



STATE OF ILLINOIS  
**OFFICE OF THE  
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**DEPARTMENT OF THE LOTTERY**  
**STATE LOTTERY FUND**

**Financial Audit**  
**For the Year Ended June 30, 2020**

**Release Date: June 23, 2021**

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>1</b>	<b>1</b>	<b>2</b>	2017	<b>20-01</b>	20-03	
<b>Category 2:</b>	2	1	3				
<b>Category 3:</b>	<u>0</u>	<u>0</u>	<u>0</u>				
<b>TOTAL</b>	<b>3</b>	<b>2</b>	<b>5</b>				
<b>FINDINGS LAST AUDIT: 4</b>							

**INTRODUCTION**

This digest covers the financial audit of the State Lottery Fund (Fund) as of and for the year ended June 30, 2020. The next compliance examination of the entire Department of the Lottery (Department) will be performed for the two years ending June 30, 2021.

**SYNOPSIS**

- **(20-01)** The Department has not yet resolved prior period excess cash transfers from the Fund to the Common School Fund or performed all transfers to the Capital Projects Fund from the Fund.
- **(20-02)** The Department did not develop or retain adequate supporting documentation for its personnel transactions and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Fund.

<b>Category 1:</b> Findings that are <b>material weaknesses</b> in internal control and/or a <b>qualification</b> on compliance with State laws and regulations (material noncompliance).
<b>Category 2:</b> Findings that are <b>significant deficiencies</b> in internal control and <b>noncompliance</b> with State laws and regulations.
<b>Category 3:</b> Findings that have <b>no internal control issues but are in noncompliance</b> with State laws and regulations.

**DEPARTMENT OF THE LOTTERY  
STATE LOTTERY FUND  
FINANCIAL AUDIT  
For The Year Ended June 30, 2020**

<b>STATEMENT OF NET POSITION (DEFICIT) (in thousands)</b>	<b>2020</b>	<b>2019</b>
<b>Assets and Deferred Outflows of Resources</b>		
Cash and cash equivalents.....	\$ 59,206	\$ 48,929
Investments.....	297,085	289,140
Receivables (net).....	112,436	57,897
Capital assets (net).....	29	56
Other.....	226	309
Deferred Outflows of Resources - pensions and OPEB.....	12,449	13,930
Total.....	481,431	410,261
<b>Liabilities and Deferred Inflows of Resources</b>		
Prizes payable.....	88,030	50,942
Accounts payable and accrued liabilities.....	11,082	23,571
Long-term annuity prizes payable.....	248,867	264,251
Unearned revenue.....	1,411	1,261
Due to other State funds.....	148,872	109,309
Net pension liability.....	77,407	80,724
Net OPEB liability.....	52,140	48,112
Other.....	1,342	1,445
Deferred Inflows of Resources - pensions and OPEB.....	19,961	23,331
Total.....	649,112	602,946
<b>Net Position</b>		
Net investment in capital assets.....	12	19
Unrestricted.....	(167,693)	(192,704)
Total.....	\$ (167,681)	\$ (192,685)
<b>REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT) (in thousands)</b>		
<b>Operating Revenues</b>		
Charges for sales and services.....	\$ 2,841,724	\$ 2,974,539
Other.....	6,780	6,585
Total.....	2,848,504	2,981,124
<b>Operating Expenses</b>		
Costs of sales and services.....	154,938	165,329
Prizes and claims.....	1,842,188	1,907,153
General and administrative.....	153,614	154,343
Other.....	27	27
Total.....	2,150,767	2,226,852
Operating income.....	697,737	754,272
<b>Nonoperating revenues (expenses)</b>		
Investment income (expense).....	32,346	22,384
Interest expense.....	(9,008)	(11,181)
Other.....	(3)	(107)
Total.....	23,335	11,096
Transfers to other State Funds.....	(696,068)	(754,165)
Change in net position.....	\$ 25,004	\$ 11,203
<b>DEPARTMENT DIRECTOR</b>		
During Audit Period: Mr. Harold Mays (Acting)		
Currently: Mr. Harold Mays (Acting)		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**NONCOMPLIANCE WITH FUND TRANSFER  
PROVISIONS**

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

During testing, we noted the following:

**Department has been unable to resolve excess transfers totaling \$133.966 million**

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

**\$69.842 million of the excess transfers related to accounting practices prior to Fiscal Year 2010**

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

**\$69.842 million of the excess transfers has created a cash deficit within the Capital Projects Fund**

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

**\$64.124 million in excess transfers due to a previous misinterpretation by Department officials of the Illinois Lottery Law**

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

**Unperformed transfers of \$89.045 million due to the Capital Projects Fund**

- The Department has been unable to transfer \$89.045 million from Fund 711 to Fund 694. This amount consists of \$69.842 million in excess transfers which

occurred in periods prior to Fiscal Year 2010 as discussed above and \$19.203 million in unperformed prior period transfers not performed in periods prior to Fiscal Year 2019.

**\$19.203 million of the unperformed transfers prior to Fiscal Year 2019 due to timing issues associated with applying the Illinois Lottery Law**

During discussions with Department officials regarding the \$19.203 million, they indicated that prior to Public Act 100-0587's enactment in June 2018, the Department was required to annually transfer cash from Fund 711 to Fund 694 on June 30. Due to both timing issues arising from the conversion of accounts receivable into cash and difficulties determining the exact amount to transfer, the Department was not able to timely transfer this balance into Fund 694. (Finding 1, pages 50-52)  
**This finding has been repeated since 2017.**

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

**Department officials agreed**

Department officials concurred with our recommendation.

**INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA**

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

During testing, some of the more significant issues we noted included the following:

**Reconciliation of census data has not been performed**

- The Department had not performed an initial complete reconciliation of its census data recorded by the State Employees' Retirement System of Illinois (SERS) and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) to its internal records to establish a base year of complete and accurate census data.

**Longevity pay adjustments could not be supported by the Department**

- Two of 80 (3%) employees tested did not have documentation supporting the employee's total compensation as determined under the Illinois Pension Code (40 ILCS 5/14-133(a)), as adjustments were posted for longevity pay which the Department could not substantiate from its own records. We considered the impact of the portion of these employees' total

compensation that was unsupported and determined these amounts did not materially impact the Department's financial statements.

**Unreconciled discrepancy of \$200 in one employee's compensation**

- One of 80 (1%) employees tested had a discrepancy between the employee's compensation where the Department's records reflected wages of \$3,327 per month as opposed to SRS' records of \$3,127 per month. We considered the impact of this discrepancy and determined it did not materially impact the Department's financial statements. (Finding 2, pages 53-55)

We recommended the Department implement controls to ensure total compensation paid to each employee is fully documented and supported within the Department's records.

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

**Department officials agreed**

Department officials concurred with our recommendation.

**OTHER FINDINGS**

The remaining findings pertain to inadequate controls over specialty tickets, an untimely review of credit card security, and system access weaknesses. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

**AUDITOR'S OPINION(S)**

The auditors stated the financial statements of the State Lottery Fund as of and for the year ended June 30, 2020, are fairly stated in all material respects.

This financial audit was conducted by Sikich, LLP.

**SIGNED ORIGINAL ON FILE**

JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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