2,477	282,370	110,830
Group insurance	1,776,000	1,128,005	8,726	1,136,731	639,269
Contractual services	4,627,000	1,078,110	82,945	1,161,055	3,465,945
Travel	42,400	21,874	366	22,240	20,160
Commodities	36,500	14,771	9,035	23,806	12,694
Printing	11,600	6,326	-	6,326	5,274
Equipment	9,500	1,434	-	1,434	8,066
Electronic data processing	3,630,200	1,747,992	91,840	1,839,832	1,790,368
Telecommunications services	348,400	146,865	11,057	157,922	190,478
Operations of automotive equipment	222,600	117,754	1,264	119,018	103,582
Expenses of developing and promoting lottery games	233,450,000	136,370,486	10,208,167	146,578,653	86,871,347
Expenses of Lottery Control Board	8,300	2,753	-	2,753	5,547
Prize payments for winning tickets	1,000,000,000	302,903,680	10,744,230	313,647,910	686,352,090
Refunds	100,000	20,750	271	21,021	78,979
Total, State Lottery Fund - 0711, All Appropriated Funds	<u>\$ 1,253,265,100</u>	<u>\$ 449,897,855</u>	<u>\$ 21,203,504</u>	<u>\$ 471,101,359</u>	<u>\$ 782,163,741</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Expenditure Authority for Fiscal Year 2020

Fifteen Months Ended September 30, 2020

Public Act 101-0007	Expenditure Authority (Net of Transfers)	Expenditures Through June 30, 2020	Lapse Period Expenditures July 1 to September 30, 2020	Total Expenditures 15 Months Ended September 30, 2020	Balances Lapsed September 30, 2020
<u>NONAPPROPRIATED FUNDS</u>					
Deferred Lottery Prize Winners Fund - 0978					
Deferred prize payments for winning tickets		\$ 24,367,622	\$ -	\$ 24,367,622	
Total - Nonappropriated Funds		<u>\$ 24,367,622</u>	<u>\$ -</u>	<u>\$ 24,367,622</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 474,265,477</u>	<u>\$ 21,203,504</u>	<u>\$ 495,468,981</u>	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records and have been reconciled to the State Comptroller's records as of September 30, 2020.

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

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

For the Fiscal Year Ended June 30,

	2021	2020	2019
APPROPRIATED FUNDS			
State Lottery Fund - 0711			
Expenditure Authority	\$ 2,261,962,900	\$ 1,253,265,100	\$ 1,253,115,700
Expenditures			
Personal services	4,311,899	3,952,295	3,951,200
State contributions to State Employees' Retirement System	2,373,156	2,147,993	2,040,349
State contributions to Social Security	308,231	282,370	285,387
Group insurance	1,365,275	1,136,731	1,194,800
Contractual services	1,778,559	1,161,055	1,476,527
Travel	1,513	22,240	40,627
Commodities	36,414	23,806	13,818
Printing	4,183	6,326	2,384
Equipment	-	1,434	166
Electronic data processing	1,986,069	1,839,832	2,228,861
Telecommunications services	144,932	157,922	335,891
Operations of automotive equipment	141,112	119,018	172,843
Expenses of developing and promoting lottery games	145,661,828	146,578,653	197,921,434
Expenses of Lottery Control Board	1,950	2,753	1,433
Prize payments for winning tickets	538,253,694	313,647,910	436,826,980
Refunds	25,877	21,021	9,896
Total expenditures	<u>\$ 696,394,692</u>	<u>\$ 471,101,359</u>	<u>\$ 646,502,596</u>
Balances Lapsed	<u>\$ 1,565,568,208</u>	<u>\$ 782,163,741</u>	<u>\$ 606,613,104</u>
General Revenue Fund - 0001			
Expenditure Authority	\$ -	\$ -	\$ 589,100
Expenditures			
Unpaid wage increases	-	-	588,232
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 588,232</u>
Balances Lapsed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 868</u>
TOTAL APPROPRIATED FUNDS			
Expenditure Authority	<u>\$ 2,261,962,900</u>	<u>\$ 1,253,265,100</u>	<u>\$ 1,253,704,800</u>
Expenditures	<u>\$ 696,394,692</u>	<u>\$ 471,101,359</u>	<u>\$ 647,090,828</u>
Balances Lapsed	<u>\$ 1,565,568,208</u>	<u>\$ 782,163,741</u>	<u>\$ 606,613,972</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

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

For the Fiscal Year Ended June 30,

	2021	2020	2019
<u>NONAPPROPRIATED FUNDS</u>			
State Lottery Fund - 0711			
Deposit into the Capital Projects Fund	\$ -	\$ -	\$ 18,503,860
Deferred Lottery Prize Winners Fund - 0978			
Deferred prize payments for winning tickets	\$ 24,616,049	\$ 24,367,622	\$ 22,936,810
<u>TOTAL NONAPPROPRIATED FUNDS</u>			
Expenditures	\$ 24,616,049	\$ 24,367,622	\$ 41,440,670
<u>GRAND TOTAL - ALL FUNDS</u>			
Expenditures	\$ 721,010,741	\$ 495,468,981	\$ 688,531,498
<u>STATE OFFICER'S SALARY</u>			
State Lottery Fund - 0711 (State Comptroller)			
Expenditures			
For the Director	\$ 167,219	\$ 167,219	\$ 50,804
Total Expenditures	\$ 167,219	\$ 167,219	\$ 50,804

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records and have been reconciled to the State Comptroller's records as of September 30, 2021 and September 30, 2020.

