SIKICH

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

FINANCIAL AUDIT

For the Year Ended June 30, 2021

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

SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2021

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Other Reports Issued Under a Separate Cover

The Department of the Lottery's *Compliance Examination* for the two years ended June 30, 2021, has been issued under a separate cover.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2021

AGENCY OFFICIALS

Director (03/22/22 – Present)	Mr. Harold Mays
Director (Acting) (07/01/20 – 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) (07/01/20 – 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 (07/01/20 – 09/01/20)	Vacant

LOTTERY CONTROL BOARD MEMBERS

Member (07/01/20 – Present)	Vacant
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 (07/01/20 – Present)	Vacant
Member (03/26/21 – Present)	Ms. Alejandra Garza
Member (07/01/20 – 03/25/21)	Ms. Tarrah Cooper Wright
Member	Ms. Dianna Sheehan

The Department's primary administrative offices are located at:

122 S. Michigan Avenue, 19th Floor	101 W. Jefferson Street
Chicago, Illinois 60603	Springfield, Illinois 62702

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
STATE LOTTERY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2021

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State Lottery Fund was performed by Sikich LLP.

Based on their audit, the auditors expressed an unmodified opinion on the financial statements of the State Lottery Fund.

SUMMARY OF FINDINGS

Number of	**Current Report**	**Prior Report**
Finding	6	5
Repeated Findings	4	2
Prior Findings Implemented or Not Repeated	1	2

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2021-001	49	2020/ 2017	Noncompliance with Fund Transfer Provisions	Material Weakness and Noncompliance
2021-002	52	2020/ 2020	Inadequate Internal Controls over Census Data	Significant Deficiency
2021-003	55	2020/ 2017	Inadequate Controls over Specialty Tickets	Significant Deficiency and Noncompliance
2021-004	59	2020/ 2020	System Access Weaknesses	Significant Deficiency
2021-005	61	NEW	Inadequate Controls over SOC Report Reviews	Significant Deficiency
2021-006	63	NEW	Inadequate Controls over Change Management	Significant Deficiency

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Prior Findings Not Repeated	
A	65	2020/ 2020	Untimely Review of Credit Card Security	

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

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.

SIKICH.

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
Members of American Institute of Certified Public Accountants

3201 W. White Oaks Dr., Suite 102
Springfield, IL 62704
217.793.3363

SIKICH.COM

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State Lottery Fund of the State of Illinois, Department of the Lottery (Department), as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State Lottery Fund of the Department as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the financial statements present only the State Lottery Fund and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the Department as of June 30, 2021, and the respective changes in their financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Further, as discussed in Note 14 to the financial statements, prior to Fiscal Year 2021, the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services did not separately state other postemployment benefits (OPEB) balances for Tollway employees who only partake in the State Employees Group Insurance Program (SEGIP) upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities to record their OPEB activity. The Department's financial statements have been restated to correct a material misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, pension-related, and other postemployment benefit-related required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements.

Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Lottery Fund's financial statements.

The accompanying supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022, on our consideration of the Department's internal control over financial reporting of the State Lottery Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
April 29. 2022

FINANCIAL STATEMENTS

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Net Position (Deficit)
June 30, 2021
(in thousands of dollars)

Assets and Deferred Outflows of Resources

Current assets:		
Cash and cash equivalents	$	22,574
Cash equity in State Treasury		94,100
Investments, short-term		27,709
Accounts receivable, net of allowance of $28,897		47,464
Due from other State funds		75
Prepaid expenses		132
Total current assets		192,054
Noncurrent assets:		
Investments		261,902
Capital assets being depreciated, net		11
Total noncurrent assets		261,913
Total assets		453,967
Deferred outflows of resources:		
Deferred outflows of resources - pension		8,955
Deferred outflows of resources - OPEB		2,827
Total deferred outflows of resources		11,782
Total assets and deferred outflows of resources		465,749

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Net Position (Deficit) (Continued)
June 30, 2021
(in thousands of dollars)

Liabilities and Deferred Inflows of Resources	
Current liabilities:	
Prizes payable	96,410
Accounts payable and accrued liabilities	4,426
Due to other Government – Federal	36
Due to other State funds	50,553
Unearned revenue	1,493
Other liabilities	500
Current portion of long-term annuity prizes payable	24,684
Current portion of OPEB liability	1,089
Total current liabilities	179,191
Noncurrent liabilities:	
Noncurrent portion of long-term annuity prizes payable	235,532
Due to other State funds	89,045
Net pension liability	81,418
Noncurrent portion of OPEB liability	43,888
Noncurrent other	833
Total noncurrent liabilities	450,716
Total liabilities	629,907
Deferred inflows of resources:	
Deferred inflows of resources - pension	4,260
Deferred inflows of resources - OPEB	9,741
Total deferred inflows of resources	14,001
Total liabilities and deferred inflows of resources	643,908
Net Position (Deficit)	
Invested in capital assets	11
Unrestricted	(178,170)
Total net position (deficit)	$ (178,159)

The accompanying notes to the financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Revenues, Expenses, and Changes in Net Position (Deficit)
Year Ended June 30, 2021
(in thousands of dollars)

		Total
Operating revenues:		
Charges for sales and services	$	3,447,686
Other		6,863
Total operating revenues		3,454,549
Operating expenses:		
Cost of sales and services		186,247
Prizes and claims		2,329,353
General and administrative		162,524
Depreciation		201
Total operating expenses		2,678,325
Operating income		776,224
Nonoperating revenues (expenses):		
Investment income		(9,875)
Interest expense		(8,946)
Grant revenue		108
Other		(406)
Total nonoperating revenues (expenses), net		(19,119)
Change in net position (deficit) before transfers		757,105
Transfers to other State funds		(776,333)
Change in net position (deficit)		(19,228)
Net position (deficit), July 1, 2020, as restated (see note 14)		(158,931)
Net position (deficit), June 30, 2021	$	(178,159)

The accompanying notes to the financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Cash Flows
Year Ended June 30, 2021
(in thousands of dollars)

Cash flows from operating activities:		
Cash received from sales and services	$	3,509,304
Cash receipts from other operating activities		6,946
Cash payments for commissions and bonuses		(186,247)
Cash payments to employees for services		(20,318)
Cash payments for general and administrative expenses		(144,697)
Cash payments for lottery prizes		(2,294,302)
Cash payments for other operating activities		(39)
Net cash provided by operating activities		870,647
Cash flows from noncapital financing activities:		
Operating grants received		49
Cash transfers – out to other funds		(785,953)
Net cash used in noncapital financing activities		(785,904)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(183)
Principal payments under capital lease obligation		(17)
Net cash used in capital and related financing activities		(200)
Cash flows from investing activities:		
Interest and dividends on investments		1
Purchase of investments		(26,671)
Proceeds from investment maturities		24,269
Cash paid for long-term annuity prizes payable		(24,674)
Net cash used in investing activities		(27,075)
Net increase in cash and cash equivalents		57,468
Cash and cash equivalents at beginning of year		59,206
Cash and cash equivalents at end of year	$	116,674
Reconciliation of cash and cash equivalents to the statement of net position (deficit):		
Total cash and cash equivalents per the statement of net position (deficit)	$	22,574
Add cash equity in State Treasury		94,100
Cash and cash equivalents at end of year	$	116,674

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
State Lottery Fund
Statement of Cash Flows (Continued)
Year Ended June 30, 2021
(in thousands of dollars)

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	776,224
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		201
Provision for uncollectible accounts		2,279
Changes in assets and liabilities:		
Decrease in accounts receivable		62,693
Increase in due from other funds		(13)
Decrease in deferred outflows of resources		564
Decrease in prepaid expenses		91
Increase in prizes payable		8,380
Decrease in accounts payable and accrued liabilities		(6,656)
Decrease in intergovernmental payables		(7)
Increase in due to other State funds		346
Increase in unearned revenues		82
Increase in other liabilities		51
Increase in long-term annuity prizes payable		26,671
Increase in deferred inflows of resources		2,323
Increase in net pension liability		4,011
Decrease in OPEB liability		(6,593)
Net cash provided by operating activities	$	870,647

Noncash investing, capital and financing activities:		
Change in fair value of investments	$	18,822
Interest accreted on investments		8,946
Interest accreted on long-term annuity prizes payable		(8,946)
Use of resources to pay long-term annuity prizes payable		406

The accompanying notes to the financial statements are an integral part of these statements.

