



**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Compliance Examination

Two Years Ended June 30, 2017

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, 2017

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**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

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**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Compliance Examination

For the Two Years Ended June 30, 2017

**AGENCY OFFICIALS**

Director (Acting) (10/24/16 – Present)	Mr. Greg Smith
Director (Acting) (06/11/16 – 10/23/16)	Mr. Tim McDevitt
Director (Acting) (07/01/15 – 06/10/16)	Ms. B.R. Lane
Deputy Director	Vacant
Chief of Staff (12/22/17 – Present)	Vacant
Chief of Staff (07/01/16 – 12/21/17)	Ms. Jayme Odom
Chief Financial Officer (09/25/17 – Present)	Ms. Carol Radwine
Chief Financial Officer (07/01/17 – 09/24/17)	Vacant
Chief Financial Officer (05/18/16 – 06/30/17)	Mr. Mark Lewis
Chief Financial Officer (Acting) (12/19/15 – 05/17/16)	Mr. Brett Finley
Chief Financial Officer (07/01/15 – 12/18/15)	Mr. Christian Froelich
General Counsel (04/17/17 – Present)	Ms. Annice Kelly
General Counsel (Acting) (02/23/17 – 04/16/17)	Ms. Rana Janney
General Counsel (07/01/15 – 02/22/17)	Ms. Nellie Viner
Chief Transition Officer	Vacant
Chief Operations Officer	Mr. Harold Mays
Chief Internal Auditor (06/16/17 – Present)	Mr. Darick Clark
Chief Internal Auditor (04/15/17 – 06/15/17)	Vacant
Chief Internal Auditor (07/01/15 – 04/14/17)	Ms. Amy DeWeese

**LOTTERY CONTROL BOARD MEMBERS**

Chair (02/01/18 – Present)	Vacant
Chair (07/01/15 – 01/31/18)	Mr. Jonathan “Blair” Garber
Member	Ms. Elba Aranda-Suh
Member (06/20/16 – Present)	Ms. Haydee Olinger
Member (07/01/15 – 06/19/16)	Vacant
Member (03/20/17 – Present)	Mr. James Floyd
Member (07/01/15 – 03/19/17)	Vacant
Member	Vacant

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Compliance Examination

For the Two Years Ended June 30, 2017

The Department's offices are located at:

122 S. Michigan Avenue, 19<sup>th</sup> Floor  
Chicago, Illinois 60603

101 W. Jefferson Street  
Springfield, Illinois 62702



May 15, 2018

KPMG LLP  
200 E. Randolph Street, Suite 5500  
Chicago, Illinois 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 Department of the Lottery. 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 of the Lottery's compliance with the following assertions during the two-year period ended June 30, 2017. Based on this evaluation, and to the best of our knowledge, we assert that during the years ended June 30, 2016, and June 30, 2017, the Department of the Lottery has materially complied with the assertions below.

- A. The Department of the Lottery 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 of the Lottery 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 of the Lottery 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 of the Lottery 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 of the Lottery on behalf of the State or held in trust by the Department of the Lottery have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

In addition, we are aware of the following noncompliance matter which occurred during the period subsequent to June 30, 2017, which requires disclosure by management under the attestation standards established by the American Institute of Certified Public Accountants (AT-C § 205.48). On October 30, 2017, the State of Illinois' Chief Procurement Officer for General Services became aware of information suggesting one or more members of the Department of the Lottery's five person evaluation committee reviewing the technical response as part of the new Private Manager procurement may have had certain undisclosed conflicts of interest. On November 14, 2017, the State of Illinois retained outside legal counsel to investigate whether any of the evaluation committee members had a relationship creating an actual conflict of interest, a potential conflict of interest, or other impropriety. The investigation report made us aware of two evaluation committee members who did not disclose certain long-standing personal relationships with lobbyists from a potential awardee at the beginning of the process for evaluating the technical response for the new Private Manager procurement.

Yours truly,

Department of the Lottery

**SIGNED ORIGINAL ON FILE**

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Mr. Greg Smith, Director (Acting)

**SIGNED ORIGINAL ON FILE**

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Ms. Carol Radwine, Chief Financial Officer

**SIGNED ORIGINAL ON FILE**

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Ms. Annice Kelly, General Counsel

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Compliance Report Summary  
For the Two Years Ended June 30, 2017

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 a modified opinion on compliance and identifies material weaknesses in internal control over compliance.

**Summary of Findings**

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report*</u>
Findings	6	8
Repeated Findings	1	6
Prior recommendations implemented or not repeated	7	2

\*The prior report column contains findings related to the *Government Auditing Standards* findings from the Department's financial audit as of and for the year ended June 30, 2016, and state compliance only findings from the Department's state compliance examination for the two years ended June 30, 2015.

**SCHEDULE OF FINDINGS**

**FINDINGS (GOVERNMENT AUDITING STANDARDS)**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
2017-001	16	Noncompliance with the Illinois Lottery Law	Material Weakness and Noncompliance
2017-002	20	Inadequate Control Over Online Games Prize Liabilities	Significant Deficiency

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Compliance Report Summary  
For the Two Years Ended June 30, 2017

<b>Findings (State Compliance)</b>			
<b>Item No.</b>	<b>Page</b>	<b>Description</b>	<b>Finding Type</b>
2017-003	22	Inadequate Controls over Specialty Tickets	Material Weakness and Material Noncompliance
2017-004	25	Noncompliance with Reporting Requirements	Material Weakness and Material Noncompliance
2017-005	28	Noncompliance with Lottery Control Board Requirements	Significant Deficiency and Noncompliance
2017-006	30	Noncompliance with the Illinois Vehicle Code	Significant Deficiency and Noncompliance

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

<b>Item No.</b>	<b>Page</b>	<b>Description</b>	<b>Finding Type</b>
2017-001	16	Noncompliance with the Illinois Lottery Law	Material Weakness and Material Noncompliance
2017-002	20	Inadequate Control Over Online Games Prize Liabilities	Significant Deficiency and Noncompliance

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Compliance Report Summary  
For the Two Years Ended June 30, 2017

**Prior Findings Not Repeated (*Government Auditing Standards*)**

<b>Item No.</b>	<b>Page</b>	<b>Description</b>
A	31	Noncompliance with Illinois Lottery Law

**Prior Findings Not Repeated (*State Compliance*)**

<b>Item No.</b>	<b>Page</b>	<b>Description</b>
B	31	Inappropriate Prepayments to Fund Out-of-State Prize Payment Obligations
C	31	Noncompliance with the Illinois Lottery Law
D	31	Weaknesses Regarding the Security and Control of Confidential Information
E	31	Lack of Comprehensive Disaster Contingency Planning and Testing
F	32	Failure to Comply with the Fiscal Control and Internal Auditing Act and Other Required Reporting
G	32	Inadequate Controls over Property and Equipment

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Compliance Report Summary  
For the Two Years Ended June 30, 2017

**Exit Conferences**

The findings and recommendations appearing in this report were discussed with Department personnel at exit conferences on December 12, 2017, and February 14, 2018. Attending were:

**Department of the Lottery**

Greg Smith (Both)	Acting Director
Carol Radwine (Both)	Chief Financial Officer
Darick Clark (Both)	Chief Internal Auditor
Annice Kelly (Both)	General Counsel
Druanne Allen (Both)	Budget Manager
Amber Chappell (Both)	Finance Manager

**KPMG LLP**

Kurt Gabouer (Both)	Partner
Jane Kim (Both)	Manager
Brent Whitford (December Only)	Senior Associate

**Office of the Auditor General**

Daniel J. Nugent, CPA (Both)	Senior Audit Manager
Paul Usherwood, CPA (December Only)	Senior Audit Manager

The responses to the *Government Auditing Standards* recommendations were provided by Darick Clark, Chief Internal Auditor, in emails dated December 19, 2017, and December 21, 2017. The responses to the solely State Compliance recommendations were provided by Darick Clark, Chief Internal Auditor, in an email dated February 21, 2018.



KPMG LLP  
Aon Center  
Suite 5500  
200 E. Randolph Street  
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 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, 2017. The management of the State of Illinois, Department of the Lottery is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of the Lottery's compliance based on our examination.

- A. The State of Illinois, Department of the Lottery 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 State of Illinois, Department of the Lottery 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 State of Illinois, Department of the Lottery 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 State of Illinois, Department of the Lottery 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 State of Illinois, Department of the Lottery on behalf of the State or held in trust by the State of Illinois, Department of the Lottery 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 (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the State of Illinois, Department of the Lottery complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the State of Illinois, Department of the Lottery complied with the specified requirements listed above.



The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of the Lottery's compliance with specified requirements.

As described in items 2017-001, 2017-003, and 2017-004 in the accompanying schedule of findings and in the following paragraphs, the State of Illinois, Department of the Lottery did not comply with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

The State of Illinois, Department of the Lottery also did not comply with certain provisions of the Illinois Lottery Law during State Fiscal Year 2016. Specifically, the State of Illinois, Department of the Lottery deposited \$75 million of funds with the Commonwealth of Virginia for the purpose of paying prize awards attributable to Illinois sales of multi-state lottery game tickets that had not yet occurred. Additionally, the Commonwealth of Virginia still had \$10 million on deposit from prepayments previously made by the State of Illinois, Department of the Lottery in State Fiscal Year 2015. The deposit was returned to the State on December 16, 2015, at the State of Illinois, Department of the Lottery's request. As set forth in the Illinois Lottery Law, 20 ILCS 1605/9(h), "The Department is authorized to transfer prize award funds attributable to Illinois sales of multi-state lottery game tickets to the multi-state control office, or its designated depository, for deposit to such game pool account or accounts as may be established by the multi-state game directors..." The \$75 million in payments violated this provision as the payments represented prepayments for future prize liabilities.