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

Note 3: The Department received appropriations during Fiscal Year 2021 from Public Act 101-0637. In addition, the Department received appropriations during Fiscal Year 2020 from Public Act 101-0007.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPARATIVE SCHEDULE OF NET EXPENDITURES
 BY MAJOR ACTIVITY

For the Fiscal Year Ended June 30,

	2021	2020	2019
EXPENDITURE STATISTICS			
All State Treasury Funds			
Total Operations Expenditures:	\$ 158,115,121	\$ 157,432,428	\$ 210,253,952
Percentage of Total Expenditures:	21.9%	31.8%	30.5%
Personal Services	4,311,899	3,952,295	4,539,432
Other Payroll Costs	4,046,662	3,567,094	3,520,536
All Other Operating Expenditures	149,756,560	149,913,039	202,193,984
Total Awards and Grants Expenditures:	\$ 562,869,743	\$ 338,015,532	\$ 459,763,790
Percentage of Total Expenditures:	78.1%	68.2%	66.8%
Total Refund Expenditures:	\$ 25,877	\$ 21,021	\$ 9,896
Percentage of Total Expenditures:	0.0%	0.0%	0.0%
Total Deposit into the Capital Projects Fund:	\$ -	\$ -	\$ 18,503,860
Percentage of Total Expenditures:	0.0%	0.0%	2.7%
GRAND TOTAL - ALL EXPENDITURES:	\$ 721,010,741	\$ 495,468,981	\$ 688,531,498

Note 1: Expenditures were obtained from the Department's records as of September 30, 2021, and September 30, 2020, and have been reconciled to State Comptroller's records.

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

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2021

Fiscal Year 2021 Compared to Fiscal Year 2020

State Lottery Fund – 711

Contractual Services

The increase was due to the Department's need to contract with a vendor for legal services that was not needed in Fiscal Year 2020.

Travel

The decrease was due to the Department's adherence to the Gubernatorial Executive Order which limited travel during the COVID-19 pandemic. This took place the last three and a half months of Fiscal Year 2020 and all of Fiscal Year 2021.

Prize Payments for Winning Tickets

The increase was due to the sales and related prize expense increasing by approximately \$500 million each. Due to the increase in activity, there was an increase in prize payments for the multi-state games, as well as in-State play of instant tickets and draw based games.

Fiscal Year 2020 Compared to Fiscal Year 2019

General Revenue Fund – 001

Unpaid Wage Increases

The decrease was due to an appropriation from the General Revenue Fund in Fiscal Year 2019 to pay back wage and accompanying interest to union employees. Typically, the Department does not expend General Revenue Funds.

State Lottery Fund – 711

Contractual Services

The decrease was due to incurring costs for legal services for transition of the Private Manager in Fiscal Year 2019 that was not necessary in Fiscal Year 2020.

Electronic Data Processing

The decrease was due to a decrease in electronic data processing expenditures as a result of changes in personnel.

Telecommunications Services

The decrease was due to the increase in costs in Fiscal Year 2019 for the new VoIP system, which was a one-time cost and not incurred again in Fiscal Year 2020.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2021

Fiscal Year 2020 Compared to Fiscal Year 2019

Operations of Automotive Equipment

The decrease was due to less expenses being incurred as a result of the COVID-19 pandemic as the Lottery Sales Representatives were removed from the field from mid-March 2020 through the end of the year due to the Gubernatorial Stay-At-Home Order.

Expenses of Developing and Promoting Lottery Games

The decrease was due to paying out the residual value expense of approximately \$33 million in accordance with the Letter Agreement of Termination (Letter) with the previous Private Manager, Northstar Lottery Group. The executed Letter extended the supply agreement with IGT, the subcontractor utilized by Northstar, which was assumed by Camelot Illinois, LLC. The Letter required the Department to pay a residual value if the new private manager did not continue services with IGT. The remaining decrease was due to the change in Private Manager Agreement terms as to how the private manager is paid under the new agreement and the timing of payments.

Prize Payments for Winning Tickets

The decrease was due to the sales and related prize expense decreasing primarily due to unfavorable jackpot performance in Fiscal Year 2020 for the multi-state games, particularly the \$1.6 billion Mega Millions jackpot in Fiscal Year 2019. Additionally, the Department purchased securities for annuity winners in Fiscal Year 2019 that were not purchased in Fiscal Year 2020.

Deposit into Capital Projects Fund

The amount transferred to Capital Projects Fund each year is dependent upon the remaining proceeds in the given fiscal year per statute. The decrease was due to no remaining proceeds to transfer in Fiscal Year 2020.

State Officer's Salary

The increase is due to a change in directors in Fiscal Year 2019. The change in Officers caused a change in how the salary and related expense was processed by the Comptroller, and was not for a full twelve months.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPARATIVE SCHEDULE OF CASH RECEIPTS
 AND DEPOSITS INTO THE STATE TREASURY

For the Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>
STATE TREASURY FUNDS			
Alzheimer's Awareness Fund - 0020			
Receipt Sources:			
Scratch-off game proceeds	\$ 916,588	\$ -	\$ -
Total Receipts, per the Department's Records	<u>\$ 916,588</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts, per the Department's Records	\$ 916,588	\$ -	\$ -
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 916,588</u>	<u>\$ -</u>	<u>\$ -</u>
Special Olympics Illinois and Special Children's			
Receipt Sources:			
Scratch-off game proceeds	\$ 1,342,541	\$ 2,136,300	\$ 516,648
Total Receipts, per the Department's Records	<u>\$ 1,342,541</u>	<u>\$ 2,136,300</u>	<u>\$ 516,648</u>
Receipts, per the Department's Records	\$ 1,342,541	\$ 2,136,300	\$ 516,648
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 1,342,541</u>	<u>\$ 2,136,300</u>	<u>\$ 516,648</u>
Carolyn Adams Ticket for the Cure Grant Fund - 0208			
Receipt Sources:			
Scratch-off game proceeds	\$ 643,744	\$ 256,816	\$ 627,695
Total Receipts, per the Department's Records	<u>\$ 643,744</u>	<u>\$ 256,816</u>	<u>\$ 627,695</u>
Receipts, per the Department's Records	\$ 643,744	\$ 256,816	\$ 627,695
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 643,744</u>	<u>\$ 256,816</u>	<u>\$ 627,695</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPARATIVE SCHEDULE OF CASH RECEIPTS
 AND DEPOSITS INTO THE STATE TREASURY

