



A REPORT
TO THE
MONTANA
LEGISLATURE

INFORMATION SYSTEMS AUDIT

Montana Lottery Security

*Montana Lottery
Department of Administration*

MAY 2013

LEGISLATIVE AUDIT
DIVISION

13DP-01

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

RANDY BRODEHL
brodehl@centurytel.net

VIRGINIA COURT
Vjchd52@yahoo.com

MIKE CUFFE
mike@mcuffe.com

MARY McNALLY
mcnallyhd49@gmail.com

RYAN OSMUNDSON
Ryanosmundson@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

SENATORS

DEE BROWN
repdee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

GREG JERGESON
jergeson4senator@yahoo.com

CLIFF LARSEN
cliff@larsenusa.com

FREDRICK (ERIC) MOORE
mail@SenatorEricMoore.com

MITCH TROPILA, CHAIR
tropila@mt.net

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§5-13-202(2), MCA

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INFORMATION SYSTEMS AUDITS

Information Systems (IS) audits conducted by the Legislative Audit Division are designed to assess controls in an IS environment. IS controls provide assurance over the accuracy, reliability, and integrity of the information processed. From the audit work, a determination is made as to whether controls exist and are operating as designed. We conducted this IS 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 finding and conclusions based on our audit objectives.

Members of the IS audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business, accounting, information technology, computer science, mathematics, political science, and communications.

IS audits are performed as stand-alone audits of IS controls or in conjunction with financial-compliance and/or performance audits conducted by the office. These audits are done under the oversight of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

AUDIT STAFF

JOHN HARRINGTON
KENT RICE

JOE MURRAY

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

May 2013

The Legislative Audit Committee
of the Montana State Legislature:

We conducted an information systems audit of security over Montana Lottery operations. Montana law requires the Legislative Audit Division perform a comprehensive security audit of the Montana Lottery every two years. We reviewed security controls within the 18 areas defined in statute, including the Montana Lottery's computer systems, scratch and online tickets, and personnel and sales agents.

This report contains three recommendations for strengthening controls including: strengthening policy; monitoring security systems; and data collection.

We wish to express our appreciation to the Montana Lottery for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

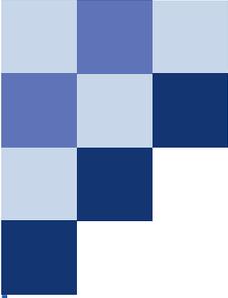
Appointed and Administrative Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION AND BACKGROUND	1
Introduction	1
Background.....	1
Audit Scope and Objective.....	2
Methodology.....	3
Prior Audit Recommendations.....	3
Conclusion	3
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	5
Introduction	5
Employment of Relatives Policy	5
Monitoring of Security Systems	6
Security Cameras	7
Facility Access	7
Data Collection.....	8
LOTTERY RESPONSE	
Montana Lottery	A-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana Lottery Angela Wong, Director
 John Tarr, Director of Security

**Department of
Administration** Sheila Hogan, Director

			<u>Term Expires</u>
Montana Lottery Commission	Wilbur Rehman, Chair	Helena	January 1, 2013
	Craig Anderson, Sheriff	Glendive	January 1, 2013
	Thomas M. Keegan, Attorney at Law	Helena	January 1, 2014
	Leo Prigge, CPA	Butte	January 1, 2015
	Vacant		January 1, 2014



MONTANA LEGISLATIVE AUDIT DIVISION

INFORMATION SYSTEMS AUDIT

Montana Lottery Security

Montana Lottery

MAY 2013

13DP-01

REPORT SUMMARY

Strong security controls are essential to ensure the safety and integrity of the Montana Lottery and its games, employees and contractors. Security controls are in place in the areas outlined by statute; however, we identified areas where controls can be strengthened, and where adherence to existing controls can be improved.

Context

The Montana Lottery was created in 1987. In its first quarter-century the Montana Lottery has transferred nearly \$200 million to various state programs and to the general fund, where its net revenues are currently deposited. Its operations are funded by the sale of Montana Lottery tickets, which include scratch tickets; online tickets for drawing games such as Powerball and Montana Cash; and online instant-play games, a relatively new form of game for the Montana Lottery. Tickets are sold by licensed sales agents across the state, either in person as traditional retail counter transactions, or increasingly via vending-style self-service machines. These machines are typically located in supermarkets and taverns.

Montana law requires the Legislative Audit Division to perform a comprehensive security audit of the Montana Lottery every two years. Auditors reviewed the 18 security areas as defined in §23-7-411, MCA. Testing included evaluating Montana Lottery against Montana statute, Multi State Montana Lottery Association (MUSL) regulations, Montana Lottery internal security procedures, and industry best practices.

