



**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

STATE COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2023

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

A background graphic consisting of a complex, overlapping grid of lines and geometric shapes in shades of gray, creating a sense of depth and structure.

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2023

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STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2023

DEPARTMENT OFFICIALS

Director (03/22/22 – Present)	Mr. Harold Mays
Director (Acting) (07/01/21 – 03/21/22)	Mr. Harold Mays
Chief of Staff	Mr. Scott Gillard
Chief Financial Officer (03/25/24 – Present)	Ms. Amber Chappell
Chief Financial Officer (Acting) (10/07/23 – 03/24/24)	Ms. Amber Chappell
Chief Financial Officer (10/01/23 – 10/06/23)	Vacant
Chief Financial Officer (07/01/21 – 09/30/23)	Ms. Carol Radwine
General Counsel	Mr. Cornell Wilson III
Chief Operations Officer	Mr. Matthew Bell
Chief Transformation Officer	Mr. Joseph Logue
Chief Internal Auditor	Mr. Darick Clark

LOTTERY CONTROL BOARD OFFICER

Chair	Ms. Dianna Sheehan
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LOTTERY CONTROL BOARD MEMBERS

Member (08/23/21 – Present)	Ms. Sarah Alter
Member (07/02/21 – 08/22/21)	Vacant
Member (07/01/21 – 07/01/21)	Ms. Sarah Alter
Member	Ms. Alejandra Garza
Member	Ms. Diana Sheehan
Member	Vacant
Member	Vacant

DEPARTMENT OFFICES

The Department's primary administrative offices are located at:

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

404 N. 5th Street
Springfield, Illinois 62702



MANAGEMENT ASSERTION LETTER - STATE COMPLIANCE EXAMINATION

MANAGEMENT ASSERTION LETTER

April 19, 2024

Sikich LLP
3051 Hollis Drive, 3rd Floor
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, 2023. Based on this evaluation, we assert that during the years ended June 30, 2022, and June 30, 2023, 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. Include this paragraph only if applicable during the examination period.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department

J.B. Pritzker
Governor

Harold Mays
Director

Illinois Lottery
122 S. Michigan Avenue
19th Floor
Chicago, IL 60603
(312) 793-3030 Main
(312) 793-5514 Fax

404 N. 5th Street
Springfield, IL 62702
(217) 524-5147 Main
(217) 785-3990 Fax

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have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law. Include this paragraph only if applicable during the examination period.

Yours truly,

State of Illinois, Department of the Lottery

SIGNED ORIGINAL ON FILE

Haron Mays, Director

SIGNED ORIGINAL ON FILE

Amber Chappell, Chief Fiscal Officer

SIGNED ORIGINAL ON FILE

Cornell Wilson III, General Counsel

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 STATE COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2023

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, disclaimers, or any other significant non-standard language.

SUMMARY OF FINDINGS

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

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2023-001	10	2021/ 2019	Inadequate Controls over Personal Services	Significant Deficiency and Noncompliance
2023-002	13	NEW	Inadequate Controls over Vouchers	Significant Deficiency and Noncompliance
2023-003	15	NEW	Failure to Incorporate a Required Contractual Provision in the <i>Private Manager Agreement</i>	Significant Deficiency and Noncompliance

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
 STATE COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2023

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)				
2023-004	16	2021/ 2019	Inadequate Controls over State Vehicles	Significant Deficiency and Noncompliance
2023-005	18	2021/ 2013	Inadequate Controls over Reporting Requirements	Significant Deficiency and Noncompliance
2023-006	20	2021/ 2021	Disaster Recovery Planning Weaknesses	Significant Deficiency and Noncompliance
2023-007	22	2021/ 2019	Weaknesses in Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance
2023-008	25	2021/ 2021	Insufficient Number of Lottery Control Board Members	Noncompliance
Prior Findings Not Repeated				
A	27	2021/ 2017	Noncompliance with Fund Transfer Provisions	
B	27	2022/ 2020	Inadequate Controls over Census Data	
C	27	2021/ 2017	Inadequate Controls over Specialty Tickets	
D	28	2021/ 2020	System Access Weakness	
E	28	2022/ 2021	Inadequate Controls over SOC Report Reviews	
F	28	2021/ 2021	Inadequate Controls over Change Management	
G	29	2021/ 2021	Failure to Implement Lottery Sports Wagering	

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2023

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 (Continued)				
H	29	2021/ 2021	Inadequate Controls over Remote Access	

EXIT CONFERENCE

Findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 16, 2024.

