

OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

Official Audit Report – Issued November 26, 2025

Massachusetts State Lottery Commission

For the period July 1, 2022 through June 30, 2024



OFFICE OF THE STATE AUDITOR

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November 26, 2025

Mark William Bracken, Executive Director
Massachusetts State Lottery Commission
150 Mount Vernon Street
Dorchester, MA 02125

Dear Mr. Bracken:

I am pleased to provide to you the results of the enclosed performance audit of the Massachusetts State Lottery Commission. As is typically the case, this report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2022 through June 30, 2024. As you know, my audit team discussed the contents of this report with agency managers. This report reflects those comments.

I appreciate you and all your efforts at the Massachusetts State Lottery Commission. The cooperation and assistance provided to my staff during the audit went a long way toward a smooth process. Thank you for encouraging and making available your team. I am available to discuss this audit if you or your team has any questions.

Best regards,



Diana DiZoglio
Auditor of the Commonwealth

cc: Deborah B. Goldberg, Treasurer and Receiver General and Chair of the Massachusetts State Lottery Commission
Elizabeth Pottier, Internal Audit Director of the Massachusetts State Lottery Commission

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LIST OF ABBREVIATIONS

CMR	Code of Massachusetts Regulations
CTR	Office of the Comptroller of the Commonwealth
DOR	Department of Revenue
EOTSS	Executive Office of Technology Services and Security

EXECUTIVE SUMMARY

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 the Massachusetts State Lottery Commission, referred to in this report as the Lottery, for the period July 1, 2022 through June 30, 2024.

The purpose of the audit was to determine the following:

- whether the Lottery conducted financial reviews, criminal background checks, and site assessments, where applicable, before approving, denying, or renewing sales agents' applications as required by Sections 3.2–3.4 and 4.2.2–4.2.3 of the Lottery's "Licensing Department Procedures";
- whether the Lottery monitored its sales agents' deposits of proceeds from Lottery sales and subsequently deactivated sales agents' lottery terminals until a finance hearing was held for sales agents who were delinquent in the payment of proceeds in accordance with the Lottery's "Credit and Collections Department Policy and Procedures";
- whether the Lottery enforced cigar-, electronic nicotine delivery system-, or tobacco-related suspensions as required in Section 2 of the Lottery's "[General Laws Chapter 10, Section 30B]—Lottery Sales Agent Suspension Guidelines" policy;
- whether the Lottery monitored its sales agents to ensure that they were not selling lottery products to minors, as required by Part A of Section V of the Lottery's "Monitoring & Testing—Sale to Minors" policy; and
- whether the Lottery maintained a record of suspension history when deactivating and reactivating a sales agent's lottery license in accordance with Section 5.3 of the Lottery's "Licensing Department Procedures."

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

Finding 1 Page 21	The Lottery failed to provide evidence that it conducted financial reviews or criminal background checks for all its sales agent applicants, potentially allowing retailers who did not meet all licensing requirements to hold a lottery license.
Effect	Maintaining all financial and criminal background check records is essential for the Lottery to demonstrate that its applicants have met all the requirements to become licensed sales agents. Failing to perform or provide proof of complete financial checks and criminal background checks makes it impossible to confirm that the Lottery has thoroughly reviewed applicants before approving them, which could increase the Lottery's financial, compliance, and reputational risks.

Recommendations Page <u>23</u>	<ol style="list-style-type: none">1. The Lottery should develop and implement monitoring controls to ensure that Lottery staff members review financial and criminal background checks on new and renewing applicants before approving or denying a sales agent application.2. The Lottery should ensure that it maintains all licensing records in accordance with the Massachusetts Statewide Records Retention Schedule.
Finding 2 Page <u>23</u>	The Lottery did not deactivate terminals for sales agents who had missed bank sweeps, as required by its “Credit and Collections Department Policies and Procedures.”
Effect	By not adhering to its policy, the Lottery risks inconsistencies in consequences for sales agents and threatens to undermine trust and damage the relationship between the Lottery and its sales agents. Maintaining clear and fair practices is essential to upholding the Lottery’s integrity. Additionally, without the timely collection of lottery proceeds, state revenues cannot be reported or transferred to the Department of Revenue (DOR), resulting in the delay of distribution of funds to the Commonwealth’s cities and towns.
Recommendations Page <u>24</u>	<ol style="list-style-type: none">1. The Lottery should ensure that it deactivates its sales agents’ lottery terminals after they miss three bank sweeps within a 12-month period until a finance hearing determination and complete resolution occur.2. The Lottery should update its written “Credit and Collections Department Policies and Procedures” to reflect its current practices for missed bank sweeps.
Finding 3 Page <u>26</u>	The Lottery did not consistently implement suspensions for cigar-, electronic nicotine delivery system-, or tobacco-related violations for the correct number of days or at all, in violation of regulatory standards and possibly jeopardizing the integrity of the Lottery’s operations.
Effect	If the Lottery fails to adequately suspend sales agents for the specified duration or neglects to implement suspensions altogether, it creates an impression that violations are tolerated, significantly undermines accountability, and creates the appearance of favoritism as a potential explanation for disparate treatment. This not only jeopardizes the integrity of the Lottery’s operations but also permits a culture of disregard for regulatory standards.
Recommendations Page <u>27</u>	<ol style="list-style-type: none">1. The Lottery should establish sufficient policies and procedures to monitor the receipt and review of cigar-, electronic nicotine delivery system-, and tobacco-related violations.2. The Lottery should establish monitoring controls to ensure that Lottery employees adhere to the specific number of days of suspension and not deviate from its policy.
Finding 4 Page <u>28</u>	The Lottery did not monitor and test its sales agents’ compliance with its requirement prohibiting the sale of Lottery products to minors, as required by the Lottery’s “Monitoring & Testing—Sale to Minors” policy.
Effect	The absence of monitoring and testing of sales agents’ compliance with the Lottery’s policy restricts its ability to effectively monitor the sale of lottery products to minors. This hampers the Lottery’s efforts to safeguard the public and promote responsible gaming behavior.
Recommendations Page <u>29</u>	<ol style="list-style-type: none">1. The Lottery should develop monitoring controls to ensure that sales agents comply with laws, regulations, and policies regarding the sale of Lottery products to minors.2. The Lottery should review, update, and reimplement its “Monitoring & Testing—Sales to Minors” policy.

Finding 5 Page <u>29</u>	The Lottery did not maintain an accurate record of the suspension history of its sales agents, affecting the evaluation, monitoring, and potential future enforcement of any violations by those agents.
Effect	If the Lottery fails to maintain accurate records of its sales agents' suspension histories, it may struggle to effectively evaluate or monitor any violations by those agents who have suspensions. This lack of reliable information hinders the Lottery's ability to assess the overall number and severity of violations associated with each sales agent. Consequently, the Lottery may make incorrect decisions because it is missing crucial information that could impact the public, such as a licensed sales agent continuing to operate despite being barred from selling lottery products. These inaccuracies could also lead to inappropriate future enforcement against sales agents whose first violation is thought to be a repeat violation, or whose repeat violation is thought to be their first of that kind.
Recommendations Page <u>30</u>	<ol style="list-style-type: none">1. The Lottery should consistently review and update its "Licensing Department Procedures" to include details about assigning appropriate reason codes and comments to its suspended sales agents' files within the central gaming system.2. The Lottery should implement a review process to ensure that the appropriate reason codes, comments, and suspension periods are documented in its central gaming system when suspending its sales agents.
Finding 6 Page <u>31</u>	The Lottery did not maintain a complete log of all cigar-, electronic nicotine delivery system-, and tobacco-related violations, which may result in inconsistent suspensions and/or sales agents potentially continuing to violate Lottery policies.
Effect	If the Lottery does not record all cigar-, electronic nicotine delivery system-, and tobacco-related violations in its cigar-, electronic nicotine delivery system-, and tobacco-related violations log, there may be inconsistent suspension processes and sales agents may potentially continue to violate Lottery policies.
Recommendations Page <u>32</u>	<ol style="list-style-type: none">1. The Lottery should develop policies and procedures to ensure that the Lottery's cigar-, electronic nicotine delivery system-, and tobacco-related violations log is complete, accurate, and up to date.2. The Lottery should collaborate with DOR to establish an agreement to create a centralized transmittal and tracking system that allows the Lottery and DOR access to all DOR suspensions, to ensure timely receipt of cigar-, electronic nicotine delivery system-, and tobacco-related violations and improved program management.

