



**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Compliance Examination

For The Two Years Ended June 30, 2015

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

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Compliance Examination

For the Two Years Ended June 30, 2015

Table of Contents

		Page
Department Officials		1
Management Assertion Letter		2
Compliance Examination:		
Compliance Report Summary		3
Accountants/Auditors' Reports:		
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes		6
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		9
Schedule of Findings:		
Current Findings:		
<i>Government Auditing Standards</i>		11
State Compliance		13
Prior Findings Not Repeated		27
Supplementary Information for State Compliance Purposes:	Schedule	Page
Summary		28
Fiscal Schedules and Analysis		
Schedule of Appropriations, Expenditures, and Lapsed Balances Fiscal Year 2015	1	29
Schedule of Appropriations, Expenditures, and Lapsed Balances Fiscal Year 2014	2	30
Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances	3	31
Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances by Detail Object Code	4	32
Schedule of Cash Receipts, Disbursements, and Fund Balance (Cash Basis) – Locally-Held Funds	5	33
Schedule of Changes in State Property	6	34

	Schedule	Page
Comparative Schedule of Cash Receipts and Reconciliation of Cash		
Receipts to Deposits Remitted to State Comptroller	7	35
Analysis of Significant Variations in Expenditures	8	36
Analysis of Significant Variations in Cash Receipts	9	38
Analysis of Significant Lapse Period Expenditures	10	39
Analysis of Significant Account Balances	11	40
Analysis of Accounts Receivable	12	42
 Analysis of Operations		
Department Functions and Planning Program (Unaudited)		43
Average Number of Employees (Unaudited)		45
Service Efforts and Accomplishments (Unaudited)		46

Related Reports Published Under Separate Cover:

The Department's financial statement reports for the years ended June 30, 2015, 2014, and 2013, which include the Independent Auditors' Report, Basic Financial Statements and Notes to the Basic Financial Statements, and the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* have been issued separately.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Department Officials

For the Two Years Ended June 30, 2015

Director	B.R. Lane (Acting) – effective April 6, 2015 Jayme Odom (Acting) – March 21, 2015 to April 5, 2015 Michael Jones – July 1, 2013 to March 20, 2015
Deputy Director	Vacant – effective November 15, 2014 Victor Golden – July 1, 2013 to November 14, 2014
Chief of Staff	Jayme Odom – effective January 23, 2015 Vacant – January 20, 2015 to January 22, 2015 Alison Walters (Acting) – November 17, 2014 to January 19, 2015 Sara Barnett – July 1, 2013 to November 16, 2014
Chief Financial Officer	Brett Finley (Acting) – effective December 19, 2015 Christian Froelich – August 1, 2014 to December 18, 2015 Brett Finley (Acting) – August 1, 2013 to July 31, 2014 James Scroggins – July 1, 2013 to July 31, 2013
Chief Operations Officer	Harold Mays – effective January 16, 2013
General Counsel	Nellie Viner – effective February 27, 2015 Daymon Ruttenberg – July 1, 2013 to February 26, 2015
Chief Internal Auditor	Amy De Weese – effective June 1, 2015 Vacant – January 16, 2015 to May 31, 2015 Melinda Westwater – July 1, 2013 to January 15, 2015

Department offices are located at:

101 West Jefferson Street
Springfield, Illinois 62702

122 South Michigan Avenue, 19th Floor
Chicago, Illinois 60603



April 19, 2016

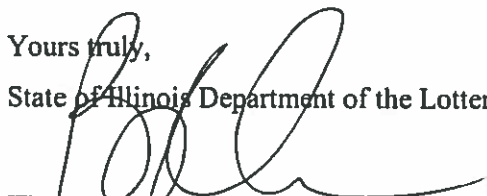
KPMG LLP
200 E Randolph Drive, Suite 5500
Chicago, IL 60601


Ladies and Gentlemen:


We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois Department of the Lottery (the Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following assertions during the two-year period ended June 30, 2015. Based on this evaluation, we assert that during the two-year period ended June 30, 2015, the Department has materially complied with the assertions below.

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

Yours truly,
State of Illinois Department of the Lottery


B.R. Lane, Acting Director


Brett A. Finley, Acting Chief Financial Officer


Nellie Viner, General Counsel

Bruce Rauner
Governor

B.R. Lane
Acting Director

122 South Michigan Ave.
19th Floor
Chicago, IL 60603
1-312-793-3030

101 W. Jefferson Street
Springfield, IL 62702
217-524-6435

www.illinoislottery.com

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Compliance Report Summary

For the Two Years Ended June 30, 2015

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

Accountants' Report

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain report qualifications for compliance and internal control.

Summary of Findings

Number of	Current Report	Prior Report *
Findings	8	7
Repeated findings	6	2
Prior recommendations implemented or not repeated	1	8

* Prior report was the State Compliance report for the two year period ended June 30, 2013.

Schedule of Findings

Finding (Government Auditing Standards)

Finding No.	Page No.	Description	Finding Type
2015-001	11	Errors Identified in GAAP Reporting Forms Submitted to the Illinois Office of the Comptroller and Year-end Department Financial Statements	Significant deficiency

Findings (State Compliance)

Finding No.	Page No	Description	Finding Type
2015-002	13	Inappropriate Prepayments to Fund Out-of-State Prize Payment Obligations	Material weakness and material noncompliance
2015-003	15	Noncompliance with the Illinois Lottery Law	Significant deficiency and noncompliance
2015-004	17	Weaknesses Regarding the Security and Control of Confidential Information	Significant deficiency and noncompliance
2015-005	19	Lack of Comprehensive Disaster Contingency Planning and Testing	Significant deficiency and noncompliance
2015-006	21	Failure to Comply with the Fiscal Control and Internal Auditing Act and Other Required Reporting	Significant deficiency and noncompliance
2015-007	23	Failure to Submit, or Timely Submit, Required Reports and Documentation	Significant deficiency and noncompliance
2015-008	25	Inadequate Controls over Property and Equipment	Significant deficiency and noncompliance

In addition, the following finding which is reported as a current finding related to *Government Auditing Standards* also meets the reporting requirements for State Compliance:

2015-001		Errors identified in GAAP Reporting Forms Submitted to the Illinois Office of the Comptroller and Year-end Department Financial Statements	Significant deficiency and noncompliance
----------	--	--------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------

Prior Findings Not Repeated

Page

- A.** 27 Weaknesses in the General IT Control Environment over Key Systems

Exit Conference

The Department of the Lottery elected to waive a formal exit conference for the State Compliance Examination. The responses to the recommendations were provided by Amy De Weese, Chief Internal Auditor, in an e-mail dated April 11, 2016.



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

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois Department of the Lottery's (the Department) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2015. The management of the Department is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.



As described in finding 2015-002 in the accompanying schedule of findings, the Department did not obligate and expend certain funds of the State in accordance with the limitations, restrictions, or mandatory directions imposed by law upon such an obligation, expenditure, or use. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2015. However, the results of our procedures disclosed other instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2015-001 and 2015-003 through 2015-008.

Internal Control

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2015-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2015-001 and 2015-003 through 2015-008 to be significant deficiencies.