Attending were:

Department of the Lottery

Harold Mays, Director
Scott Gillard, Chief of Staff
Amber Chappell, Chief Financial Officer
Matthew Bell, Chief of Operations and Technology
Darick Clark, Chief Internal Auditor

Sikich LLP

Amy Sherwood, Partner
Samantha Bugg, Senior Manager
Shannon Leach, Manager
Kara Hinsman, Senior

Office of the Auditor General

Quentin Kuntzman, Audit Manager

The responses to the recommendations were provided by Darick Clark, Chief Internal Auditor, in a correspondence dated April 19, 2024.

3051 Hollis Drive, Third Floor
Springfield, IL 62704
217.793.3363

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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, 2023. 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 opinion.

We are required to be independent and to meet other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

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

In our opinion, the Department complied with the specified requirements during the two years ended June 30, 2023, 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 2023-001 through 2023-008.

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.

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. 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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2023-001 through 2023-007 that we consider 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 19, 2024

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-001 **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 State vehicles when commuting to retailers as part of their full-time job.

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

- 1) the Department provides the vehicle to the employee for use in the Department's trade or 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.

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

- During our testing of 16 employees, with a total 32 performance evaluations during the examination period, we noted the Department did not conduct 9 of 32 (28%) performance evaluations in a timely manner, as they were completed between 2 and 280 days after the final day in the employee's evaluation period.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-001 **FINDING** (Inadequate Controls over Personal Services) (Continued)

The Illinois Administrative Code (Code) (80 Ill. Admin. Code 302.270) establishes a system of probationary and annual employee evaluations such that employees are evaluated at least 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 bilingual, African American, Hispanic, Asian-American, and Native American employment plans (State Employment Plans), we noted the Department was unable to provide documentation of survey support for the 2022 State Employment Plan report, as well as the date the surveys were submitted.

The African American Employment Plan Act (20 ILCS 30/20) and the Civil Administrative Code (20 ILCS 405/405-120) require the State to develop and implement plans to increase the number of African Americans, Hispanics, Asian-Americans, Native Americans, and bilingual persons employed by the State at supervisory, technical, professional, and managerial levels. The Civil Administrative Code (20 ILCS 405/405-125) requires the Department to report annually to the Department of Central Management Services and the Department of Human Rights all of the Department’s activities in implementing the State Employment Plans in a format prescribed by the Department of Central Management Services.

Department officials indicated the lack of support was due to oversight in not saving the submission support when the survey was submitted.

The State Employment Plans data are used to increase diversity within the State. Lack of data results in noncompliance with the Civil Administrative Code and hinders diversity progress.

This finding was first noted during the Department’s Fiscal Year 2018-Fiscal Year 2019 State compliance examination, four years ago. As such, Department management has been unsuccessful in implementing a corrective action plan to remedy this deficiency. The Department’s management team is responsible for timely corrective action on all of the findings identified during a State compliance examination. (Finding Code No. 2023-001, 2021-008, 2019-007)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-001 **FINDING** (Inadequate Controls over Personal Services) (Continued)

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) submission support of State Employment Plan Surveys are retained.

DEPARTMENT RESPONSE

The Department accepts the finding. Supervisors have been reminded of the requirements and the Department is evaluating additional controls to implement to ensure evaluations are completed in a timely manner. The Department will be implementing the fringe benefits for employees assigned a State vehicle. In addition, while the Department submitted the data required to CMS to complete the report, the Department will ensure it retains all the support for the submission.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-002 **FINDING** (Inadequate Controls over Vouchers)

The Department of the Lottery (Department) did not timely submit its vouchers for payment to the Comptroller’s Office and approve for payment all interest due to vendors during the examination period.

Due to our ability to rely upon the processing integrity of the Enterprise Resource Planning System (ERP) operated by the Department of Innovation and Technology (DoIT), we were able to limit our voucher testing at the Department to determine whether certain key attributes were properly entered by the Department’s staff into ERP. In order to determine the operating effectiveness of the Department’s internal controls related to voucher processing and subsequent payment of interest, we selected a sample of key attributes (attributes) to determine if the attributes were properly entered into the State’s ERP based on supporting documentation. The attributes tested were 1) vendor information, 2) expenditure amount, 3) object(s) of expenditure, and 4) the later of the receipt date of the proper bill or the receipt date of the goods and/or services.

We noted 1 of 140 (1%) attributes were not properly entered into the ERP System. Specifically, the Department did not enter the latter of the receipt date of the proper bill or the receipt date of the goods and/or services for into ERP correctly.