OVERVIEW OF AUDITED ENTITY

The Lottery was established in 1971 under Section 24 of Chapter 10 of the Massachusetts General Laws. According to the Lottery’s website, its mission is “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.”

The Lottery is governed by five commissioners: the State Treasurer, who serves as the 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 the Lottery’s director, subject to the Governor’s approval. At least 45% of the Lottery’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.

The Lottery has six offices: its headquarters at 150 Mount Vernon Street in Dorchester and regional offices in Braintree, New Bedford, West Springfield, Lawrence, and Worcester.

As of June 30, 2024, the Lottery had 442 active employees. In fiscal years 2023 and 2024, the Lottery generated revenue of \$6.1 billion and \$6.2 billion, respectively, and in both fiscal years, it returned \$1.2 billion in net profit to support the 351 cities and towns in the Commonwealth.

Licensing of Sales Agents

According to Section 2.05 of Title 961 of the Code of Massachusetts Regulations (CMR), the Lottery licenses retail businesses, or sales agents, to sell lottery tickets and register wagers on behalf of lottery players. To become a sales agent, applicants must undergo a licensing application process, which allows the Lottery to assess whether the applicant “will best serve the public interest and convenience and promote the sale of tickets,” according to 961 CMR 2.05.

If an application is approved, the sales agent must submit a renewal application annually thereafter. Renewal applications are also subject to review before approval of the renewal application, unless there were no ownership changes made to the application.

The Lottery uses an application management system to review both new and renewal applications. This system moves the applications through the following review stages:

Document Review

The first stage of the application review is the document review. During this stage, the Lottery's Licensing Department examines all new applications and renewal applications where there are changes to ownership. A licensing representative verifies the ownership of the business, corporate structure, and the business's tax identification number or the owner's social security number on a Form W-9.¹

If they find any discrepancies during the review, the licensing representative rejects the application and communicates instructions to the applicant on what they need to provide in order to move the application forward. Once the licensing representative approves the application in the document review stage, it progresses to the financial review and criminal background check stages concurrently.

Financial Review

The second stage includes the Lottery's Credit and Collections Department, which conducts financial reviews of all new applications and renewal applications where there are changes to ownership.

For new applications, a credit and collections representative conducts credit checks on the owners of the business entity to ensure that at least one owner has acceptable credit. The assigned representative verifies that none of the owners have any past due state taxes, school loans, or child support payments. Additionally, the representative reviews any existing lottery license debt linked to a previous sales agent at the same business address. If a location has any outstanding debt, the Lottery will not approve a new license until that debt has been paid.

For new chain stores, nonprofit clubs, and fraternal organizations, a credit and collections representative assesses whether a corporate guarantee² is necessary. If the Lottery's director of credit and collections approves the corporate guarantee, it is attached to the application, and no additional steps are taken for new chain stores, nonprofit clubs, or fraternal organizations during this stage of

1. A Form W-9 is an Internal Revenue Service form used to collect taxpayer information from individuals and businesses.
2. According to Section 628.2 of Title 12 of the Code of Federal Regulations, a guarantee is "a financial guarantee, letter of credit, insurance, or other similar instrument . . . that allows one party . . . to transfer the credit risk of more specific exposures . . . to another party."

the review. However, according to the Lottery's "Licensing Department Procedures," once a chain store is established, any additional chain locations must undergo an additional review to check for any lottery license debt from a previous owner of the location.

For renewal applications, the Licensing Department determines whether a new owner was added to the application or if a previous owner was removed from the application and notifies the Credit and Collections Department if there are any changes in ownership. If a new owner is added to the renewal application, a credit and collections representative performs a credit check on the new owner of the business to ensure that they have acceptable credit. If a previous owner was removed from the application, a credit and collections representative reviews the remaining owners' credit reports and their history with the Lottery to ensure that the remaining owners have acceptable credit.

The Credit and Collections Department uses a credit reporting company to perform credit checks; the Office of the Comptroller of the Commonwealth's (CTR's) Intercept system³ to check for outstanding state taxes, school loans, and child support; and the Massachusetts Management Accounting and Reporting System and the Lottery's central gaming system, which acts as the Lottery's system of record for its sales agents, to check for existing license debt.

A credit and collections representative approves or rejects each of the reviews within the finance check. If a representative rejects any part of the financial review, the application cannot move forward until the applicant remediates it.

Criminal Background Check

The second stage also includes a criminal history background check. The Compliance and Security Department reviews the business owners listed on new and renewal applications, including those who have not completed a background check in the past four years. The compliance and security director or assistant director evaluates the application by conducting background checks on the business owners to ensure that they do not have any felony convictions, gaming-related offenses, or crimes related to moral character, such as violent crimes. The Compliance and Security Department uses a third-party provider to perform background checks.

3. According to CTR's website, the Intercept system "matches Commonwealth of Massachusetts payments to eligible delinquent debt of individuals and corporations to assist with revenue recovery collections."

According to the Lottery's "Licensing Department Procedures," the criminal history background check for the owner of a chain store's head store carries over to each additional chain store. As a result, for additional chain store⁴ applications, no additional criminal history background checks are required unless the owner has not had a criminal history background check performed on them within the last four years.

The compliance and security director or assistant director reviews completed background checks and either rejects or approves the criminal history background check based on the results.

Site Assessment

The Lottery completes a site visit for all new store locations. If an application is approved in the financial review and criminal history background check, a sales representative performs a site assessment. A sales representative completes the site assessment by reviewing a pre-site assessment form, which provides an overview of the business location; performing an evaluation of the sales potential at the location; and determining whether the location meets all equipment requirements. Once the sales representative has completed the pre-site assessment form and completed the site assessment, the sales representative discusses acceptance or rejection of the site assessment with the Lottery regional manager and then either approves or rejects the site.

Once an application has moved through all stages of review, the Lottery sends an email to the applicant. If an applicant has met all of the Lottery's requirements during the application review process, they receive an email stating that their application to become a sales agent has been approved. If, at any stage of the application review, the applicant does not meet the Lottery's requirements, they receive an email stating that their application to become a sales agent has been denied, with instructions on how to file an appeal or resubmit their application with additional information, if desired.

Monitoring of Sales Agents

To become a sales agent, an applicant must agree to the terms of and sign the Lottery's Sales Agent Agreement before receiving their lottery license. The Sales Agent Agreement contains a list of mutual promises and commitments. This includes details about the Lottery's equipment that a field service technician will install at the sales agent's store location, the sale of lottery tickets and products, any

4. According to the Lottery's "Licensing Department Procedures," "Chain [stores] are used for corporate accounts . . . that have multiple locations operating under the same business entity."

necessary bank account requirements, and information about sales agent compensation. Additionally, the agreement stipulates a sales agent's assumption of liability and their responsibility to protect the Lottery from financial loss, along with other obligations. To ensure compliance with the Sales Agent Agreement, the Lottery actively monitors its sales agents as detailed below.