For the Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Illinois Veterans Assistance Fund - 0236			
Receipt Sources:			
Scratch-off game proceeds	\$ 1,329,682	\$ 1,362,135	\$ 1,246,632
Total Receipts, per the Department's Records	<u>\$ 1,329,682</u>	<u>\$ 1,362,135</u>	<u>\$ 1,246,632</u>
Receipts, per the Department's Records	\$ 1,329,682	\$ 1,362,135	\$ 1,246,632
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 1,329,682</u>	<u>\$ 1,362,135</u>	<u>\$ 1,246,632</u>
Criminal Justice Information Projects Fund - 0335			
Receipt Sources:			
Scratch-off game proceeds	\$ 1,080,687	\$ 1,415,350	\$ -
Total Receipts, per the Department's Records	<u>\$ 1,080,687</u>	<u>\$ 1,415,350</u>	<u>\$ -</u>
Receipts, per the Department's Records	\$ 1,080,687	\$ 1,415,350	\$ -
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 1,080,687</u>	<u>\$ 1,415,350</u>	<u>\$ -</u>
Multiple Sclerosis Research Fund - 0429			
Receipt Sources:			
Scratch-off game proceeds	\$ 1,470,068	\$ 347,790	\$ 454,778
Total Receipts, per the Department's Records	<u>\$ 1,470,068</u>	<u>\$ 347,790</u>	<u>\$ 454,778</u>
Receipts, per the Department's Records	\$ 1,470,068	\$ 347,790	\$ 454,778
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 1,470,068</u>	<u>\$ 347,790</u>	<u>\$ 454,778</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPARATIVE SCHEDULE OF CASH RECEIPTS
 AND DEPOSITS INTO THE STATE TREASURY

For the Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Quality of Life Endowment Fund - 0437			
Receipt Sources:			
Scratch-off game proceeds	\$ 486,815	\$ 525,926	\$ 544,849
Total Receipts, per the Department's Records	<u>\$ 486,815</u>	<u>\$ 525,926</u>	<u>\$ 544,849</u>
Receipts, per the Department's Records	\$ 486,815	\$ 525,926	\$ 544,849
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 486,815</u>	<u>\$ 525,926</u>	<u>\$ 544,849</u>
Capital Projects Fund - 0694			
Receipt Sources:			
Interfund Cash Transfer from the State Lottery Fund	\$ -	\$ 18,503,861	\$ -
Total Receipts, per the Department's Records	<u>\$ -</u>	<u>\$ 18,503,861</u>	<u>\$ -</u>
Receipts, per the Department's Records	\$ -	\$ 18,503,861	\$ -
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ -</u>	<u>\$ 18,503,861</u>	<u>\$ -</u>
State Lottery Fund - 0711			
Receipt Sources:			
Lottery - daily settlement	\$ 1,474,413,308	\$ 1,151,427,072	\$ 1,323,033,581
Interest	87,274	80,502	22,620
Lottery agents - licenses and fees	3,689,512	3,866,685	2,866,751
Repayment to State pursuant to law	40,003,712	1,124,366	720,771
Miscellaneous	3,636	6,882	4,227
Prior year refunds	49,729	2,236	59,870
Prior year warrant voids	-	-	-
Total Receipts, per the Department's Records	<u>\$ 1,518,247,171</u>	<u>\$ 1,156,507,743</u>	<u>\$ 1,326,707,820</u>
Receipts, per the Department's Records	\$ 1,518,247,171	\$ 1,156,507,743	\$ 1,326,707,820
Deposits in Transit, Beginning of the Fiscal Year	6,404	28,192	11,752
Deposits in Transit, End of the Fiscal Year	20,429	6,404	28,192
Deposits, Recorded by the State Comptroller	<u>\$ 1,518,233,146</u>	<u>\$ 1,156,529,531</u>	<u>\$ 1,326,691,380</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 COMPARATIVE SCHEDULE OF CASH RECEIPTS
 AND DEPOSITS INTO THE STATE TREASURY