We then conducted an analysis of the Department’s expenditures data for Fiscal Year 2022 to determine compliance with the State Prompt Payment Act (Act) (30 ILCS 540/3-2) and the Illinois Administrative Code (Code) (74 Ill. Admin. Code 900.70). We noted the following noncompliance:

- The Department owed five vendors interest totaling \$392 in Fiscal Year 2022 and \$997 in Fiscal Year 2023; however, the Department had not approved these vouchers for payment to the vendor.

The Act (30 ILCS 540/3-2) requires agencies to pay vendors who had not been paid within 90 days of receipt of a proper bill or invoice interest.

- The Department did not timely approve 78 of 4,958 (2%) vouchers processed during Fiscal Year 2022, totaling \$769,825 and 90 of 4,751 (2%) vouchers processed during Fiscal Year 2023, totaling \$765,922. We noted these late vouchers were approved between 1 and 279 days late.

The Code (74 Ill. Admin. Code 900.70) requires the Department to timely review each vendor’s invoice and approve proper bills within 30 days after receipt.

Department officials stated the exceptions were due to staff turnover and delays in receiving invoices from vendors.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-002 **FINDING** (Inadequate Controls over Vouchers) (Continued)

Failure to timely process proper bills and approve vouchers for payment of interest due represents noncompliance with the Code and the Act. (Finding Code No. 2023-002)

RECOMMENDATION

We recommend the Department:

- Approve proper bills within 30 days of receipt;
- Approve vouchers for payment of interest due to vendors; and
- Ensure the proper bill date is entered into ERP as the later of either the receipt date of the invoice or receipt date of goods or services.

DEPARTMENT RESPONSE

The Department accepts the finding. Historically, the Department's process to review and approve invoices starts with the appropriate division manager reviewing and approving the invoice to ensure it is a proper bill prior to submitting to accounts payable for processing. The ERP's approval date is a system generated date once accounts payable processes and approves the bill within the ERP system which occurs after the Department's manager's approval of a proper bill, which is completed within 30 days of receipt. The Department is in the process of updating its internal procedures to ensure the vouchers are approved in ERP within 30 days and entering the proper bill date in the system upon processing.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-003 **FINDING** (Failure to Incorporate a Required Contractual Provision in the *Private Management Agreement*)

The Department of the Lottery (Department) did not ensure its *Private Management Agreement* contained all provisions required by the Illinois Lottery Law (Law).

The Department’s 10-year agreement with the Private Manager was initiated on October 13, 2017 and is effective until January 1, 2028, with an estimated award value of \$2.23 billion.

During testing, we noted the provision regarding the strategic marketing of the Lottery was not incorporated into the final *Private Management Agreement*.

The Law (20 ILCS 1605/9.1(d)(11)) requires a provision to require the Private Manager to “market the Lottery to those residents who are new, infrequent, or lapsed players of the Lottery, especially those who are most likely to make regular purchases on the Internet as permitted by law.”

Department officials indicated that provision was omitted in the final agreement due to an oversight when drafting the agreement. Department officials indicated the agreement was not amended during the examination period due to competing priorities and staff turnover.

Failure to incorporate this provision into the final *Private Management Agreement* represents noncompliance with the Law and could result in the Private Manager not fulfilling the marketing intentions of the General Assembly. (Finding Code No. 2023-003)

RECOMMENDATION

We recommend the Department work with the Private Manager to amend the *Private Management Agreement* to reflect this requirement. Further, the Department should implement controls, such as a cross-indexing and referencing process, to ensure its future agreements comport with State law.

DEPARTMENT RESPONSE

The Department accepts the finding. The provision noted is an item the Private Manager currently does with oversight from the Department; however, the Department will work towards implementing this provision in a formal agreement.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-004 **FINDING** (Inadequate Controls over State Vehicles)

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

During our testing, we noted the following:

- While examining the Department’s documentation for four accidents, we noted the Illinois Motorist Report form (Form SR-1) for one accident (25%) was signed, but not 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 to complete the Form SR-1 in its entirety.

- While examining the Department’s maintenance records for eight vehicles, we noted the following:

- Three (38%) vehicles were overdue for an oil change by 1,038 to 2,754 miles as of June 30, 2023.

The Department of Central Management Services’ (CMS) Vehicle Usage Policy requires vehicles to receive an oil change every 5,000 miles; we deemed oil changes as reasonable and timely if the oil change occurred within +/- 1,000 miles of the interval.

- Three (38%) vehicles did not have tire rotations performed 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.