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



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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited and issued under separate cover, the basic financial statements of the Department as of and for the year ended June 30, 2015, and have issued our report thereon dated January 15, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Department's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to January 15, 2016. The accompanying supplementary information for the year ended June 30, 2015 in Schedules 1 and 3 through 12 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2015 in Schedules 1 and 3 through 12 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2015 in Schedules 1 and 3 through 12 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2015.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Department's basic financial statements as of and for the years ended June 30, 2014 and 2013 (not presented herein), and have issued our report thereon dated March 12, 2015, which contained an unmodified opinion on those financial statements. The accompanying supplementary information for the years ended June 30, 2014 and 2013, in Schedules 2 through 12 is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the June 30, 2014 and 2013 financial statements. The accompanying supplementary information for the years ended June 30, 2014 and 2013, in Schedules 2 through 12 has been subjected to auditing procedures applied in the audits of the June 30, 2014 and 2013 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2014 and 2013, in Schedules 2 through 12 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

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

KPMG LLP

Chicago, Illinois
April 19, 2016



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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the State of Illinois Department of the Lottery (the Department), which comprise the statement of net position (deficit) as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position (deficit) and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as Finding 2015-001 that we consider to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to Findings

The Department's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

KPMG LLP

Chicago, Illinois
January 15, 2016

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *Government Auditing Standards*

Finding 2015-001 Errors Identified in GAAP Reporting Forms Submitted to the Illinois Office of the Comptroller and Year-End Department Financial Statements

The State of Illinois Department of the Lottery's (Department) year-end financial statements, prepared in accordance with generally accepted accounting principles (GAAP) and submitted to the Illinois Office of the Comptroller, contained errors in certain accounts and disclosures, which are considered to be deficiencies in internal control over financial reporting.

During the audit of the June 30, 2015 Department financial statements, auditors noted errors in the Department's GAAP Reporting forms submitted to the Office of the Comptroller and Department financial statements as follows:

- 1) During testing of the Department's accounts receivable, auditors identified the Department incorrectly recorded a transfer of \$20.0 million to the Virginia Lottery to fund future multi-state lottery prize settlements in accounts receivable. This transfer was done at June 30, 2015 in order to fund Illinois' future financial obligations to the multi-state games (Mega Millions and Powerball) in the absence of a fiscal year 2016 budgetary appropriation to pay game winners. The misclassification resulted in an overstatement of accounts receivable and an understatement of prepaid assets of \$20.0 million. This was discussed with Department management and they subsequently made a correcting entry.
- 2) During testing of the Department's online liabilities, an unreconciled difference of \$1.689 million was identified. This difference was discussed with Department management and they considered the amount to be immaterial to the financial statements and did not record a correcting entry.
- 3) During testing of the Department's general and administrative expenses, a number of errors regarding the amounts recorded were identified and included the following:
 - Annual compensation for reimbursement of operating expenses to the Private Manager was understated by \$3.90 million.
 - The Department inaccurately recorded demobilization and disentanglement expenses related to the private management agreement (PMA) of \$1.88 million and \$1.23 million, respectively. These errors resulted in general and administrative expenses being overstated by \$3.11 million.

Department management considered the net amount for these two items (an understatement of general and administrative expenses of \$0.79 million) to be immaterial to the financial statements and did not record a correcting entry.

- 4) During testing of the Department's financial statements, particularly the notes, auditors identified errors regarding the amounts disclosed, which included the following:
 - The amount of annual compensation for reimbursement of operating expenses to the Private Manager under the PMA, was overstated by \$8.8 million. This was discussed with Department management at which time they adjusted the disclosure.

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *Government Auditing Standards*

- \$3.8 million for the retroactive supply agreement reduction was overstated by \$0.5 million. This was discussed with Department management at which time they adjusted the disclosure.

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

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

In discussing these conditions, Lottery management indicated the budget impasse at June 30 and certain unforeseen subsequent events resulted in the issues identified.

Because of the significance of the errors and inaccuracies noted, auditors consider this to be a significant deficiency in the Department's internal control over financial and fiscal operations. 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. (Finding Code No. 2015-001, 2014-001, 2013-001, 12-01)

Recommendation:

We recommend the Department improve their preparation and review process of GAAP Reporting Packages and financial statements to ensure they are prepared in a complete and accurate manner.

Lottery Response:

The Lottery agrees and will continue to review current procedures to ensure GAAP financial reporting and the financial statements are prepared completely and accurately.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Finding 2015-002 Inappropriate Prepayments to Fund Out-of-State Prize Payment Obligations

The Illinois Department of the Lottery (Department) inappropriately prepaid amounts from their fiscal year 2015 appropriation to the Multi-State Lottery Association to fund fiscal year 2016 Multi-State Lottery Association payment obligations in noncompliance with the State Finance Act (the Act) and Illinois Lottery Law (Law).

During testing of 16 investment purchase expenditures (totaling \$158,768,750), auditors noted that 1 expenditure item (totaling \$10,000,000) was made to fund future Multi-State game prize payment obligations (mega millions and power ball). Upon further testing, it was noted that another prepayment had been made. In total, 2 vouchers for \$20,000,000 were processed on June 30, 2015 to pay for Multi-State game expenses for fiscal year 2016.

The Act (30 ILCS 105/25(a)) states, “[a]ll appropriations shall be available for expenditure for the fiscal year or for a lesser period if the Act making that appropriation so specifies.” Additionally, the Act (30 ILCS 105/9.05) states, “[i]n the event that a voucher is submitted for advance payment of goods or services, the certification prescribed by Section 9.04 shall be made. In addition, the voucher shall state on its face that the goods or services are being procured pursuant to a formal, written contract the terms of which require advance payment. If it is not possible to execute a written contract, the voucher shall so state. The voucher shall also state that the contract requires the goods or services to be delivered or received prior to the expiration of the lapse period of the fiscal year to which the expenditures are charged...”

In addition, the Illinois Lottery Law (20 ILCS 1605/9 h.) allows the Department to enter into an agreement or agreements with other state lotteries for the purpose of creating and operating multi-state lottery games. The Illinois Lottery Law states, “No such agreement shall purport to pledge the full faith and credit of the State of Illinois, nor shall the Department expend State funds on a contractual basis in connection with any such game unless such expenditures are expressly authorized by the General Assembly...”

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: “resources are utilized efficiently, effectively, and in compliance with applicable law.” Establishing and maintaining a system of internal controls ensuring effective use of resources includes compliance with applicable laws and not making inappropriate prepayments.

In discussing these conditions with Department management, they indicated that due to the lack of a fiscal year 2016 State budget, the Department sent additional funds to the multi-state clearing house to ensure the Department could continue to participate in the multi-state Lottery games.

Failure to pay expenditures from the proper fiscal year’s appropriation violates the State Finance Act and diminishes the oversight and authority of the budgeting and appropriation process set forth by the legislature. (Finding Code No. 2015-002)

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Recommendation:

We recommend the Department adhere to the Illinois laws prohibiting prepayment of future year obligations from the current year appropriation.

Lottery Response:

The Department agrees and will continue to review procedures to ensure it is in compliance with the Lottery Law.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Finding 2015-003 Noncompliance with the Illinois Lottery Law

The Illinois Department of the Lottery (Department) and Lottery Control Board (Board) did not comply with various provisions of the Illinois Lottery Law (Lottery Law).

During testing, auditors noted the following:

- There was only one scheduled meeting of the Board during the year ended June 30, 2015, and there was no review of major media campaigns conducted during that meeting. Lottery Law (20 ILCS 1605/7.8(a)) requires that “[t]he Board shall review, at least quarterly, all past advertising for major media campaigns to ensure that they do not target with the intent to exploit specific groups or economic classes of people, and that their content is accurate and not misleading.” Additionally, Lottery Law (20 ILCS 1605/6) requires that “[t]he Board shall hold at least one meeting each quarter of the fiscal year.”
- The Department did not deposit funds into the Capital Projects Fund in accordance with the Lottery Law in a timely manner. Auditors noted the Department owed approximately \$60 million to the Capital Projects Fund as of June 30, 2015. Lottery Law (20 ILCS 1605/9.1(o)) requires the Department deposit any remaining proceeds (as defined by Lottery Law) into the Capital Projects Fund on or before the last day of each fiscal year.
- During testing, auditors noted the Department included an allocation for “Lottery Operating Expenses & Overhead” within the calculation of “net revenue” attributable to the “Go for the Gold” scratch-off game, as they do for all other scratch-off games. Lottery Law (20 ILCS 1605/21.9(b)) states, “...“net revenue” means the total amount for which tickets have been sold less the sum of the amount paid out in prizes and the actual administrative expenses of the Department solely related to the Go for the Gold game.” The Department does not have a system or process to capture administrative expenses solely related to a specific game.
- The Department paid the cost associated with the required investigation of the private manager pertaining to compliance with the Lottery Law and the private management agreement. During testing of the executed contract for services to be performed by an independent accounting firm in relation to the compliance examination of the private manager, auditors found the Department was identified as the party to be billed for such services, not the private manager. Additionally, the Department did not provide documentation to demonstrate that the financial burden of the investigation was passed on to the private manager. Lottery paid the independent accounting firm approximately \$147,000 for services related to investigation work in fiscal year 2015. Lottery Law (20 ILCS 1605/9.1(n)) states, “... The private manager shall bear the cost of an investigation or reinvestigation of the private manager under this subsection.”

