



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued June 9, 2021

Massachusetts State Lottery Commission

For the period April 5, 2019 through March 31, 2020





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Making government work better

June 9, 2021

Mr. Michael R. Sweeney, Executive Director
Massachusetts State Lottery Commission
150 Mount Vernon Street
Dorchester, MA 02125-3573

Dear Mr. Sweeney:

I am pleased to provide this performance audit of the Massachusetts State Lottery Commission. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, April 5, 2019 through March 31, 2020. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts State Lottery Commission for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Deborah B. Goldberg, Treasurer and Receiver General, Chair of the Massachusetts State Lottery Commission

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LIST OF ABBREVIATIONS

CIW	Commonwealth Information Warehouse
CORI	Criminal Offender Record Information
CSR	customer service representative
ES	Enterprise Series
LSR	lottery sales representative
MSLC	Massachusetts State Lottery Commission
OSA	Office of the State Auditor

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a follow-up audit of the Massachusetts State Lottery Commission (MSLC) for the period April 5, 2019 through March 31, 2020.

The purpose of this follow-up audit was to determine whether MSLC had effectively resolved the issues OSA identified during our previous audit No. 2013-0089-3S, which covered the period July 1, 2010 through September 30, 2012. In our current audit, we sought to determine whether MSLC had properly conducted criminal background reviews and financial credit reviews of all new lottery sales agent applicants, as well as criminal background reviews of all active agents every four years after their initial reviews for the duration of their MSLC licenses. We reviewed the process for terminating agents to ensure that MSLC properly accounted for and safeguarded all tickets in the custody of terminated agents. Finally, we determined whether MSLC employees, or their immediate family members living in their households, had claimed prizes, which they are prohibited from doing by Section 31 of Chapter 10 of the General Laws.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 8	MSLC did not conduct all required fourth-year Criminal Offender Record Information (CORI) reviews for its active lottery sales agents.
Recommendation Page 8	MSLC should continue to reduce the backlog of lottery sales agents who have not had CORI reviews.
Finding 2 Page 9	Terminated lottery sales agents' reconciliation reports were missing.
Recommendation Page 10	MSLC should establish policies and procedures to ensure that all required reports for reconciling instant ticket game books and funds are generated.
Finding 3 Page 11	MSLC missed 39 potential claimant addresses that may have matched MSLC employee addresses.
Recommendations Page 11	<ol style="list-style-type: none">1. MSLC should investigate the potential matches to ensure that no employee or employee's family member claimed a prize.2. MSLC management should ensure that each claimant's address information is accurately and completely entered in the Enterprise Series system.

OVERVIEW OF AUDITED ENTITY

The Massachusetts State Lottery Commission (MSLC) was established in 1971 under Section 24 of Chapter 10 of the Massachusetts General Laws. According to its website, its mission is as follows:

To operate in a manner that secures the integrity of the Lottery's games and protects the well-being of its customers while maximizing revenues returned to the Commonwealth for the benefit of its cities and towns.

MSLC is governed by five commissioners: the State Treasurer, who is its chair; the Secretary of Public Safety; the Comptroller of the Commonwealth; and two people appointed by the Governor for terms that are coterminous with the Governor's. The State Treasurer appoints MSLC's director, subject to the Governor's approval. No less than 45% of MSLC's revenue is paid to holders of winning tickets, no more than 15% may be used for operating costs, and the balance is distributed to the 351 cities and towns in Massachusetts.

MSLC has six offices: its headquarters at 150 Mount Vernon Street in Dorchester and regional offices in Braintree, New Bedford, West Springfield, Woburn, and Worcester. MSLC also maintains data centers in Norwell and Chelsea.

During our audit period, MSLC had 375 active employees. In fiscal year 2019, MSLC generated revenue of \$5.509 billion and returned \$1.104 billion in net profit to the Commonwealth to support its 351 cities and towns.

Lottery Sales Agent Background Reviews

New lottery sales agents are subject to criminal and financial background reviews. All active lottery sales agents are subject to criminal background reviews every four years. Section 2.08(2)(b) of Title 961 of the Code of Massachusetts Regulations states,

No applicant shall be granted a license as a Sales Agent if the applicant or any employee of the applicant who holds a position of substantial authority in the applicant's business or at any location to be licensed has at any time been convicted of a felony or any violation of M.G.L. c. 271 or of any other anti-gambling statute or law relating to the taxation of gambling or the proceeds thereof unless the Director in his/her discretion decides otherwise.