Bank Sweeps

The Lottery monitors its sales agents' collections with regular bank sweeps, which are the process of collecting proceeds received from the sale of lottery tickets from sales agents' designated lottery bank accounts. Sweeps are conducted on a weekly basis and proceeds are deposited in a Commonwealth of Massachusetts State Treasury account. The total amount to be electronically swept is verified by the Lottery's Accounting Department and is transmitted to the Lottery's host bank for collection. If the funds are not available on the first sweep, or if there are issues⁵ with the sales agent's bank account, the Lottery's host bank makes a second sweep attempt. If the sales agent does not have the dollar amount the Lottery attempted to sweep from the sales agent's bank account, the unsuccessful bank sweep shows on a bank-generated report, which is sent to the Lottery every week. The bank sweeps included in this report are considered missed bank sweeps.

When the Credit and Collections Department finds that a sales agent has a missed bank sweep, a credit and collections representative contacts the sales agent, stating that a bank sweep was missed, stating the dollar amount of the missed bank sweep, and requesting payment be made immediately. The Lottery's manager of credit and collections documents the missed bank sweep in the Lottery's central gaming system.

The consequences of a sales agent missing a bank sweep vary. A missed bank sweep may result in a fine, deactivation of a sales agent's lottery terminal, a lottery license suspension, and/or a hearing. Either the director or manager of credit and collections determines how to proceed, dependent on the risk to the Lottery and the sales agent's history of missed bank sweeps.

According to the Lottery's "Credit and Collections Department Policy and Procedures," if a sales agent misses two consecutive weekly bank sweeps or three bank sweeps within a 12-month rolling period,

5. Some examples of issues the Lottery encounters are frozen accounts, closed accounts, or unauthorized withdrawals.

the sales agent's lottery terminal is deactivated until they complete a hearing, unless the Credit and Collections Department notes any extenuating circumstances, such as bank errors.

Cigar-, Electronic Nicotine Delivery System–, or Tobacco-Related Violations

According to Section 30B of Chapter 10 of the General Laws,

Upon receiving notice from the commissioner of revenue [DOR] that a retailer . . . has had a cigar, electronic nicotine delivery system or tobacco license suspended or revoked . . . the director of the state lottery shall suspend any license to sell lottery tickets or shares issued to the retailer, cigar retailer or electronic nicotine delivery system retailer.

When the Department of Revenue (DOR) communicates that a retailer's cigar, electronic nicotine delivery system,⁶ or tobacco license has been suspended or revoked, the Lottery checks if the retailer is also a sales agent. If the retailer is subject to a suspension or revocation based on the law related to cigars and smoking tobacco excise tax violations, and is a sales agent, the Lottery records the following information on the Lottery's cigar-, electronic nicotine delivery system–, and tobacco-related violations log: the date of DOR's letter; the sales agent's name and address; the specific General Laws violation; DOR's suspension period of the retailer's cigar, electronic nicotine delivery system, or tobacco license(s); DOR's effective date of suspension; and whether the retailer requested a DOR appeal.

Before suspending a lottery license, the Lottery waits until either DOR's suspension period has ended or DOR communicates the outcome of an appeal, which may reduce or eliminate the retailer's suspension on their cigar, electronic nicotine delivery system, or tobacco license(s). If DOR eliminates the retailer's suspension, the Lottery records this information in the cigar-, electronic nicotine delivery system–, and tobacco-related violations log and takes no further action. If DOR reduces the retailer's suspension period, or if the suspension period has ended, the Lottery sends a certified letter to the sales agent, notifying the sales agent of their lottery license suspension and their option to request an appeal of the suspension.

The suspension period of a sales agent's lottery license is dependent on DOR's suspension period on the retailer's cigar, electronic nicotine delivery system, or tobacco license. The Lottery uses the

6. According to Section 7E of Chapter 64C of the General Laws, an electronic nicotine delivery system is defined as "an electronic device, whether for 1-time use or reusable, that can be used to deliver nicotine or another substance to a person inhaling from the device including, but not limited to, electronic cigarettes, electronic cigars, electronic cigarillos, electronic pipes, vaping pens, hookah pens and other similar devices that rely on vaporization or aerosolization."

following guidelines, as documented in its “[General Laws Chapter 10, Section 30B]—Lottery Sales Agent Suspension Guidelines”:

For every fifteen (15) days of a cigar, electronic nicotine delivery system or tobacco license suspension . . . the Lottery will suspend the Lottery Agent license of said retailer for one (1) day. . . . If the number of days of the DOR suspension period is not divisible by 15, the Lottery will impose the suspension based on the number of complete 15-day periods of the DOR suspension. . . .

If an applicable retailer is subject to multiple concurrent DOR suspensions that trigger a Lottery Agent license suspension . . . the Lottery will suspend the Lottery Agent license based on the longer of the suspension periods implemented by the DOR. . . .

If an applicable retailer’s cigar, electronic nicotine delivery system or tobacco license is revoked for a knowing violation . . . the Lottery will suspend the Lottery Agent license for sixty (60) days.

Monitoring the Sale of Lottery Products to Minors

In accordance with Part A of Section V of the Lottery’s “Monitoring & Testing—Sale to Minors” policy, the Lottery is required to “regularly monitor and test a group of Agents, randomly selected from each sales region.” This is done to ensure that sales agents are not selling lottery products to minors (individuals under the age of 18).

According to the Lottery’s “Monitoring & Testing—Sales to Minors” policy, in order to monitor and test its sales agents, the Lottery hires and trains minors in their role of testing sales agents’ compliance. To test a sales agent’s compliance, either the assistant executive director’s designee or the senior compliance officer accompanies a minor to a sales agent’s location, where the minor attempts to purchase a lottery product. If the sales agent does not sell the lottery product to the minor, either the assistant executive director’s designee or the senior compliance officer records the compliance. If the sales agent sells the lottery product to a minor, either the assistant executive director’s designee or the senior compliance officer opens and records the incident in the sales agent’s case file, which may result in probation, suspension, or termination of the sales agent’s lottery license.

Suspending a Sales Agent’s Lottery License

If any of the investigations mentioned above result in a suspension of a sales agent’s lottery license, the department conducting the investigation notifies the Lottery’s Legal Department of the reasons for the suspension of the license.

The Legal Department then sends a letter to the sales agent, communicating the Lottery's intent to suspend their lottery license. Within this letter, the Lottery provides the sales agent with the option to appeal the suspension by requesting a hearing within 20 days of the date of the letter. When a sales agent appeals a suspension, the Lottery sends a final letter to the sales agent after the hearing, communicating the suspension implementation that documents the results of the hearing and the timeline for the suspension.

If a sales agent's lottery license is suspended, the Lottery's Legal Department records the date the lottery license was suspended and the date the lottery license will be reactivated in the Lottery's suspension log.

Additionally, the Legal Department communicates the suspension to the Licensing Department, which then updates the status of the sales agent's lottery license to "inactive" in the Lottery's central gaming system and includes a reason code to explain the rationale behind the suspension. With a suspended lottery license, the sales agent is unable to validate or make payouts for any claims for lottery products during the suspension period. Once a suspension period ends, a licensing representative reactivates the sales agent's lottery license by changing the status back to "active" in the Lottery's central gaming system.

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 Lottery for the period July 1, 2022 through June 30, 2024.