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that “resources are utilized efficiently, effectively, and in compliance with applicable law.” Establishing and maintaining a system of internal controls ensuring effective use of resources includes compliance with applicable laws.

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

In discussing these conditions with Department management, they indicated that the Lottery Control Board was unable to hold meetings due to not enough sitting board members to satisfy a quorum. The Department is currently seeking legislation to codify the current practice for the transfer to the Capital Projects Fund. The Department interpreted the specialty ticket legislation to recover all costs and transfer the net proceeds. The Department had not yet recouped the cost of the required investigation from the private manager due to staffing changes resulting in an oversight.

Noncompliance with the Lottery Law diminishes the Department's and Board's effectiveness over the Department's operations. In addition, the noncompliance results in the Department's operations not being conducted as required by the legislature. (Finding Code No. 2015-003)

Recommendation:

We recommend the Department adhere to the provisions of the Lottery Law and enhance its internal control procedures to ensure compliance. With regard to the transfer of amounts due to the Capital Projects Fund, we recommend the Department work to improve their process of estimating amounts owed to the Capital Projects Fund prior to the end of each fiscal year to minimize amounts owed subsequent to June 30, or seek legislative relief to allow a transfer after the Department has finalized their accounting records.

Lottery Response:

The Department agrees and will review its internal control procedures to ensure compliance with the Lottery Law. With regard to the transfer of amounts owed to the Capital Projects Fund, the Department is seeking legislative relief in an effort to codify the Department's current practice.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Finding 2015-004 Weaknesses Regarding the Security and Control of Confidential Information

A weakness was noted at the Illinois Department of the Lottery (Department) related to security and control over confidential information.

During testing, auditors noted the Department has several computer systems that contained confidential or personal information including employee and customer names, addresses, Social Security numbers, and credit card numbers; however, as of June 30, 2015, the Department had not completed its risk assessment of its computing resources to identify confidential or personal information to ensure such information is protected from unauthorized disclosure. The Department began the risk assessment process in March 2015, but did not finalize its initial risk assessment process until October 1, 2015.

The Department did not have formal policies in place relative to Personal Identity Information Protection or Data Breach Notification during the entire examination period. Specifically, auditors noted the Department did not have a Personal Identity Information Protection policy in place prior to September 8, 2014, or a Data Breach Notification policy prior to June 26, 2015.

The Identity Protection Act (5 ILCS 179) promotes the protection of social security numbers from unauthorized disclosure.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that “resources are utilized efficiently, effectively, and in compliance with applicable law.” Establishing and maintaining a system of internal controls ensuring effective use of resources includes compliance with applicable laws and appropriate security and control over confidential information.

In discussing these conditions with Department management, they indicated the delay in finalizing its risk assessment prior to June 30, 2015 was due to the scope of the assessment, which involved physical inspections at all Department offices and a comprehensive review of all of its systems. This newly implemented assessment process took six months to complete and made it difficult to finalize a report prior to June 30, 2015.

The Department has the responsibility to ensure that confidential information is protected from accidental or unauthorized disclosure. A risk assessment to identify confidential information requiring protection is a key component of that process. (Finding Code No. 2015-004, 2013-003)

Recommendation:

We recommend the Department enhance its internal control procedures to ensure policies such as those identified above regarding the protection of confidential information are prepared in a complete and timely manner.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Lottery Response:

The Department agrees and as noted in the finding has completed its risk assessment, and developed and implemented a Personal Identity Protection Policy and Data Beach Notification Policy to enhance its controls regarding the protection of confidential information.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Finding 2015-005 Lack of Comprehensive Disaster Contingency Planning and Testing

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

During the examination, auditors noted the Department had not updated its disaster contingency plan since August 2004. The contingency plan did not reflect the separation from the Department of Revenue and the consolidation of the Information Technology infrastructure into the Department of Central Management Services. The auditors also noted the plan had not been tested in recent years. Since the last examination, the Department has focused on remediating a number of the disaster contingency plan shortfalls as they relate to the Department's IT environment. However, disaster contingency plans should be comprehensive and not only include procedures to ensure information technology is addressed but also business operation continuity plans.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that "resources are utilized efficiently, effectively, and in compliance with applicable law." Establishing and maintaining a system of internal controls ensuring effective use of resources includes developing and testing a disaster contingency plan to ensure continuity of business operations.

In discussing these conditions with Department management, they indicated that during the review period they implemented and completed the first phase of their disaster contingency remediation strategy that focused on remediating weaknesses found related to their IT Infrastructure and third party contingency plans to ensure the recovery of its financial, gaming and winner information. Phase 1 was an important first step in enabling Phase 2 which focuses on a comprehensive update of its overall Department disaster contingency plan that ties together system recovery as well as overall business operations recovery. Phase 2 also requires additional specialized resources the Department has yet to procure to help facilitate the completion and testing of the plan.

Failure to adequately update and test the disaster contingency plan leaves the Department exposed to the possibility of major disruptions of services. A comprehensive test of the plan across all third parties utilized will assist management in identifying weaknesses to ensure recovery procedures are adequate in the event of a disaster. Continuous reviews and tests of the disaster contingency plan helps management ensure the plan is appropriately modified as the Department's overall business and computing environment change. (Finding Code No. 2015-005, 2013-004)

Recommendation:

We recommend the Department update its disaster contingency plan such that it addresses not only the Department's IT environment but also business operation continuity plans at least annually or when significant changes occur. In addition, the Department should perform and document tests of its disaster contingency plan at least once a year.

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Lottery Response:

The Department agrees and will continue its efforts to update and test its disaster contingency plan to address continuity of business operations.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Finding 2015-006 Failure to Comply with the Fiscal Control and Internal Auditing Act and Other Required Reporting

The Illinois Department of the Lottery (Department), including its Internal Audit function, did not comply with the Fiscal Control and Internal Auditing Act (Act) or timely perform other required reporting and follow-up.

During testing, auditors noted the following exceptions:

- The Department’s internal audit function did not perform internal audits of all of their major systems of internal accounting and administrative control during the period under audit. Auditors noted that Administrative Support Services; Purchasing, Contracting, and Leasing; Property, Equipment, and Inventories; Petty Cash and Local Funds; and Electronic Data Processing, each considered major systems of internal accounting and administrative control per the Statewide Accounting Management System (SAMS) Manual (Procedure 02.50.20), were not audited as required. The Act (30 ILCS 10/2003(a)(2)) requires State agencies to perform “[a]udits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years.”
- The Department did not timely certify its internal controls for 2015 as required by the Act. This certification, which was due on May 1, 2015, was submitted on January 4, 2016, or 248 days late. The Act (30 ILCS 10/3003(a)) requires: “By May 1 of each year, each chief executive officer of all State agencies shall, on the basis of an evaluation conducted in accordance with guidelines established under Section 3002, prepare and transmit to the Auditor General a certification that: (1) the systems of internal fiscal and administrative controls of the State agency fully comply with requirements of this Act, or (2) the systems of internal fiscal and administrative controls of the State agency do not fully comply with the requirements of this Act.”
- The Department did not maintain a full-time program of internal auditing during the examination period as required by the Act. The Department did not employ a Chief Internal Auditor or any internal audit staff from the period January 16, 2015 through May 31, 2015. The Act (30 ILCS 10/2001(a)) requires “[e]ach designated State agency... shall maintain a full-time program of internal auditing.”
- The Department’s internal audit function failed to perform follow-up on all internal audit findings in accordance with International Standards for the Professional Practice of Internal Auditing (Standards). During testing, auditors found that the Department’s internal audit function did not perform follow-up to verify management’s implementation of corrective action for 2 of 4 internal audits tested. The Standards (Section 2500.A1) state, “[t]he chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”
- The Department failed to submit their required annual audits of the GAAP package and financial statement process to the Financial Reporting Standards Board in a timely manner. The Department submitted their audits, due on May 31, 2014 and 2015, on August 15, 2014 and July 31, 2015,

(Continued)

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

respectively. The Financial Reporting Standards Board (Board) Act (30 ILCS 30/20) requires “[t]he Internal Auditor of every State agency that submits a GAAP package must submit an annual audit of its GAAP and financial statement process, if applicable, to the Board.” The Board established a set of guidelines, *Internal Audit Guidelines GAAP and Financial Statement Process*, which set forth the report should be submitted no later than May 31st for the preceding fiscal year.