(1) Organization

The Department of the Lottery (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under a budget approved by the General Assembly in which resources primarily from the State Lottery Fund (Fund) are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of all locally-held funds authorized by State law.

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. 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.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State, the financial statements of the Department are included in the financial statements of the State. The State's Annual Comprehensive Financial Report (ACFR) may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871, or by accessing its website at www.illinoiscomptroller.gov.

(b) Basis of Accounting and Presentation

The financial statements of the Fund, are intended to present the financial position, changes in financial position, and cash flows of only that portion of the activities of the State that are attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State or the Department as of June 30, 2021, and each entity's respective changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As a proprietary fund, the Fund's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

The Department accounts for operations of the Illinois Lottery in which a statutorily defined amount of the net income is used for the support of the State's Common School Fund. Any net income remaining after the required transfers to the Common School Fund is transferred to the State's Capital Projects Fund. Certain ticket proceeds are dedicated for other State funds prior to the determination of the net income available for transfers to the Common School Fund or the Capital Projects Fund.

(c) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

(d) Investments

Investments are reported at fair value. Additional disclosures surrounding the measurement of these investments are in Note 4. The Department holds investments pursuant to statutory authority for locally held funds.

(e) Fair Value of Financial Instruments

The Department follows guidance for fair value measurements that defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability on the measurement date. The guidance establishes a hierarchy of inputs used to measure fair value that prioritizes the inputs into three categories that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data. These inputs are either directly or indirectly observable as of the measurement date.

Level 3 – Unobservable inputs for the asset or liability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the valuation methodologies used to measure the Department's financial instruments at fair value. There have been no changes in the valuation methodologies used at June 30, 2021, when compared to June 30, 2020.

U.S. Treasury bonds—U.S. Treasury bonds are valued using a matrix pricing technique which is used to value securities based on the securities' relationship to benchmark quoted prices. These assets are classified as Level 2 assets.

Annuities—Annuities are valued at fair value and are comprised of insurance policies not traded on the open market. These assets are classified as Level 3 assets.

(f) Allowances and Provisions

The allowance for doubtful accounts at June 30, 2021, is based on an analysis of the historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

(g) Interfund Transactions

The Department has the following types of interfund transactions between the Fund and other State funds:

Services provided and used—Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the Statement of Net Position (Deficit).

Transfers—Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

(h) Capital Assets

Capital assets, which consist of equipment and automobiles, are reported at historical cost. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated using the straight-line method. The capitalization threshold for capital assets is $5,000 and the estimated useful lives range from 5 to 15 years.

(i) Compensated Absences

The liability for compensated absences reported in the Statement of Net Position (Deficit) consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System (SERS) members at December 31, 1997. Employees continue to accrue twelve sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between January 1, 1984, and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

(j) Net Position (Deficit)

In the Statement of Net Position (Deficit), equity is displayed in three components as applicable:

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings attributable to the acquisition of those assets.

Restricted – This consists of net position (deficit) that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed. There is no restricted net position (deficit) as of June 30, 2021.

Unrestricted – This consists of net position (deficit) that does not meet the definition of "restricted" or "invested in capital assets."

(k) Classification of Revenues and Expenses

The Department classifies its revenues and expenses as either operating or nonoperating in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit) according to the following criteria:

Revenue

Operating revenues, such as sale of lottery tickets, result from exchange transactions associated with the principal activity of the fund. Nonoperating revenues, such as investment income, result from nonexchange transactions or ancillary activities.

Expenses

All expenses are classified as operating, except for interest expense and losses on disposal of capital assets which are classified as nonoperating.

(l) Lottery Revenue

Draw Games

Revenue from ticket sales for draw based games, such as Mega Millions, Powerball and Lotto, is recognized when the related drawing takes place. Receipts from subscription sales and other ticket sales for future drawings are recorded as unearned revenue and will not be recognized as revenue until the related drawing takes place.

Instant Games

Tickets are available for sale upon being activated at the retailer locations. Revenue from instant games is recognized based on the dollar value of the total books of tickets settled. Books are not paid for in advance but are generally settled after majority of the book has been sold. Books are settled in one of three ways, whichever occurs first:

1) 90 days have passed since the book was activated,
2) 90% of low tier prizes have been collected, or
3) the book is manually settled by the retailer or Lottery Sales Representative.

Settled instant ticket books equate to the dollar value of the book less any returned tickets for those unsold.

During the COVID-19 Pandemic, this procedure was modified as further discussed in Note 13.

(m) Prizes and Claims

Draw Games

Prize expense for draw based games is recognized when the draw occurs and is recorded as the amount of prize liability incurred for the respective draw. Prize expense and prizes payable are subsequently reduced for prizes that are unclaimed at the end of the redemption period. Additionally, for Mega Millions, Powerball, and Lotto, prize expense includes an accrual for an amount equivalent to the present value of the advertised jackpots as of the end of the reporting period.

Instant Games

Prize expense is accrued for instant game sales at a percentage equivalent to the total prizes included in all tickets printed for each game based upon the settled books. Prize expense and prizes payable are reduced for an estimate of prizes that will go unclaimed and are increased if amounts claimed exceed the amounts accrued (i.e., early redemption expense). Instant games are closed at the end of the final redemption period and any remaining net payable accrued in prior periods is reversed and recorded as a reduction to prize expense.

(n) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Pension

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense associated with the Department's contribution requirements, information about the fiduciary net position of the State Employees Retirement System (SERS) and additions to/deductions from the SERS' fiduciary net position have been determined on the same basis as they are reported within the separately issued SERS financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

(p) Post-Employment Benefits Other Than Pensions (OPEB)

The Department provides health, dental, vision and life insurance benefits for certain retirees and their dependents through the State Employees' Group Insurance Program (SEGIP). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period.

For purposes of measuring the OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense associated with the Department's contribution requirements, information about fiduciary net position of the SEGIP OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

(q) New Accounting Pronouncements

Effective for the year ending June 30, 2021, the Department adopted GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The implementation of this statement had no impact on the Department's financial statements, as the Department currently has no fiduciary activities.

Effective for the year ending June 30, 2021, the Department adopted GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which defines a majority equity interest and specifies that a majority equity interest should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. All other holdings of a majority equity interest should be reported as a component unit, and the government that holds the equity interest should report an asset related to the majority equity interest. The implementation of this statement had no impact on the Department's financial statements, as the Department currently has no majority equity interests.

Effective for the year ending June 30, 2021, the Department adopted the applicable portion of GASB Statement No. 93, *Replacement of Interbank Offered Rates,* which addresses agreements in which variable payments made or received depend on an interbank offered rate (IBOR), most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. The implementation of this statement had no impact on the Department's financial statements.