Terminated Lottery Sales Agents

When a lottery sales agent is terminated, a lottery sales representative (LSR) is required to travel to the agent's location to perform a final settlement of the agent's inventory of tickets, revenue, supplies, and equipment. At the agent's location, the LSR scans all available instant ticket game books (books of scratch tickets) and generates an Instant Ticket Game Book Return Report of all returned instant ticket game books. The LSR and the agent review the report and agree to the inventory of instant ticket game books by signing off. The LSR generates an Inventory Movement Report from MSLC's computer system to ensure that the agent's instant ticket game books have been deactivated. The agent and the LSR sign a Final Settlement Report to ensure that all of the agent's accounts have been recorded and reconciled.

The LSR returns all of the terminated lottery sales agent's full and partial instant ticket game books to an MSLC regional office for reconciliation, destruction of partial game books, and return of full game books to MSLC's inventory.

Prize Claim Verification

MSLC's Internal Audit Department conducts an annual review to ensure that no employee or employee's immediate family member claims a lottery prize, in accordance with Section 31 of Chapter 10 of the General Laws:

No ticket or share shall be purchased by, and no prize shall be paid to any of the following persons: any member or employee of the commission or to any spouse, child, brother, sister, or parent residing as a member of the same household in the principal place of abode of any member or employee of the commission.

MSLC's Internal Audit Department annually obtains a list of all MSLC employees and their home addresses from the Commonwealth Information Warehouse¹ and compares this information to prize claim information.

MSLC's "Standard Claims Procedure" states that when claiming a prize, claimants must present the following documents to a customer service representative (CSR) at an MSLC regional office:

- a completed and signed claim form

1. According to the website of the Office of the Comptroller of the Commonwealth, CIW "brings together a subset of the Commonwealth's financial, budgetary, human resources, payroll and time reporting data. It serves as the central data repository for the diverse reporting needs of users and agencies across the Commonwealth."

- a signed original ticket (instant or draw)
- proof of identification, such as a government-issued photo identification
- proof of Social Security number.

The CSR ensures that the information on the claim form agrees with the documentation presented by the claimant. After receiving and verifying the claimant's information, the CSR validates the winning ticket and manually enters information from the claim form (the claimant's Social Security number, first name, middle initial if provided, last name, ZIP code, and town) in the Enterprise Series system.² Then the CSR issues a check to the claimant and asks the claimant to confirm all the information on the claim form before leaving the MSLC regional office.

2. This is a new computer system to which MSLC switched in April 2019. It provides MSLC with historical data storage, analysis, and reporting.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts State Lottery Commission (MSLC) for the period April 5, 2019 through March 31, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer, the conclusion we reached regarding each objective, and where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does MSLC conduct background reviews for its active lottery sales agents and new license applicants, as required by its policies and Section 27 of Chapter 10 of the General Laws?	No; see Finding <u>1</u>
2. Does MSLC ensure that tickets that have been in the custody of terminated lottery sales agents are obtained and accounted for, as required by its policies and procedures?	No; see Finding <u>2</u>
3. Does MSLC ensure that its employees and their immediate household members do not claim prizes, as required by Section 31 of Chapter 10 of the General Laws?	No; see Finding <u>3</u>

To achieve our audit objectives, we gained an understanding of the internal controls we determined to be relevant to the objectives by reviewing applicable agency policies and procedures, as well as conducting interviews with MSLC's staff and management.

We performed the following procedures to obtain sufficient, appropriate audit evidence to address the audit objectives.

Lottery Sales Agent Background Review

We obtained the Enterprise Series (ES) system's Sales Agents [Criminal Offender Record Information, or CORI] Status Report, which listed all 9,732 lottery sales agents who were active during the audit period. We performed an analysis to determine whether MSLC's Licensing Department had conducted criminal background reviews for all these agents. Using TeamMate Analytics,³ we determined the following:

1. whether, for active lottery sales agent license renewal, the ES system's CORI Date field was within four years of the last CORI review
2. whether, for active lottery sales agents with no original CORI review dates, the ES system's CORI Date field was empty.

Additionally, we selected a nonstatistical random sample of 25 of the 9,732 lottery sales agents. We obtained and reviewed the ES system's Agent Summary Sheet to determine whether the date each agent consented to a CORI review, and the last CORI review date, were within the four-year agent license renewal period.

Of the 9,732 lottery sales agents on the Sales Agents CORI Status Report, 367 were people who had applied to be agents during the audit period; we selected a nonstatistical random sample of 25 of these 367. We obtained and reviewed the corresponding CORI reports and credit reviews to ensure that the ES system's background reviews for applicants had been conducted and approved by MSLC management.