In discussing these conditions with Department management, they indicated that the exceptions noted were due to unanticipated vacancies within the Internal Audit Division.

Failure to implement provisions of the Fiscal Control and Internal Auditing Act and other reporting requirements results in noncompliance with laws and regulations and can lead to unidentified significant deficiencies and material weaknesses within the Department’s operations.

The lack of internal policies and procedures can weaken the Department’s ability to ensure: (1) resources are utilized efficiently and effectively; (2) assets are properly recorded, managed and safeguarded; and (3) revenues, expenditures, and transfers of assets applicable to operations are properly accounted for and recorded. (Finding Code No. 2015-006, 2013-005)

Recommendation:

We recommend the Department comply with the required provisions of the Fiscal Control and Internal Auditing Act as well as other required reporting, and implement internal control procedures to ensure compliance.

Lottery Response:

The Department agrees. The Internal Audit function was not operational for the full audit cycle but the Department will ensure all internal audits and required filings are performed timely in future periods.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Finding 2015-007 Failure to Submit, or Timely Submit, Required Reports and Documentation

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

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

- There were no quarterly reports or an annual report on activities and actions of the private manager submitted to the Governor or the General Assembly during the fiscal year ended June 30, 2015. Illinois Lottery Law (Lottery Law) (20 ILCS 1605/9.1(p)(1)) states “the Department shall submit written quarterly reports to the Governor and the General Assembly on the activities and actions of the private manager.” Additionally, Lottery Law (20 ILCS 1605/9.1(p)(3)) states: “at least 30 days prior to the beginning of the Department’s fiscal year, the Department shall prepare an annual written report on the activities of the private manager selected under this Section and deliver that report to the Governor and General Assembly.”
- The Internet Lottery Study Committee (Committee) failed to timely submit to the Department written changes, additions, or corrections to the proposed findings and recommendations of the Internet Lottery Study in a timely manner. The auditors noted that the Committee’s written changes, additions, or corrections to the proposed findings were submitted November 8, 2013, which was 22 calendar days after the Committee met on October 17, 2013 to discuss the proposed findings and recommendations of the Internet Lottery Study. Lottery Law (20 ILCS 1605/7.12(c)) states, “[n]o later than 15 calendar days after meeting, the Study Committee shall submit to the Department any written changes, additions, or corrections the Study Committee wished the Department to make to the study.”
- The Department failed to file their required 2013 Agency Workforce Report due January 1, 2014 (filed on March 28, 2014) in a timely manner. The State Employment Records Act (5 ILCS 410/20) states “... State agencies shall collect, classify, maintain, and report all information required by this Act on a fiscal year basis. Agencies shall file, as public information and by January 1, 1993 and each year thereafter, a copy of all reports required by this Act with the Office of the Secretary of State, and shall submit an annual report to the Governor.”
- The Department did not accurately prepare their 2014 Agency Workforce Report. The “Minorities” column on the 2014 Report was erroneously populated with data corresponding to all males. Also, it was noted that the “Professional” row on the 2014 Report was populated with data of employees that do not meet the definition of a ‘professional’ as defined in the State Employment Records Act (Act) (5 ILCS 410/10(e)). The State Employment Records Act (5 ILCS 410/20) states “... State agencies shall collect, classify, maintain, and report all information required by this Act on a fiscal year basis. Agencies shall file, as public information and by January 1, 1993 and each year thereafter, a copy of all reports required by this Act with the Office of the Secretary of State, and shall submit an annual report to the Governor.” Furthermore, according to the Act (5 ILCS 410/10(e)), “‘Professional employee’ means a person employed to perform employment duties requiring academic training, evidenced by a graduate or advanced degree from an accredited institution of higher education, and who, in the performance of those employment duties, may only engage in active practice of the

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

academic training received when licensed or certified by the State of Illinois.”

- The Department failed to submit their required 2014 and 2015 Agency Fee Imposition Reports to the Office of the Comptroller. The State Comptroller Act (15 ILCS 405/16.2) requires State agencies that impose fees to file the Agency Fee Imposition Report with the Comptroller. The Comptroller’s Office has an Internet-based Agency Fee Imposition Reporting System; all agencies must submit their reports to the Comptroller’s Office using this system by August 1 of each year.
- The Department failed to submit annual reports for 2014 and 2015 regarding the work of the Lottery Control Board (Board). The Illinois Lottery Law (20 ILCS 1605/7.8) states: “[t]he Department shall make an annual report regarding the work of the Board to the Governor, the Speaker of the House, the President of the Senate, and the minority leaders of both houses, such report to be a public report.”

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that “resources are utilized efficiently, effectively, and in compliance with applicable law.” Establishing and maintaining a system of internal controls ensuring effective use of resources includes compliance with applicable laws and appropriate submission of required reports.

In discussing these conditions with Department management, they indicated that the exceptions were due to ineffective oversight.

Failure to submit the required reports and documentation results in noncompliance with the applicable statutory requirements, and diminishes oversight and communication to those charged with governance. (Finding Code No. 2015-007, 2013-006)

Recommendation:

We recommend the Department comply with the applicable statutory requirements and submit the required reports, and documentation as required, and implement internal control procedures to ensure compliance.

Lottery Response:

The Department agrees and will review current processes and procedures to ensure all required reports and documentation are submitted timely.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

Finding 2015-008 Inadequate Controls over Property and Equipment

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

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

- During testing over five property addition transactions (totaling \$16,074), auditors noted that two transactions (totaling \$5,775) were not reported in the appropriate fiscal year. Both transactions were identified to have occurred in the fiscal year prior to when they were reported. Property additions reported to the Comptroller on C-15 Reports totaled \$43,432 and \$7,498 for the years ended June 30, 2014 and 2015, respectively.
- During testing over five property disposals/transfers (totaling \$101,411), auditors noted that two transactions (totaling \$16,757) were reported as disposals, when in fact the two transactions were to remove and then re-enter the items so new property tags could be issued / recorded. The resulting effect of the transactions was an overstatement of disposals reported during the examination period. Property disposals/net transfers reported to the Comptroller on C-15 Reports totaled \$530,141 and \$87,352 for the years ended June 30, 2014 and 2015, respectively.
- During property inventory floor-to-sheet examination procedures over ten pieces of equipment, auditors noted that one piece of equipment was not appropriately included within the Department’s property records. In addition, a fax machine was marked with a Department property tag with a unique six digit identification number, but was not listed in the Department’s property records.
- During testing of one multi-year lease contract (total contract value of \$93,161), auditors noted that the Department did not prepare, and submit to the Comptroller’s Office, Form SCO-560 “Accounting for Leases-Lessee.” Auditors noted only one new/amended multiple period lease filed with the Comptroller’s Office during the examination period.

The Statewide Accounting Management System (SAMS) Manual (Procedure 29.10.10) notes that purchased assets should generally be included on the “Agency Report of State Property” (C-15 Report) in the quarter the assets were received.