This finding was first noted during the Department’s Fiscal Year 2018-Fiscal Year 2019 State compliance examination, four years ago. As such, Department management has been unsuccessful in implementing a corrective action plan to remedy this deficiency.

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.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-004 **FINDING** (Inadequate Controls over State Vehicles) (Continued)

Good internal controls over vehicles include ensuring routine maintenance is performed to provide reasonable assurance each State vehicle’s lifespan will be maximized and that the State’s vehicles remain in a road-worthy and safe operating condition.

Department officials indicated these exceptions were due to continued employee oversight.

Failure to fully and accurately complete Form SR-1s represents noncompliance with the Code. In addition, failure to exercise adequate internal control over State vehicles may result in the early deterioration or obsolescence of the State’s vehicles, could result in additional repair costs that could have been avoided by routine maintenance, and resulted in noncompliance with the CMS Vehicle Usage Policy. Finally, the Department’s management team is responsible for timely corrective action on all of the findings identified during a State compliance examination. (Finding Code No. 2023-004, 2021-009, 2019-009)

RECOMMENDATION

We recommend the Department implement controls to ensure:

- Form SR-1s are completely accurately; and,
- all required maintenance on State vehicles is performed timely.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department has implemented additional oversight capabilities within the Fleet Management System for supervisors. While all the annual inspections had been completed, the Department has been diligently working with drivers and supervisors to ensure all required maintenance is completed timely. In addition, the Department has added controls to ensure SR-1 forms are completed with all required information.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-005 **FINDING** (Inadequate Controls over Reporting Requirements)

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

During testing, we noted the following:

- 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 males reported as new hires in the Department’s Fiscal Year 2022 Report filed in Fiscal Year 2023 was not mathematically accurate, which resulted in the percentages calculated within this line to be incorrect.
 - The number of Asian females reported as new hires in the Department’s Fiscal Year 2022 Report filed in Fiscal Year 2023 was not mathematically accurate, which resulted in the percentages calculated within this line to be incorrect.

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

Department officials indicated the exceptions were due to a transposition error when entering the information for the Report.

- During our testing of the Department’s *Quarterly Summary of Accounts Receivable – Accounts Receivable Activity* (Form C-97) reports, we noted the Fiscal Year 2022 Quarter 3 Form C-97 for Fund 0711 did not agree to supporting documentation. Specifically, the amount reported as being collected within 180 days was understated by \$23,261,739.

The Statewide Accounting Management System (SAMS) (Procedure 26.30.10) requires the Department to prepare and submit Form C-97 to the Illinois Office of Comptroller on a Quarterly basis. Form C-97 reports information on quarterly totals for adjustments to receivables, additions to accounts receivables, collections, write-offs, estimated uncollectibles, and number of accounts for gross receivables as the end of the quarter and write-offs.

Department officials indicated the exception was due to human error.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-005 **FINDING** (Inadequate Controls over Reporting Requirements) (Continued)

In the prior engagement, weaknesses were noted regarding the Department’s submission of reports and publications to the Illinois State Library (Library). During the engagement period, the Department improved its controls over the submission of its reports and publications to the Library, as well as complied with all notification requirements to the Library.

This finding was originally noted during the Department’s Fiscal Year 2012 – Fiscal Year 2013 State compliance examination, ten years ago. As such, Department management has been unsuccessful in fully implementing a corrective action plan to remedy this deficiency.

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 accurately prepare Form C-97s may result in inaccurate representation of the Department’s accounts receivable. Finally, the Department’s management team is responsible for timely corrective action on all of the findings identified during a State compliance examination. (Finding Code No. 2023-005, 2021-010, 2019-010, 2017-004, 2015-007, 2013-006)

RECOMMENDATION

We recommend the Department prepare and submit a corrected Fiscal Year 2022 Agency Workforce Report with the Office of the Governor and 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)).

In addition, we recommend the Department prepare and submit a corrected Form C-97 for Fiscal Year 2022 Quarter 3 to the Illinois Office of Comptroller.

Lastly, we recommend the Department strengthen internal controls surrounding reporting processes.

DEPARTMENT RESPONSE

The Department accepts the finding. When entering the data into the Agency Workforce Report, there was a single employee that was transposed into a wrong column resulting in the errors noted. The Department will be submitting corrected Agency Workforce reports to the appropriate parties. As noted in the finding, the Department incorrectly reported the amount collected within 180 days due to oversight. This did not impact the Department’s receivable balance and reporting in the financial statements. A corrected Form C-97 was submitted to the Comptroller’s Office on February 13, 2024. The Department will evaluate controls over reporting and implement accordingly.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-006 **FINDING** (Disaster Recovery Planning Weaknesses)

The Department of the 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 outsourced applications, had not been developed.
- A comprehensive contingency plan had not been developed.