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2022, the Department will adopt GASB Statement No. 87, *Leases,* which was established to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

Effective for the year ending June 30, 2022, the Department will adopt GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost was incurred. Such interest cost will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

Effective for the year ending June 30, 2023, the Department will adopt GASB Statement No. 91, *Conduit Debt Obligations,* which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Effective for the year ending June 30, 2022, the Department will adopt GASB Statement No. 92, *Omnibus 2020,* which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

Effective for the year ending June 30, 2022, the Department will adopt GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to remove the London Interbank Offered Rate (LIBOR) as the appropriate benchmark interest rate.

Effective for the year ending June 30, 2023, the Department will adopt GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements.

Effective for the year ending June 30, 2023, the Department will adopt GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

Effective for the year ending June 30, 2022, the Department will adopt GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Suppression of GASB Statement No. 32,* which will (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans.

The Department has not yet determined the impact, if any, on its financial statements as a result of adopting these statements.

(3) Deposits and Investments

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. These amounts are classified as "Cash equity in State Treasury" on the Statement of Net Position (Deficit). The Department independently manages deposits and investments maintained outside the State Treasury.

(a) Deposits

Deposits in the custody of the State Treasurer of approximately $94.1 million as of June 30, 2021, are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these deposits and investments are available within the State's ACFR.

Bank deposits for the locally held funds held outside of the State Treasury of approximately $22.6 million as of June 30, 2021, are held in Federal Deposit Insurance Corporation (FDIC) insured depository institutions. The Department has an agreement under which one of these institutions insures balances in excess of FDIC insurance limits from loss by pledging securities as collateral. PNC Bank holds the collateral in the Illinois Lottery's name. The collateral amount exceeded the deposited amount of $7.5 million at June 30, 2021. The Department has not incurred any losses on deposits exceeding the value of pledged securities and considers the risk minimal.

(b) Investments

As of June 30, 2021, the Department had the following investments outside of the State Treasury:

	Fair Value (thousands)	Weighted Average Maturity (years)
Annuities	$ 49	1.000
U.S. Treasury bonds	289,562	6.665
Total	$ 289,611	

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department is limited to investing in direct obligations of the United States of America or backed by the full faith and credit of the United States of America. The Department's investments in annuities are not rated.

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the Department will not be able to recover the value of investment or collateral securities in the possession of an outside party. The Department does not have a formal policy for custodial credit risk of investments held outside of the State Treasury nor is there a policy at the State level. The total balance of the Department's investments held outside the State Treasury was held by the counterparty, in the Department's name, at June 30, 2021. These investments were held in annuities and U.S. Treasury obligations. Please see Note 4 for additional information concerning the Department's investments.

(4) Fair Value Measurements

The following table presents assets (amounts expressed in thousands) measured at fair value on a recurring basis at June 30, 2021:

	Fair Value	Level 1	Level 2	Level 3
Investments by fair value level				
Annuities	$ 49	$ -	$ -	$ 49
U.S. Treasury bonds	289,562	-	289,562	-
Total investments by fair value level	$ 289,611	$ -	$ 289,562	$ 49

The change in assets (amounts expressed in thousands) measured at fair value using Level 3 inputs for the year ended June 30, 2021, is as follows:

		2021
Balance, beginning of the year	$	108
Change in value of annuities		(59)
Balance, end of the year	$	49

(5) Interfund Balance and Activity

(a) Balance Due from/to Other Funds

The following balance (amounts expressed in thousands) at June 30, 2021, represents amounts due from other State funds.

Fund	Due From Other State Funds		2021	Description/Purpose
Lottery	Alcoholism and Substance Abuse	$	4	Due from the Alcoholism and Substance Abuse Fund for problem gambler services.
	Public Health Services		59	Due from the Public Health Services Fund for conducting the COVID-19 vaccination raffle.
	Federal Title III Social Security and Employment Service		12	Due from the Federal Title III Social Security and Employment Service Fund for shared costs of the legislative liason.
		$	75	

The following balance (amounts expressed in thousands) at June 30, 2021, represents amounts due to other State funds.

Fund	Due To Other State Funds		2021	Description/Purpose
Lottery	Common School	$	45,135	Due to other State Funds for
	Capital Projects		92,793	allocation of lottery proceeds
	Other State funds		1,670	and for administrative expenses.
		$	139,598	

Of the $92.793 million due to the Capital Projects Fund as of June 30, 2021, $89.045 million is not expected to be repaid within one year.

(b) Transfers to Other Funds

The Department reports transfers out in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit), for the amounts required by statute to be transferred to the Common School Fund, Capital Projects Fund, and other State funds for lottery games designated for special purposes. The following balances (amounts expressed in thousands) for the year ended June 30, 2021, represent amounts transferred to other State funds:

	Transfers Out To		
Fund	**Other State Funds**	**2021**	**Description/Purpose**
Lottery	Common School	$ 762,500	Transfers to Common School,
	Capital Projects	3,748	Capital Projects, and other State funds
	Other State funds	10,085	pursuant to statutory requirements.
		$ 776,333	

The $10,085 (amounts expressed in thousands) was transferred to Other State Funds as follows:

Multiple Sclerosis Research Fund	$ 1,583
Special Olympics Illinois and Special Children's Charities Fund	1,351
Illinois Veterans Assistance Fund	1,327
Criminal Justice Information Projects Fund	1,123
School STEAM Grant Program Fund	1,106
Homelessness Prevention Revenue Fund	1,059
Alzheimer's Awareness Fund	962
Quality of Life Endowment Fund	914
Carolyn Adams Ticket for the Cure Grant Fund	643
Unclaimed Property Fund	17
Total	$10,085

(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2021, was as follows:

	Balance June 30, 2020	Additions	Deletions	Net Transfers	Balance June 30, 2021
Capital assets being depreciated:					
Equipment	$ 525	$ 183	$ 63	$ (246)	$ 399
Less accumulated depreciation	(496)	(201)	(63)	246	(388)
Total capital assets, net	$ 29	$ (18)	$ -	$ -	$ 11

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2021, were as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021	Amounts Due within one year
Leases payable	$ 17	$ -	$ 17	$ -	$ -
Compensated absences	840	1,270	1,204	906	73
Obligations to Lottery prize winners – group contracts	108	-	59	49	49
Obligations to Lottery prize winners – annuities	248,759	26,671	15,263	260,167	24,635
Net pension liability	77,407	4,011	-	81,418	-
OPEB liability	52,140	-	7,163	44,977	1,089
Total long-term obligations	$ 379,271	$ 31,952	$ 23,706	$ 387,517	$ 25,846

(b) Obligations to Lottery Prize Winners

The Department has obligations to certain lottery prize winners for awards payable in annual installments ranging from 19 years to the life of the prize winner, with the first payment made shortly after the claim is presented for payment.

For certain prize winners, annuities (group contracts) were purchased in the name of the Department for which the Department has retained the rights of ownership. The present value of these annuities and the related liability installments owed to prize winners (amounts expressed in thousands) were as follows at June 30, 2021:

Fiscal year	Current	Long-term	Total
2022	$ 50	$ -	$ 50
Total future prize payments	50	-	50
Less present value adjustments	(1)	-	(1)
Present value at June 30, 2021	$ 49	$ -	$ 49

Effective July 30, 1985, the Illinois Lottery Law (20 ILCS 1605/27) provides that the State Treasurer, with the consent of the Director of the Lottery, may contract to invest in securities, which provide payments corresponding to the Department's obligation to these winners. The Department has provided for other payments corresponding to the Department's obligation to other prize winners through the purchase of direct obligations of the federal government, primarily in the form of United States Treasury zero coupon bonds. As established by State law, such securities shall be maintained separate and apart from all public money or funds of the State. These investments are purchased in amounts to provide for annual annuity payments to the prize winner(s) of each qualifying individual drawing.