As noted in the State Property Control Act (Act) (30 ILCS 605/6.02), “Each responsible officer shall maintain a permanent record of all items of property under his jurisdiction and control, provided the administrator may exempt tangible personal property of nominal value or in the nature of consumable supplies...”

The SAMS Manual (Procedure 27.20.60) requires agencies to prepare Form SCO-560 on a transaction by transaction basis as new lease agreements are initiated and sent to the Comptroller’s Office. Form SCO-560 must be prepared for installment purchases and for multiple-period or multiple-year contracts with a transaction code of 38 (Other Lease-External Vendor), 39 (Other Lease-State Agency) or 31 (Leases for Rental of Real Property) in which the asset being leased has a fair market value greater than \$5,000.

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Current Findings – *State Compliance*

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

In discussing these conditions with Department management, they indicated that the conditions identified were a result of limitations of the inventory system utilized by Lottery, employee oversight, and inventory and lease management practices that don’t align with statutory requirements.

Failure to accurately record property and equipment transactions in a timely manner may cause inaccuracies in State property and equipment reporting. (Finding Code No. 2015-008, 2013-007)

Recommendation:

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

Lottery Response:

The Department agrees and will review current procedures to ensure property and equipment records are maintained in compliance with applicable statutes, administrative rules, and SAMS procedures.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Schedule of Findings
For the two years ended June 30, 2015
Prior Finding Not Repeated

A. Prior Finding (Weaknesses in the General IT Control Environment over Key Systems)

During the prior year engagement, it was noted the State of Illinois Department of the Lottery (the Department) had not implemented a sufficient level of controls over its computing environment to ensure protection from unauthorized access.

Testing performed during the current engagement identified improvements in the Department's controls over its computing environment such that it was no longer considered a significant deficiency. As a result, the prior finding was not repeated. (Finding Code No. 2014-002, 2013-002, 12-02)

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY**

Supplementary Information for State Compliance Purposes Summary

For the Two Years Ended June 30, 2015

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

Fiscal Schedules and Analysis:

Schedule #

- 1 Schedules of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2015
- 2 Schedules of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2014
- 3 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
- 4 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances by Detail Object Code
- 5 Schedule of Receipts, Disbursements, and Fund Balance (Cash Basis) – Locally-Held Funds
- 6 Schedules of Changes in State Property
- 7 Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
- 8 Analysis of Significant Variations in Expenditures
- 9 Analysis of Significant Variations in Cash Receipts
- 10 Analysis of Significant Lapse Period Expenditures
- 11 Analysis of Significant Account Balances
- 12 Analysis of Accounts Receivable

Analysis of Operations:

Department Functions and Planning Program (Unaudited)
Average Number of Employees (Unaudited)
Service Efforts and Accomplishments (Unaudited)

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

The Independent Auditors' Report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
Appropriations for Fiscal Year 2015
Fourteen Months Ended August 31, 2015

Schedule 1

Public Acts 98-0679

<u>Appropriated Funds</u> <u>State Lottery Fund - 711</u>	Appropriations (Net of Transfers)	Expenditures Through June 30, 2015	Lapse Period Expenditures July 1 to August 31, 2015	Total Expenditures 14 Months Ended August 31, 2015	Balances Lapse August 31, 2015
Personal Services	\$ 11,836,500	\$ 7,970,474	\$ 532,278	\$ 8,502,752	\$ 3,333,748
Retirement System	5,011,500	3,381,556	225,663	3,607,219	1,404,281
Social Security	908,500	579,297	39,319	618,616	289,884
Group Insurance	4,025,000	2,274,708	111,134	2,385,842	1,639,158
Contractual Services	6,185,300	2,448,598	250,776	2,699,374	3,485,926
Travel	100,000	40,170	2,676	42,846	57,154
Commodities	50,000	35,478	1,448	36,926	13,074
Printing	15,000	4,843	6,781	11,624	3,376
Equipment	450,000	2,000	3,114	5,114	444,886
Electronic Data Processing	4,350,200	2,323,481	180,283	2,503,764	1,846,436
Telecommunications Services	464,000	177,706	39,048	216,754	247,246
Operation of Auto Equipment	376,000	100,529	72,166	172,695	203,305
Expenses of Lottery Games	192,800,000	50,284,009	81,268,972	131,552,981	61,247,019
Expenses of Lottery Board	8,300	300	-	300	8,000
Payment/Winning Lottery Tickets	1,000,000,000	588,447,623	199,133,416	787,581,039	212,418,961
Refunds	100,000	42,043	5,148	47,191	52,809
Shared Services Center	269,200	236,221	18,997	255,218	13,982
Total Appropriated Funds	\$ 1,226,949,500	\$ 658,349,036	\$ 281,891,219	\$ 940,240,255	\$ 286,709,245
<hr/>					
Non-Appropriated Funds					
State Lottery Fund - 711					
Deposit Into Capital Projects Fund		\$ 8,000,000	\$ -	\$ 8,000,000	
<hr/>					
Deferred Prize Winners Fund - 978					
Deferred Payment Prizes Winning Tickets		39,773,619	-	39,773,619	
Total Non-Appropriated Funds		47,773,619	0	47,773,619	
Department Total-All Funds		\$ 706,122,655	\$ 281,891,219	\$ 988,013,874	

Notes:

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

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
Appropriations for Fiscal Year 2014
Fourteen Months Ended August 31, 2014

Schedule 2

Public Acts 98-0064

<u>Appropriated Funds</u> <u>State Lottery Fund - 711</u>	Appropriations (Net of Transfers)	Expenditures Through June 30, 2014	Lapse Period Expenditures July 1 to August 31, 2014	Total Expenditures 14 Months Ended August 31, 2014	Balances Lapse August 31, 2014
Personal Services	\$ 11,836,500	\$ 8,097,240	\$ 326,530	\$ 8,423,770	\$ 3,412,730
Retirement System	4,771,500	3,269,725	131,888	3,401,613	1,369,887
Social Security	908,500	587,126	23,698	610,824	297,676
Group Insurance	4,025,000	2,494,178	113,256	2,607,434	1,417,566
Contractual Services	7,185,300	3,185,589	540,693	3,726,282	3,459,018
Travel	135,000	50,769	10,457	61,226	73,774
Commodities	50,000	22,224	4,563	26,787	23,213
Printing	29,800	5,151	6,416	11,567	18,233
Equipment	850,000	4,252	5,141	9,393	840,607
Electronic Data Processing	5,350,200	2,907,356	137,220	3,044,576	2,305,624
Telecommunications Services	964,000	219,971	38,845	258,816	705,184
Operation of Auto Equipment	376,000	107,165	133,460	240,625	135,375
Expenses of Lottery Games	192,800,000	56,512,414	-	56,512,414	136,287,586
Expenses of Lottery Board	8,300	1,332	-	1,332	6,968
Payment/Winning Lottery Tickets	1,000,000,000	412,980,300	100,533,633	513,513,933	486,486,067
Refunds	100,000	9,544	963	10,507	89,493
Shared Services Center	535,700	428,893	22,903	451,796	83,904
Total Appropriated Funds	\$ 1,229,925,800	\$ 490,883,229	\$ 102,029,666	\$ 592,912,895	\$ 637,012,905
<hr/>					
Non-Appropriated Funds					
State Lottery Fund - 711					
Deposit Into Capital Projects Fund		145,000,000	-	145,000,000	
<hr/>					
Deferred Prize Winners Fund - 978					
Deferred Payment Prizes Winning Tickets		49,389,494	-	49,389,494	
Total Non-Appropriated Funds		194,389,494	-	194,389,494	
Department Total-All Funds		\$ 685,272,723	\$ 102,029,666	\$ 787,302,389	

Notes:

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

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPARATIVE SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
Budget years of fiscal 2015, 2014, and 2013