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.

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.

In the current engagement, Department officials indicated it was unable to complete its efforts to rectify the disaster recovery plan weaknesses prior to the end of the engagement period due to staff turnover.

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. 2023-006, 2021-012)

RECOMMENDATION

We recommend the Department develop and review a comprehensive continuity plan and ensure the plans depict the current environment and address all applications, responsibilities, and detailed recovery scripts.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-006 **FINDING** (Disaster Recovery Planning Weaknesses) (Continued)

DEPARTMENT RESPONSE

The Department accepts the finding. The Department works closely with its vendors who provide the various systems the Department utilizes and reviews the individual service providers plans along with the Department’s plan regularly. While the system providers have their own continuity and disaster recovery plans and testing of those plans were performed, the Department will work to update the Department’s continuity plan and disaster recovery plan to incorporate the service providers plans.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-007 **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:

- addressed the verification of backups or off-site storage within the Department’s backup or IT policy;
- developed a project management framework to ensure new applications were adequately developed and implemented in accordance with management’s expectations;
- ensured that data classification documentation included information related to data retention and destruction;
- developed a Risk Management Methodology;
- developed security events monitoring or response policies and procedures; and,
- ensured vulnerability scanning tools monitored the Department’s environment and applications to identify security vulnerabilities.

This finding was first noted during the Department’s Fiscal Year 2018-Fiscal Year 2019 State compliance examination, four years ago. As such, Department management has been unsuccessful in implementing a corrective action plan to remedy this deficiency.

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.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-007 **FINDING** (Weaknesses in Cybersecurity Programs and Practices) (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 it was unable to complete its efforts to rectify the cybersecurity weaknesses prior to the end of the engagement period due to personnel restrictions.

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. The Department's management team is responsible for timely corrective action on all of the findings identified during a State compliance examination. (Finding Code No. 2023-007, 2021-011, 2019-011)

RECOMMENDATION

We recommend the Department:

- document the verification of backups and off-site storage policy;
- develop a project management framework to ensure new applications are adequately developed and implemented in accordance with management's expectations;
- include information related to data retention and destruction in the data classification documentation;
- develop a comprehensive Risk Management Methodology;
- develop a security incident policy which includes procedures for employees and contractors to notify Department management and document response procedures to identified security events, 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 – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-007 **FINDING** (Weaknesses in Cybersecurity Programs and Practices) (Continued)

DEPARTMENT RESPONSE

The Department accepts the finding.

- While the Department requires backups and verifies backups are performed, the IT policy will be updated to address the requirement of verification of backups and off-site storage.
- The Department outsources project development and works closely with the vendors during any developments. While the IT Policy contains approved methodologies the vendor may utilize for application development, the Department will create a more detailed project management framework.
- The Department will update the data classification document to tie it to the record retention requirements.
- The Department will evaluate and update as necessary the current risk assessment policy and risk assessment performed to include additional information to ensure the risk management methodology issue is addressed.
- The Department's agreements with vendors contains notification requirements of security incidents and the IT Policy has procedures for incident reporting, however, the Department will incorporate more detail within the Policy relating to security incident notifications and response procedures.
- The Department meets with the Private Manager who performs vulnerability scans over the gaming system on a regular basis. The Department will work with DoIT to ensure the Department is provided the vulnerability scans performed by DoIT over the Department's environment and will perform a review of those.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-008 **FINDING** (Insufficient Number of Lottery Control Board Members)

The independent Lottery Control Board (the 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 abuse 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);
- 6) establish the Lottery's advertising policy to ensure that advertising content and practices to not target with the intent to exploit specific groups or economic classes of people and that its 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 two member positions on the five-member Board were vacant on June 30, 2023, with one active member's position expiring on July 1, 2023. As of the end of fieldwork, we noted two member positions on the five-member Board were vacant.

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

Department officials indicated these vacancies resulted from continued competing priorities within different State offices to assist in filling the vacancies.

Failure to fill vacant positions may hinder the Board's ability to properly formulate the functions of the Board. (Finding Code No. 2023-008, 2021-014)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2023

2023-008 **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 Lottery Control 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 – PRIOR FINDINGS NOT REPEATED
For the Two Years Ended June 30, 2023

A. FINDING (Noncompliance with Fund Transfer Provisions)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2021, the Department had failed to resolve prior period excess 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.