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, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did the Lottery conduct financial reviews; criminal background checks; and site assessments, where applicable, before approving, denying, or renewing sales agents' applications as required by Sections 3.2–3.4 and 4.2.2–4.2.3 of the Lottery's "Licensing Department Procedures"?	No; see Finding <u>1</u>
2. Did the Lottery monitor its sales agents' deposits of proceeds from lottery sales and subsequently deactivate sales agents' lottery terminals until a finance hearing was held for sales agents who were delinquent in the payment of proceeds in accordance with the Lottery's "Credit and Collections Department Policies and Procedures"?	No; see Finding <u>2</u>
3. Did the Lottery enforce cigar-, electronic nicotine delivery system-, or tobacco-related suspensions as required by Section 2 of the Lottery's "[General Laws Chapter 10, Section 30B]—Lottery Sales Agent Suspension Guidelines" policy?	No; see Finding <u>3</u>
4. Did the Lottery monitor its sales agents to ensure that they were not selling lottery products to minors, as required by Part A of Section V of the Lottery's "Monitoring & Testing—Sale to Minors" policy?	No; see Finding <u>4</u>
5. Did the Lottery maintain a record of suspension history when deactivating and reactivating a sales agent's lottery license in accordance with Section 5.3 of the Lottery's "Licensing Department Procedures"?	No; see Finding <u>5</u>

To accomplish our audit objectives, we gained an understanding of the Lottery's internal control environment relevant to our objectives by reviewing applicable agency policies and procedures and by interviewing Lottery staff members and management. We evaluated the design of controls over policies

and procedures regarding the review and approval of sales agents' applications. Additionally, we tested to ensure that the application controls were working as intended (1) for the approval of the sales agents' licenses when there were no changes to ownership information and (2) for the automatic sales agent data transfer.

Furthermore, to obtain sufficient, appropriate evidence to address our audit objectives, we performed the procedures described below.

Conducting Reviews of Sales Agents' Applications

To determine whether the Lottery conducted financial reviews, criminal background checks, and site assessments, where applicable, prior to approving, denying, or renewing sales agents' applications as required by Sections 3.2–3.4 and 4.2.2–4.2.3 of its "Licensing Department Procedures," we selected a statistical⁷ sample of 60 applications from a population of 1,856 sales agent applications during the audit period, with a 95% confidence level,⁸ a 5% tolerable error rate,⁹ and a 0% expected error rate.¹⁰

Sample of Sales Agents' Applications

Category Description	Number of Applications	Sample
New Applications that Were Approved	1,016	32
New Applications that Were Denied	85	3
Renewal Applications that Were Approved	743	24
Renewal Applications that Were Denied	12	1
Total	<u>1,856</u>	<u>60</u>

-
7. Auditors use statistical sampling to select items for audit testing when a population is large (usually over 1,000) and contains similar items. Auditors generally use a statistics software program to choose a random sample when statistical sampling is used. The results of testing using statistical sampling, unlike those from judgmental sampling, can usually be used to make conclusions or projections about entire populations.
 8. Confidence level is a mathematically based measure of the auditor's assurance that the sample results (statistic) are representative of the population (parameter), expressed as a percentage. A 95% confidence level means that 95 out of 100 times, the statistics accurately represent the larger population.
 9. The tolerable error rate (which is expressed as a percentage) is the maximum error in the population that is acceptable while still using the sample to conclude that the results from the sample have achieved the objective.
 10. Expected error rate is the number of errors that are expected in the population, expressed as a percentage. It is based on the auditor's knowledge of factors such as prior audit results, the understanding of controls gained in planning, or a probe sample. In this case, we are assuming there are no errors in the data provided to us by the auditee.

Financial Reviews

For our sample of 60 applications, we verified the dates of the credit checks by reviewing the results of the credit checks from the credit reporting company. We compared the dates of each credit check to the approval or denial dates of the applications to ensure that the Lottery conducted the credit checks before making any decisions on the applications. For the 35 new applications in our sample that required the Intercept debt check, such as outstanding state taxes, school loans, and child support, and license debt checks, we were informed by the Lottery that it did not maintain evidence that these debt checks were performed.

Criminal Background Checks

For each of the 60 applications in our sample, we verified the date the criminal background check was performed by inspecting the background check records from the third-party provider. We compared the dates of each background check to the dates the applications were approved or denied to ensure that the Lottery performed the criminal background checks before applications were approved or denied. We followed up with the Lottery regarding any inconsistencies when it appeared that it did not conduct a complete criminal background check before approving or denying an application.

Site Assessments

For each of the 35 new applications in our sample, we verified the dates on which the site assessment was performed by inspecting the Lottery's site assessment form related to each application. We compared the dates of each site assessment with the dates the applications were approved or denied to ensure that the Lottery performed the site assessments before the applications were approved or denied. We followed up with the Lottery regarding any inconsistencies when it appeared that it did not conduct a site assessment before approving or denying an application.

We did not identify any exceptions in our testing of site assessments. However, we determined that, during the audit period, the Lottery did not consistently conduct financial reviews and criminal background checks for all of its sales agents before approving, denying, or renewing sales agents' applications, as required by Sections 3.2–3.4 and 4.2.2–4.2.3 of its "Licensing Department Procedures." See [Finding 1](#) for more information.

Missed Bank Sweeps

We sought to determine whether the Lottery monitored its sales agents' deposits of proceeds from lottery sales and subsequently deactivated sales agents' lottery terminals until a finance hearing was held for sales agents who were delinquent in the payment of proceeds in accordance with the Lottery's "Credit and Collections Department Policies and Procedures." To do this, we divided our testing in two groups: (1) second consecutively missed weekly bank sweeps and (2) three missed bank sweeps within a 12-month period.

For the second consecutively missed weekly bank sweeps, we selected a judgmental,¹¹ nonstatistical¹² sample of 37 out of a population of 233 missed bank sweeps. We inspected the sales agents' history documented in the Lottery's central gaming system, suspension implementation letters, and the list of missed bank sweeps that detailed extenuating circumstances. We then compared (1) the dates the sales agents' lottery terminals were deactivated, (2) the dates of the missed bank sweep payments, and (3) the dates of the finance hearings to ensure that the Lottery deactivated the sales agents' terminals after they missed a second consecutive weekly bank sweep until a hearing was held.

For the three missed bank sweeps within a 12-month period, we selected a judgmental, nonstatistical sample of 45 out of a population of 335 missed bank sweeps. We inspected the sales agents' history documented in the Lottery's central gaming system, suspension implementation letters, and the list of missed bank sweeps that detailed extenuating circumstances. We then compared (1) the dates the sales agents' lottery terminals were deactivated, (2) the dates of the missed bank sweep payments, and (3) the dates of the finance hearings to ensure that the Lottery deactivated the sales agents' terminals after they missed a third bank sweep within a 12-month period until a hearing was held.

We followed up with the Lottery to clarify any inconsistencies when it appeared that it did not deactivate a sales agent's terminals after they missed a bank sweep.

11. Auditors use judgmental sampling to select items for audit testing when a population is very small, the population items are not similar enough, or there are specific items in the population that the auditors want to review. Auditors use their knowledge and judgment to select the most appropriate sample. For example, an auditor might select items from areas of high risk. The results of testing using judgmental sampling cannot be used to make conclusions or projections about entire populations; however, they can be used to identify specific issues, risks, or weaknesses.

12. Auditors use nonstatistical sampling to select items for audit testing when a population is very small, the population items are not similar enough, or there are specific items in the population that the auditors want to review.

Based on the results of our testing, we determined that, during the audit period, the Lottery did not deactivate sales agents' terminals until a finance hearing was held for sales agents who were delinquent in the payment of proceeds in accordance with the Lottery's "Credit and Collections Department Policies and Procedures." See [Finding 2](#) for more information.