Schedule 3

	Fiscal Year		
	2015	2014	2013
	P.A. 98-0679	P.A. 98-0064	P.A. 97-0727
State Lottery Fund - 711			
Appropriations (Net of Transfers)	\$ 1,226,949,500	\$ 1,229,925,800	\$ 1,042,044,300
<u>Expenditures</u>			
Personal Services	\$ 8,502,752	\$ 8,423,770	\$ 8,545,914
Retirement System	3,607,219	3,401,613	3,251,843
Social Security	618,616	610,824	626,781
Group Insurance	2,385,842	2,607,434	3,040,436
Contractual Services	2,699,374	3,726,282	2,349,307
Travel	42,846	61,226	56,510
Commodities	36,926	26,787	36,356
Printing	11,624	11,567	8,548
Equipment	5,114	9,393	5,600
Electronic Data Processing	2,503,764	3,044,576	3,375,980
Telecommunications Services	216,754	258,816	196,258
Operation of Auto Equipment	172,695	240,625	257,367
Expenses of Lottery Games	131,552,981	56,512,414	123,493,310
Expenses of Lottery Board	300	1,332	1,165
Payment/Winning Lottery Tickets	787,581,039	513,513,933	459,033,855
Refunds	47,191	10,507	17,567
Shared Services Center	255,218	451,796	387,424
Total Expenditures	\$ 940,240,255	\$ 592,912,895	\$ 604,684,221
Lapsed Balances	\$ 286,709,245	\$ 637,012,905	\$ 437,360,079
<u>State Officers' Salaries</u>			
Appropriations (Net of Transfers)	\$ 142,000	\$ 142,000	\$ 284,000
<u>Expenditures</u>			
Director	135,840	142,000	142,000
Lapsed Balance	\$ 6,160	\$ -	\$ 142,000

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES BY DETAIL OBJECT CODE
For the Fiscal Years Ended June 30, 2015, 2014, and 2013

Schedule 4

	Fiscal Year		
	2015	2014	2013
	P.A. 98-0679	P.A. 98-0064	P.A. 97-0727
APPROPRIATED FUNDS			
Appropriations (Net of Transfers)	\$ 1,226,949,500	\$ 1,229,925,800	\$ 1,042,044,300
Expenditures			
Regular Payroll	10,000,468	9,910,280	9,826,420
Contractual Payroll Employees	17,271	3,825	-
Other Personal Services	200	900	800
State Contributions to State Employers' Retirement System	4,244,368	3,969,654	3,741,045
State Contributions to Social Security/Medicare	728,438	715,060	722,028
State Contributions to Social Security/Medicare - Contractual Employees	1,321	156	-
State Contributions to Group Insurance	2,722,483	2,933,574	3,432,739
Contractual Services	134,396,883	61,228,223	127,831,130
Travel	42,845	61,226	56,510
Purchase of Investments	120,469,111	151,652,907	134,843,471
Printing	11,624	11,568	8,548
Commodities	36,991	26,762	36,356
Equipment	5,114	9,392	5,600
Electronic Data Processing	14,567	17,536	23,560
Telecommunications	216,755	259,648	198,226
Operation of Automotive Equipment	172,695	240,625	257,367
Interest Penalty - Prompt Payment Act	-	25	-
Lottery Prizes	667,111,928	361,861,026	323,682,854
Refunds	47,191	10,506	17,567
Total Expenditures	<u>940,240,253</u>	<u>592,912,893</u>	<u>604,684,221</u>
Lapsed Balances	<u>\$ 286,709,247</u>	<u>\$ 637,012,907</u>	<u>\$ 437,360,079</u>
NON-APPROPRIATED FUNDS			
Expenditures			
Interfund Cash Transfers	8,000,000	145,000,000	135,000,000
Lottery Prizes	39,773,619	49,389,494	57,839,434
	<u>\$ 47,773,619</u>	<u>\$ 194,389,494</u>	<u>\$ 192,839,434</u>
GRAND TOTAL - ALL FUNDS	<u>\$ 988,013,872</u>	<u>\$ 787,302,387</u>	<u>\$ 797,523,655</u>

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCE
(CASH BASIS) - LOCALLY-HELD FUNDS
Budget years of fiscal 2015, 2014, and 2013

Schedule 5

<u>Fund Name/ Fund Number</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Agent Security Deposit (1309)			
Beginning Cash Balance- July 1,	\$ 1,062,145	\$ 955,283	\$ 936,402
Receipts:			
Fund Transfers-In	437,944	374,112	405,059
Investment Income	175	171	681
Miscellaneous	36,974	62,936	1,019,703
Disbursements:			
Refunds	616,654	330,357	1,406,562
Ending Cash Balance- June 30,	<u>920,584</u>	<u>1,062,145</u>	<u>955,283</u>
Prize Payment Fund (1279)			
Beginning Cash Balance- July 1,	6,674,264	7,328,024	2,027,469
Receipts:			
Fund Transfers-In	125,118,903	106,499,373	116,947,142
Disbursements:			
Awards or Grants	124,429,375	107,142,115	111,646,587
Other- Bank Fees & Tax Penalties	65,746	11,018	-
Ending Cash Balance- June 30,	<u>7,298,046</u>	<u>6,674,264</u>	<u>7,328,024</u>
Agent Sales Sweep Account (1373)			
Beginning Cash Balance- July 1,	7,477,625	7,447,560	7,513,001
Receipts:			
Other- Lottery Sales, net	1,248,079,738	1,280,693,265	1,330,626,178
Disbursements:			
Fund Transfers-Out	1,247,571,906	1,280,663,200	1,330,691,619
Ending Cash Balance- June 30,	<u>7,985,457</u>	<u>7,477,625</u>	<u>7,447,560</u>
Agent Sales Concentration Account (1374)			
Beginning Cash Balance- July 1,	2,730,530	2,548,199	2,548,008
Receipts:			
Fund Transfers-In	477,664,988	1,280,663,200	1,330,691,619
Other-Lottery Sales, net	8,657,281	19,738,140	11,271,792
Disbursements:			
Fund Transfers-Out	489,052,799	1,300,219,009	1,341,963,220
Ending Cash Balance- June 30,	<u>\$ -</u>	<u>\$ 2,730,530</u>	<u>\$ 2,548,199</u>

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
SCHEDULE OF CHANGES IN STATE PROPERTY
For the year ended June 30, 2015 and 2014
(In Thousands)

Schedule 6

	Balance July 1, 2014	Additions	Deletions	Net Transfers	Balance June 30, 2015
Equipment	\$ 1,935	\$ 8	\$ 2	\$ (86)	\$ 1,855
Total	<u>\$ 1,935</u>	<u>\$ 8</u>	<u>\$ 2</u>	<u>\$ (86)</u>	<u>\$ 1,855</u>

	Balance July 1, 2013	Additions	Deletions	Net Transfers	Balance June 30, 2014
Equipment	\$ 2,421	\$ 44	\$ 97	\$ (433)	\$ 1,935
Total	<u>\$ 2,421</u>	<u>\$ 44</u>	<u>\$ 97</u>	<u>\$ (433)</u>	<u>\$ 1,935</u>

Notes:

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

(b) This summary schedule was prepared using State property records required by the Illinois Administrative Code (Code). The capitalization policy in the Code is different than the capitalization policy established by the Office of the State Comptroller for financial reporting in accordance with generally accepted accounting principles.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION
OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the years ended June 30, 2015 and 2014

<u>FUND/ TAX SOURCE</u>	<u>FUND</u>	<u>2015</u>	<u>2014</u>
Special Olympics Illinois and Special Children's Charities Fund	0073	\$ 879,398	\$ -
Carolyn Adams Ticket for the Cure Grant Fund	0208	598,898	546,663
Illinois Veterans Assistance Fund	0236	913,366	654,804
Multiple Sclerosis Research Fund	0429	686,415	488,011
Quality of Life Endowment Fund	0437	538,976	566,147
Capital Projects Fund	0694	8,000,000	145,000,000
State Lottery	0711	1,585,454,522	1,338,327,971
Deferred Lottery Prize Winners Trust Fund	0978	39,931,000	49,930,904
Total Receipts Collected by the Department		<u>\$ 1,637,002,575</u>	<u>\$ 1,535,514,500</u>
Items not considered Collection by the Department:			
Add: deposits in transit, beginning of year		\$ -	\$ -
Less: deposits in transit, end of year		\$ (60,200)	\$ -
Total of items not considered Collection by the Department		<u>\$ (60,200)</u>	<u>\$ -</u>
Total Deposit into the State Treasury		<u><u>\$ 1,636,942,375</u></u>	<u><u>\$ 1,535,514,500</u></u>