The fair value of the investments approximated $290 million at June 30, 2021. Interest rates range from 0.004% to 7.741% and prizes payable are scheduled annually through 2046 as follows (amounts expressed in thousands):

Fiscal year	Current	Long-term	Total
2022	$ 28,394	$ -	$ 28,394
2023	-	26,797	26,797
2024	-	25,372	25,372
2025	-	25,726	25,726
2026	-	23,948	23,948
2027-2046	-	191,372	191,372
Total future prizes	28,394	293,215	321,609
Adjustments to present value	(3,759)	(57,683)	(61,442)
Present value of future prizes	24,635	235,532	260,167
Adjustments to fair value	3,025	26,370	29,395
Fair value of future prizes at June 30, 2021	$ 27,660	$ 261,902	$ 289,562

The amortized discount on the prizes payable reflects the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as interest expense in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit) and amounted to approximately $9 million for the year ended June 30, 2021.

(8) Pension Plan

***Plan Description*.** Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired.

Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011, are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011, or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate ACFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, P.O. Box 19255, Springfield, Illinois, 62794-9255.

***Benefit Provisions*.** SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is $15 for each year of covered service and $25 for each year of noncovered service.

Members in SERS under the Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

Regular Formula Tier 1	**Regular Formula Tier 2**
A member must have a minimum of eight years of service credit and may retire at: • Age 60, with eight years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).	A member must have a minimum of 10 years of credited service and may retire at: • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).
The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service. Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.	The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.
If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2020 rate is $115,929. If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State police, fire fighters, and security employees.

Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by workers' compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2021, this amount was $116,740.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2021, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2021, the employer contribution rate was 54.831%. The Department's contribution amount for fiscal year 2021, was $5.752 million.

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to Pensions. At June 30, 2021, the Department reported a liability of $81.418 million for its proportionate share of the State's net pension liability for SERS on the Department's Statement of Net Position (Deficit). The net pension liability was measured as of June 30, 2020 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2020. As of the current year measurement date of June 30, 2020, the Department's proportion was 0.2335%, which was an increase of 0.0017% from its proportion measured as of the prior year measurement date of June 30, 2019.

At June 30, 2020, the fiduciary net position of SERS was $19,197.2 million and the net pension liability was $34,868.7 million.

For the year ended June 30, 2021, the Department recognized pension expense of $7.046 million. At June 30, 2021, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2020, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 208	$ 320
Changes of assumptions	1,718	480
Net difference between projected and actual investment earnings on pension plan investments	452	-
Changes in proportion	825	3,460
Department contributions subsequent to the measurement date	5,752	-
Total	$ 8,955	$ 4,260

The Department reported $5.752 million of deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date. These will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (credit) as follows (amounts expressed in thousands):

Year ended June 30,	
2022	$ (1,349)
2023	(481)
2024	312
2025	460
Thereafter	-
Total	$ (1,058)

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2019, valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date.

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in SERS' target asset allocation, calculated as of the measurement date of June 30, 2020, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
U.S. Equity	23.0%	5.50%
Developed Foreign Equity	13.0%	5.90%
Emerging Market Equity	8.0%	7.80%
Private Equity	7.0%	7.50%
Intermediate Investment Grade Bonds	14.0%	1.10%
Long-term Government Bonds	4.0%	1.10%
TIPS	4.0%	1.00%
High Yield and Bank Loans	5.0%	3.70%
Opportunistic Debt	8.0%	4.70%
Emerging Market Debt	2.0%	2.70%
Real Estate	10.0%	3.20%
Infrastructure	2.0%	3.90%
	100%	

Discount Rate. A discount rate of 6.35% was used to measure the total pension liability as of the measurement date of June 30, 2020, as compared to a discount rate of 6.47% used to measure the total pension liability as of the prior year measurement date. The June 30, 2020, single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 2.45%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve.

The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under State law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The Department's proportionate share of net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 5.35%	Discount Rate 6.35%	1% Increase 7.35%
Department's proportionate share of the net pension liability	$ 98,420	$ 81,418	$ 67,444

Payables to the Pension Plan. At June 30, 2021, the Department reported a payable of $266 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

(9) Post-Employment Benefits Other Than Pensions (OPEB)

Plan Description**.** The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System (SURS) are eligible for these OPEB. The eligibility provisions for each of the retirement systems are defined within the State's ACFR.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits Provided**.** The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached.

Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding Policy and Annual Other Postemployment Benefit Cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits.

For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits.

All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2021, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $12,260.64 ($6,910.32 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $15,224.16 ($6,449.28 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to OPEB**.** The total OPEB liability, as reported at June 30, 2021, was measured as of June 30, 2020, with an actuarial valuation as of June 30, 2019. At June 30, 2021, the Department recorded a liability of $44.977 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2020. As of the current year measurement date of June 30, 2020, the Department's proportion was 0.1075%, which was a decrease of 0.0114% from its proportion measured as of the prior year measurement date of June 30, 2019.

The Department recognized OPEB expense for the year ended June 30, 2021, of $100 thousand. At June 30, 2021, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2020, from the following sources (amounts expressed in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 255	$ 484
Changes of assumptions	1,229	4,517
Changes in proportion and difference between employer contributions and proportionate share of contributions	254	4,740
Department contributions subsequent to the measurement date	1,089	-
Total	$ 2,827	$ 9,741

The $1.089 million reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,	
2022	$ (2,670)
2023	(2,155)
2024	(1,382)
2025	(1,585)
2026	(211)
Total	$ (8,003)

***Actuarial Methods and Assumptions*.** The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2019, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2019.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Discount Rate	2.45%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037. The Excise Tax has been repealed and no longer affects the trend rates.
Medical (Post-Medicare)	8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037.
Dental	4.00% grading down 0.25% in the first year 4.25%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2020 and 2021 are based on actual premiums. Premiums after 2021 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2019 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018; generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount Rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.13% at June 30, 2019, and 2.45% at June 30, 2020, was used to measure the total OPEB liability.

Sensitivity of Total OPEB Liability to Changes in the Single Discount Rate. The following presents the Department's total OPEB liability, calculated using a Single Discount Rate of 2.45%, as well as what the Department's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (3.45%) or lower (1.45%) than the current rate (amounts expressed in thousands):

	1% Decrease (1.45%)	Current Single Discount Rate Assumption (2.45%)	1% Increase (3.45%)
Department's proportionate share of total OPEB liability	$ 52,942	$ 44,977	$ 38,624

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate. The following presents the Department's total OPEB liability, calculated using the healthcare cost trend rates as well as what the Department's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.25% in 2021, decreasing to an ultimate trend rate of 4.25% in 2037.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of total OPEB liability	$ 37,652	$ 44,977	$ 54,581

(10) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters. In addition, the Department is exposed to various risks of loss related to employee health and dental insurance programs as described in the ACFR. The State retains the risk of loss (i.e., self-insured) for these risks.

The Department's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department and, accordingly, these claims have not been reported in the Department's financial statements for the year ended June 30, 2021.

(11) Private Management Agreement

On October 13, 2017, the State (acting through the Department) and in compliance with the Illinois Lottery Law (20 ILCS 1605/9.1) entered into a 10-year private management agreement (PMA) with Camelot Illinois, LLC (Camelot), for the purpose of providing specified lottery management services to the State. The effective date of the contract is October 13, 2017, and the term includes a period for transitioning from Northstar Lottery Group, LLC to Camelot. The contract with Northstar, ended on January 1, 2018, and Camelot commenced its management contract obligations on January 2, 2018.