The State of Illinois, Department of the Lottery's ability to pay prizes to Illinois players and the clearinghouse had been suspended effective July 1, 2015, by the lack of an approved State budget and the multi-state game groups were on the verge of terminating the State of Illinois, Department of the Lottery's authority to sell multi-state games which would have resulted in lost profits for the State. As a result, the State of Illinois, Department of the Lottery inappropriately established a non-appropriated spending authority to advance the funds to the Commonwealth of Virginia. As set forth in the Illinois Lottery Law, 20 ILCS 1605/9(h), "the Department shall not expend State funds on a contractual basis unless those functions and expenditures are expressly authorized by the General Assembly." The deposits made by the State of Illinois, Department of the Lottery in State Fiscal Year 2016 were not authorized by the General Assembly. In accordance with the practice of the Illinois Office of the Auditor General, the noncompliance with the Illinois Lottery Law was not included as a separate item in the accompanying schedule of findings because it was previously reported in item 2016-001 in our report dated January 10, 2017, 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*, as of and for the year ended June 30, 2016.

Compliance with the requirements described in items 2017-001, 2017-003, and 2017-004 and the requirements of the Illinois Lottery Law, 20 ILCS 1605/9(h), as discussed in the previous three paragraphs, is necessary, in our opinion, for the State of Illinois, Department of the Lottery to comply with the requirements listed in the first paragraph of this report during the two-year period ended June 30, 2017.

In our opinion, except for the noncompliance described in the preceding paragraphs, the State of Illinois, Department of the Lottery complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2017. However, the results of our procedures disclosed 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 2017-002, 2017-005, and 2017-006.

The State of Illinois, Department of the Lottery's responses to the findings identified in our examination are described in the accompanying schedule of findings. The State of Illinois, Department of the Lottery's



responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

### **Internal Control**

Management of the State of Illinois, Department of the Lottery 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 State of Illinois, Department of the Lottery'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 State of Illinois, Department of the Lottery's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of the Lottery's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2017-001, 2017-003, and 2017-004 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2017-002, 2017-005, and 2017-006 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 State of Illinois, Department of the Lottery's responses to the internal control findings identified in our examination are described in the accompanying schedule of findings. The State of Illinois, Department of the Lottery's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide,



issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

### **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 State of Illinois, Department of the Lottery as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2017, 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 State of Illinois, Department of the Lottery's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 22, 2017.

The accompanying supplementary information for the year ended June 30, 2017, in Schedules 1 and 3 through 7 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Department of the Lottery. 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, 2017, in Schedules 1 and 3 through 7 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, 2017, in Schedules 1 and 3 through 7 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2017.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the State of Illinois, Department of the Lottery's basic financial statements as of and for the year ended June 30, 2016, and have issued our report thereon dated January 10, 2017, which contained an unmodified opinion on those financial statements. The accompanying supplementary information for the year ended June 30, 2016, in Schedules 2 through 7 is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the June 30, 2016, financial statements. The accompanying supplementary information for the year ended June 30, 2016, in Schedules 2 through 7 has been subjected to auditing procedures applied in the audit of the June 30, 2016, 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 year ended June 30, 2016, in Schedules 2 through 7 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the State of Illinois, Department of the Lottery's basic financial statements as of and for the year ended June 30, 2015 (not presented herein), and have issued our report thereon dated January 15, 2016, which contained an unmodified opinion on those financial statements. The accompanying supplementary information for the year ended June 30, 2015, in Schedules 3 through 7 is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the June 30, 2015, financial statements. The accompanying supplementary information for the years ended June 30, 2015, in Schedules 3 through 7 has been subjected to auditing procedures applied in the audits of the June 30, 2015, 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, 2015, in Schedules 3 through 7 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

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

/s/KPMG LLP

**SIGNED ORIGINAL ON FILE**

Chicago, Illinois  
May 15, 2018



KPMG LLP  
Aon Center  
Suite 5500  
200 E. Randolph Street  
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, which comprise the statement of net position (deficit) as of June 30, 2017, 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, which collectively comprise the State of Illinois, Department of the Lottery's basic financial statements, and have issued our report thereon dated December 22, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Illinois, Department of the Lottery'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 State of Illinois, Department of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of the Lottery's internal control.

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

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Finding 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Finding 2017-002 to be a significant deficiency.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of the Lottery'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as Finding 2017-001.

## State of Illinois, Department of the Lottery's Responses to Findings

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Department of the Lottery'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 State of Illinois, Department of the Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/KPMG LLP

**SIGNED ORIGINAL ON FILE**

Chicago, Illinois  
December 22, 2017

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Schedule of Findings - *Government Auditing Standards*

For the Year Ended June 30, 2017

**Finding 2017-001      Noncompliance with the Illinois Lottery Law**

The Department of the Lottery (Department) did not transfer the required amount to the Capital Projects Fund (Fund 694), as required by the Illinois Lottery Law (Law), and did not properly disclose the noncurrent portion of the liabilities associated with not making the transfer in its financial statements.

During testing, the auditors noted the amount owed to Fund 694 from the State Lottery Fund (Fund 711) has grown to \$98.382 million. This amount has been steadily increasing since June 30, 2015, because the actual annual amount of cash transferred to Fund 694 from Fund 711 has been less than required by the Law. The following is an analysis of the actual transfers and cash deposits into Fund 694 and amounts due to Fund 694 (in thousands) over the past three fiscal years:

	Fiscal Year Ended June 30,		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Amount to Transfer into Fund 694	\$ 61,563	\$ 29,216	\$ 24,336
Actual Cash Deposits into Fund 694	<u>8,000</u>	<u>-</u>	<u>15,000</u>
Difference	<u>\$ 53,563</u>	<u>\$ 29,216</u>	<u>\$ 9,336</u>

	As of June 30,		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Due to Fund 694	<u>\$ 59,830</u>	<u>\$ 89,046</u>	<u>\$ 98,382</u>

In analyzing Fund 711's current assets for the last three years, there were sufficient funds available from current assets to pay current liabilities (less amounts due to Fund 694) with current assets left over. The following summary analysis shows Fund 711's current assets, current liabilities (excluding the amount due to Fund 694), and cash balances (in thousands) over the past three fiscal years:

	Fiscal Year Ended June 30,		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Current Assets	\$ 349,580	\$ 306,434	\$ 166,856
Current Liabilities*	<u>321,265</u>	<u>246,690</u>	<u>91,998</u>
Excess Current Assets	<u>\$ 28,315</u>	<u>\$ 59,744</u>	<u>\$ 74,858</u>

\*less amount due to Fund 694

	As of June 30,		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Cash Equity in State Treasury	\$ 244,501	\$ 198,266	\$ 77,779
Cash and Cash Equivalents	<u>15,284</u>	<u>26,542</u>	<u>36,729</u>
Total Cash	<u>\$ 259,785</u>	<u>\$ 224,808</u>	<u>\$ 114,608</u>

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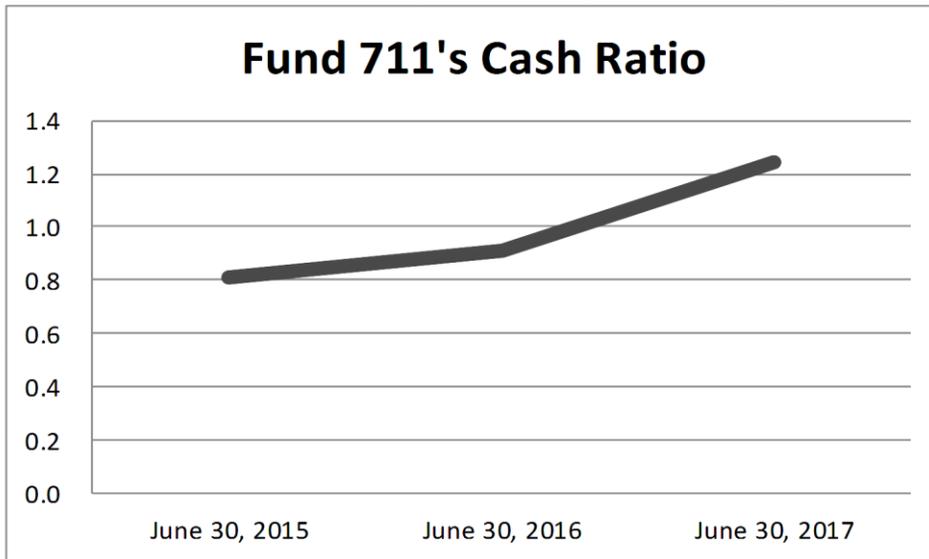
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Finally, the cash ratio, a comparison of total cash to current liabilities, is one metric to analyze liquidity, or ability to satisfy an entity's short-term obligations with cash. The higher the cash ratio, the more capable an entity is to pay its current liabilities. The cash ratio is generally a more conservative look at an entity's ability to cover its liabilities than many other liquidity ratios because other current assets, including accounts receivable, are left out of the equation and some current liabilities have not yet been invoiced by vendors. A cash ratio of 1.0 or greater is an indicator an entity is better positioned to cover its current liabilities. The following is a summary analysis and chart of Fund 711's increasing cash ratio (in thousands) over the past three fiscal years:

	As of June 30,		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Cash	\$ 259,785	\$ 224,808	\$ 114,608
Current Liabilities*	<u>321,265</u>	<u>246,690</u>	<u>91,998</u>
Cash Ratio**	<u>0.809</u>	<u>0.911</u>	<u>1.246</u>

\*less amounts due to Fund 694

\*\*Cash Ratio = (Total Cash / Current Liabilities)



The Law (20 ILCS 1605/9.1(o)) requires the Department distribute the proceeds of lottery tickets and shares sold in the following priority order and manner:

- 1) to pay prizes and retailer bonuses;
- 2) to pay costs related to administering the Lottery (including all amounts due under the Management Agreement to the Private Manager);
- 3) to distribute the net revenue from specialty tickets into specific State funds, as provided by § 21.5, § 21.6, § 21.7, § 21.8, and § 21.9 of the Law;

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- 4) to transfer into the Common School Fund (Fund 412) an amount equal to the proceeds transferred into Fund 412 from Fund 711 in Fiscal Year 2009, as adjusted for inflation; and,
- 5) to deposit, on or before the last day of each fiscal year, any remaining proceeds into Fund 694.

In addition, the auditors noted the Department had not properly disclosed its current and noncurrent liabilities associated with the interfund balances due to Fund 694 from Fund 711. Department management corrected this error in the Department's final financial statements.