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIANCE IN EXPENDITURES
For the years ended June 30, 2015 and 2014

Schedule 8

	Fund	June 30		Increase (decrease)	Percentage change	Notes
		2015	2014			
Personal Services	711	\$ 8,502,752	\$ 8,423,770	\$ 78,982	1%	
Retirement System	711	3,607,219	3,401,613	205,606	6%	
Social Security	711	618,616	610,824	7,792	1%	
Group Insurance	711	2,385,842	2,607,434	(221,592)	-8%	
Contractual Services	711	2,699,374	3,726,282	(1,026,908)	-28%	
Travel	711	42,846	61,226	(18,380)	-30%	
Commodities	711	36,926	26,787	10,139	38%	
Printing	711	11,624	11,567	57	0%	
Equipment	711	5,114	9,393	(4,279)	-46%	
Electronic Data Processing	711	2,503,764	3,044,576	(540,812)	-18%	
Telecommunications Services	711	216,754	258,816	(42,062)	-16%	
Operation of Auto Equipment	711	172,695	240,625	(67,930)	-28%	
Expenses of Lottery Games	711	131,552,981	56,512,414	75,040,567	133%	Note 1
Expenses of Lottery Board	711	300	1,332	(1,032)	-100%	
Deposit Into Capital Projects Fund	711	8,000,000	145,000,000	(137,000,000)	-94%	Note 2
Payment/Winning Lottery Tickets	711	787,581,039	513,513,933	274,067,106	53%	Note 3
Refunds	711	47,191	10,507	36,684	349%	
Deferred Payment Prizes Winning Tickets	978	39,773,619	49,389,494	(9,615,875)	-19%	
Shared Services Center	711	255,218	451,796	(196,578)	-44%	
		\$ 988,013,874	\$ 787,302,389			

Significant fluctuations are deemed to be those >+/- \$10,000,000 and >+/-10%.

Note 1 Penalties charged to the private manager in FY14 reduced the expense and resulted in an increase to Lottery Game expenditures for FY15.

Note 2 Lower net income mainly due to no chargeback of penalties to the private manager in FY15 resulted in the decrease in the transfer to the Capital Projects Fund.

Note 3 FY15 expenditures include a large Mega Millions winner from Illinois.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIANCE IN EXPENDITURES
For the years ended June 30, 2014 and 2013

Schedule 8 (Continued)

	Fund	June 30		Increase (decrease)	Percentage change	Notes
		2014	2013			
Personal Services	711	\$ 8,423,770	\$ 8,545,914	\$ (122,144)	-1%	
Retirement System	711	3,401,613	3,251,843	149,770	5%	
Social Security	711	610,824	626,781	(15,957)	-3%	
Group Insurance	711	2,607,434	3,040,436	(433,002)	-14%	
Contractual Services	711	3,726,282	2,349,307	1,376,975	59%	
Travel	711	61,226	56,510	4,716	8%	
Commodities	711	26,787	36,356	(9,569)	-26%	
Printing	711	11,567	8,548	3,019	35%	
Equipment	711	9,393	5,600	3,793	68%	
Electronic Data Processing	711	3,044,576	3,375,980	(331,404)	-10%	
Telecommunications Services	711	258,816	196,258	62,558	32%	
Operation of Auto Equipment	711	240,625	257,367	(16,742)	-7%	
Expenses of Lottery Games	711	56,512,414	123,493,310	(66,980,896)	-54%	Note 1
Expenses of Lottery Board	711	1,332	1,165	167	-100%	
Deposit Into Capital Projects Fund	711	145,000,000	135,000,000	10,000,000	7%	
Payment/Winning Lottery Tickets	711	513,513,933	459,033,855	54,480,078	12%	Note 2
Refunds	711	10,507	17,567	(7,060)	-40%	
Deferred Payment Prizes Winning Tickets	978	49,389,494	57,839,434	(8,449,940)	-15%	
Shared Services Center	711	451,796	387,424	64,372	17%	
		<u>\$ 787,302,389</u>	<u>\$ 797,523,655</u>			

Significant fluctuations are deemed to be those >+/- \$10,000,000 and >+/-10%.

Note 1 Penalties charged back to the private manager in FY14 reduced the expense.

Note 2 FY14 prize payments increased due to more higher tier prizes being paid.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT VARIATIONS IN CASH RECEIPTS
For the years ended June 30, 2015 and 2014

<u>FUND DESCRIPTION</u>	FUND	2015	2014	Increase (decrease)	Percentage change	Notes
Special Olympics Illinois and Special Children's Charities Fund	0073	\$ 879,398	\$ -	\$ 879,398	100%	
Carolyn Adams Ticket for the Cure Grant Fund	0208	598,898	546,663	52,235	10%	
Illinois Veterans Assistance Fund	0236	913,366	654,804	258,562	39%	
Multiple Sclerosis Research Fund	0429	686,415	488,011	198,404	41%	
Quality of Life Endowment Fund	0437	538,976	566,147	(27,171)	-5%	
Capital Projects Fund	0694	8,000,000	145,000,000	(137,000,000)	100%	Note 1
State Lottery	0711	1,585,454,522	1,338,327,971	247,268,573	18%	Note 2
Deferred Lottery Prize Winners Trust Fund	0978	39,931,000	49,930,904	(9,999,904)	-20%	
Total Receipts Collected by the Department		<u>\$ 1,637,002,575</u>	<u>\$ 1,535,514,500</u>	<u>\$ 101,488,075</u>	7%	

Significant fluctuations are deemed to be those >+/- \$10,000,000 and >+/-10%.

Note 1 20 ILCS 1605/9 of the State Lottery Act establishes the priority and manner in which Department proceeds of lottery tickets sold shall be distributed. After other required transfers are made, the Department must deposit any remaining proceeds into the Capital Projects Fund. Remaining proceeds were the result of lower net income mainly due to no chargeback of penalties to the private manager in FY15.

Note 2 The increase is due to significant cash deposits to Fund 711 from other states in order to fund the Illinois Mega Millions winner paid in FY15.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT LAPSE PERIOD EXPENDITURES
For the years ended June 2015 and 2014

Schedule 10

	Fund	Lapse Period			Lapse Period		
		Expenditures	Total Expenditures	Percentage	Expenditures	Total Expenditures	Percentage
		July 1 to August 31, 2015	14 Months Ended August 31, 2015		July 1 to August 31, 2014	14 Months Ended August 31, 2014	
Personal Services	711	\$ 532,278	\$ 8,502,752	6.3%	\$ 326,530	\$ 8,423,770	3.9%
Retirement System	711	225,663	3,607,219	6.3%	131,888	3,401,613	3.9%
Social Security	711	39,319	618,616	6.4%	23,698	610,824	3.9%
Group Insurance	711	111,134	2,385,842	4.7%	113,256	2,607,434	4.3%
Contractual Services	711	250,776	2,699,374	9.3%	540,693	3,726,282	14.5%
Travel	711	2,676	42,846	6.2%	10,457	61,226	17.1%
Commodities	711	1,448	36,926	3.9%	4,563	26,787	17.0%
Printing	711	6,781	11,624	58.3%	6,416	11,567	55.5%
Equipment	711	3,114	5,114	60.9%	5,141	9,393	-
Electronic Data Processing	711	180,283	2,503,764	7.2%	137,220	3,044,576	4.5%
Telecommunications Services	711	39,048	216,754	18.0%	38,845	258,816	15.0%
Operation of Auto Equipment	711	72,166	172,695	41.8%	133,460	240,625	55.5%
Expenses of Lottery Games	711	81,268,972	131,552,981	61.8%	-	56,512,414	0.0%
Expenses of Lottery Board	711	-	300	0.0%	-	1,332	-
Payment/Winning Lottery Tickets	711	199,133,416	787,581,039	25.3%	100,533,633	513,513,933	19.6%
Refunds	711	5,148	47,191	10.9%	963	10,507	9.2%
Shared Services Center	711	18,997	255,218	7.4%	22,903	451,796	5.1%
		<u>\$ 281,891,219</u>	<u>\$ 940,240,255</u>		<u>\$ 102,029,666</u>	<u>\$ 592,912,895</u>	

Note 1 FY15 lapse period expenditures were mainly penalties charged to the private manager.