Under the terms of the agreement, the compensation to be paid under the PMA is comprised of operating expenses and incentive compensation payments. Operating expenses of Camelot are comprised of Management Fee and Operating Allowance, as outlined in the PMA. Incentive compensation is only earned if net income exceeds minimum net income targets as defined in the agreement and is subject to annual adjustments. For the year ended June 30, 2021, total compensation for operating expenses to Camelot under the PMA was $134.1 million, which are included in general and administrative expenses. This amount was paid in full with no balance due as of June 30, 2021. Incentive compensation earned during the year was $3.8 million, which is also included in general and administrative expenses and was due to Camelot as of June 30, 2021.

The Department has recorded a receivable from Camelot at June 30, 2021, in the amount of $27.9 million. This amount is comprised of an excess advance for estimated operating expenses paid during fiscal year 2021, which has been reconciled to actual operating expenses incurred by Camelot during the year in accordance with the PMA. The receivable amount is net of incentive compensation earned.

In accordance with terms provided in the PMA, Camelot has asserted an Adverse Action due to the proliferation of video gaming terminals (VGT) throughout the State. Separately, the Department has asserted a Beneficial Action due to the passage of Public Act 101-0035. Each of these actions, if accepted in their current form, would have an impact on Camelot's annual Net Income Targets (NITs) per Schedule 10.1 of the PMA. The Adverse Action could result in decreased NITs.

The Beneficial Action could result in increased NITs. The Department is currently working with Camelot to resolve these matters via mediation per PMA Section 20.1.2 with the intent of avoiding any litigation proceedings. Should these matters need to be litigated, the Department anticipates costs will be immaterial and the adjusted NITs will have a minimal, if any, impact to the Fund's financial statements.

(12) Commitments and Contingencies

(a) Lease Commitments

The Department leases certain facilities and equipment necessary for operations, primarily from other State agencies. The majority of the Department's leases are month-to-month operating leases. Total operating lease costs for the year ended June 30, 2021, amounted to $299 thousand. Information regarding the Department's capital lease, which was terminated during fiscal year 2021, is included in Note 7(a).

(b) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters.

The Department does not believe the outcome of these matters will have any material adverse effect on the financial position or results of operations of the Department.

(13) 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. 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.

Therefore, any instant ticket books that reached 90 days old remained unsettled as of June 30, 2020, unless settled via the other two methods described in Note 2(l). Accordingly, the Department accrued the corresponding instant ticket revenue, net of returned books, in accordance with its revenue recognition policy established within Note 2(l), and also accrued the related accounts receivable, prize expense, and prize liability during fiscal year 2020 as opposed to when the instant ticket books settled in the gaming system in fiscal year 2021.

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 its 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 was monitored closely throughout this period and thereafter. Sales slowed significantly during the first several weeks, but quickly rebounded for the remaining months of the fiscal year and throughout fiscal year 2021. This resulted in COVID having a net positive financial impact on lottery sales during the pandemic thus far.

During fiscal year 2021, the Department recorded $108 thousand in grant revenue from the Coronavirus Relief Fund. The Department received $49 thousand from the Illinois Emergency Management Agency as reimbursement for expenses incurred in providing personal protective equipment to employees to protect against the Coronavirus while performing daily tasks. Additionally, the Department recorded $59 thousand in grant revenue from the Department of Public Health as reimbursement for expenses incurred in the “All In For The Win” vaccine raffle promotion. Of the $108 thousand recorded as grant revenue, the Department has not yet received $59 thousand as of June 30, 2021, and has included this amount in Due from other State funds on the Statement of Net Position (Deficit). Please see Note 5(a) for additional information.

(14) Restatement

During fiscal year 2021, an error correction resulted in a restatement to beginning net position as follows:

	Reporting Unit Affected by the Restatement to Beginning Balances
	Business-Type Activities
Net Deficit, July 1, 2020, as previously reported	$ (167,681)
Error Correction (A)	8,750
Net Deficit, July 1, 2020, as restated	$ (158,931)

(A) This error correction occurred due to the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services not separately stating OPEB balances for Tollway employees who only partake in the State Employees Group Insurance Program (SEGIP) upon their retirement from the Tollway from other employees accounted for within SEGIP’s cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP’s cost-sharing proportionate share allocation, which is used by the State of Illinois’ agencies and public universities to record their OPEB activity. At the Department, this correction also impacted the beginning OPEB liability and the related deferred inflows of resources and deferred outflows of resources.

(15) Subsequent Events

During the 2022 Legislative Session, the Department worked diligently with the Governor’s Office of Management and Budget to reach a legislative remedy to correct prior year overpayments to the Common School Fund, underpayments to the Capital Projects Fund, and to revise the language in the Lottery Law to better meet the operating needs of the Department. The language was passed into law as part of Public Act 102-0699, which is effective for Fiscal Year 2023. The language allows the Department to reconcile historical cash deficits in the State Lottery Fund, overpayments to the Common School Fund, and “due to” obligations to the Capital Projects Fund by offsetting Fiscal Year 2023 transfers to the Common School Fund in the amount of $133.966 million, which in turn will enable the Department to satisfy a “due to” the Capital Projects Fund in the amount of $89.045 million not be repaid within one year of noted date in footnote 5(a). Finally, all future proceeds of the Department, after the payment of prizes, retailer bonuses, and costs incurred in the operation and administration of the Lottery, will be directed to the Common School Fund in accordance with the priority order of the Illinois Lottery Law (20 ILCS 1605/9.3 new). Please refer to finding 2021-001.

Part of Public Act 102-0699, which will be effective for Fiscal Year 2023, amends the Illinois Lottery Law by adding a process to reconcile historical cash deficits in the State Lottery Fund and overpayments to the Common School Fund by offsetting Fiscal Year 2023 transfers to the Common School Fund in the amount of $133.966 million. This offset will then enable the Department to satisfy the long-term amount due to the Capital Projects Fund in the of $89.045 million, as further described in Note 5(a). In addition, another part of Public Act 102-0699 changes the flow of the Department's proceeds from lottery tickets and shares sold and sports wagering on July 1, 2022. On and after this date, these future proceeds, after the payment of prizes, retailer bonuses, and costs incurred in the operation and administration of the Lottery and the Department's sports wagering program, will be directed to the Common School Fund.

The Department is not aware of any additional facts, decision, or conditions that might be expected to have a significant effect on the financial position or results of operation during this and future fiscal years.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Net Position (Deficit) - State Lottery Fund
June 30, 2021
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Assets and Deferred Outflows of Resources					
Current assets:					
Cash and cash equivalents	$ 22,147	$ -	$ 427	$ -	$ 22,574
Cash equity in State Treasury	92,841	1,259	-	-	94,100
Investments, short-term	49	27,660	-	-	27,709
Accounts receivable, net of allowance of $28,897	47,464	-	-	-	47,464
Due from other State funds	75	-	-	-	75
Prepaid expenses	132	-	-	-	132
Total current assets	162,708	28,919	427	-	192,054
Noncurrent assets:					
Investments	-	261,902	-	-	261,902
Capital assets being depreciated, net	11	-	-	-	11
Total noncurrent assets	11	261,902	-	-	261,913
Total assets	162,719	290,821	427	-	453,967
Deferred outflows of resources:					
Deferred outflows of resources - pension	8,955	-	-	-	8,955
Deferred outflows of resources - OPEB	2,827	-	-	-	2,827
Total deferred outflows of resources	11,782	-	-	-	11,782
Total assets and deferred outflows of resources	174,501	290,821	427	-	465,749
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Prizes payable	96,410	-	-	-	96,410
Accounts payable and accrued liabilities	4,426	-	-	-	4,426
Due to other Government – Federal	36	-	-	-	36
Due to other State funds	50,553	-	-	-	50,553
Unearned revenue	1,493	-	-	-	1,493
Other liabilities	73	-	427	-	500
Current portion of long-term annuity prizes payable	49	24,635	-	-	24,684
Current portion of OPEB liability	1,089	-	-	-	1,089
Total current liabilities	154,129	24,635	427	-	179,191
Noncurrent liabilities:					
Noncurrent portion of long-term annuity prizes payable	-	235,532	-	-	235,532
Due to other State funds	89,045	-	-	-	89,045
Net pension liability	81,418	-	-	-	81,418
Noncurrent portion of OPEB liability	43,888	-	-	-	43,888
Noncurrent other	833	-	-	-	833
Total noncurrent liabilities	215,184	235,532	-	-	450,716
Total liabilities	369,313	260,167	427	-	629,907
Deferred inflows of resources:					
Deferred inflows of resources - pension	4,260	-	-	-	4,260
Deferred inflows of resources - OPEB	9,741	-	-	-	9,741
Total deferred inflows of resources	14,001	-	-	-	14,001
Total liabilities and deferred inflows of resources	383,314	260,167	427	-	643,908
Net Position (Deficit)					
Invested in capital assets	11	-	-	-	11
Unrestricted	(208,824)	30,654	-	-	(178,170)
Total net position (deficit)	$ (208,813)	$ 30,654	$ -	$ -	$ (178,159)