Under generally accepted accounting principles (GAAP), liabilities are reported in order of relative maturity where current liabilities are expected to or required to be paid in cash within one year, and noncurrent liabilities are expected to be liquidated in cash in excess of one year, from the balance sheet date. Also, Governmental Accounting Standards Board Statement No. 38, Paragraph 14(c), *Certain Financial Statement Note Disclosures*, requires the Department disclose its interfund balances not expected to be repaid within one year from the date of the financial statements. Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal administrative and fiscal controls to provide assurance transfers of assets are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources.

Department officials stated the insufficient transfers were due to:

- 1) excess transfers from Fund 711 to Fund 412 which occurred up to June 30, 2009; and,
- 2) the Law's annual deadline for transferring cash from Fund 711 to Fund 694 occurring on the last day of the State's fiscal year, which does not allow the Department to perform a close of its accounting records to determine the actual amount of net proceeds to transfer into Fund 694.

Further, Department officials indicated the development of a reasonable estimate is complicated by an unknown liability for prizes won (particularly, if a jackpot was to be won) on June 30 but after the transfer would have to be completed and the fact the Lottery has to maintain sufficient cash reserves to continue normal operations until non-cash assets at June 30 are converted to cash, such as accounts receivable.

In regards to the excess transfers referenced by the Department's management, until June 30, 2009, the Department's predecessor agencies had historically made cash transfers into Fund 412 in excess of Fund 711's accrual basis net income. These excess transfers were recorded as a due from Fund 412 on Fund 711's financial statements (effectively, an account receivable). As of June 30, 2009, this amount of excess transfers was \$69.9 million. At June 30, 2012, the Department determined – due to the statutory changes within Public Act 096-0034 (effective on July 13, 2009) – the excess contributions would not be collected. As such, the Department recorded an adjustment of \$69.842 million to reclassify the due from Fund 412 as a transfer. Through the end of fieldwork, the Department has not been able to recoup the \$69.9 million in excess transfers, which has caused a shortage of cash available to perform current period transfers.

Due to the significance of the issues noted, the auditors concluded these conditions represent noncompliance with the law, which could have a direct and material effect on the determination of financial statement amounts, and a material weakness in the Department's internal control over financial reporting for classifying and reporting current and noncurrent liabilities. Further, these conditions represent material noncompliance with applicable laws and regulations in the Department's financial and fiscal operations and a material weakness in the Department's internal control over compliance for not preventing, or detecting and correcting, these conditions.

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Failure to make required deposits delays Fund 694's receipt of cash resources and represents noncompliance with State law. (Finding Code No. 2017-001)

**Recommendation:**

We recommend the Department study its estimation process for the amount due to Fund 694 so the annual transfer can better approximate the amount required to transfer in accordance with the Law, absent a statutory change in the transfer date. Further, the Department should continue to seek a legislative remedy to allow the Department to "true-up" its annual required transfer after finalizing its accounting records. In addition, the Department should properly report the current and noncurrent portions of the amount due to Fund 694 from Fund 711 during its financial reporting process.

**Department Response:**

The Department accepts the recommendation. As noted in the finding, excess transfers to the Common School Fund in the amount of \$69.9 million did occur and have never been recouped. The write-off of this amount, previously categorized as a due from the Common School Fund (account receivable), resulted in a cash shortage which affects our prior and future transfers.

The amount to transfer into the Capital Projects Fund, as shown in the first table of the finding, is not known until after the Department's accounting records are finalized in September. Statute requires the transfer of net proceeds by June 30, which requires significant estimation. This estimation is further complicated because the Department must have sufficient cash reserves to meet the prioritized requirements set forth in Illinois Lottery Law, as stated in the finding.

The Department has previously sought a legislative change to allow for a true-up of annual transfers in subsequent year transfers. We will continue to seek legislative change to allow for a remedy that improves our ability to make transfers based on the actual amount of net proceeds, knowing that the \$69.9 million cash shortage will impact our available cash.

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**Finding 2017-002      Inadequate Control over Online Games Prize Liabilities**

The Department of the Lottery (Department) did not exercise adequate internal control over reporting its online games prize liabilities at June 30, 2017.

During testing, we noted the following:

- The Department not eliminated online prize liabilities, totaling \$4.647 million, related to the Pick 3 plus FIREBALL and Pick 4 plus FIREBALL which had expired between September 2015 through June 2017 for games between September 2014 and June 2016. Due to this error, the Department had either not offered a special prize pool or transferred these proceeds into the Common School Fund (Fund 412).

The Illinois Administrative Code (11 Ill. Admin. Code 1770.190(k)) states the Department will hold unclaimed prize money for the duration of the claim period as established by game rule and manage unclaimed prizes in accordance with the Illinois Lottery Law (Law). The Department's *Game Rules, Procedures for Claiming On-Line Game Prizes* (Section 2.6), provides all prizes must be redeemed within one year from the ticket's drawing date. Further, the Law (20 ILCS 1605/19) provides all unclaimed prize money not included in a special prize pool shall be transferred into Fund 412.

- The Department had an unreconciled difference of \$2.032 million within its accounts for prize liabilities from online games. Further, the Department's estimate for its prize liabilities from online games for Fiscal Year 2015 and Fiscal Year 2016 were not adjusted to reflect actual amounts paid as of June 30, 2017. As a result of these errors, the Department's prizes payable and prizes and claims expense accounts were overstated by \$2.602 million and the due to the Capital Projects Fund (Fund 694) and transfers out to Fund 694 accounts were understated by \$2.602 million.

The Law (20 ILCS 1605/9.1(o)) requires the Department distribute the proceeds of lottery tickets and shares sold in the following priority order and manner:

- 1) to pay prizes and retailer bonuses;
- 2) to pay costs related to administering the Lottery (including all amounts due under the Management Agreement to the Private Manager);
- 3) to distribute the net revenue from specialty tickets into specific State funds, as provided by § 21.5, § 21.6, § 21.7, § 21.8, and § 21.9 of the Law;
- 4) to transfer into Fund 412 an amount equal to the proceeds transferred into Fund 412 from Fund 711 in Fiscal Year 2009, as adjusted for inflation; and,
- 5) to deposit, on or before the last day of each fiscal year, any remaining proceeds into Fund 694.

These amounts were deemed immaterial by Department management and were not corrected in the Department's final financial statements; however, we determined these exceptions represent a significant deficiency in the Department's internal control over financial reporting. Further, these conditions represent a significant deficiency in the Department's internal control over compliance for not preventing, or detecting and correcting, these conditions.

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In accordance with generally accepted accounting principles (GAAP), all of the Department's assets, liabilities, revenues, and expenses should be properly reported in the Department's financial statements. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance (1) resources are utilized efficiently and in compliance with applicable law and (2) revenues, expenses, transfers, and resources applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

Department officials stated the gaming system, which was used to identify purged tickets (unclaimed winning tickets), did not properly include the expired Pick 3 plus FIREBALL and Pick 4 plus FIREBALL amounts.

Failure to handle unclaimed prizes in accordance with State laws and regulations resulted in either the Department not offering a special prize pool game or delayed Fund 412's receipt of cash resources as required by Law. Further, failure to ensure expired prize liabilities reconcile to supporting documentation and the Department performs a "true-up" of prior period estimates reduces the reliability of Statewide financial reporting, could result in errors or other irregularities going undetected, and represents noncompliance with State law. (Finding Code No. 2017-002)

**Recommendation:**

We recommend the Department decide how to handle its unclaimed prizes in excess of one year since the prize's drawing date in accordance with the Law and ensure its accounting records correctly reflect this position. Further, the Department should ensure its online games prize liabilities reconcile to supporting documentation and a "true-up" process occurs within a timely manner for its prior period estimates to reflect actual conditions.

**Department Response:**

The Department accepts the recommendation. Upon discovering the purged ticket report exported from the gaming system did not properly include the expired Pick 3 plus FIREBALL and Pick 4 plus FIREBALL amounts, the Department immediately took corrective action. Department staff utilized a report outside of the gaming system's data warehouse to identify the previously unrecorded expired Pick 3 plus FIREBALL and Pick 4 plus FIREBALL amounts. This problem was not discovered until after the Department had completed its financial statements for Fiscal Year 2017. On a go forward basis, the Department will (1) ensure this matter is corrected during Fiscal Year 2018 and (2) work to complete this reconciliation in a timely manner during each year's fiscal year end close.

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**Finding 2017-003      Inadequate Controls over Specialty Tickets**

The Department of the Lottery (Department) allocated unallowable overhead costs to specialty scratch-off tickets and had not performed a “true up” of estimated prize liabilities to prizes paid.

The Illinois Lottery Law (Law) requires the Department offer specialty scratch-off games to fund:

- breast cancer research grants appropriated by the General Assembly to the Department of Public Health from the Carolyn Adams Ticket For The Cure Grant Fund (Fund 208) (20 ILCS 1605/21.5);
- assistance for veterans appropriated by the General Assembly to the Department of Veterans' Affairs for grants from the Illinois Veterans Assistance Fund (Fund 236) (20 ILCS 1605/21.6);
- multiple sclerosis research grants appropriated by the General Assembly to the Department of Public Health from the Multiple Sclerosis Research Fund (Fund 429) (20 ILCS 1605/21.7);
- HIV/AIDS prevention grants appropriated by the General Assembly to the Department of Public Health from the Quality of Life Endowment Fund (Fund 437) (20 ILCS 1605/21.8); and,
- Special Olympics grants appropriated by the General Assembly to the Department of Human Services from the Special Olympics Illinois and Special Children's Charities Fund (Fund 073) (20 ILCS 1605/21.9).

During testing, we noted the following:

- The Department's calculation of net proceeds for its specialty scratch-off games incorrectly included an allocated overhead charge as opposed to actual and identifiable direct administrative costs. The allocated overhead charge has varied over time, beginning at 3% through October 2007, falling to 2.7% from November 2007 through December 2011, and increasing to the current rate of 4.55% in January 2012. The following chart shows the amount of overhead improperly allocated since inception for each scratch-off game as of June 30, 2017:

Inception	Fund	Amount
2006	Veterans' Assistance Fund (236)	\$ 1,910,132
2006	Breast Cancer (208)	1,564,491
2008	HIV/AIDS Prevention (437)	1,082,818
2009	Multiple Sclerosis (429)	1,310,444
2015	Special Olympics (073)	433,073
	Total	<u>\$ 6,300,958</u>

- The Department's estimate for its prize liabilities associated with its specialty scratch-off games had not been adjusted to reflect actual amounts paid for games ending on or before June 30, 2016, as of June 30, 2017. We were unable to quantify the impact of this error.