Cigar-, Electronic Nicotine Delivery System-, or Tobacco-Related Violations

To determine whether the Lottery enforced cigar-, electronic nicotine delivery system-, or tobacco-related suspensions as required in Section 2 of the Lottery's "[General Laws Chapter 10, Section 30B]—Lottery Sales Agent Suspension Guidelines" policy, we selected a judgmental, nonstatistical sample of 40 out of a population of 287 cigar-, electronic nicotine delivery system-, and tobacco-related violations from the audit period.

For each of the violations in our sample, we inspected the Department of Revenue's (DOR's) violation and appeal letters, the Lottery's intent to suspend and suspension implementation letters, and screenshots of the sales agent's history. These were documented in the Lottery's central gaming system. We calculated the number of days a sales agent should have been suspended, based on DOR's suspension period. We then compared the actual suspension outcome by the Lottery to both the number of days and the dates of the suspension period that were communicated to the sales agent. We followed up with the Lottery to clarify any inconsistencies when it appeared that it did not suspend a sales agent for the correct number of days or that it suspended sales agents for a different range of dates than what was outlined in the suspension implementation letter.

Based on the results of our testing, we determined that, during the audit period, the Lottery did not always implement suspensions for cigar-, electronic nicotine delivery system-, or tobacco-related violations for the correct number of days or at all as required in Section 2 of the Lottery's "[General Laws Chapter 10, Section 30B]—Lottery Sales Agent Suspension Guidelines" policy. See [Finding 3](#) for more information.

Monitoring of Sale of Lottery Products to Minors

To determine whether the Lottery monitored its sales agents to ensure that they were not selling lottery products to minors as required by Part A of Section V of the Lottery's "Monitoring & Testing—Sale to Minors" policy, we interviewed Lottery officials to discuss the Lottery's process for ensuring that its sales agents are not selling lottery products to minors. During the interview, Lottery officials explained that

there was no monitoring of sales agents during the audit period. Furthermore, the Lottery has not updated its policy since 2013.

Based on our discussions with the Lottery, we determined that, during the audit period, the Lottery did not monitor and test its sales agents' compliance with the statutory prohibition against the sale of lottery products to minors. See [Finding 4](#) for more information.

Record of Suspension History of Sales Agents

To determine whether the Lottery maintained a record of suspension history when deactivating and reactivating a sales agent's lottery license in accordance with Section 5.3 of the Lottery's "Licensing Department Procedures," we selected a random, nonstatistical sample of 20 out of 61 suspensions that occurred during the audit period.

For each suspension in our sample, we inspected screenshots of each sales agent's history, which was documented in the central gaming system. We determined whether the appropriate reason code and any comments were recorded in the sales agent's profile. We also inspected the suspension implementation letter to ensure that the sales agent was suspended for the correct amount of time.

We followed up with the Lottery to clarify any inconsistencies when it appeared that it did not use the appropriate reason code, did not suspend the sales agent for the suspension period communicated, or did not record any comments in the sales agent's profile.

Based on the results of our testing, we determined that, during the audit period, the Lottery did not maintain an accurate record of the suspension history of its sales agents. See [Finding 5](#) for more information.

We used a combination of statistical and nonstatistical sampling methods for testing, and we did not project the results of our testing to the corresponding populations.

Data Reliability Assessment

Application Management System

To determine the reliability of the data that we obtained for the audit period from the Lottery's application management system, we interviewed Lottery officials who were knowledgeable about the data. We also reviewed select system controls related to access controls, configuration management,

contingency planning, segregation of duties, and security management. Additionally, we confirmed that the application control worked as intended for the automatic approval of sales agents with no changes to ownership information.

From the Lottery's application management system, we obtained a list of all approved and denied applications for sales agent applicants and renewing sales agent applicants who reported changes to ownership during the audit period. We checked the list for blank fields and duplicate application numbers. We also compared the number of approved and denied applications we received to the number that we observed during the data extraction process to confirm completeness.

Central Gaming System

To determine the reliability of the data that we obtained for the audit period from the Lottery's central gaming system, we interviewed Lottery officials who were knowledgeable about the data. We also reviewed select system controls related to access controls, configuration management, contingency planning, segregation of duties, and security management. Additionally, we confirmed that the application control worked as intended for the automatic sales agent data transfer between the application management system and the central gaming system.

We obtained a list of all bank sweeps that were missed during the audit period from the Lottery's central gaming system. We checked the list for duplicate identifiers, checked for data gaps in continuous data, and compared the sales agents' names and sales agent identification numbers included in the list of missed bank sweeps to the sales agents' names and identification numbers of all sales agents from the central gaming system. We followed up with the Lottery and reconciled any discrepancies (such as duplicate identifiers and data gaps).

To confirm the accuracy of the list of missed bank sweeps from the central gaming system, we judgmentally selected a sample of 21 missed bank sweeps from the list and compared the sales agents' names, the dollar amounts of the missed bank sweeps, and the descriptions of the missed bank sweeps to the transactions listed on the bank report. We judgmentally selected a sample of three bank reports, and we then traced the transaction dates and amounts from these bank reports to determine the completeness of the list of missed bank sweeps.

Cigar-, Electronic Nicotine Delivery System-, and Tobacco-Related Violations Log

The Lottery documents cigar-, electronic nicotine delivery system-, and tobacco-related violations in a cigar-, electronic nicotine delivery system-, and tobacco-related violations log. We conducted interviews with the Lottery employees responsible for oversight of the log. We checked the log for illogical dates (such as requests for appeal dates made before the date the suspension was communicated to the sales agent) and duplicate records. We followed up with the Lottery and reconciled any discrepancies (such as illogical dates and duplicate records).

Upon further analysis of the violation log that we received from the Lottery, we noted that there were no violations recorded for the last four months of the audit period. We inquired with the Lottery on the missing data and were informed that its data may not be complete for various reasons, one of which was caused by a backlog in data entry for violations that occurred in February 2024.

We requested that DOR send us all the emails it sent to the Lottery containing violations related to cigars, electronic nicotine delivery systems, and tobacco during the audit period. We analyzed all violations sent by DOR to the Lottery and compared the record count of these violations sent by DOR to the number of violations recorded in the Lottery's log. We found that 126 violations sent by DOR to the Lottery that would trigger a lottery license suspension were not included in the Lottery's log. Accordingly, we increased the population size to include the 126 cigar-, electronic nicotine delivery system-, and tobacco-related violations received from DOR.

In addition, we selected a sample of 20 cigar-, electronic nicotine delivery system-, or tobacco-related suspensions from the log and compared the dates of the DOR violation, the sales agents' names, the sales agents' addresses, violations, and the suspension periods from the log to the original documents from DOR.

See [Finding 6](#) for more information regarding the results of the incomplete records.

Suspension Log

The Lottery documents all sales agents' suspensions in a suspension log. We conducted interviews with the Lottery employees responsible for oversight of the suspension log. We checked the suspension log for illogical dates (such as a starting date of a suspension that was documented as

occurring after the reactivation date of the sales agent's lottery license) and blank cells. We followed up with the Lottery and reconciled any discrepancies (such as blank cells).

To confirm the accuracy of the suspension log, we randomly selected a sample of 10 suspensions and compared the data recorded on the suspension log (such as the number of days suspended and the dates of the suspension) to the Lottery's suspension implementation letters to the sales agents. To determine the completeness of the suspension log, we randomly selected 10 suspension implementation or revocation letters within the Legal Department's files and traced these letters to the suspension log (such as the sales agent's ID number, number of days suspended, and the start date of the suspension). We followed up with the Lottery and reconciled any discrepancies.