See accompanying independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Net Position (Deficit) - State Lottery Fund (Collapsed)
June 30, 2021
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Eliminations	Total State Lottery (Collapsed)
Assets and Deferred Outflows of Resources					
Current assets:					
Cash and cash equivalents	$ -	$ 14,647	$ 7,500	$ -	$ 22,147
Cash equity in State Treasury	92,841	-	-	-	92,841
Investments, short-term	49	-	-	-	49
Accounts receivable, net of allowance of $28,897	47,464	-	-	-	47,464
Due from other Department funds	22,260	-	-	(22,260)	-
Due from other State funds	75	-	-	-	75
Prepaid expenses	-	132	-	-	132
Total current assets	162,689	14,779	7,500	(22,260)	162,708
Noncurrent assets:					
Capital assets being depreciated, net	11	-	-	-	11
Total noncurrent assets	11	-	-	-	11
Total assets	162,700	14,779	7,500	(22,260)	162,719
Deferred outflows of resources:					
Deferred outflows of resources - pension	8,955	-	-	-	8,955
Deferred outflows of resources - OPEB	2,827	-	-	-	2,827
Total deferred outflows of resources	11,782	-	-	-	11,782
Total assets and deferred outflows of resources	174,482	14,779	7,500	(22,260)	174,501
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Prizes payable	96,410	-	-	-	96,410
Accounts payable and accrued liabilities	4,407	19	-	-	4,426
Due to other Government – Federal	36	-	-	-	36
Due to other Department funds	-	14,760	7,500	(22,260)	-
Due to other State funds	50,553	-	-	-	50,553
Unearned revenue	1,493	-	-	-	1,493
Other liabilities	73	-	-	-	73
Current portion of long-term annuity prizes payable	49	-	-	-	49
Current portion of OPEB liability	1,089	-	-	-	1,089
Total current liabilities	154,110	14,779	7,500	(22,260)	154,129
Noncurrent liabilities:					
Due to other State funds	89,045	-	-	-	89,045
Net pension liability	81,418	-	-	-	81,418
Noncurrent portion of OPEB liability	43,888	-	-	-	43,888
Noncurrent other	833	-	-	-	833
Total noncurrent liabilities	215,184	-	-	-	215,184
Total liabilities	369,294	14,779	7,500	(22,260)	369,313
Deferred inflows of resources:					
Deferred inflows of resources - pension	4,260	-	-	-	4,260
Deferred inflows of resources - OPEB	9,741	-	-	-	9,741
Total deferred inflows of resources	14,001	-	-	-	14,001
Total liabilities and deferred inflows of resources	383,295	14,779	7,500	(22,260)	383,314
Net Position (Deficit)					
Invested in capital assets	11	-	-	-	11
Unrestricted	(208,824)	-	-	-	(208,824)
Total net position (deficit)	$ (208,813)	$ -	$ -	$ -	$ (208,813)

See accompanying independent auditor's report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Net Position (Deficit) - Deferred Prize Winners Fund (Collapsed)
June 30, 2021
(in thousands of dollars)

Assets and Deferred Outflows of Resources	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Current assets:				
Cash equity in State Treasury	$ 1,259	$ -	$ -	$ 1,259
Investments, short-term	-	27,660	-	27,660
Due from other Department funds	27,660	-	(27,660)	-
Total current assets	28,919	27,660	(27,660)	28,919
Noncurrent assets:				
Investments	-	261,902	-	261,902
Due from other Department funds	261,902	-	(261,902)	-
Total noncurrent assets	261,902	261,902	(261,902)	261,902
Total assets	290,821	289,562	(289,562)	290,821
Total assets and deferred outflows of resources	290,821	289,562	(289,562)	290,821
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Due to other Department funds	-	27,660	(27,660)	-
Current portion of long-term annuity prizes payable	24,635	-	-	24,635
Total current liabilities	24,635	27,660	(27,660)	24,635
Noncurrent liabilities:				
Noncurrent portion of long-term annuity prizes payable	235,532	-	-	235,532
Due to other Department funds	-	261,902	(261,902)	-
Total noncurrent liabilities	235,532	261,902	(261,902)	235,532
Total liabilities	260,167	289,562	(289,562)	260,167
Total liabilities and deferred inflows of resources	260,167	289,562	(289,562)	260,167
Net Position (Deficit)				
Unrestricted	30,654	-	-	30,654
Total net position (deficit)	$ 30,654	$ -	$ -	$ 30,654

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) - State Lottery Fund
Year Ended June 30, 2021
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Operating revenues:					
Charges for sales and services	$ 3,447,686	$ -	$ -	$ -	$ 3,447,686
Other	6,863	-	-	-	6,863
Total operating revenues	3,454,549	-	-	-	3,454,549
Operating expenses:					
Cost of sales and services	186,247	-	-	-	186,247
Prizes and claims	2,329,353	-	-	-	2,329,353
General and administrative	162,524	-	-	-	162,524
Depreciation	201	-	-	-	201
Total operating expenses	2,678,325	-	-	-	2,678,325
Operating income	776,224	-	-	-	776,224
Nonoperating revenues (expenses):					
Investment income	1	(9,876)	-	-	(9,875)
Interest expense	-	(8,946)	-	-	(8,946)
Grant revenue	108	-	-	-	108
Other	-	(406)	-	-	(406)
Total nonoperating revenues (expenses), net	109	(19,228)	-	-	(19,119)
Change in net position (deficit) before transfers	776,333	(19,228)	-	-	757,105
Transfers to other State funds	(776,333)	-	-	-	(776,333)
Change in net position (deficit)	-	(19,228)	-	-	(19,228)
Net position (deficit), July 1, 2020, as restated (see note 14)	(208,813)	49,882	-	-	(158,931)
Net position (deficit), June 30, 2021	$ (208,813)	$ 30,654	$ -	$ -	$ (178,159)

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Combining Schedule of Accounts - Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) - State Lottery Fund (Collapsed)