During the current engagement, we noted the Department had sought appropriate legislative remedy and the Illinois Lottery Law (Law) (20 ILCS 1605/) was amended effective 4/1/22, to resolve the \$134 million due from Fund 412 to Fund 711 and the \$89 million due from Fund 711 to Fund 694. The amended Law provides the Department a vehicle to recoup the prior excess transfers made to Fund 412 and subsequently transfer the deficient amounts owed to Fund 694 by June 30, 2023. (Finding Code 2021-001, 2020-001, 2019-003, 2018-002, 2017-001)

B. FINDING (Inadequate Internal Controls over Census Data)

During the financial audit of the State Lottery Fund for the year ended June 30, 2022, the Department had certain deficiencies in their internal controls to ensure accurate census data was provided to the State Employees' Retirement System of Illinois (System) for use in the applicable annual actuarial valuations.

During the current engagement, we relied on the census data compliance reports for both pension and OPEB data from the Illinois Office of the Auditor General. The testing indicated the Department had strengthened controls to ensure accurate census data is provided to the System for use in the annual actuarial valuation process, as no exceptions were identified. (Finding Code 2022-002, 2021-002, 2020-002)

C. FINDING (Inadequate Controls over Specialty Tickets)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2021, the Department had not fully implemented corrective action to quantify the impact of improper prior period overhead charges and had not performed a "true up" of its estimated prize liabilities to prizes paid.

During the current engagement, we noted the Department performed an initial reconciliation of specialty tickets for all games that have closed out, factoring in the impact of the improper prior period overhead charges, to quantify the excess or deficient transfers made to each specialty cause. Additionally, the Department implemented procedures for an annual reconciliation to take place in order to ensure they can "true up" any excess or deficient costs charged to the causes for closed out games. (Finding Code 2021-003, 2020-003, 2019-004, 2018-004, 2017-003)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – PRIOR FINDINGS NOT REPEATED
For the Two Years Ended June 30, 2023

D. FINDING (System Access Weakness)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2021, the Department failed to perform user access reviews as well as timely revoke access for separated employees. Additionally, the Department failed to update the *User Provisioning and Access Rights Review Procedure (Procedure)*.

During the current engagement, we noted the Department created two new policies that replaced the outdated *Procedure*. Additionally, we did not note any exceptions pertaining to user access reviews, or revocation of separated employees. (Finding Code 2021-004, 2020-005)

E. FINDING (Inadequate Controls over SOC Report Reviews)

During the financial audit of the State Lottery Fund for the year ended June 30, 2022, the Department of the Lottery (Department) did not conduct adequate independent internal control reviews over its service providers' System and Organization Control (SOC) reports.

During the current engagement, our testing indicated the Department performed independent internal control reviews over its service providers' SOC reports, including analyzing the effects of deficiencies noted in SOC reports with qualified or adverse opinions, and determining if they could rely on the service providers' controls as a result. (Finding Code 2022-001, 2021-005)

F. FINDING (Inadequate Controls over Change Management)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2021, the Department did not maintain adequate controls over changes to its Internal Control System (ICS).

During the current engagement, we noted the Department had updated their ICS Change Management Procedures (Procedures). Additionally, during our testing, we noted developers did not have access to the ICS production environment. (Finding Code 2021-006)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS – PRIOR FINDINGS NOT REPEATED
For the Two Years Ended June 30, 2023

G. FINDING (Failure to Implement Lottery Sports Wagering)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2021, the Department had not implemented the Lottery Sports Wagering Pilot Program (SWP) as mandated by the Sports Wagering Act (Act) (230 ILCS 45/25-70).

During the current engagement, we noted the Department still had not implemented the SWP. Although the Department took no action towards implementing the SWP during the examination period, the Act has since been repealed. Therefore, this finding is not repeated. (Finding Code No. 2021-007)

H. FINDING (Inadequate Controls over Remote Access)

During the compliance examination of the Department of the Lottery (Department) for the two years ended June 30, 2021, the Department did not ensure adequate security controls over remote access to its environment, applications, and data.

During the current engagement, we noted the Department established policies and procedures to control remote access and communicated those requirements to users. We noted the Department maintained documentation of authorizing staff remote access and periodically reviewed staff remote access. The Department also maintained documentation of IT equipment used. We noted the Department did not utilize multi-factor authentication; therefore, documentation of its use was not required. (Finding Code No. 2021-013)