For the Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Homelessness Prevention Revenue Fund - 0889			
Receipt Sources:			
Scratch-off game proceeds	\$ 1,060,469	\$ 1,182,904	\$ -
Total Receipts, per the Department's Records	<u>\$ 1,060,469</u>	<u>\$ 1,182,904</u>	<u>\$ -</u>
Receipts, per the Department's Records	\$ 1,060,469	\$ 1,182,904	\$ -
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 1,060,469</u>	<u>\$ 1,182,904</u>	<u>\$ -</u>
Deferred Lottery Prize Winners Trust Fund - 0978			
Receipt Sources:			
Investment income	\$ 24,209,688	\$ 24,335,000	\$ 22,659,000
Prior year refunds	28,388	-	-
Total Receipts, per the Department's Records	<u>\$ 24,238,076</u>	<u>\$ 24,335,000</u>	<u>\$ 22,659,000</u>
Receipts, per the Department's Records	\$ 24,238,076	\$ 24,335,000	\$ 22,659,000
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	28,388	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 24,209,688</u>	<u>\$ 24,335,000</u>	<u>\$ 22,659,000</u>
School STEAM Grant Program Fund - 0987			
Receipt Sources:			
Scratch-off game proceeds	\$ 1,105,392	\$ -	\$ -
Total Receipts, per the Department's Records	<u>\$ 1,105,392</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts, per the Department's Records	\$ 1,105,392	\$ -	\$ -
Deposits in Transit, Beginning of the Fiscal Year	-	-	-
Deposits in Transit, End of the Fiscal Year	-	-	-
Deposits, Recorded by the State Comptroller	<u>\$ 1,105,392</u>	<u>\$ -</u>	<u>\$ -</u>
GRAND TOTAL - ALL FUNDS			
Receipts, per the Department's Records	\$ 1,551,921,233	\$ 1,206,573,825	\$ 1,352,757,422
Deposits in Transit, Beginning of the Fiscal Year	6,404	28,192	11,752
Deposits in Transit, End of the Fiscal Year	48,817	6,404	28,192
Deposits, Recorded by the State Comptroller	<u>\$ 1,551,878,820</u>	<u>\$ 1,206,595,613</u>	<u>\$ 1,352,740,982</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2021

Fiscal Year 2021 Compared to Fiscal Year 2020

Alzheimer's Awareness Fund - 0020

Scratch-off game proceeds

Per 20 ILCS 1605/21.13, the Department shall offer a special instant scratch-off game for the benefit of Alzheimer's care, support, education, and awareness. The proceeds from the sale of the specialty ticket shall be deposited in the Alzheimer's Awareness Fund. The statute was effective June 25, 2020. Therefore, there were no receipts prior to Fiscal Year 2021.

Special Olympics Illinois and Special Children's Charities Fund – 0073

Scratch-off game proceeds

The proceed transfers for Specialty Tickets were slightly delayed in Fiscal Year 2019. Therefore, both May and June proceeds were transferred in July. For the Special Olympics ticket this totaled \$691 thousand that belonged to Fiscal Year 2019. Had these receipts been recorded in Fiscal Year 2019, as opposed to Fiscal Year 2020, the decrease in Fiscal Year 2021 would have been less significant.

Carolyn Adams Ticket for the Cure Grant Fund – 0208

Scratch-off game proceeds

The increase in Fiscal Year 2021 was primarily due to the Department spending little to no overhead costs on the special causes tickets, allowing more proceeds to be transferred to the causes the ticket supports. Additionally, sales in general were up in Fiscal Year 2021.

Criminal Justice Information Projects Fund – 0335

Scratch-off game proceeds

The decrease was primarily due to stronger performance of the specialty ticket in the first year after launch, which was recorded as Fiscal Year 2020 receipts.

Multiple Sclerosis Research Fund – 0429

Scratch-off game proceeds

The Multiple Sclerosis scratch-off ticket is launched in the spring each year. The ticket in Fiscal Year 2020 was launched during the stay-at-home order and the Department had a decrease in instant ticket sales and sales in general in Fiscal Year 2020. This was partially due to the change in instant settlement policy to delay the settlements due to the order, pushing the proceeds to Fiscal Year 2021. Additionally, in Fiscal Year 2021 the Department's sales increased and little to no overhead spend occurred on the specialty tickets leaving more proceeds to be transferred to the good cause the ticket supports.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2021

Fiscal Year 2021 Compared to Fiscal Year 2020

Capital Projects Fund – 0694

Interfund Cash Transfers from the State Lottery Fund

Per 20 ILCS 1605/9.1(o), the Department is required to transfer proceeds of lottery sales in a priority order with any remaining proceeds after all expenses of administering the Lottery and transfers to the Common School Fund are to be transferred to the Capital Projects Fund by September 30th the following fiscal year. There were no proceeds in Fiscal Year 2020; therefore, the total receipt amount is zero for Fiscal Year 2021.

State Lottery Fund – 0711

Lottery – Daily Settlement

The Lottery Daily Settlement receipt account code is utilized to deposit the net proceeds from the weekly sweep of retailer accounts for sales less related expenses and the net iLottery proceeds. During Fiscal Year 2021, sales increased 21% over that of Fiscal Year 2020, which explains the increase in receipts.

Repayment to State Pursuant to Law

The Department deposits receipts from multi-state game settlements in the Repayment to State receipt account. In Fiscal Year 2021, the Mega Millions \$56m jackpot was won in Illinois in June. Therefore, Illinois received \$38m from the Mega Millions consortium for the other states' share of the jackpot liability to pay the winner. There were no Illinois multi-state winners in Fiscal Year 2020, which explains the increase in receipts.

School STEAM Grant Program Fund – 0987

Scratch-off game proceeds

Per 20 ILCS 1605/21.12, the Department shall offer a special instant scratch-off game to benefit school STEAM programs. The proceeds from the sale of the specialty ticket shall be deposited in the School STEAM Grant Program Fund. The statute was effective August 23, 2019. Therefore, there were no receipts prior to Fiscal Year 2020. Additionally, the Department planned to launch the first ticket in the spring of Fiscal Year 2020; however, the launch was delayed due to COVID-19 and the stay-at-home order.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2021

Fiscal Year 2020 Compared to Fiscal Year 2019

Special Olympics Illinois and Special Children's Charities Fund – 0073

Scratch-off game proceeds

The proceed transfers for Specialty Tickets were slightly delayed in Fiscal Year 2019. Therefore, both May and June proceeds were transferred in July. For the Special Olympics ticket this totaled \$691 thousand that belonged to Fiscal Year 2019. Had these receipts been recorded in Fiscal Year 2019, as opposed to Fiscal Year 2020, the increase in Fiscal Year 2020 would have been less significant.