Year Ended June 30, 2021
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Eliminations	Total State Lottery (Collapsed)
Operating revenues:					
Charges for sales and services	$ (96,114)	$ -	$ 3,543,800	$ -	$ 3,447,686
Other	3,200	1	3,662	-	6,863
Total operating revenues	(92,914)	1	3,547,462	-	3,454,549
Operating expenses:					
Cost of sales and services	(3,634)	-	189,881	-	186,247
Prizes and claims	257,441	201,734	1,870,178	-	2,329,353
General and administrative	162,369	30	125	-	162,524
Depreciation	201	-	-	-	201
Total operating expenses	416,377	201,764	2,060,184	-	2,678,325
Operating income (loss)	(509,291)	(201,763)	1,487,278	-	776,224
Nonoperating revenues (expenses):					
Investment income	1	-	-	-	1
Grant revenue	108	-	-	-	108
Total nonoperating revenues (expenses), net	109	-	-	-	109
Change in net position (deficit) before transfers	(509,182)	(201,763)	1,487,278	-	776,333
Transfers from other State funds	1,487,278	201,763	-	(1,689,041)	-
Transfers to other State funds	(978,096)	-	(1,487,278)	1,689,041	(776,333)
Change in net position (deficit)	-	-	-	-	-
Net position (deficit), July 1, 2020, as restated (see note 14)	(208,813)	-	-	-	(208,813)
Net position (deficit), June 30, 2021	$ (208,813)	$ -	$ -	$ -	$ (208,813)

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Combining Schedule of Accounts - Schedule of Revenues, Expenses, and Changes in Net Position (Deficit) - Deferred Prize Winners Fund (Collapsed)

Year Ended June 30, 2021
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Operating revenues:				
Charges for sales and services	$ -	$ -	$ -	$ -
Other	-	-	-	-
Total operating revenues	-	-	-	-
Operating expenses:				
Cost of sales and services	-	-	-	-
Prizes and claims	-	-	-	-
General and administrative	-	-	-	-
Depreciation	-	-	-	-
Total operating expenses	-	-	-	-
Operating income	-	-	-	-
Nonoperating revenues (expenses):				
Investment income	-	(9,876)	-	(9,876)
Interest expense	(8,946)	-	-	(8,946)
Other	(406)	-	-	(406)
Total nonoperating revenues (expenses), net	(9,352)	(9,876)	-	(19,228)
Change in net position (deficit) before transfers	(9,352)	(9,876)	-	(19,228)
Transfers from other State funds	(9,876)	-	9,876	-
Transfers to other State funds	-	9,876	(9,876)	-
Change in net position (deficit)	(19,228)	-	-	(19,228)
Net position (deficit), July 1, 2020	49,882	-	-	49,882
Net position (deficit), June 30, 2021	$ 30,654	$ -	$ -	$ 30,654

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund
Year Ended June 30, 2021
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Cash flows from operating activities:					
Cash received from sales and services	$ 3,509,304	$ -	$ -	$ -	$ 3,509,304
Cash receipts from other operating activities	6,922	26,671	24	(26,671)	6,946
Cash payments for commissions and bonuses	(186,247)	-	-	-	(186,247)
Cash payments to employees for services	(20,318)	-	-	-	(20,318)
Cash payments for general and administrative expenses	(144,697)	-	-	-	(144,697)
Cash payments for lottery prizes	(2,320,973)	-	-	26,671	(2,294,302)
Cash payments for other operating activities	-	-	(39)	-	(39)
Net cash provided by operating activities	843,991	26,671	(15)	-	870,647
Cash flows from noncapital financing activities:					
Operating grants received	49	-	-	-	49
Cash transfers – out to other funds	(785,953)	-	-	-	(785,953)
Net cash used in noncapital financing activities	(785,904)	-	-	-	(785,904)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(183)	-	-	-	(183)
Principal payments under capital lease obligation	(17)	-	-	-	(17)
Net cash used in capital and related financing activities	(200)	-	-	-	(200)
Cash flows from investing activities:					
Interest and dividends on investments	1	-	-	-	1
Purchase of investments	-	(26,671)	-	-	(26,671)
Proceeds from investment maturities	59	24,210	-	-	24,269
Cash paid for long-term annuity prizes payable	(59)	(24,615)	-	-	(24,674)
Net cash used in investing activities	1	(27,076)	-	-	(27,075)
Net increase (decrease) in cash and cash equivalents	57,888	(405)	(15)	-	57,468
Cash and cash equivalents at beginning of year	57,100	1,664	442	-	59,206
Cash and cash equivalents at end of year	$ 114,988	$ 1,259	$ 427	$ -	$ 116,674
Reconciliation of cash and cash equivalents to the statement of net position (deficit):					
Total cash and cash equivalents per the statement of net position (deficit)	$ 22,147	$ -	$ 427	$ -	$ 22,574
Add cash equity in State Treasury	92,841	1,259	-	-	94,100
Cash and cash equivalents at end of year	$ 114,988	$ 1,259	$ 427	$ -	$ 116,674

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Cash Flows - State Lottery Fund (Continued)
Year Ended June 30, 2021
(in thousands of dollars)

	State Lottery (Collapsed)	Deferred Prize Winners (Collapsed)	Lottery Security Deposits (1309)	Eliminations	Total State Lottery Fund
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$ 776,224	$ -	$ -	$ -	$ 776,224
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	201	-	-	-	201
Provision for uncollectible accounts	2,279	-	-	-	2,279
Changes in assets and liabilities:					
Decrease in accounts receivable	62,693	-	-	-	62,693
Increase in due from other funds	(13)	-	-	-	(13)
Decrease in deferred outflows of resources	564	-	-	-	564
Decrease in prepaid expenses	91	-	-	-	91
Increase in prizes payable	8,380	-	-	-	8,380
Decrease in accounts payable and accrued liabilities	(6,656)	-	-	-	(6,656)
Decrease in intergovernmental payables	(7)	-	-	-	(7)
Increase in due to other State funds	346	-	-	-	346
Increase in unearned revenues	82	-	-	-	82
Increase (Decrease) in other liabilities	66	-	(15)	-	51
Increase in long-term annuity prizes payable	-	26,671	-	-	26,671
Increase in deferred inflows of resources	2,323	-	-	-	2,323
Increase in net pension liability	4,011	-	-	-	4,011
Decrease in OPEB liability	(6,593)	-	-	-	(6,593)
Net cash provided by operating activities	$ 843,991	$ 26,671	$ (15)	$ -	$ 870,647
Noncash investing, capital and financing activities:					
Change in fair value of investments	$ -	$ 18,822	$ -	$ -	$ 18,822
Interest accreted on investments	-	8,946	-	-	8,946
Interest accreted on long-term annuity prizes payable	-	(8,946)	-	-	(8,946)
Use of resources to pay long-term annuity prizes payable	-	406	-	-	406

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - State Lottery Fund (Collapsed)
Year Ended June 30, 2021
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Eliminations	Total State Lottery (Collapsed)
Cash flows from operating activities:					
Cash received from sales and services	$ (34,496)	$ -	$ 3,543,800	$ -	$ 3,509,304
Cash receipts from other operating activities	3,259	1	3,662	-	6,922
Cash payments for commissions and bonuses	3,634	-	(189,881)	-	(186,247)
Cash payments to employees for services	(20,318)	-	-	-	(20,318)
Cash payments for general and administrative expenses	(144,686)	(30)	19	-	(144,697)
Cash payments for lottery prizes	(257,897)	(192,898)	(1,870,178)	-	(2,320,973)
Cash payments for other operating activities	-	-	-	-	-
Net cash provided by operating activities	(450,504)	(192,927)	1,487,422	-	843,991
Cash flows from noncapital financing activities:					
Operating grants received	49	-	-	-	49
Cash transfers – in from other funds	1,487,278	201,763	-	(1,689,041)	-
Cash transfers – out to other funds	(987,716)	-	(1,487,278)	1,689,041	(785,953)
Net cash used in noncapital financing activities	499,611	201,763	(1,487,278)	-	(785,904)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(183)	-	-	-	(183)
Principal payments under capital lease obligation	(17)	-	-	-	(17)
Net cash used in capital and related financing activities	(200)	-	-	-	(200)
Cash flows from investing activities:					
Interest and dividends on investments	1	-	-	-	1
Proceeds from investment maturities	59	-	-	-	59
Cash paid for long-term annuity prizes payable	(59)	-	-	-	(59)
Net cash used in investing activities	1	-	-	-	1
Net increase in cash and cash equivalents	48,908	8,836	144	-	57,888
Cash and cash equivalents at beginning of year	43,933	5,811	7,356	-	57,100
Cash and cash equivalents at end of year	$ 92,841	$ 14,647	$ 7,500	$ -	$ 114,988
Reconciliation of cash and cash equivalents to the statement of net position (deficit):					
Total cash and cash equivalents per the statement of net position (deficit)	$ -	$ 14,647	$ 7,500	$ -	$ 22,147
Add cash equity in State Treasury	92,841	-	-	-	92,841
Cash and cash equivalents at end of year	$ 92,841	$ 14,647	$ 7,500	$ -	$ 114,988