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

- The Department did not report accurate “accrual only” information to the Department of Public Health,

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the Department of Veterans' Affairs, and the Department of Human Services during the State's annual financial reporting process as it had not properly calculated "net revenues" or performed a "true up" for its prize liabilities associated with its specialty scratch-off games.

The Statewide Accounting Management System (SAMS) (Procedure 27.50.10) requires the Department prepare a complete set of manual forms to report "accrual only" entries to the Department of Public Health, the Department of Veterans' Affairs, and the Department of Human Services who serve as the "administering agency" for financial reporting purposes of the five State Treasury-held funds receiving "net revenues" from the Department's specialty scratch-off games. Good internal controls include ensuring accurate and timely information is reported to each "administering agency" to ensure its transactions are properly recorded and accounted for to enable the "administering agency" to prepare accurate financial reports for the Office of the State Comptroller to use in preparing the State's Comprehensive Annual Financial Report.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department ensure revenues, transfers, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

Department officials stated they have used an allocated overhead rate because it is nearly impossible to track actual costs and the prize estimates were not "trued up" due to oversight.

Failure to calculate "net revenue" pursuant to the statutory formula represents noncompliance with the Law and reduced the amount of ticket proceeds remitted to various appropriated State funds to support grants. (Finding Code No. 2017-003)

**Recommendation**

We recommend the Department implement controls to calculate "net revenues" in accordance with the Law and correct its prior errors, or seek a legislative remedy. Further, the Department should implement controls to perform a "true up" process in a timely manner for its prior period prize liability estimates to reflect actual prizes paid. Finally, the Department should communicate with each "administering agency" receiving its "accrual only" information to correct any prior period errors.

**Department Response**

The Department recognizes the need to follow the Law and to accurately record our revenue and expenses. The vast majority of our actual administrative expenses for these games are incurred simultaneously with our administrative expenses incurred for all games – through instant ticket processes, marketing processes, and financial processes. We are certainly able to identify vendor charges for specific products or services, but the hourly efforts of Department staff and the Private Manager's staff will be costly to isolate. We agree with the recommendation regarding a potential legislative remedy that could result in an acceptable method for applying appropriate expenses against the game revenues. The table included in this finding shows the life-to-date amounts that have been allocated using the estimation approach, but should not be misinterpreted as amounts underpaid to the beneficiary organizations.

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**Accountants' Comment**

The chart on page 22 reflects indirect overhead costs improperly subtracted from each specialty ticket's revenue prior to the Department transferring the ticket's net revenue to other State funds for distribution to the beneficiary organizations. Until the Department can identify each specialty ticket's "actual administrative expenses of the Department solely related to the scratch-off game" or the Law is amended to allow for the subtraction of indirect overhead costs, these amounts represent an underpayment to the other State funds, which are ultimately distributed to the beneficiary organizations.

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**Finding 2017-004      Noncompliance with Reporting Requirements**

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

During testing, we noted the following:

**Reports Not Prepared**

- The Department's Director did not prepare an annual report including "a full and complete statement of lottery revenues, prize disbursements and other expenses" for the Governor and the Lottery Control Board (Board) (see Finding 2017-005).

The Illinois Lottery Law (Law) (20 ILCS 1605/9) requires the Department's Director to prepare an annual report including "a full and complete statement of lottery revenues, prize disbursements and other expenses" for the Governor and the Board, which also must be sent to the Speaker and Minority Leader of the House of Representatives and President and Minority Leader of the Senate.

- The Department did not prepare three quarterly reports for the Governor and the General Assembly on the activities and actions of its Private Manager. These reports covered the first three quarters of Fiscal Year 2015.

The Law (20 ILCS 1605/9.1(p)(1)) requires the Department to submit written quarterly reports on the actions and activities of the Private Manager to the Governor and the General Assembly.

- The Department did not submit an annual report for Fiscal Year 2016 or Fiscal Year 2017 regarding the work of the Board (see Finding 2017-005).

The Law (20 ILCS 1605/7.8) requires the Department to make an annual report regarding the work of the Board to the Governor, Speaker and Minority Leader of the House of Representatives, and President and Minority Leader of the Senate.

- The Department did not prepare a corrected Agency Workforce Report for Fiscal Year 2014 and submit it to the Governor and Secretary of State after the Department's Fiscal Year 2014 – Fiscal Year 2015 Compliance Examination identified errors in reporting the correct number of minorities and professional employees employed by the Department.

The Illinois State Auditing Act (30 ILCS 5/3-2.2(b)) requires the Department, within 30 days after the release of an audit by the Auditor General which identifies the Department has materially failed to comply with the requirements of the State Employment Records Act (5 ILCS 410), shall prepare and file with the Governor and Secretary of State corrected reports covering the periods affected by the noncompliance.

**Untimely Reporting**

- The Department's annual written report on the activities of the Private Manager for Fiscal Year 2017 was submitted on November 9, 2017, 162 days late.

The Law (20 ILCS 1605/9.1(p)(3)) requires the Department, at the latest on June 1 each year, prepare and deliver an annual written report to the Governor and the General Assembly on the activities of the Private Manager.

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**Inaccurate Reporting**

- The Department's Agency Workforce Report for Fiscal Year 2015 did not include the correct number of professional employees employed by the Department.

The State Employment Records Act (5 ILCS 410/20) requires the Department collect, classify, maintain, and report all information required by the State Employment Records Act by January 1 after the conclusion of the State's fiscal year. The State Employment Records Act (5 ILCS 410/15(a)(v)) requires the Department to report the total number of persons employed within the Department's workforce as professionals and the percentage of those positions held by women, minorities, and persons with physical disabilities.

**Noncompliance with Report Distribution Requirements**

- Except for the Department's Fiscal Year 2016 Affirmative Action Plan, the Department has not made any report or publication deposits into the State Library during the examination period. Further, the Department did not post its reports on its website, outside of the Director's monthly sales, expenses and transfers report to the State Treasurer and the Board required by the Law (20 ILCS 1605/9).

The General Assembly Organization Act (25 ILCS 5/3.1) requires the Department post all reports delivered to the General Assembly for a reasonable amount of time on the Department's website and provide copies of its report to the Speaker, Minority Leader, and Clerk of the House of Representatives and President, Minority Leader, and Secretary of the Senate. In addition, the State Library Act (15 ILCS 320/7(t)) requires the Department furnish copies of its reports to the General Assembly to the State Government Report Distribution Center at the State Library.

Further, the State Library Act (15 ILCS 320/21(a)) requires the Department to provide and deposit with the State Library sufficient copies of all publications issued by the Department for its collection and exchange purposes.

Department officials stated these errors were due to human error.

Failure to prepare accurate reports, submit those reports on a timely basis to oversight entities, and properly distribute those reports to the public represents noncompliance with State law, diminishes communication with those charged with governance of the Illinois Lottery, and hinders oversight and accountability. (Finding Code No. 2017-004, 2015-007, 2013-006)

**Recommendation**

We recommend the Department take action to improve its reporting process by (1) identifying each reporting requirement and its associated deadline, (2) developing an internal control process to ensure each report is prepared using accurate information and reviewed by an independent person, and (3) implementing controls to ensure each report is timely submitted to its intended recipients, as required by State law. Further, the Department should ensure all of its reports submitted to the General Assembly are posted to its website and sent to the State Government Report Distribution Center at the State Library. In addition, the Department should ensure all of its publications are provided to the State Library in a timely manner for its collection and exchange purposes. Finally, the Department should prepare and submit a corrected Fiscal Year 2014 Agency Workforce Report and Fiscal Year 2015 Agency Workforce Report with the Governor and Secretary of State within 30 days from the release of this report, as required by the Illinois State Auditing Act (30 ILCS 5/3-2.2(b)).

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**Department Response**

The Department agrees with the finding. The Department will review its procedures and controls over reporting requirements to ensure the timely and accurate submission of the reports required to be filed. In addition, corrected Agency Workforce Reports will be submitted for Fiscal Year 2014 and Fiscal Year 2015.

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**Finding 2017-005      Noncompliance with Lottery Control Board Requirements**

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

During testing, we noted the following:

- The Board did not hold any meetings during Fiscal Year 2016.  
The Law (20 ILCS 1605/6) requires the Board to hold, at least, one meeting during each quarter of the State's fiscal year.
- As of June 30, 2017, the five-member Board had one vacancy. As of the conclusion of fieldwork, this vacancy had not been filled.  
The Law (20 ILCS 1605/6) states the Board shall consist of five members appointed by the Governor with the advice and consent of the Senate.
- The Board did not review, at least quarterly, all past advertising for major media campaigns during Fiscal Year 2016.  
The Law (20 ILCS 1605/7.8a) requires the Board to establish an advertising policy for the Department to ensure advertising content and practices do not target specific groups or economic classes of people and advertising content is accurate and not misleading and to review, at least quarterly, all past advertising for major media campaigns to determine if it needs to direct the Department to cease advertising found to violate its advertising policy.
- The Department did not submit an annual report for Fiscal Year 2016 or Fiscal Year 2017 regarding the work of the Board (see Finding 2017-004).  
The Law (20 ILCS 1605/7.8) requires the Department to make an annual report regarding the work of the Board to the Governor, Speaker and Minority Leader of the House of Representatives, and President and Minority Leader of the Senate.
- The Board failed to monitor the Department's Director and require the submission of an annual report as required by the Law during Fiscal Year 2016 and Fiscal Year 2017 (see Finding 2017-004).  
The Law (20 ILCS 1605/9) states it is the duty of the Department's Director to prepare an annual report including "a full and complete statement of lottery revenues, prize disbursements and other expenses" for the Board.

Department officials stated the Board lacked sufficient members to obtain a quorum during Fiscal Year 2016 and the other noted errors were due to oversight.