Carolyn Adams Ticket for the Cure Grant Fund – 0208

Scratch-off game proceeds

The decrease in Fiscal Year 2020 was primarily due to the fact excess proceeds were transferred in Fiscal Year 2019 than the cause earned and the funds had to be recouped and offset against Fiscal Year 2020 proceeds. Furthermore, sales in general were down in Fiscal Year 2020.

Criminal Justice Information Projects Fund – 0335

Scratch-off game proceeds

Per 20 ILCS 1605/21.10, the Department shall offer a special instant scratch-off game for the benefit of State police memorials. The proceeds from the sale of the specialty ticket shall be deposited in the Criminal Justice Information Projects Fund. The statute was effective July 30, 2018. The ticket is launched by the Department in May each year and transferred on a cash basis. The proceeds from Fiscal Year 2019 were deposited in Fiscal Year 2020 due to the way instant tickets settle.

Capital Projects Fund – 0694

Interfund Cash Transfers from the State Lottery Fund

Per 20 ILCS 1605/9.1(o), the Department is required to transfer proceeds of lottery sales in a priority order with any remaining proceeds after all expenses of administering the Lottery and transfers to the Common School Fund are to be transferred to the Capital Projects Fund by September 30th the following fiscal year. There were no proceeds in Fiscal year 2018 therefore, the total receipt amount was zero for Fiscal Year 2019.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2021

Fiscal Year 2020 Compared to Fiscal Year 2019

State Lottery Fund – 0711

Lottery Agents – License and Fees

The increase was primarily due to a timing difference from when the Department transferred the receipt collection from Lottery Daily Settlement to Lottery Agents. The 4th quarter was transferred in Fiscal Year 2020 as opposed to Fiscal Year 2019.

Repayment to State Pursuant to Law

The Department deposits receipts from multi-state game settlements in the Repayment to State receipt account. Receipts vary each year dependent upon each State's share in the draw liability. The increase was primarily due to a higher cumulative deposit amount in Fiscal Year 2020.

Homelessness Prevention Revenue Fund - 0889

Scratch-off game proceeds

Per 20 ILCS 1605/21.11, the Department shall offer a special instant scratch-off game to fund homelessness prevention programs. The proceeds from the sale of the specialty ticket shall be deposited in the Homelessness Prevention Revenue Fund. The statute was effective July 12, 2019. Therefore, there were no receipts prior to Fiscal Year 2020

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF LOCALLY-HELD FUND RECEIPTS AND DISBURSEMENTS

For the Fiscal Year Ended June 30,

	2021	2020	2019
LOCALLY-HELD FUNDS			
Lottery Prize Payment Fund - 1279			
Balance, Beginning of the Fiscal Year	\$ 5,810,775	\$ 9,999,555	\$ 24,021,224
Receipts	201,764,737	121,853,203	121,245,226
Disbursements	192,928,233	126,041,983	135,266,895
Balance, End of the Fiscal Year	\$ 14,647,279	\$ 5,810,775	\$ 9,999,555
Lottery Agent Security Deposits Fund - 1309			
Balance, Beginning of the Fiscal Year	\$ 442,003	\$ 575,365	\$ 847,772
Receipts	24,038	59,476	93,267
Disbursements	38,790	192,838	365,674
Balance, End of the Fiscal Year	\$ 427,251	\$ 442,003	\$ 575,365
Agent Sales Sweep Account Fund - 1373			
Balance, Beginning of the Fiscal Year	\$ 7,356,366	\$ 7,513,948	\$ 7,694,805
Receipts	1,487,414,670	1,164,096,818	1,330,300,627
Disbursements	1,487,270,979	1,164,254,400	1,330,481,484
Balance, End of the Fiscal Year	\$ 7,500,057	\$ 7,356,366	\$ 7,513,948
Deferred Lottery Prize Winner Trust Fund - 2978			
Balance, Beginning of the Fiscal Year	\$ 296,976,934	\$ 288,974,819	\$ 267,173,448
Receipts	16,794,583	32,337,115	43,507,879
Disbursements	24,209,688	24,335,000	21,706,508
Balance, End of the Fiscal Year	\$ 289,561,829	\$ 296,976,934	\$ 288,974,819

Note 1: These balances were obtained from the Department's records and have been reconciled to the Department's *Report of Receipts and Disbursements for Locally Held Funds* for each locally held fund submitted to the Office of State Comptroller as of June 30, 2021, and June 30, 2020.

Note 2: This schedule is presented on the cash basis of accounting.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 SCHEDULE OF CHANGES IN PROPERTY
 For the Two Years Ended June 30, 2021

(IN THOUSANDS)

<u>FISCAL YEAR 2021</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Ending Balance</u>
Property					
Equipment	\$ 578	\$ 190	\$ 26	\$ (246)	\$ 496
Total	<u>\$ 578</u>	<u>\$ 190</u>	<u>\$ 26</u>	<u>\$ (246)</u>	<u>\$ 496</u>
Capital Leases					
Equipment	\$ 63	\$ -	\$ 63	\$ -	\$ -
Total	<u>\$ 63</u>	<u>\$ -</u>	<u>\$ 63</u>	<u>\$ -</u>	<u>\$ -</u>

Note 1: These balances were obtained from the Department's records and have been reconciled to the Department's quarterly *Agency Report of State Property* reports submitted to the Office of State Comptroller for the year ended June 30, 2021.