Based on the results of the data reliability assessment procedures described above, we determined the data was sufficiently reliable for the purposes of our audit.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Lottery failed to provide evidence that it conducted financial reviews or criminal background checks for all its sales agent applicants, potentially allowing retailers who did not meet all licensing requirements to hold a lottery license.

The Lottery failed to provide evidence that it conducted financial reviews or criminal background checks for all its sales agent applicants as required by Sections 3.2–3.4 and 4.2.2–4.2.3 of its “Licensing Department Procedures,” potentially allowing retailers who did not meet all licensing requirements to hold a lottery license. From our sample of 60 applications from a population of 1,856 sales agent applicants, we found notable deficiencies in the verification process.

Financial Checks

The Lottery failed to provide us with evidence that it conducted Intercept debt checks related to state taxes, school loans, or child support payments for all 32 (100%) new applicants that were in our sample who were required to undergo a debt check.

Furthermore, for all 35 new applications (100%) in our sample that required a lottery license debt check, the Lottery failed to provide evidence to us confirming that these verifications were completed.

Criminal Background Checks

During our audit, we found that for 5 out of 60 applications (8%) in our sample, the Lottery failed to provide evidence that it conducted criminal background checks. For example, for one application involving two individuals who shared the same email address, the Lottery conducted two criminal background checks on the same individual, rather than one criminal background check on each individual. Additionally, the Lottery failed to provide us with evidence of criminal background checks for four license applications involving six individuals who already held a lottery license, for a different store that is not a chain store.

Maintaining all financial and criminal background check records is essential for the Lottery to demonstrate that its applicants have met all the requirements to become licensed sales agents. Failing to perform or provide proof of complete financial checks and criminal background checks makes it impossible to confirm that the Lottery has thoroughly reviewed applicants before approving them, which could increase the Lottery's financial, compliance, and reputational risks.

Authoritative Guidance

According to the Lottery's "Licensing Department Procedures,"

- *No owner can owe any state taxes or have any outstanding school loans or child support. If any owner is delinquent in any of these categories, then the application will be denied. . . .*
- *The application is also reviewed to make sure that there is no outstanding Lottery debt from a prior agent licensed at the location address.*
- *Each owner listed [on a new application] will be required to undergo a background screening . . .*
 - *If the owner(s) are identified as already being current owner(s), the system evaluates if that owner has undergone a background screening within the last 4 years. . . .*
 - *If they have not had a screening within 4 years, a new [background] screening transaction is generated.*

According to section L13-12 of the *Massachusetts Statewide Records Retention Schedule*, the Lottery must retain all sales agent licensing records for "six years after licensing potential expires," including "applications, support materials, background checks, and related correspondence."

Reasons for Issue

Related to the missing evidence for the Intercept data checks, Lottery officials stated that approved applications that meet the outstanding debt and lottery license debt requirements are not saved with supporting documentation. While a credit and collections representative could capture evidence—for example, taking a screenshot to confirm that an applicant has no past due state taxes, school loans, or child support payments (this would show as a blank screen in the system)—this evidence would be insufficient to show that the review was completed. In cases where a credit and collections representative performs multiple steps to review that there is no lottery license debt on file, Lottery officials indicated that documenting each step would be cumbersome.

Related to the missing evidence of completed background checks, Lottery officials explained that there was an oversight because Lottery staff members did not review the results of the background checks, resulting in license applications being approved even if a background check was performed for only one applicant. They also stated that a different system was used to conduct criminal background checks for the six individuals applying for four license applications in our sample. Lottery officials told us that the Lottery no longer has access to that system and is unable to retrieve the records from when the background checks were completed.

Recommendations

1. The Lottery should develop and implement monitoring controls to ensure that Lottery staff members review financial and criminal background checks on new and renewing applicants before approving or denying a sales agent application.
2. The Lottery should ensure that it maintains all licensing records in accordance with the *Massachusetts Statewide Records Retention Schedule*.

Auditee's Response

- *The Lottery Licensing Department has implemented a new online application platform. This new software allows additional tools for the Credit & Collections staff to record the individual and date that the staff reviewed both [Department of Revenue (DOR)] outstanding debt as well as any location debt for that application. The Lottery is confident that this process has been followed and that all debts have been identified and locations denied or debts resolved before approval. The Lottery has in many cases denied applications for DOR debt and location debt.*
- *The Credit and Collection staff will update policies and procedures to reflect that the Supervisory staff or internal auditor will occasionally test the licensing approval process for DOR debt and location debt.*

Auditor's Reply

Based on its response, the Lottery is taking measures to address our concerns in this area. We will review progress on this issue as part of our post-audit review process in approximately six months.

2. The Lottery did not deactivate terminals for sales agents who had missed bank sweeps, as required by its "Credit and Collections Department Policies and Procedures."

The Lottery did not always deactivate terminals for sales agents who had missed three bank sweeps within a 12-month period. Missed bank sweeps could result in the Lottery being unable to collect proceeds received from the sale of lottery tickets when due.

We identified that, out of our sample of 45 third missed bank sweeps within a 12-month period, there were 4 instances where the Lottery did not deactivate sales agents' terminals. Moreover, the Lottery did not conduct finance hearings for 17 instances out of the 45 third missed bank sweeps within a 12-month period in our sample. Furthermore, of the licenses that the Lottery deactivated, there were 4 instances where the sales agents' terminals were reactivated before the completion of the finance hearing.

By not adhering to its policy, the Lottery risks inconsistencies in consequences for sales agents and threatens to undermine trust and damage the relationship between the Lottery and its sales agents.

Maintaining clear and fair practices is essential to upholding the Lottery's integrity. Additionally, without the timely collection of lottery proceeds, state revenues cannot be reported or transferred to the Department of Revenue (DOR), resulting in the delay of distribution of funds to the Commonwealth's cities and towns.

Authoritative Guidance

According to the Lottery's "Credit and Collections Department Policies and Procedures,"

A sales agent has a 3rd [missed bank sweep within] a twelve month period, unless extenuating circumstances permission applies, requires immediate action by the Credit and Collections department.

First, the sales agent's Lottery terminal is deactivated in [the system] and their ability to order product and supplies is suspended from the system. The agent's disabled status remains in effect until the Finance hearing determination and complete agent resolution

Reasons for Issue

According to Lottery officials, deactivation of sales agents' terminals is assessed on a case-by-case basis. This assessment includes risk factors and trends, rather than strictly adhering to the policies and procedures of the Lottery. Furthermore, the Lottery's "Credit and Collections Department Policies and Procedures" have not been updated to reflect the current practices for missed bank sweeps that Lottery officials shared with us.

Recommendations

1. The Lottery should ensure that it deactivates its sales agents' lottery terminals after they miss three bank sweeps within a 12-month period until a finance hearing determination and complete resolution occur.
2. The Lottery should update its written "Credit and Collections Department Policies and Procedures" to reflect its current practices for missed bank sweeps.

Auditee's Response

- *As stated in the Audit findings, the Manager and Director of Credit & Collections reviews all missed sweeps and makes a determination on what action the Credit & Collection Department should take in response to an agent missing a payment. The action taken is based on many factors including the amount due, the agent's payment history, the agent's length of time as an agent, the agent's credit history, the response time in paying the amount due and other factors.*
- *The audit further states that "the Lottery risks inconsistencies in consequences for sales agents and threatens to undermine trust and damage the relationship between the Lottery and its*

sales agents." Each agent's risk to the Commonwealth may be different and require a different response from the Credit and Collections Department. These actions may include suspending the agent's terminal privileges, blocking instant ticket ordering, blocking instant activations, securing all instant ticket products, or taking action to educate the agent in the weekly invoice and sweep process. This process of assessing individual risk and acting accordingly has been very successful in keeping receivables at an all-time low and has contributed to and fostered our long-standing partnership with our agents.