Board member vacancies impaired the Board's ability to properly formulate the functions of the Board and resulted in noncompliance with the Law. (Finding Code No. 2017-005)

**Recommendation**

We recommend the Department work with the Governor to ensure all Board vacancies are filled in a timely manner and prepare the Board's annual report. In addition, the Board should ensure it meets quarterly and performs the statutory functions assigned to it by the Law.

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**Department Response**

The Department agrees with the finding. The Board did not have enough appointed members to meet during Fiscal Year 2016 to review major media campaigns. In Fiscal Year 2017, the Board had enough members to conduct quarterly meetings and the Board reviewed major media campaigns at each quarterly meeting.

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**Finding 2017-006      Noncompliance with the Illinois Vehicle Code**

The Department of the Lottery (Department) did not obtain personal liability insurance certifications from all personnel assigned a State vehicle.

During testing, we noted the Department did not obtain personal liability insurance certifications from 48 of the 60 (80%) Department personnel assigned a State vehicle during Fiscal Year 2016.

The Illinois Vehicle Code (625 ILCS 5/7-601(c)) requires every Department employee assigned a specific vehicle owned or leased by the State on an ongoing basis provide an annual certification during July or within 30 days of receiving a new vehicle assignment, whichever is later, affirming the employee is duly licensed to drive and the employee either has liability coverage extending to the employee when the assigned vehicle is used for other than official State business or the employee has filed a bond with the Secretary of State as proof of financial responsibility.

Department officials stated these exceptions were due to an ineffective transfer of job responsibilities upon the retirement of a key person in this manual process.

Failure to obtain personal liability insurance certifications from Department personnel assigned to a vehicle owned or leased by the State represents noncompliance with the Illinois Vehicle Code and could subject the State to unnecessary legal costs and risk of loss. (Finding Code No. 2017-006)

**Recommendation**

We recommend the Department implement a process to ensure all Department personnel assigned to a vehicle owned or leased by the State provide their personal liability insurance certifications to the Department's Director in the manner required by the Illinois Vehicle Code.

**Department Response**

The Department agrees with the finding. The Department implemented an electronic process for submitting and tracking personal liability insurance certifications in Fiscal Year 2017 which will help reduce the likelihood of the responsibility not being met in the future. The Department will continue to review its controls to ensure timely completion of the personal insurance liability certifications.

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Prior Findings Not Repeated  
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**A. Noncompliance with the Illinois Lottery Law**

During the prior engagement, the Department of the Lottery (Department) established non-appropriated spending authority and made deposits for multi-state lottery prize liabilities that had not occurred in violation of the Illinois Lottery Law.

During the current engagement, our testing did not identify any similar inappropriate usage of non-appropriated spending authority or prepayments of lottery prize payments.  
(Finding Code No. 2016-001)

**B. Inappropriate Prepayments to Fund Out-of-State Prize Payment Obligations**

During the prior examination, the Department of the Lottery (Department) inappropriately prepaid amounts from its Fiscal Year 2015 appropriation to fund Fiscal Year 2016 payment obligations.

During the current examination, our sample testing did not disclose any similar conditions of noncompliance. (Finding Code No. 2015-002)

**C. Noncompliance with the Illinois Lottery Law**

During the prior examination, the Department of the Lottery (Department) and the Lottery Control Board (Board) did not comply with various provisions of the Illinois Lottery Law (Law). We noted (1) the Board did not hold quarterly meetings or review major media campaigns as required by the Law, (2) the Department did not deposit moneys into the Capital Projects Fund in accordance with the Law, (3) the Department improperly included overhead costs in its calculation of "net revenue" for the Special Olympics scratch-off game, and (4) the Department paid approximately \$147,000 for an investigation which the Private Manager was to pay for under the Law.

During the current examination, this finding was split into different findings. First, we reported the issue identified in (1) above with other similar matters in Finding 2017-005. Second, we reported the issue identified in (2) above with other similar matters in Finding 2017-001. Finally, we reported the issue identified in (3) above with other similar matters in Finding 2017-003. In regards to the issue identified in (4) above, our sample testing did not disclose any similar conditions of noncompliance.  
(Finding Code No. 2015-003)

**D. Weaknesses Regarding the Security and Control of Confidential Information**

During the prior examination, the Department of the Lottery (Department) had a weakness in its security and control over confidential information.

During the current examination, our testing did not disclose any similar conditions.  
(Finding Code No. 2015-004, 2013-003)

**E. Lack of Comprehensive Disaster Contingency Planning and Testing**

During the prior examination, the Department did not have comprehensive disaster contingency procedures in place.

During the current examination, our testing did not disclose any similar conditions.  
(Finding Code No. 2015-005, 2013-004)

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Prior Findings Not Repeated  
For the Two Years Ended June 30, 2017

**F. Failure to Comply with the Fiscal Control and Internal Auditing Act and Other Required Reporting**

During the prior examination, the Department's internal audit function did not comply with the Fiscal Control and Internal Auditing Act or timely perform other required reporting and follow-up work.

During the current examination, our testing did not disclose any similar conditions.  
(Finding Code No. 2015-006, 2013-005)

**G. Inadequate Controls over Property and Equipment**

During the prior examination, the Department of the Lottery (Department) did not have adequate internal controls over the recording and monitoring of property and equipment.

During the current examination, our sample testing indicated improvement within the Department's controls over recording and monitoring its equipment; however, we did note smaller, immaterial conditions of noncompliance. As such, this issue will be reported in the Department's *Report of Immaterial Findings*.  
(Finding Code No. 2015-008, 2013-007)

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Supplementary Information for State Compliance Purposes Summary  
For the Two Years Ended June 30, 2017

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

Fiscal Schedules and Analysis:

- Schedules of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2017
- Schedules of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2016
- Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
- Schedule of Receipts, Disbursements, and Fund Balance (Cash Basis) – Locally Held Funds
- Schedules of Changes in State Property
- Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Accounts Receivable

Analysis of Operations (Unaudited):

- Department Functions and Planning Program (Unaudited)
- Budget Impasse Disclosures (Unaudited)
- Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Unaudited)
- Interest Costs on Fiscal Year 2016 and Fiscal Year 2017 Invoices (Unaudited)
- Average Number of Employees (Unaudited)
- Analysis of Significant Variations in Expenditures (Unaudited)
- Analysis of Significant Variations in Cash Receipts (Unaudited)
- Analysis of Significant Lapse Period Expenditures (Unaudited)
- Service Efforts and Accomplishments (Unaudited)

The Independent Accountants' 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 Accountants' 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 2017

Fifteen Months Ended September 30, 2017

<u>Public Act 99-524</u> <u>Appropriated Funds</u> <u>State Lottery Fund – 711</u>	Appropriations (net of transfers)	Expenditures through June 30, 2017	Lapse Period expenditures July 1 to September 30, 2017	Total expenditures 15 months ended September 30, 2017	Balances lapse September 30, 2017
Personal Services	\$ 11,408,100	8,519,711	452,383	8,972,094	2,436,006
State Contributions for the State Employees' Retirement System	5,084,300	3,798,293	201,828	4,000,120	1,084,180
State Contributions to Social Security	872,600	619,572	33,475	653,047	219,553
Group Insurance	4,032,000	2,780,280	117,766	2,898,047	1,133,953
Contractual Services	5,200,000	1,678,724	326,052	2,004,776	3,195,224
Travel	50,000	27,563	4,712	32,275	17,725
Commodities	43,000	20,382	1,714	22,096	20,904
Printing	15,000	1,866	705	2,571	12,429
Equipment	10,000	975	—	975	9,025
Electronic Data Processing	3,350,700	2,469,064	166,427	2,635,491	715,209
Telecommunications Services	248,800	156,816	33,086	189,902	58,898
Operation of Automotive Equipment	227,200	130,980	27,575	158,555	68,645
Expenses of Developing and Promoting Lottery Games	137,455,300	89,667,672	11,702,242	101,369,914	36,085,386
Expenses of the Lottery Control Board	8,300	913	305	1,218	7,082
Prize Payments for Winning Tickets	1,000,000,000	462,697,856	15,247,724	477,945,580	522,054,420
Refunds	100,000	25,693	—	25,693	74,307
Shared Services	486,800	342,989	11,500	354,489	132,311
Total Appropriated Funds	\$ 1,168,592,100	572,939,350	28,327,493	601,266,843	567,325,257
<b>Non-Appropriated Funds</b>					
<b>State Lottery Fund – 711</b>					
Deposit into the Capital Projects Fund		15,000,000	—	15,000,000	
<b>Deferred Lottery Prize Winners Fund – 978</b>					
Deferred Prize Payments for Winning Tickets		30,709,381	—	30,709,381	
Total Non-Appropriated Funds		45,709,381	—	45,709,381	
Department Total-All Funds		\$ 618,648,731	28,327,493	646,976,224	

## Notes:

- (a) Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2017, 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.
- (c) Public Act 99-524 authorized the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 45 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Department submitted against its Fiscal Year 2017 appropriation.
- (d) Notwithstanding anything within Public Act 100-0021 to the contrary, Public Act 100-0021 authorized the Department to pay for all costs incurred prior to July 1, 2018, using either its Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 45 includes information from Department management about the number of invoices and the total dollar amount of invoices from Fiscal Year 2016 and Fiscal Year 2017 held by the Department to be submitted against either its Fiscal Year 2017 or Fiscal Year 2018 appropriation.