Note 2 No payments were made to the private manager during FY14 lapse period.

Note 3 An Illinois Mega Millions winner was paid during FY15 lapse period.

Note 4 The payments made during lapse period are due to more high tier prize winners and settlements sent to Virginia for out-of-State winners.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For the years ended June 30, 2015 and 2014

Schedule 11

ACCOUNT NAME	2015	2014	Increase (decrease)	Percentage change	Notes
Prizes and Claims Expense (Fund 711)	\$ 1,823,572,000	\$ 1,749,177,000	\$ 74,395,000	4.3%	
Transfers-Out (Fund 711)	743,905,000	777,440,000	(33,535,000)	-4.3%	Note 1
Cost of Sales and Services	161,607,000	159,124,000	2,483,000	1.6%	
Accounts Payable - General	82,259,000	37,533,000	44,726,000	119.2%	Note 2
Cash Equity in State Treasury (Fund 711)	245,963,000	107,193,000	138,770,000	129.5%	Note 3
Investments (Fund 978)	301,277,000	296,250,000	5,027,000	1.7%	
Due to/from Other State Funds (Fund 711)	60,803,000	6,930,000	53,873,000	777.4%	Note 4
Ticket Sales, Instant	1,821,649,000	1,757,435,000	64,214,000	3.7%	

Note 1 Decrease of \$33,535,000, or 4.3%, relates to the decrease in net income.

Note 2 Increase of \$44,726,000, or 119.2%, mainly relates to delayed payments to the private manager resulting from negotiations.

Note 3 Increase of \$138,770,000, or 129.5%, was due to delayed payments to the private manager resulting from negotiations.

Note 4 The account is a function of the difference in the cash amounts transferred based on estimated net operating income and the actual net operating income once all post closing entries are made. Fluctuations are anticipated due to the inherent nature of the account. The increase of \$53,873,000, or 777.4%, is mainly due to a true-up relating to the private manager penalty payments.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For the years ended June 30, 2014 and 2013

Schedule 11 (Continued)

<u>ACCOUNT NAME</u>	<u>2014</u>	<u>2013</u>	<u>Increase (decrease)</u>	<u>Percentage change</u>	<u>Notes</u>
Prizes and Claims Expense (Fund 711)	\$ 1,749,177,000	\$ 1,743,686,000	\$ 5,491,000	0.3%	
Transfers-Out (Fund 711)	777,440,000	819,390,000	(41,950,000)	-5.1%	Note 1
Cost of Sales and Services	159,124,000	163,966,000	(4,842,000)	-3.0%	
Accounts Payable - General	37,533,000	52,454,000	(14,921,000)	-28.4%	Note 2
Cash Equity in State Treasury (Fund 711)	107,193,000	116,847,000	(9,654,000)	-8.3%	
Investments (Fund 978)	296,250,000	312,785,000	(16,535,000)	-5.3%	
Due to/from Other State Funds (Fund 711)	6,930,000	44,449,000	(37,519,000)	-84.4%	Note 3
Ticket Sales, Instant	1,757,435,000	1,768,382,000	(10,947,000)	-0.6%	

Note 1 Decrease of \$41,950,000, or 5.1%, was a result of lower net income to transfer mainly due to lower sales and chargeback of penalties to the private manager.

Note 2 Decrease of \$14,921,000, or 28.4%, due to vendor invoices being submitted more timely at year-end for FY14.

Note 3 Decrease of \$37,519,000, or 84.4%, due to the estimate of net income for transfers being closer to actual in FY14.

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
ANALYSIS OF ACCOUNTS RECEIVABLE
For the years ended June 30, 2015 and 2014
(in Thousands)

Schedule 12

	2015	2014
<u>Not in Protest</u>		
<u>Current:</u>	\$ 31,670	\$ 22,731
<u>Past Due:</u>		
1 to 90 days	300	711
91 to 180 days	312	797
Greater than 180 days	19,377	16,458
<u>Total Past Due</u>	\$ 19,989	\$ 17,966
Gross Receivables	\$ 51,659	\$ 40,697
Estimated Uncollectible	\$ 15,798	\$ 13,839
Total Net Receivables	\$ 35,861	\$ 26,858

See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
DEPARTMENT FUNCTIONS AND PLANNING PROGRAM
For the years ended June 30, 2015 and 2014
(Unaudited)

General Operations

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

Department Functions

Divisions of the Department

Operations and Technology - The electronic data processing and information systems operations of the Lottery are comprised of five primary components: managing the use of back-office support systems, oversight of a gaming system supplied and operated by an outside vendor pursuant to contract, managing and operating an internal control system (ICS) supplied by an outside vendor pursuant to contract, conducting primary lottery drawings, and managing the logical security for all Lottery-owned infrastructure. The in-house functions are performed by the Lottery's Information Technology Section and Department of Central Management Services (CMS), although the Lottery did utilize some Department of Revenue facilities and services such as servers and LAN administration pursuant to an Intergovernmental Agreement ("IGA") through August 2013.

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

Finance - Collects, deposits and transfers, as required by law, all lottery proceeds; pays prize winners, develops and distributes reports; and coordinates support services, including annual budget process, accounting, personnel and data processing.

Mission Statement:

To raise money for education, capital projects and other worthy causes by growing sales in a socially responsible manner, while ensuring all Lottery operations adhere to the highest standards of security and public accountability.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
DEPARTMENT FUNCTIONS AND PLANNING PROGRAM
For the years ended June 30, 2015 and 2014
(Unaudited)

Program Goals and Objectives:

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

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

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

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

Unaudited - See accompanying independent accountants' report.

**STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
AVERAGE NUMBER OF EMPLOYEES
For the years ended June 30, 2015, 2014, and 2013
(Unaudited)**

<u>DIVISION</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operations	54	50	56
Employee Use Agreement	71	71	77
Electronic Data Processing	15	17	17
Lottery Interagency Agreement	1	1	1
Shared Services Center	4	5	4
Total Department	<u>145</u>	<u>144</u>	<u>155</u>

Unaudited - See accompanying independent accountants' report.

STATE OF ILLINOIS
DEPARTMENT OF THE LOTTERY
PERFORMANCE MEASURES
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the years ended June 30, 2015 and 2014
(Unaudited)

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Outcome Indicators:			
Prizes paid (in millions)	\$ 1,743.0	\$ 1,699.6	\$ 43.4
Retailer & vendor commissions (in millions)	\$ 161.6	\$ 159.1	\$ 2.5
Transfers to Common School Fund (in millions)	\$ 678.6 A	\$ 668.1 A	\$ 10.5
Output Indicators:			
Sales (in millions)	\$ 2,837.8 B	\$ 2,802.3 B	\$ 35.5
Input Indicators:			
Expense of operations (in millions)	\$ 147.1	\$ 156.5	\$ (9.4)
Number of personnel	145 C	144 C	1
Efficiency/Cost-Effectiveness:			
Percentage of sales needed for other operating expenses	5.2%	5.6%	-0.4%
Percentage of sales transferred to Common School Fund	23.9%	23.8%	0.1%
Percentage of sales paid in prizes	61.4%	60.7%	0.8%
Percentage of sales paid as retailer & vendor commissions	5.7%	5.7%	0.0%

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

(B) Amount includes free tickets.

(C) Total number of personnel on June 30.

Unaudited - See accompanying independent accountants' report.