Note 2: This schedule was prepared from State property records as required by the Illinois Administrative Code (Code) and the Statewide Accounting Management System (SAMS). The capitalization policy required by the Code and SAMS is different from the capitalization policy established by the Office of the State Comptroller for financial reporting in accordance with generally accepted accounting principles (GAAP).

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 SCHEDULE OF CHANGES IN PROPERTY
 For the Two Years Ended June 30, 2021

(IN THOUSANDS)

FISCAL YEAR 2020	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Ending Balance</u>
Property					
Equipment	\$ 694	\$ 1	\$ 34	\$ (83)	\$ 578
Total	<u>\$ 694</u>	<u>\$ 1</u>	<u>\$ 34</u>	<u>\$ (83)</u>	<u>\$ 578</u>
Capital Leases					
Equipment	\$ 63	\$ -	\$ -	\$ -	\$ 63
Total	<u>\$ 63</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63</u>

Note 1: These balances were obtained from the Department's records and have been reconciled to the Department's quarterly *Agency Report of State Property* reports submitted to the Office of State Comptroller for the years ended June 30, 2020.

Note 2: This schedule was prepared from State property records as required by the Illinois Administrative Code (Code) and the Statewide Accounting Management System (SAMS). The capitalization policy required by the Code and SAMS is different from the capitalization policy established by the Office of the State Comptroller for financial reporting in accordance with generally accepted accounting principles (GAAP).

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
FUNCTIONS AND PLANNING
For the Two Years ended June 30, 2021

General Operations

The Illinois Lottery (Lottery) was established in 1974 to promote and sell lottery tickets to benefit public schools throughout the State as well as various good causes. The Department is organized to provide for administering and overseeing the operations of the Illinois Lottery with the assistance of a Private Manager under a management agreement operating in accordance with the Illinois Lottery Law (20 ILCS 1605). The Department's mission is to maximize revenue to the State to benefit schools, capital projects and specialty causes in an ethical and responsible manner while ensuring all Lottery operations adhere to the highest standards of security and public accountability.

The Department and Private Manager collaborate to develop, market, sell and conduct Lottery games and promotions to fulfill its mission while expanding its retailer and player base. The Private Manager has functional responsibility for Sales, Marketing, Retail Management and Product Development while the Department leads Finance, Claims, Legal, and Operations and Technology. As part of its mission the Department also focuses attention on the various specialty causes it supports. Currently, the Department raises funds for and increases the awareness of 9 specialty causes by selling instant tickets in which the net proceeds are transferred to the specified fund within the Lottery Law for the given cause. All remaining Department proceeds after deducting costs for prize payments and retailer bonuses and costs related to administering the Lottery, including all amounts due to the Private Manager, are then transferred to the Common School Fund. If the amount transferred equals the proceeds transferred in 2009 adjusted for inflation, any amount remaining is then transferred to the Capital Projects Fund. Approximately, 66% of the money goes to prizes, 24% to good causes, and the remainder to retail commissions (5%), and operating costs (5%). As of June 30, 2021, the Department has raised over \$23.6 billion for the benefit of schools in Illinois, over \$485 million for the benefit of capital projects, and over \$68 million for specialty tickets.

The Department has approximately 7,000 retailers operating across the State selling instant and draw based games. Additionally, the Department oversees the administration of our internet program via its iLottery platform as a means to increase sales and to expand the player base by offering both a subscription and single play option for its draw-based games online.

The Department's mission is to maximize revenue to the State to benefit schools, capital projects, and specialty causes in an ethical and responsible manner while ensuring all Lottery operations adhere to the highest standards of security and public accountability.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
FUNCTIONS AND PLANNING
For the Two Years ended June 30, 2021

Functions

Operations and Technology Division

The electronic data processing and information systems operations of the Department are its Technology responsibilities and are comprised of five primary functions: managing the use of in-house back-office support systems, oversight of a central gaming system and iLottery platform supplied and operated by outside vendors 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 Department Operations responsibilities include managing its facilities, warehousing, supplies, records, vehicles and telecommunication needs. In-house technology functions and services are primarily provided and supported by the Department's Information Technology Section and Department of Innovation and Technology (DoIT).

Sales and Marketing

Sales and marketing functions were managed during the examination period by the Private Manager, Camelot Illinois, LLC (Camelot). A combination of Department employees, Lottery Sales Representatives, Regional Coordinators and Tell Sell Representatives, who report to the Private Manager pursuant to an Employee Use Agreement, and the Private Manager's own employees were utilized for these functions. Field Sales personnel operate regionally and coordinate logistics and training out of the Private Manager's sub-contractor offices in Bolingbrook and McCook, IL (Lottery Sales Regions 1, 2 and 6), as well as from Springfield (Region 5), and the Department's satellite offices in Rockford (Region 3) and Fairview Heights (Region 4). Camelot's Marketing personnel operate primarily from the Private Manager's administrative office.

The Department generates revenue from the marketing and sale of draw-based games and instant tickets. Draw-based games may be purchased in retail and through Lottery's online and mobile platform, which is administered by the Private Manager. Instant tickets may be purchased by players at a retail location, only. The Department has approximately 7,000 retail locations across the State.

Finance

The Department's financial reporting function, budget, claims, and retailer services unit comprise the Finance division. Finance is responsible for the Department's monthly, quarterly, and annual financial reporting; federal and state tax reporting; reconciling retailer accounts on a daily and weekly basis in order to collect the net activities for deposit in the State Lottery Fund; and, transfer on a monthly and annual basis all Lottery proceeds to the good causes the Department supports, as required by the Lottery Law. Furthermore, Finance prepares and submits the annual budget and processes all expenditures against the enacted appropriation, including the payment of prizes to our players.