See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Schedule of Appropriations, Expenditures, and Lapsed Balances

Appropriations for Fiscal Year 2016

Fifteen Months Ended September 30, 2016

<b>Public Act 99-491, Public Act 99-524, and Court-Ordered Expenditures</b>					
<b>Appropriated Funds</b>					
<b>State Lottery Fund – 711</b>	<b>Appropriations (net of transfers)</b>	<b>Expenditures through June 30, 2016</b>	<b>Lapse Period expenditures July 1 to August 31, 2016</b>	<b>Total expenditures 14 months ended August 31, 2016</b>	<b>Balances lapse August 31, 2016</b>
Personal Services	\$ 9,927,400	8,089,745	471,232	8,560,977	1,366,423
State Contributions for the State Employees' Retirement System	4,560,500	3,694,744	215,086	3,909,830	650,670
State Contributions to Social Security	765,000	588,223	34,717	622,940	142,060
Group Insurance	3,528,000	2,646,278	131,582	2,777,860	750,140
Contractual Services	1,900,000	31,489	1,302,321	1,333,810	566,190
Travel	100,000	—	17,848	17,848	82,152
Commodities	50,000	—	18,732	18,732	31,268
Printing	15,000	—	6,709	6,709	8,291
Equipment	450,000	—	951	951	449,049
Electronic Data Processing	4,349,200	2,112,179	509,211	2,621,390	1,727,810
Telecommunications Services	464,000	—	208,331	208,331	255,669
Operation of Automotive Equipment	376,000	—	143,029	143,029	232,971
Expenses of Developing and Promoting Lottery Games	192,800,000	—	119,559,837	119,559,837	73,240,163
Expenses of the Lottery Control Board	8,300	—	—	—	8,300
Prize Payments for Winning Tickets	1,000,000,000	373,691,128	27,642,055	401,333,183	598,666,817
Refunds	100,000	—	10,342	10,342	89,658
Shared Services	535,700	377,216	29,352	406,568	129,132
Total Appropriated Funds	<u>\$ 1,219,929,100</u>	<u>391,231,002</u>	<u>150,301,335</u>	<u>541,532,337</u>	<u>678,396,763</u>
<b>Non-Appropriated Funds</b>					
<b>State Lottery Fund – 711</b>					
Deposit into the Capital Projects Fund		—	—	—	
<b>Deferred Lottery Prize Winners Fund – 978</b>					
Deferred Prize Payments for Winning Tickets		36,947,667	—	36,947,667	
Total Non-Appropriated Funds		<u>36,947,667</u>	<u>—</u>	<u>36,947,667</u>	
Department Total-All Funds		<u>\$ 428,178,669</u>	<u>150,301,335</u>	<u>578,480,004</u>	

## Notes:

- (a) Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2016, 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.
- (c) During Fiscal Year 2016, the Department operated without enacted appropriations until Public Act 99-491 and Public Act 99-524 were signed into law on December 7, 2017, and June 30, 2016, respectively. During the impasse, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As such, the Department's court-ordered payroll payments were merged into the enacted appropriation within Fund 711. Further, the Department incurred non-payroll obligations within Fund 711, which the Department was unable to pay until the passage of Public Act 99-491 and Public Act 99-524.
- (d) Public Act 99-524 authorized the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 45 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Department submitted against its Fiscal Year 2017 appropriation.

See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances

For the Fiscal Year Ended June 30,

	Fiscal Year		
	2017	2016	2015
	P.A. 99-524	Public Act 99-491, Public Act 99-524, and Court-Ordered Expenditures	P.A. 98-0679
<b>Appropriated Fund</b>			
<b>State Lottery Fund – 711</b>			
Appropriations	\$ 1,168,592,100	1,219,929,100	1,226,949,500
Expenditures:			
Personal Services	8,972,094	8,560,977	8,502,752
State Contributions for the State Employees' Retirement System	4,000,120	3,909,830	3,607,219
State Contributions to Social Security	653,047	622,940	618,616
Group Insurance	2,898,047	2,777,860	2,385,841
Contractual Services	2,004,776	1,333,810	2,699,374
Travel	32,275	17,848	42,845
Commodities	22,096	18,732	36,926
Printing	2,571	6,709	11,624
Equipment	975	951	5,114
Electronic Data Processing	2,635,491	2,621,390	2,503,764
Telecommunications Services	189,902	208,331	216,755
Operation of Automotive Equipment	158,555	143,029	172,695
Expenses of Developing and Promoting Lottery Games	101,369,914	119,559,837	131,552,981
Expenses of the Lottery Control Board	1,218	—	300
Prize Payments for Winning Tickets	477,945,580	401,333,183	787,581,039
Refunds	25,693	10,342	47,191
Shared Services	354,489	406,568	255,218
Total State Lottery Fund Expenditures	<u>601,266,843</u>	<u>541,532,337</u>	<u>940,240,254</u>
Lapsed Balances	<u>\$ 567,325,257</u>	<u>678,396,763</u>	<u>286,709,246</u>
<b>Non-Appropriated Funds</b>			
<b>State Lottery Fund – 711</b>			
Expenditures:			
Deposit into the Capital Projects Fund	<u>15,000,000</u>	—	8,000,000
Total State Lottery Fund Expenditures	<u>15,000,000</u>	—	8,000,000
<b>Deferred Lottery Prize Winners Fund – 978</b>			
Expenditures:			
Deferred Prize Payments for Winning Tickets	<u>30,709,381</u>	<u>36,947,667</u>	<u>39,773,619</u>
Total Deferred Lottery Prize Winners Trust Fund Expenditures	<u>30,709,381</u>	<u>36,947,667</u>	<u>39,773,619</u>
<b>TOTAL - NON-APPROPRIATED FUNDS</b>			
<b>Total Non-Appropriated Expenditures</b>	<u>45,709,381</u>	<u>36,947,667</u>	<u>47,773,619</u>
<b>GRAND TOTAL - ALL FUNDS</b>			
<b>Total Expenditures</b>	<u>646,976,224</u>	<u>578,480,004</u>	<u>988,013,873</u>

See accompanying independent accountants' report.

STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY

Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances

For the Two Years Ended June 30, 2017

Notes:

- (a) Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2016, 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.
- (c) During Fiscal Year 2016, the Department operated without enacted appropriations until Public Act 99-491 and Public Act 99-524 were signed into law on December 7, 2017, and June 30, 2016, respectively. During the impasse, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As such, the Department's court-ordered payroll payments were merged into the enacted appropriation within Fund 711. Further, the Department incurred non-payroll obligations within Fund 711, which the Department was unable to pay until the passage of Public Act 99-491 and Public Act 99-524.
- (d) Public Act 99-524 authorized the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 45 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Department submitted against its Fiscal Year 2017 appropriation.

See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Schedule of Receipts, Disbursements, and Fund Balance  
(Cash Basis) – Locally-Held Funds

For the Fiscal Year Ended June 30,

	<b>Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Agent Security Deposit Fund (1309):			
Beginning cash balance – July 1,	\$ 922,361	920,584	1,062,145
Receipts:			
Fund transfers-in	175,975	169,075	437,944
Investment income	857	874	175
Miscellaneous	12,000	61,042	36,974
Disbursements:			
Refunds	300,911	229,214	616,654
Ending cash balance – June 30,	<u>\$ 810,282</u>	<u>922,361</u>	<u>920,584</u>
Prize Payment Fund (1279):			
Beginning cash balance – July 1,	\$ 18,913,064	7,298,046	6,674,264
Receipts:			
Fund transfers-in	128,546,954	135,916,145	125,118,903
Disbursements:			
Awards or grants	118,391,471	124,291,422	124,429,375
Other-bank fees & tax penalties	28,499	9,705	65,746
Ending cash balance – June 30,	<u>\$ 29,040,048</u>	<u>18,913,064</u>	<u>7,298,046</u>
Agent Sales Sweep Account (1373):			
Beginning cash balance – July 1,	\$ 7,628,624	7,985,457	7,477,625
Receipts:			
Other-lottery sales, net	1,247,590,112	1,302,130,766	1,248,079,738
Disbursements:			
Fund transfers-out	1,247,529,717	1,302,487,599	1,247,571,906
Ending cash balance – June 30,	<u>\$ 7,689,019</u>	<u>7,628,624</u>	<u>7,985,457</u>
Agent Sales Concentration Account (1374):			
Beginning cash balance – July 1,	\$ —	—	2,730,530
Receipts:			
Fund transfers-in	—	—	477,664,988
Other-lottery sales, net	—	—	8,657,281
Disbursements:			
Fund transfers-out	—	—	489,052,799
Ending cash balance – June 30,	<u>\$ —</u>	<u>—</u>	<u>—</u>

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Schedule of Receipts, Disbursements, and Fund Balance  
(Cash Basis) – Locally-Held Funds

For the Fiscal Year Ended June 30,

	<b>Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Deferred Prizewinners Trust (2978):			
Beginning cash balance – July 1,	\$ 325,384,031	301,276,634	296,250,322
Receipts:			
Investment income	11,152,975	11,986,259	12,285,458
Other-receipt of securities	3,809,045	33,569,127	33,593,928
Other-fair market value adjustment	—	15,730,011	—
Disbursements:			
Other-fair market value adjustment	21,847,755	—	922,074
Other-securities sold for prizewinners	31,211,000	37,178,000	39,931,000
Ending cash balance – June 30,	<u>\$ 287,287,296</u>	<u>325,384,031</u>	<u>301,276,634</u>

See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Schedule of Changes in State Property  
For the Two Years Ended June 30, 2017

(In Thousands)

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2017</u>
Equipment	\$ 1,441	2	7	(24)	1,412
Total	<u>\$ 1,441</u>	<u>2</u>	<u>7</u>	<u>(24)</u>	<u>1,412</u>
	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
Equipment	\$ 1,855	5	5	(414)	1,441
Total	<u>\$ 1,855</u>	<u>5</u>	<u>5</u>	<u>(414)</u>	<u>1,441</u>

## Notes:

- (a) This schedule was derived from the Department's property records, which were reconciled to property reports submitted to the Office of the State Comptroller.
- (b) This schedule was prepared using property records maintained in accordance with 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 purposes.