- To implement the recommendation to unilaterally suspend all agents after a third missed sweep, and not activating their terminal and limiting their sales until a hearing was held, we believe would cause an increase in monies owed to the Commonwealth, increase risk, a reduction in Lottery sales and local aid, and cause potential irreparable harm to many of our agents. These service interruptions might negatively impact many of these small businesses to the extent they might not survive or be able to pay their outstanding bills to the Commonwealth. These suspensions and closures also have a negative impact on local communities.*
- All 17 exceptions for hearings for a missed third payment mentioned in the audit findings were paid in full.*
- During the audit period, July 1, 2022 – June 30, 2024, the Lottery reported sales of over 12.2 billion dollars and swept bank accounts for roughly 6,900 agent locations weekly for a total number of invoices during the audit period of over 700,000. Of the terminated agents swept during that period only 93 invoices remain unpaid.*
- The Lottery write-offs during that same period remain at all-time lows. In [fiscal year] 2023 and [fiscal year] 2024 the number of invoices written off totaled 127. In 2005, The Lottery instituted a sliding scale for collecting a daily bond fee from our agents. This resulted in additional monies to offset any write-offs. These bond fees have outpaced write-offs for more than 10 years and have resulted in no losses to the Commonwealth.*
- The Credit & Collections staff will further update the policies and procedures to ensure that the document reflects the current risk assessment process.*

Auditor's Reply

We acknowledge the Lottery's concerns about the potential operational and financial effects of implementing a unilateral suspension policy after three missed sweeps. However, we emphasize the need for ongoing review and evaluation of the Lottery's written policies and procedures to protect the integrity of the Lottery system while minimizing unnecessary disruption. We stress that these policies should be regularly updated to reflect the Lottery's current practices.

Based on its response, the Lottery is taking measures to address our concerns in this area. We will review progress on this issue as part of our post-audit review process in approximately six months.

3. The Lottery did not consistently implement suspensions for cigar-, electronic nicotine delivery system—, or tobacco-related violations for the correct number of days or at all, in violation of regulatory standards and possibly jeopardizing the integrity of the Lottery's operations.

During our audit, we found that the Lottery did not consistently implement suspensions for violations related to cigars, electronic nicotine delivery systems, or tobacco. Specifically, 7 out of 40 violations identified by DOR did not result in the proper suspension of sales agents as required by Section II of the Lottery's "[Massachusetts General Laws Chapter 10, Section 30B]—Lottery Sales Agent Suspension Guidelines." For instance, one sales agent was suspended for six days instead of the required eight days, and six sales agents have yet to serve suspensions for violations that occurred in 2022.

The table below illustrates the number of suspensions by violation type based on the audit testing.

Issue	Massachusetts General Laws Violation	Type of Retailer License Suspension	Number of Sales Agents
Inaccurate Suspension Period	Sections 34 and 35 of Chapter 64C of the General Laws	Cigarette/Smokeless Tobacco Suspension	1
Not Suspended as Required by Law	Sections 34 and 35 of Chapter 64 of the General Laws	Cigarette/Smokeless Tobacco Suspension	1
Not Suspended as Required by Law	Section 7B(I)(1) of Chapter 64C of the General Laws	Cigar/Smoking Tobacco Suspension	1
Not Suspended as Required by Law	Section 7E(I)(1) of Chapter 64C of the General Laws	Electronic Nicotine Delivery Systems Suspension	4
Total			<u>7</u>

If the Lottery fails to adequately suspend sales agents for the specified duration or neglects to implement suspensions altogether, it creates an impression that violations are tolerated, significantly undermines accountability, and creates the appearance of favoritism as a potential explanation for disparate treatment. This not only jeopardizes the integrity of the Lottery's operations but also permits a culture of disregard for regulatory standards.

Authoritative Guidance

According to Section II of the Lottery's "[Massachusetts General Laws Chapter 10, Section 30B]—Lottery Sales Agent Suspension Guidelines,"

For every fifteen (15) days of a cigar, electronic nicotine delivery system or tobacco license suspension implemented by the DOR for a knowing violation of a section of [Chapter 64C of the General Laws] that is enumerated in [Section 30B of Chapter 10 of the General Laws], if said retailer is a Lottery agent, the Lottery will suspend the Lottery Agent license of said retailer for one (1) day.

Reasons for Issue

The Lottery told us that it did not suspend its sales agents for the correct amount of time or at all due to unintentional mistakes, insufficient oversight, and issues with the Lottery's recordkeeping of cigar-, electronic nicotine delivery system-, and tobacco-related violations that were sent to the Lottery by DOR.

Recommendations

1. The Lottery should establish sufficient policies and procedures to monitor the receipt and review of cigar-, electronic nicotine delivery system-, and tobacco-related violations.
2. The Lottery should establish monitoring controls to ensure that Lottery employees adhere to the specific number of days of suspension and not deviate from its policy.

Auditee's Response

- *The Sales Agent that was "Not Suspended as Required by Law" due to violation of "Sections 34 and 35 of Chapter 64 of the General Laws" was subject to a 15-day tobacco suspension by the DOR. This Sales Agent was suspended by the Lottery for one (1) day on September 23, 2025.*
- *In a letter dated September 17, 2025, the Lottery notified the DOR that all future DOR tobacco-related suspension notification letters should be sent to a DOR/tobacco-designated Lottery email address. In this same correspondence, the Lottery conveyed its desire to discuss with the DOR the viability of further documenting and clarifying the communication process between the two agencies.*
- *Additionally, the Lottery has developed and implemented a DOR Tobacco Violations Policy which serves to outline the process by which the Lottery will follow when it receives confirmation from the DOR that a retailer is subject to a cigar, electronic nicotine delivery system or tobacco license suspension or revocation pursuant to [Sections 7B(1)(1), 7E(1)(1), 34 or 35 of Chapter 64C of the General Laws].*

Auditor's Reply

We commend the Lottery for developing and implementing a "DOR Tobacco Violations Policy," and we emphasize the importance of fully incorporating our recommendations by implementing monitoring

controls to ensure suspension durations are consistently applied in line with Lottery policy. Strengthening these controls will help prevent deviations, promote uniform enforcement, and lower operational and compliance risks. Based on its response, the Lottery is taking measures to address our concerns in this area. We will review progress on this issue as part of our post-audit review process in approximately six months.

4. The Lottery did not monitor and test its sales agents' compliance with its requirement prohibiting the sale of Lottery products to minors, as required by the Lottery's "Monitoring & Testing—Sale to Minors" policy.

During the audit period, the Lottery did not enforce its own policy that was designed to ensure that sales agents complied with regulations regarding the sale of lottery products to minors. Specifically, the Lottery did not employ minors to train how to appropriately conduct sting operations by attempting to purchase lottery products from sales agents. Therefore, the Lottery did not conduct sting operations on a random sample of sales agents in different sales regions, as required by Part A of Section V of the Lottery's "Monitoring & Testing—Sale to Minors" policy.

The absence of monitoring and testing of sales agents' compliance with the Lottery's policy restricts its ability to effectively monitor the sale of lottery products to minors. This hampers the Lottery's efforts to safeguard the public and promote responsible gaming behavior.