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 FUNCTIONS AND PLANNING
 For the Two Years ended June 30, 2021

In coordination with Camelot, Finance monitors game performance on a weekly, monthly, and annual basis, as well as evaluates the Department's overall financial activities. Finance provides overall support services for the Department.

Key Metric Analysis

Sales Revenue (in thousands)

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Sales Revenue	\$ 3,449,965	\$ 2,844,284	\$ 2,977,440
Change from Prior Year	21.29%	-4.47%	1.68%

Instant Sales Revenue	\$ 2,214,449	\$ 1,887,801	\$ 1,856,803
Change from Prior Year	17.30%	1.67%	-1.26%

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
DBG Sales Revenue	\$ 1,235,516	\$ 956,483	\$ 1,120,638
Change from Prior Year	29.17%	-14.65%	6.94%

iLottery Sales Revenue	\$ 170,071	\$ 86,123	\$ 57,735
Change from Prior Year	97.47%	49.17%	32.61%

Operating Expenses (in thousands)

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Prize Expense	\$ 2,329,353	\$ 1,842,188	\$ 1,907,153
Change from Prior Year	26.44%	-3.41%	-0.20%

Instant Prize Expense	\$ 1,620,820	\$ 1,328,166	\$ 1,323,080
Change from Prior Year	22.03%	0.38%	-2.11%

DBG Prize Expense	\$ 708,533	\$ 514,022	\$ 584,073
Change from Prior Year	37.84%	-11.99%	4.43%

Commissions and Fees	\$ 186,247	\$ 154,938	\$ 165,329
Change from Prior Year	20.21%	-6.29%	0.17%

General and Administrative Expenses	\$ 162,726	\$ 153,641	\$ 154,370
Change from Prior Year	5.91%	-0.47%	-22.13%

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 FUNCTIONS AND PLANNING
 For the Two Years ended June 30, 2021

Transfers to Good Causes (in thousands)

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Common School Fund	\$ 762,500	\$ 689,523	\$ 731,250
Change from Prior Year	10.58%	-5.71%	1.74%
Capital Projects Fund	\$ 3,748	\$ -	\$ 18,504
Change from Prior Year	100.00%	-100.00%	100.00%
Specialty Tickets	\$ 10,068	\$ 6,490	\$ 4,264
Change from Prior Year	55.13%	52.20%	17.34%

In Fiscal Year 2021, the Department had a record-breaking sales year, as well as most state lotteries, due to the net positive financial impact COVID had on lottery sales during the pandemic. This impact coupled with the increased JP performance of the multi-state games, primarily Mega Millions® \$1 billion jackpot in January 2021 resulted in a 21% increase over the prior year. The Department experienced increased play during the stay-at-home orders and saw sales of our iLottery platform nearly double. While the Department’s retail estate decreased in fiscal year 2021 and 2020, they noted strong sales in retail for both instants and draw-based games.

Fiscal Year 2020 was a low sales performance year for the Illinois Lottery due to poor jackpot game performance for the Department’s three jackpot games (Lotto®, Mega Millions®, and Powerball®). Additionally, the technology transition in Q3 of Fiscal Year 2019 had a negative impact on sales performance leading into the Fiscal Year. The Department saw a small decline in sales at the beginning of the stay-at-home orders, but quickly rebounded to outperform the first half of the year.

Fiscal Year 2019’s sales were strong for most state lotteries due to the sales generated by the record breaking \$1.5 billion Mega Millions® jackpot in October 2018.

The Department continues to work closely with its private manager to expand portfolio offerings, increasing sales in a socially responsible manner while monitoring operational costs to maximize revenue to the State.

As further described in the *Independent Accountant’s Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
FUNCTIONS AND PLANNING
For the Two Years ended June 30, 2021

Planning

The Department's Planning Program is primarily centered around its annual business planning process with its Private Manager which is used to develop goals and objectives for the year. The programmatic priorities are used in our continued effort to develop, market, conduct and offer fun Lottery games in a socially responsible manner with the intent to grow the Lottery by expanding its retailer and player base while focusing attention on the various specialty causes the Lottery supports. To help ensure success, the Department works closely with its Private Manager to ensure advertising, marketing, promotions, and sales programs are conducted in an appropriate and socially responsible manner. The Department also strives to award all prizes and incentives in a timely, efficient, and secure manner.

The Department's top 5 programmatic priorities for the year ended are as follows:

- 1) Broaden the customer base and sales channels to maximize the Department's profits in a socially responsible manner.
- 2) Ensure its private manager's annual business plan, marketing strategies and executions are sound and in the best interest of the State and our players.
- 3) Collaborate with legislators to update the lottery law and pass legislation to keep current with the rapidly changing gaming and retail landscape.
- 4) Work with the Governor's Office, Governor's Office of Management and Budget, and other Constitutional Officers to ensure the proper ongoing oversight and regulation of the Lottery's private manager.
- 5) Implement the Lottery Sports Wagering Pilot Program.

The Department worked to achieve the programmatic goals during the year and will continue progress and development throughout following year. Broadening the Department's customer base and sales channels helped the Department achieve record-breaking sales in Fiscal Year 2021.

Significant Challenges

Technology Transition

In Q3 of Fiscal Year 2019, the Department and its Private Manager completed a total technology transition that represented one of the largest and most complex lottery transitions undertaken by a U.S. lottery in recent years. The transition included a new central gaming system, a new instant ticket management system, a new internal control system, all new retail terminals and equipment at 7,200 locations statewide and a new website and mobile app. It also included retail enhancement efforts that continued during Fiscal Year 2020 that was intended to modernize the look of the Illinois Lottery in the majority of lottery retail stores.