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 Fiscal Year Ended June 30,

	<u>Fiscal Year</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Special Olympics Illinois and Special Children's Charities Fund - 0073			
Scratch-Off Game Proceeds	\$ 530,229	618,636	879,398
Total Receipts - Fund 0073	<u>\$ 530,229</u>	<u>618,636</u>	<u>879,398</u>
Receipts, per Department Records	\$ 530,229	618,636	879,398
Add: Deposits in Transit, Beginning of the Fiscal Year	—	—	—
Less: Deposits in Transit, End of the Fiscal Year	—	—	—
Deposits, Recorded by the State Comptroller	<u>\$ 530,229</u>	<u>618,636</u>	<u>879,398</u>
Carolyn Adams Ticket for the Cure Grant Fund - 0208			
Scratch-Off Game Proceeds	\$ 478,963	537,448	598,898
Total Receipts - Fund 0208	<u>\$ 478,963</u>	<u>537,448</u>	<u>598,898</u>
Receipts, per Department Records	\$ 478,963	537,448	598,898
Add: Deposits in Transit, Beginning of the Fiscal Year	—	—	—
Less: Deposits in Transit, End of the Fiscal Year	—	—	—
Deposits, Recorded by the State Comptroller	<u>\$ 478,963</u>	<u>537,448</u>	<u>598,898</u>
Illinois Veterans Assistance Fund - 0236			
Scratch-Off Game Proceeds	\$ 729,552	716,046	913,366
Total Receipts - Fund 0236	<u>\$ 729,552</u>	<u>716,046</u>	<u>913,366</u>
Receipts, per Department Records	\$ 729,552	716,046	913,366
Add: Deposits in Transit, Beginning of the Fiscal Year	—	—	—
Less: Deposits in Transit, End of the Fiscal Year	—	—	—
Deposits, Recorded by the State Comptroller	<u>\$ 729,552</u>	<u>716,046</u>	<u>913,366</u>
Multiple Sclerosis Research Fund - 0429			
Scratch-Off Game Proceeds	\$ 477,129	732,527	686,415
Total Receipts - Fund 0429	<u>\$ 477,129</u>	<u>732,527</u>	<u>686,415</u>
Receipts, per Department Records	\$ 477,129	732,527	686,415
Add: Deposits in Transit, Beginning of the Fiscal Year	—	—	—
Less: Deposits in Transit, End of the Fiscal Year	—	—	—
Deposits, Recorded by the State Comptroller	<u>\$ 477,129</u>	<u>732,527</u>	<u>686,415</u>

**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 Fiscal Year Ended June 30,

	<u>Fiscal Year</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Quality of Life Endowment Fund - 0437			
Scratch-Off Game Proceeds	\$ 707,718	674,924	538,976
Total Receipts - Fund 0437	<u>\$ 707,718</u>	<u>674,924</u>	<u>538,976</u>
Receipts, per Department Records	\$ 707,718	674,924	538,976
Add: Deposits in Transit, Beginning of the Fiscal Year	—	—	—
Less: Deposits in Transit, End of the Fiscal Year	—	—	—
Deposits, Recorded by the State Comptroller	<u>\$ 707,718</u>	<u>674,924</u>	<u>538,976</u>
Capital Projects Fund - 0694			
Interfund Cash Transfer from the State Lottery Fund	\$ 15,000,000	—	8,000,000
Total Receipts - Fund 0694	<u>\$ 15,000,000</u>	<u>—</u>	<u>8,000,000</u>
Receipts, per Department Records	\$ 15,000,000	—	8,000,000
Add: Deposits in Transit, Beginning of the Fiscal Year	—	—	—
Less: Deposits in Transit, End of the Fiscal Year	—	—	—
Deposits, Recorded by the State Comptroller	<u>\$ 15,000,000</u>	<u>—</u>	<u>8,000,000</u>
State Lottery Fund - 0711			
Lottery - Daily Settlement	\$ 1,241,432,221	1,300,108,449	1,257,922,479
Lottery Agents - Licenses & Fees	3,995,959	47,325	63,422
Repayment to State Pursuant to Law	93,059,081	4,278,413	327,456,283
Miscellaneous	6,285	1,726	9,488
Prior Year Refunds	763	400	2,500
Prior Year Warrant Voids	—	—	350
Total Receipts - Fund 0711	<u>\$ 1,338,494,309</u>	<u>1,304,436,313</u>	<u>1,585,454,522</u>
Receipts, per Department Records	\$ 1,338,494,309	1,304,436,313	1,585,454,522
Add: Deposits in Transit, Beginning of the Fiscal Year	82,402	60,200	—
Less: Deposits in Transit, End of the Fiscal Year	(20,659)	(82,402)	(60,200)
Deposits, Recorded by the State Comptroller	<u>\$ 1,338,556,052</u>	<u>1,304,414,111</u>	<u>1,585,394,322</u>
Deferred Lottery Prize Winners Trust Fund - 0978			
Investment Income	\$ 31,211,000	37,178,000	39,931,000
Total Receipts - Fund 0978	<u>\$ 31,211,000</u>	<u>37,178,000</u>	<u>39,931,000</u>
Receipts, per Department Records	\$ 31,211,000	37,178,000	39,931,000
Add: Deposits in Transit, Beginning of the Fiscal Year	—	—	—
Less: Deposits in Transit, End of the Fiscal Year	—	—	—
Deposits, Recorded by the State Comptroller	<u>\$ 31,211,000</u>	<u>37,178,000</u>	<u>39,931,000</u>
<b>GRAND TOTAL - ALL FUNDS</b>			
Total Cash Receipts, per Department Records	\$ 1,387,628,900	1,344,893,894	1,637,002,575
Add: Deposits in Transit, Beginning of the Fiscal Year	82,402	60,200	—
Less: Deposits in Transit, End of the Fiscal Year	(20,659)	(82,402)	(60,200)
Total Deposits, Recorded by the State Comptroller	<u>\$ 1,387,690,643</u>	<u>1,344,871,692</u>	<u>1,636,942,375</u>

See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Analysis of Accounts Receivable  
For the Fiscal Year Ended June 30,  
(In Thousands)

	<u>Fiscal Year</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Not in protest:			
Current	\$ 16,882	17,096	31,670
Past due:			
1 to 90 days	661	346	300
91 to 180 days	351	495	312
Greater than 180 days	<u>23,132</u>	<u>21,419</u>	<u>19,377</u>
Total past due	<u>24,144</u>	<u>22,260</u>	<u>19,989</u>
Gross receivables	41,026	39,356	51,659
Estimated uncollectible	<u>19,197</u>	<u>17,594</u>	<u>15,798</u>
Total net receivables	<u>\$ 21,829</u>	<u>21,762</u>	<u>35,861</u>

**ANALYSIS OF ACCOUNTS RECEIVABLE**

Lottery ticket sales, penalties and interest receivables

Licensed Lottery retailers are required to maintain a separate bank account in which to deposit all Lottery sales. Lottery sales are swept from a retailer's bank account on a weekly basis. Retailers who do not have sufficient funds in their bank accounts when they are swept and do not wire transfer or deposit the funds by the statement cutoff date generate accounts receivable. A statutory 5% penalty is assessed, as well as a monthly 2% interest charge, until the debt is dissolved.

Accounts receivable statements are mailed to Lottery retailers on a monthly basis. If an account becomes seriously delinquent, which is failing to pay 30 days after a second statement is rendered, a retailer's license may be revoked and a Notice of Assessment (NOA) will be issued with the debt being submitted for collection action, including involuntary withholding. The Department may enter into a repayment agreement for a receivable at any point during the collection process, and may also file liens against the retailer's real and personal property and file offset requests with the State Comptroller. If in-house collection efforts are unsuccessful, an account may be referred to a collection agency and involuntary withholding requests will be filed with the State Comptroller. Uncollectible accounts may be written off pursuant to the provisions of the Illinois State Collection Act of 1986.

See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Department Functions and Planning Program

For the Two Years Ended June 30, 2017

(Unaudited)

**General Operations**

The Illinois Lottery (Lottery) was established in 1974 and is administered by the Department of the Lottery (Department). Approximately 65% of the money goes to prizes, 25% to the Common School and Capital Projects Funds, and the remainder to retail commissions, operating costs, and marketing expenses. In addition to raising money for K-12 public education and capital projects, the Lottery contributes to good causes through five “specialty” instant games that benefit 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 Department 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 Department-owned infrastructure. The in-house functions are performed by the Department’s Information Technology Section and the Department of Innovation and Technology (DoIT).

**Sales** – Sales and marketing functions were managed during the examination period by the Private Manager, Northstar Lottery Group (Northstar), utilizing a combination of Department 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 Department’s satellite offices in Rockford (Region 3) and Fairview Heights (Region 4). Marketing personnel operate primarily from Northstar’s administrative office located in Chicago.

**Finance** – The finance section 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.

**Planning Program**

The Department’s goal objectives are 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. To ensure success, the Department works closely with its private management company to ensure the manager’s advertising, marketing, promotions, and sales programs are conducted in an appropriate and socially responsible manner, as well as, administering an Internet sales pilot program as a means of expanding the player base. The Department strives to award prizes and incentives in a timely, efficient, and secure manner.

Unaudited – See accompanying independent accountants’ report.

**STATE OF ILLINOIS**  
**DEPARTMENT OF THE LOTTERY**  
COMPLIANCE EXAMINATION  
**BUDGET IMPASSE DISCLOSURES**  
For the Two Years Ended June 30, 2017

(Unaudited)

Payment of Fiscal Year 2016 Costs in Future Fiscal Years

Article 74 of Public Act 99-0524 authorized the Department to pay Fiscal Year 2016 costs using the Department's Fiscal Year 2017 appropriations for non-payroll expenditures. The Department did not have any outstanding invoices from Fiscal Year 2016 unpaid after the closure of the Fiscal Year 2016 Lapse Period on August 31, 2016. Therefore, the Department did not use its Fiscal Year 2017 appropriations to pay its Fiscal Year 2016 costs.

In addition, Article 998 of Public Act 100-0021 authorized the Department to pay its unpaid Fiscal Year 2016 and Fiscal Year 2017 costs using either the Department's Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Department did not have any outstanding invoices from Fiscal Year 2017 unpaid after the closure of the Fiscal Year 2017 Lapse Period on September 30, 2017. Therefore, the Department did not use its Fiscal Year 2017 appropriations to pay its Fiscal Year 2016 costs and does not intend to use either its Fiscal Year 2017 or Fiscal Year 2018 appropriations to pay its Fiscal Year 2016 or Fiscal Year 2017 costs.

Unaudited – See accompanying independent accountants' report.

**STATE OF ILLINOIS**  
**DEPARTMENT OF THE LOTTERY**  
**COMPLIANCE EXAMINATION**  
**ALTERNATIVE FINANCING IN LIEU OF APPROPRIATIONS AND**  
**PROGRAMS TO ADDRESS UNTIMELY PAYMENTS TO VENDORS**  
For the Two Years Ended June 30, 2017

(Unaudited)

Transactions Involving the Illinois Finance Authority

The Department and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during Fiscal Year 2016 (and Fiscal Year 2017).