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - State Lottery Fund (Collapsed) (Continued)
Year Ended June 30, 2021
(in thousands of dollars)

	State Lottery (0711)	Lottery Prize Payment Fund (1279)	Agent Sales Sweep Account Fund (1373)	Eliminations	Total State Lottery (Collapsed)
Reconciliation of operating income to net cash provided by					
Operating activities:					
Operating income (loss)	$ (509,291)	$ (201,763)	$ 1,487,278	$ -	$ 776,224
Adjustments to reconcile operating income to net cash					
provided by operating activities:					
Depreciation	201	-	-	-	201
Provision for uncollectible accounts	2,279	-	-	-	2,279
Changes in assets and liabilities:					
Decrease in accounts receivable	62,693	-	-	-	62,693
(Increase) Decrease in due from other funds	(2,163)	2,150	-	-	(13)
Decrease in deferred outflows of resources	564	-	-	-	564
Decrease in prepaid expenses	-	91	-	-	91
Increase in prizes payable	8,380	-	-	-	8,380
Increase (Decrease) in accounts payable and accrued liabilities	(6,669)	13	-	-	(6,656)
Decrease in intergovernmental payables	(7)	-	-	-	(7)
Increase (Decrease) in due to other State funds	(6,380)	6,582	144	-	346
Increase in unearned revenues	82	-	-	-	82
Increase in other liabilities	66	-	-	-	66
Increase in deferred inflows of resources	2,323	-	-	-	2,323
Increase in net pension liability	4,011	-	-	-	4,011
Decrease in OPEB liability	(6,593)	-	-	-	(6,593)
Net cash provided by operating activities	$ (450,504)	$ (192,927)	$ 1,487,422	$ -	$ 843,991

See accompanying independent auditors' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - Deferred Prize Winners Fund (Collapsed)
Year Ended June 30, 2021
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Cash flows from operating activities:				
Cash received from sales and services	$ -	$ -	$ -	$ -
Cash receipts from other operating activities	26,671	-	-	26,671
Cash payments for commissions and bonuses	-	-	-	-
Cash payments to employees for services	-	-	-	-
Cash payments for general and administrative expenses	-	-	-	-
Cash payments for lottery prizes	-	-	-	-
Cash payments for other operating activities	-	-	-	-
Net cash provided by operating activities	26,671	-	-	26,671
Cash flows from noncapital financing activities:				
Cash transfers – out to other funds	-	-	-	-
Net cash used in noncapital financing activities	-	-	-	-
Cash flows from capital and related financing activities:				
Principal payments under capital lease obligation	-	-	-	-
Net cash used in capital and related financing activities	-	-	-	-
Cash flows from investing activities:				
Interest and dividends on investments	-	-	-	-
Purchase of investments	(26,671)	-	-	(26,671)
Proceeds from investment maturities	24,210	24,210	(24,210)	24,210
Cash paid for long-term annuity prizes payable	(24,615)	(24,210)	24,210	(24,615)
Net cash used in investing activities	(27,076)	-	-	(27,076)
Net decrease in cash and cash equivalents	(405)	-	-	(405)
Cash and cash equivalents at beginning of year	1,664	-	-	1,664
Cash and cash equivalents at end of year	$ 1,259	$ -	$ -	$ 1,259
Reconciliation of cash and cash equivalents to the statement of net position (deficit):				
Total cash and cash equivalents per the statement of net position (deficit)	$ -	$ -	$ -	$ -
Add cash equity in State Treasury	1,259	-	-	1,259
Cash and cash equivalents at end of year	$ 1,259	$ -	$ -	$ 1,259

This statement is continued on the following page.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
Combining Schedule of Accounts - Schedule of Cash Flows - Deferred Prize Winners Fund (Collapsed) (Continued)
Year Ended June 30, 2021
(in thousands of dollars)

	Deferred Prize Winners (0978)	Deferred Lottery Prize Winners Trust Fund (2978)	Eliminations	Total Deferred Prize Winners (Collapsed)
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ -	$ -	$ -	$ -
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	-	-	-
Provision for uncollectible accounts	-	-	-	-
Changes in assets and liabilities:				
Increase in accounts receivable	-	-	-	-
Decrease in due from other funds	-	-	-	-
Decrease in deferred outflows of resources	-	-	-	-
Increase in prepaid expenses	-	-	-	-
Decrease in prizes payable	-	-	-	-
Decrease in accounts payable and accrued liabilities	-	-	-	-
Increase in intergovernmental payables	-	-	-	-
Increase in due to other State funds	-	-	-	-
Decrease in unearned revenues	-	-	-	-
Decrease in other liabilities	-	-	-	-
Increase in long-term annuity prizes payable	26,671	-	-	26,671
Increase in deferred inflows of resources	-	-	-	-
Decrease in net pension liability	-	-	-	-
Decrease in OPEB liability	-	-	-	-
Net cash provided by operating activities	$ 26,671	$ -	$ -	$ 26,671
Noncash investing, capital and financing activities:				
Change in fair value of investments	$ 18,822	$ -	$ -	$ 18,822
Interest accreted on investments	8,946	-	-	8,946
Interest accreted on long-term annuity prizes payable	(8,946)	-	-	(8,946)
Use of resources to pay long-term annuity prizes payable	406	-	-	406

See accompanying independent auditors' report.

3201 W. White Oaks Dr., Suite 102
Springfield, IL 62704
217.793.3363

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Lottery Control Board
State of Illinois, Department of the Lottery

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the State Lottery Fund of the State of Illinois, Department of the Lottery (Department), as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents, and we have issued our report thereon dated April 29, 2022.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2021-001 and 2021-003.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that 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 a material weakness 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, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as item 2021-001 to be a material weakness.

A *significant deficiency* 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 to be significant deficiencies.

Department's Responses to the Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
April 29, 2022

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.

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.

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.

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.

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)

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.

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).

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 ILCS1605/21.8(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.

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

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.

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.

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

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.

The Department will complete the reconciliation to "true-up" of estimated prize liabilities to prizes paid, as well as, our review of the overhead rate charged to specialty tickets in years prior to 2019 for which we have records by June 30, 2022. Unfortunately, the Department experienced turnover, staff shortages, and adjustments due to the COVID-19 pandemic inhibiting our ability to complete the reconciliation prior to Fiscal Year 2022. We will also communicate directly with those agencies impacted and make any necessary transfers at this time. Finally, the Department will continue to research and analyze a better way to allocate and account for the administrative costs associated with specialty tickets to bring forth a legislative remedy.

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 as 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.

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)

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.

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.

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.

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

The Department of 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)

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

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.

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.

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 2020-004)