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
FUNCTIONS AND PLANNING
For the Two Years ended June 30, 2021

The massive scope of the transition affected every aspect of the business operationally and had a negative impact on our ability to fully maximize the performance seen during the first half of Fiscal Year 2019 that was driven by record sales produced by multi-state jackpot game performance in Q2. The transition effects lingered into Q1 and Q2 of Fiscal Year 2020. The negative effects of the Technology Transition began to marginally subside in Q3 after a corrective action plan and improved strategic approach was enacted. COVID-19 began to take hold of society in Q4 (detailed below). The transition, when coupled with poor Fiscal Year 2020 jackpot game performance in-state and multi-state, helped lead to an exceptionally poor performing year in Fiscal Year 2020.

COVID-19

The COVID-19 outbreak in the United States has resulted in the Department's ability to deliver services being challenged while attempting to maintain core functions and essential operations. During this time, the Department continued to operate, with adjustments, to satisfy its mission to generate funding for schools, capital projects, and specialty causes in a socially responsible manner. However, there were significant internal operational challenges resulting from the Department's response to COVID-19 and the stay-at-home order, as well as challenges within the Department's retail estate. These challenges had a direct impact on the Department's ability to serve its retailers and players.

The Department complied with the State's remote work mandate during its COVID-19 response. In March 2020, the Department chose to remove Lottery Sales Representatives (LSRs) from the field. This action reduced the Department's ability to service retailers on-site, including facilitating the return of unsold tickets. Additionally, some retailers had to temporarily or permanently close. As a result of these circumstances, the Department, along with its Private Manager, elected to suspend the automatic settlement of instant ticket books that reached 90 days old, as a one-time courtesy to its retailers to prevent undue hardship. This suspension became effective on March 22, 2020 and was removed on August 12, 2020. LSRs re-entered the field on June 29, 2020 and began settling books manually and processing returns for unsold tickets.

The Department's claim centers closed on March 17, 2020 in accordance with the Governor's stay-at-home order. The centers re-opened again in mid-July by appointment-only. Due to the temporary closure of the claim centers, the Department extended the redemption period for unclaimed prizes through September 30, 2020. Furthermore, the Department developed an E-Claim system to provide our players another opportunity to redeem their prize while safely maintaining social distance that went live on March 22, 2021.

The extent of the financial impact of COVID-19 was monitored closely throughout this period and thereafter. Sales slowed significantly during the first several weeks of the stay-at-home order in Fiscal Year 2020, but quickly rebounded for the remaining months of the fiscal year and throughout Fiscal Year 2021. This resulted in COVID-19 having a net positive financial impact on lottery sales during the pandemic thus far.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
NUMBER OF EMPLOYEES
For the Fiscal Years Ended June 30,

<u>AVERAGE FULL-TIME EMPLOYEES</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operations	62	60	58
Employee Use Agreement	77	80	82
Electronic Data Processing	6	6	9
Contractual	<u>1</u>	<u>1</u>	<u>2</u>
Total Average Full-Time Equivalent Employees	<u><u>146</u></u>	<u><u>147</u></u>	<u><u>151</u></u>

Note 1: This schedule presents the average number of employees, by division, at the Department.

Note 2: Full-time equivalents were prepared in accordance with the Department's methodology where (1) each employee with a full-time contract is counted as a full-time equivalent and (2) each part-time employee is multiplied by the number of months worked and then divided by 12 to derive their full-time equivalency.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF OVERTIME AND COMPENSATORY TIME
For the Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>
OPERATIONAL DIVISION			
General Office			
Overtime Hours Paid	1,960	994	1,062
Compensatory Hours Granted	844	698	538
Total	<u>2,804</u>	<u>1,692</u>	<u>1,600</u>
Value of Overtime Hours Paid	\$ 87,721	\$ 43,650	\$ 48,770
Value of Compensatory Hours Granted	27,538	23,166	16,661
Total Costs	<u>\$ 115,259</u>	<u>\$ 66,816</u>	<u>\$ 65,431</u>
Sales Office			
Overtime Hours Paid	3,995	1,727	2,052
Compensatory Hours Granted	185	113	32
Total	<u>4,180</u>	<u>1,840</u>	<u>2,084</u>
Value of Overtime Hours Paid	\$ 220,171	\$ 92,027	\$ 98,163
Value of Compensatory Hours Granted	6,881	3,846	1,020
Total Costs	<u>\$ 227,052</u>	<u>\$ 95,873</u>	<u>\$ 99,183</u>
Draw Operations			
Overtime Hours Paid	1,093	412	419
Compensatory Hours Granted	137	40	125
Total	<u>1,230</u>	<u>452</u>	<u>544</u>
Value of Overtime Hours Paid	\$ 35,470	\$ 16,869	\$ 17,667
Value of Compensatory Hours Granted	6,035	2,307	3,602
Total Costs	<u>\$ 41,505</u>	<u>\$ 19,176</u>	<u>\$ 21,269</u>
GRAND TOTAL - ENTIRE DEPARTMENT			
Overtime Hours Paid	7,048	3,133	3,533
Compensatory Hours Granted	1,166	851	695
Total	<u>8,214</u>	<u>3,984</u>	<u>4,228</u>
Value of Overtime Hours Paid	\$ 343,362	\$ 152,546	\$ 164,600
Value of Compensatory Hours Granted	40,454	29,319	21,283
Total Costs	<u>\$ 383,816</u>	<u>\$ 181,865</u>	<u>\$ 185,883</u>

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