Terminated Lottery Sales Agents

To determine whether MSLC conducted final settlements as required by its procedures, we obtained the Terminated Sales Agents Report, listing all 726 lottery sales agents terminated during our audit period, from the ES system. We randomly and nonstatistically selected 50 terminated agents to determine whether final settlements had been performed for them. We reviewed the final settlement process completed at each agent location to ensure the following:

- that each Instant Ticket Game Partial Book Return Report, which shows the entire scanned partial ticket book inventory at the terminated lottery sales agent's site, was signed by the lottery sales representative (LSR) and the agent

3. This is an Excel-based data analytics tool that allows auditors to execute advanced data analysis.

-
- that each Instant Ticket Game Full Book Return Report, which shows the entire scanned full ticket book inventory at the terminated lottery sales agent's site, was signed by the LSR and the agent
 - that the instant ticket game books were no longer in the terminated lottery sales agent's inventory, as shown on the Inventory Movement Report
 - that the lottery sales agent and the LSR had signed the Final Settlement Report.

Prize Claim Review

To ensure that MSLC employees and their immediate household members did not claim prizes, which they are prohibited from doing by Section 31 of Chapter 10 of the General Laws, we obtained a list of lottery claim winners from the ES system (representing 155,258 claims processed during our audit period), and a list of MSLC employees and their home addresses, from the Commonwealth Information Warehouse (CIW). We compared the addresses listed for all 155,258 claims to the home addresses of MSLC employees from the CIW list.

Whenever sampling was used, we applied a nonstatistical approach, and as a result, we did not project our results to the entire population.

Data Reliability

We assessed the reliability of the data obtained from the ES system by interviewing knowledgeable MSLC personnel about the ES system and testing the data for missing records or fields, duplicate records, invalid identifiers, and report dates outside our audit period. We tested ES system controls, which included security management, access control, and segregation of duties, and determined whether configuration management and contingency planning policies were in place during the audit period. We selected 20 active lottery sales agents from the ES system's Active Sales Agent Report and traced each agent's information (such as name, CORI report status, and credit review status) to the agent application forms. From our data reliability analysis and information system control testing, we found that the data in the ES system were reliable for the purposes of our audit objectives.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Massachusetts State Lottery Commission did not conduct all required fourth-year Criminal Offender Record Information reviews for its active lottery sales agents.

The Massachusetts State Lottery Commission (MSLC) did not conduct fourth-year Criminal Offender Record Information (CORI) reviews for 3,146 (32%) of the 9,732 lottery sales agents who were active during the audit period. Some agents had not received a CORI review since 1998. Of the 3,146 agents without CORI reviews, 251 had no CORI review dates in the Enterprise Series (ES) system, which indicates that they may never have received a CORI review. Therefore, current agents may have criminal records of which MSLC is unaware.

Authoritative Guidance

MSLC's "Licensing Department Policies and Procedures" state that each active lottery sales agent is required to have a CORI review every 4 years for the duration of the agent's MSLC license.

Reasons for Issue

Before the ES system was implemented in April 2019, MSLC tracked the CORI review process manually by entering the dates of previous CORI reviews in an Excel spreadsheet and MSLC's former computer system. This was ineffective, since neither the Excel spreadsheet nor the former computer system identified the date when the next CORI review was needed. Since implementing the ES system, MSLC has processed new CORI reviews promptly and worked to reduce the backlog of CORI reviews as time allows.

Recommendation

MSLC should continue to reduce the backlog of lottery sales agents who have not had CORI reviews.

Auditee's Response

As noted in the . . . report the MSLC has been vigorously working to reduce the background check backlog. Of the 3,146, the MSLC determined that 670 (20%) were non-profit clubs; this included 201 (80%) of the 250 that did not have a CORI review date. As of the date of this response, the backlog of for-profit agents has been reduced from 2,476 to one, an overall reduction of 99.9%. The backlog of non-profit clubs has been reduced from 670 to 584, an overall reduction of 12.84%. Given the nature and structure of the non-profit clubs, completing CORI checks for non-profit clubs is challenging. For example, most non-profit clubs do not have

full-time employees that run the agent location on a routine schedule. These owners are typically appointed members who serve as president, treasurer, etc. for a specific time-period as part of their club.

The MSLC has taken the additional step of procuring and initiating the implementation of a new licensing management system that will integrate with the ES system and automate the licensing function. This automation is expected to assure all future fourth-year background checks will be conducted in a timely manner.

Auditor's Reply

Based on its response, MSLC is taking measures to address our concerns on this matter.