Authoritative Guidance

According to Part A of Section V of the Lottery's "Monitoring & Testing—Sale to Minors" policy, issued March 2013,

Assistant Executive Director will:

- 1. Implement a program to monitor and test Agents for compliance with this policy prohibiting the sale of Lottery products to minors. The program must regularly monitor and test a group of Agents, randomly selected from each sales region through a computer generated program, which is sufficiently large in number to achieve a statistically acceptable result. The program must also re-monitor and re-test those Agents who have not demonstrated compliance with this policy.*
- 2. Work with Human Resources to hire a minor or minors to assist with the monitoring and testing program.*

Reasons for Issue

Lottery officials stated that other policies and testing have taken precedent over its “Monitoring & Testing—Sale to Minors” policy. They also stated that with the change of Compliance Department management, this policy was no longer implemented, despite it not being withdrawn. Additionally, the Lottery reported that it has not reviewed and updated this policy since 2013.

Recommendations

1. The Lottery should develop monitoring controls to ensure that sales agents comply with laws, regulations, and policies regarding the sale of Lottery products to minors.
2. The Lottery should review, update, and reimplement its “Monitoring & Testing—Sales to Minors” policy.

Auditee's Response

- *The [Massachusetts State Lottery Commission] takes meaningful steps to keep Lottery tickets out of the hands of minors through its in-house training program, onsite compliance reviews and having sales agents sign a code of conduct with the provision of prohibiting sales to minors. When the Lottery receives a complaint or is made aware that one of its agents is or has sold Lottery product to a minor, the Compliance & Security Department investigates the matter promptly and imposes licensing suspensions in accordance with Lottery regulations. The Lottery does not monitor and test its sales agents per the 2013 Sale to Minors policy. The Lottery considers this policy no longer applicable due to the extraordinary resources needed to implement it.*

Auditor's Reply

We acknowledge that the Lottery provides training, conducts compliance reviews, and responds to complaints; however, these efforts do not align with the monitoring and testing required by its “Monitoring and Testing—Sales to Minors” policy that was in place during the audit period. If this policy is no longer applicable, it should either be officially withdrawn or revised to reflect current practices related to monitoring sales to minors.

5. The Lottery did not maintain an accurate record of the suspension history of its sales agents, affecting the evaluation, monitoring, and potential future enforcement of any violations by those agents.

The Lottery did not always maintain an accurate record of the suspension history of its sales agents. Specifically, we found that the Lottery recorded incorrect reason codes for violations for 9 of the 20 sampled sales agents. Furthermore, for 2 of these sales agents, the Lottery did not record any comments on the sales agents' records in the central gaming system. Additionally, the Lottery suspended 1 sales

agent for a different suspension (as documented in the central gaming system) than what was communicated in its suspension implementation letter to the sales agent.

If the Lottery fails to maintain accurate records of its sales agents' suspension histories, it may struggle to effectively evaluate or monitor any violations by those agents who have suspensions. This lack of reliable information hinders the Lottery's ability to assess the overall number and severity of violations associated with each sales agent. Consequently, the Lottery may make incorrect decisions because it is missing crucial information that could impact the public, such as a licensed sales agent continuing to operate despite being barred from selling lottery products. These inaccuracies could also lead to inappropriate future enforcement against sales agents whose first violation is thought to be a repeat violation, or whose repeat violation is thought to be their first of that kind.

Authoritative Guidance

According to Section 5.3 of the Lottery's "Licensing Department Procedures,"

- *The licensing representative will change the agent's status to Inactive with the appropriate reason code in the [central gaming system] on Day 1 of the suspension and add a comment to the Agent's record.*
- *The Licensing representative will change the agent's status to Active in the [central gaming system] on the final day of the suspension.*

Reasons for Issue

The Lottery's "Licensing Department Procedures" do not have specific instructions, such as providing clear guidance on which reason code applies to which suspension type and what information should be included in the comments.

Recommendations

1. The Lottery should consistently review and update its "Licensing Department Procedures" to include details about assigning appropriate reason codes and comments to its suspended sales agents' files within the central gaming system.
2. The Lottery should implement a review process to ensure that the appropriate reason codes, comments, and suspension periods are documented in its central gaming system when suspending its sales agents.

Auditee's Response

- In July 2025, the Lottery's Licensing procedure was updated to incorporate an enhanced process for handling DOR suspensions. The updated process includes explicit instructions for entering the suspension dates and reason codes into the Lottery's [central gaming] system. Additionally, an email communication has been incorporated into the Lottery's process to enable affected [Massachusetts State Lottery Commission] departments to review suspension details for accuracy in a more efficient and effective manner.*

Auditor's Reply

We commend the Lottery's efforts to update its "Licensing Department Procedures" to improve data entry, accuracy, and communication related to the suspension of sales agents. Based on its response, the Lottery is taking measures to address our concerns in this area. We will review progress on this issue as part of our post-audit review process in approximately six months.

6. The Lottery did not maintain a complete log of all cigar-, electronic nicotine delivery system-, and tobacco-related violations, which may result in inconsistent suspensions and/or sales agents potentially continuing to violate Lottery policies.

While the Lottery's cigar-, electronic nicotine delivery system-, and tobacco-related violations log documented information to help the Lottery track the suspension process for its sales agents regarding each violation, we found that not all violations were recorded.

Specifically, the Lottery provided us with a log of 208 cigar-, electronic nicotine delivery system-, and tobacco-related violations for the audit period. However, there were an additional 126 violations transmitted by DOR to the Lottery during the audit period that were not listed in the Lottery's cigar-, electronic nicotine delivery system-, and tobacco-related violations log.

If the Lottery does not record all cigar-, electronic nicotine delivery system-, and tobacco-related violations in its cigar-, electronic nicotine delivery system-, and tobacco-related violations log, there may be inconsistent suspension processes and sales agents may potentially continue to violate Lottery policies.

Authoritative Guidance

According to Chapter 647 of the Acts of 1989,

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against

which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the Commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller. . . .

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified.

Reasons for Issue

Lottery officials stated that organizational and staffing changes during this time period hindered recordkeeping. This resulted in a backlog of violations that were not recorded in the log at all. Additionally, the Lottery does not have an agreement with DOR to define each agency's responsibilities and communication related to sales agent violations.

Recommendations

1. The Lottery should develop policies and procedures to ensure that the Lottery's cigar-, electronic nicotine delivery system-, and tobacco-related violations log is complete, accurate, and up to date.
2. The Lottery should collaborate with DOR to establish an agreement to create a centralized transmittal and tracking system that allows the Lottery and DOR access to all DOR suspensions, to ensure timely receipt of cigar-, electronic nicotine delivery system-, and tobacco-related violations and improved program management.

Auditee's Response

- *In a letter dated September 17, 2025, the Lottery notified the DOR that all future DOR tobacco-related suspension notification letters should be sent to a DOR/tobacco-designated Lottery email address. In this same correspondence, the Lottery conveyed its desire to discuss with the DOR the viability of further documenting and clarifying the communication process between the two agencies.*
- *Additionally, the Lottery has developed and implemented a DOR Tobacco Violations Policy which serves to outline the process by which the Lottery will follow when it receives confirmation from the DOR that a retailer is subject to a cigar, electronic nicotine delivery system or tobacco license suspension or revocation pursuant to [Sections 7B(1)(1), 7E(1)(1), 34 or 35 of Chapter 64C of the General Laws].*

Auditor's Reply

We commend the Lottery's efforts to establish a designated email address and implement a "DOR Tobacco Violations" policy to improve the DOR suspensions program for cigar-, electronic nicotine delivery system-, and tobacco-related violations. Based on its response, the Lottery is taking measures to address our concerns in this area. We will review progress on this issue as part of our post-audit review process in approximately six months.