Transactions Involving the Vendor Payment Program and Vendor Support Initiative Program

*Vendor Payment Program (VPP)*

In 2011, the State of Illinois (State) created the voluntary VPP in response to delays in payments for goods and services provided by the State's vendors arising from the State's cash flow deficit. The Department of Central Management Services (CMS) approved third party financing entities to act as "qualified purchasers" of accounts receivable from "participating vendors" who had submitted invoices which had not been paid by the State.

A participating vendor's accounts receivable is eligible for the VPP if it is from an invoice unpaid by the State that is (1) not for medical assistance payments (2) where 90 days have passed since the proper bill date, which is (3) entitled to interest under the State Prompt Payment Act (Act) (30 ILCS 540) and (4) free of any liens or encumbrances. Under the terms of an agreement between a qualified purchaser and the participating vendor, the participating vendor receives payment for 90% of the receivable balance. The participating vendor, in turn, assigns its rights to the interest due under the Act to the qualified purchaser. When the State Comptroller ultimately pays the invoice, the participating vendor receives the remaining 10% due (less any offsets).

Notably, while CMS approved the qualified purchasers and provided information to vendors about VPP, neither CMS nor the State are parties to the assignment agreements.

During Fiscal Year 2016 and Fiscal Year 2017, none of the Department's vendors participated in the Vendor Payment Program

*Vendor Support Initiative Program (VSI)*

During Fiscal Year 2016, the State created the voluntary VSI as an alternative to the VPP for cases where the Department lacked an enacted appropriation or other legal expenditure authority to present invoices to the State Comptroller for payment. The VSI operated similarly to the VPP, although the Department was required to determine a participating vendor's invoice (1) would have met the requirements of the VPP and (2) provided the proper bill date of invoice prior to the qualified purchaser and participating vendor entering into an agreement where the participating vendor received payment for 90% of the receivable balance. The participating vendor, in turn, assigned its rights to the interest due under the Act to the qualified purchaser. After the State Comptroller ultimately paid the invoice after the Department received appropriations or other legal expenditure authority to pay the invoice, the participating vendor received the remaining 10% due (less any offsets).

During Fiscal Year 2016, the Department had 3 vendors participate in VSI for 30 invoices, totaling \$156,251. A summary of the amount of transactions by qualified purchaser follows:

<b>TRANSACTIONS BY QUALIFIED PURCHASER</b>	
Qualified Purchaser	Total
A	\$ 91,600
B	9,482
C	55,169
	<u>\$ 156,251</u>

During Fiscal Year 2017, none of the Department's vendors participated in the Vendor Support Initiative Program (VSI).

Unaudited – See accompanying independent accountants' report.

**STATE OF ILLINOIS**  
**DEPARTMENT OF THE LOTTERY**  
 COMPLIANCE EXAMINATION  
**INTEREST COSTS ON FISCAL YEAR 2016 and FISCAL YEAR 2017 INVOICES**  
 For the Two Years Ended June 30, 2017

(Unaudited)

The Department plans to calculate prompt payment interest due to vendors under the State Prompt Payment Act (Act) (30 ILCS 540) using the vendor's proper bill date through the date the State Comptroller issues a warrant to the vendor, regardless of when and if an enacted appropriation existed during Fiscal Year 2016 and Fiscal Year 2017. The Act (30 ILCS 540/3-2) and the Illinois Administrative Code (74 Ill. Admin. Code 900.100) require interest to be paid under a daily simple interest rate of .033% (1% over a 30-day period) for every day elapsed following the 90th day after a vendor submits an eligible proper bill to the Department. The following chart shows the Department's prompt payment interest incurred related to Fiscal Year 2016 and Fiscal Year 2017 invoices, calculated on the accrual basis of accounting, through June 30, 2016 and June 30, 2017, by fund:

**PROMPT PAYMENT INTEREST INCURRED**  
**Year Ended June 30, 2016**

Fund #	Fund Name	Invoices	Vendors	Dollar Value
711	State Lottery Fund	60	41	44,139
		60	41	\$ 44,139

**PROMPT PAYMENT INTEREST INCURRED**  
**Year Ended June 30, 2017**

Fund #	Fund Name	Invoices	Vendors	Dollar Value
711	State Lottery Fund	-	-	-
		-	-	\$ -

Unaudited – See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Average Number of Employees  
For the Fiscal Year Ended June 30,  
(Unaudited)

<b>Division</b>	<b>Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Operations	55	51	54
Employee Use Agreement	83	79	71
Electronic Data Processing	9	15	15
Interagency Agreement	1	1	1
Shared Services Center	3	3	4
Total Department	<u>151</u>	<u>149</u>	<u>145</u>

Note:

(a) The Department funds one guard at the Willard Ice Building pursuant to an interagency agreement.

Unaudited – See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Analysis of Significant Variations in Expenditures

For the Two Years Ended June 30, 2017

(Unaudited)

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2017 AND 2016**

**State Lottery Fund - 711**

Expenses of Developing and Promoting Lottery Games

The rates charged by the private manager decreased from Fiscal Year 2016 to Fiscal Year 2017 due to a change in the private manager agreement, which was enacted for the full twelve months of Fiscal Year 2017.

Deposit into the Capital Projects Fund

The Illinois Lottery Law (20 ILCS 1605/9.1) 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. No funds were contributed during Fiscal Year 2016 due to the fact that the Department estimated ending the year with a net deficit. Therefore, there would not have been any proceeds to transfer. In Fiscal Year 2017, the transfer increased to \$15 million based upon the estimated profit and cash available (see Finding 2017-001).

Prize Payments for Winning Tickets

During Fiscal Year 2016, there were no multi-state jackpot winners in the State. During Fiscal Year 2017, there was one multi-state jackpot winner for the Mega Millions game, which created the fluctuation.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Analysis of Significant Variations in Expenditures

For the Two Years Ended June 30, 2017

(Unaudited)

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2016 AND 2015**

**State Lottery Fund - 711**

Expenses of Developing and Promoting Lottery Games

The rates charged by the private manager decreased from Fiscal Year 2015 to Fiscal Year 2016 due to a change in the private manager agreement, which was enacted for nine months of Fiscal Year 2016.

Deposit into the Capital Projects Fund

The Illinois Lottery Law (20 ILCS 1605/9.1) 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. No funds were contributed during Fiscal Year 2016 due to the fact that the Department estimated ending the year with a net deficit. Therefore, there would not have been any proceeds to transfer. As a transfer was made in Fiscal Year 2015, the transfer decreased by \$8 million between Fiscal Year 2015 and Fiscal Year 2016 based upon the estimated profit and cash available (see Finding 2017-001).

Prize Payments for Winning Tickets

During Fiscal Year 2015, there were two multi-state jackpot winners in the State. During Fiscal Year 2016, there were none, which created the fluctuation.

Unaudited – See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Analysis of Significant Variations in Cash Receipts  
For the Two Years Ended June 30, 2017  
(Unaudited)

**ANALYSIS OF SIGNIFICANT VARIATIONS IN CASH RECEIPTS BETWEEN FISCAL YEARS 2017 AND 2016**

**Capital Projects Fund – 0694**

Interfund Cash Transfer from the State Lottery Fund

The Illinois Lottery Law (20 ILCS 1605/9.1) 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. No funds were contributed during Fiscal Year 2016 due to the fact that the Department estimated ending the year with a net deficit. Therefore, there would not have been any proceeds to transfer. In Fiscal Year 2017, the transfer increased to \$15 million based upon the estimated profit and cash available.

**ANALYSIS OF SIGNIFICANT VARIATIONS IN CASH RECEIPTS BETWEEN FISCAL YEARS 2016 AND 2015**

**Capital Projects Fund – 0694**

Interfund Cash Transfer from the State Lottery Fund

The Illinois Lottery Law (20 ILCS 1605/9.1) 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. No funds were contributed during Fiscal Year 2016 due to the fact that the Department estimated ending the year with a net deficit. Therefore, there would not have been any proceeds to transfer. As a transfer was made in Fiscal Year 2015, the transfer decreased by \$8 million between Fiscal Year 2015 and Fiscal Year 2016 based upon the estimated profit and cash available.

Unaudited – See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Analysis of Significant Variations in Lapse Period Expenditures  
For the Two Years Ended June 30, 2017  
(Unaudited)

**FISCAL YEAR 2017**

The Department did not incur any significant Lapse Period spending during Fiscal Year 2017.

**FISCAL YEAR 2016**

**State Lottery Fund – 711**

Contractual Services, Travel, Commodities, Printing, Equipment, Telecommunications Services, Operation of Automotive Equipment, Expenses of Developing and Promoting Lottery Games, and Refunds

The significant spending during the Lapse Period was primarily due to the Department processing invoices received during Fiscal Year 2016 after the passage of Public Act 99-524 on June 30, 2016. All of these amounts were recorded in the Department's records as accounts payable as of June 30, 2016.

Unaudited – See accompanying independent accountants' report.

**STATE OF ILLINOIS  
DEPARTMENT OF THE LOTTERY**

Performance Measures  
Service Efforts and Accomplishments

(Unaudited)

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
Outcome indicators:						
Prizes paid (in millions)	\$ 1,826.9		1,969.1		1,743.0	
Retailer & vendor commissions (in millions)	160.1		160.9		161.6	
Transfers to Common School Fund (in millions)	723.2	A	695.4	A	690.3	A
Output indicators:						
Sales (in millions)	2,839.9	B	2,891.0	B	2,855.9	B
Input indicators:						
Expense of operations (in millions)	137.8		144.4		147.8	
Number of personnel	150	C	146	C	146	C
Efficiency/cost-effectiveness:						
Percentage of sales needed for other operating expenses	4.9%		5.0%		5.2%	
Percentage of sales transferred to the Common School Fund	25.5%		24.1%		24.2%	
Percentage of sales paid in prizes	64.3%		68.1%		61.0%	
Percentage of sales paid as retailer & vendor commissions	5.6%		5.6%		5.7%	

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

(B) Amount includes free tickets.

(C) Total number of personnel on June 30.

Unaudited – See accompanying independent accountants' report.