2. Terminated lottery sales agents' reconciliation reports were missing.

From our sample of 50 terminated lottery sales agents, 12 (24%) had reports missing from their final settlement reconciliations:

- five missing Inventory Movement Reports
- nine missing Instant Ticket Game Book Settlement Reports
- ten missing Final Settlement Reports, which contain the final count of partial and full ticket books at a terminated lottery sales agent's location.

As a result, there is no assurance that all instant ticket game books and funds have been returned by lottery sales representatives (LSRs).

Authoritative Guidance

The MSLC's "Asset Control and Ticket Return Policies and Procedures" had last been updated in 2005 and were being updated again during our audit in 2020, which we documented in an interview with MSLC personnel. In that interview, MSLC personnel explained the reconciliation process for terminated lottery sales agents at agent locations. To document that they have accounted for and secured all instant ticket game books and funds on site, LSRs generate the following ES system reports:

1. The Instant Ticket Game Partial Book Return Report is signed by the terminated lottery sales agent and the LSR. The LSR generates it by scanning partial ticket books at the terminated agent's location.
2. The Instant Ticket Game Full Book Return Report is signed by the terminated lottery sales agent and the LSR. The LSR generates it by scanning full ticket books at the terminated agent's location.

3. The Instant Ticket Game Book Settlement Report is signed by the terminated lottery sales agent and the LSR. It represents the total of all instant ticket game books inventoried.
4. The Final Settlement Report is signed by the terminated lottery sales agent and the LSR. It represents the final total value of all instant ticket game books in the inventory at the agent's location.
5. The Inventory Movement Report indicates that all ticket books scanned by the LSR at the terminated lottery sales agent's location have been deactivated in the ES system.

Reasons for Issue

MSLC did not provide a reason these reports were not available. They may have been lost, misfiled, or not generated during the reconciliation process.

Recommendation

MSLC should establish policies and procedures to ensure that all required reports for reconciling instant ticket game books and funds are generated.

Auditee's Response

The MSLC has revised and documented policies and procedures to address terminated lottery sales agent reports. These policies and procedures are designed to achieve several goals including:

- 1. Reduce the instant ticket game inventory on hand when an agent is terminating.*
- 2. Provide specific steps and requirements for processing instant ticket returns and collecting appropriate documentation.*
- 3. Provide specific steps and requirements for processing instant tickets returned from a terminated agent to the MSLC.*

In addition to immediately implementing these revised policies and procedures, the MSLC will implement software changes to significantly increase the automation of the process during the next twelve months.

Auditor's Reply

Based on its response, MSLC is taking measures to address our concerns on this matter.

3. MSLC missed 39 potential claimant addresses that may have matched MSLC employee addresses.

We obtained the names and addresses of all claimants from our audit period to compare to MSLC employee names and addresses and identified 39 claimant addresses that were potential matches to MSLC employee addresses and were not identified as such by MSLC during its annual review. Without investigation of all potential matches of claimant addresses to employee addresses, MSLC employees or their family members claiming prizes may go undetected. Additionally, there were 5,125 claims we could not compare to the Commonwealth Information Warehouse report of MSLC employees and their home addresses because addresses on claim forms were incomplete, were inaccurate, or were post office boxes.

Authoritative Guidance

According to Section 31 of Chapter 10 of the Massachusetts General Laws,

No ticket or share shall be purchased by, and no prize shall be paid to any of the following persons: any member or employee of the commission or to any spouse, child, brother, sister or parent residing as a member of the same household in the principal place of abode of any member or employee of the commission.

Reasons for Issue

MSLC uses Excel and a manual review process annually to compare claimants' and employees' addresses. This results in the possibility of missing potential address matches. We used geocoding software (software that provides geographic coordinates corresponding to a location), which increased our ability to match claimant addresses to employee addresses.

Recommendations

1. MSLC should investigate the potential matches to ensure that no employee or employee's family member claimed a prize.
2. MSLC should ensure that each claimant's address information is accurately and completely entered in the ES system.

Auditee's Response

The MSLC Security and Compliance Department has investigated all addresses associated with the thirty-nine claims. The investigations included an analysis of claim forms, review of public records, and interviews with staff. The MSLC had obtained reasonable assurance that none of these cases resulted in an employee or ineligible player claiming a prize.

The MSLC will implement a new policy and procedure by June 30, 2021 to ensure that all MSLC customer service staff are accurately recording claimant name and address information at the time tickets are cashed.

Auditor's Reply

Based on its response, MSLC is taking measures to address our concerns on this matter.