Results

Overall, security controls are in place in the areas outlined by statute; however, we identified areas where controls can be strengthened, and where adherence to existing controls can be improved. Areas for improvement include:

- ◆ Enhancing and adhering to the Montana Lottery's Employment of Relatives Policy,
- ◆ Increasing familiarity with and efficient utilization of existing security systems, and
- ◆ Collecting and analyzing data related to prize claims by licensed sales agents and their employees.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (13DP-01) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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Chapter I – Introduction and Background

Introduction

Following a statewide ballot referendum in 1986, the Montana Lottery was created in 1987. Net revenues are generated through the sale of various types of Montana Lottery tickets, and transferred to the state's general fund. In its history the Montana Lottery has generated nearly \$200 million for various state programs. In fiscal year 2012, the Montana Lottery had sales of \$52.6 million and transferred \$13.1 million to the general fund.

Background

The Montana Lottery is an enterprise fund of the Department of Administration. Its Director is appointed by the Governor. The Governor also appoints a five-member Commission that oversees the operations of the Montana Lottery, sets policy, and determines the type and form of Montana Lottery games. Members serve staggered four-year terms. The Director administers the day-to-day operations of the Montana Lottery. The Montana Lottery is organized into four main areas: 1) administration and finance, 2) marketing, 3) security, and 4) information technology. The Montana Lottery's security section includes a Director of Security and a Criminal Investigator. Security affects each area of the operation, and includes security of facilities, personnel, computer systems, and general operations.

Montana Lottery tickets are sold at approximately 900 retail locations around Montana. Tickets fall into one of three categories: scratch tickets; online tickets (Powerball, etc.); and online instant-play games. Scratch and online drawing tickets are sold either over-the-counter in a traditional retail exchange or via self-service vending-style machines. Online instant-play games, introduced in late 2011, are sold exclusively through self-service terminals installed in bars and casinos across the state. For any Montana Lottery game, retailers can validate and pay out any prizes up to \$599. Prizes of \$600 or more must be paid through the Montana Lottery office in Helena, either in person or through the mail.

The Montana Lottery is a member of the Multi State Lottery Association (MUSL), a nonprofit association owned and operated by its member lotteries. Each member offers one or more lottery games administered by MUSL such as Powerball or Mega-Millions. MUSL requires member lotteries to operate both a games management system (GMS) to manage online and scratch games, and an Internal Control System (ICS) as a check and balance against ticket sales recorded in the GMS.

Montana's GMS is currently operated by a third-party vendor. The vendor developed, maintains, and operates the GMS as well as installing and maintaining sales terminals and self-service vending machines at retail locations throughout the state. Montana Lottery personnel interface with the GMS through the Back Office System (BOS) to manage operations. The ICS, which is required by MUSL, was developed and is maintained by a separate third party vendor. It also records all Montana Lottery sales and drawing information and is used to ensure the GMS is reporting accurately. These systems are part of Montana Lottery operations and thus are included within our security audit.

Audit Scope and Objective

Statute requires the Legislative Audit Division to perform a comprehensive security audit of the Montana Lottery every two years and specifically defines areas to be included. The 18 security areas as defined in §23-7-411, MCA, include:

- ◆ personnel security
- ◆ sales agent security
- ◆ contractor security
- ◆ security of manufacturing operations of contractors
- ◆ security against ticket or chance counterfeiting and alteration, and other means of fraudulently winning
- ◆ security of drawings among entries or finalists
- ◆ computer security
- ◆ data communications security
- ◆ database security
- ◆ systems security
- ◆ premises and warehouse security
- ◆ security in distribution
- ◆ security involving validation and payment procedures
- ◆ security involving unclaimed prizes
- ◆ security aspects applicable to each particular game
- ◆ security of drawings in games whenever winners are determined by drawings
- ◆ the completeness of security against locating winners in games with preprinted winners by persons involved in their production, storage, distribution, administration, or sales
- ◆ any other aspects of security applicable to any particular Montana Lottery game and to the Montana Lottery and its operations

Our audit included a review of Montana Lottery operations to determine which areas our audit work should focus on. Since we conduct an audit on a regular basis, we re-evaluate operations and review those aspects of operations that present the most risk from a security perspective. Our objective was to determine whether Montana Lottery has controls in place within the 18 statutory areas and whether those controls function as expected.

Methodology

To accomplish our objective, we performed audit work under each statutorily defined area. Work included interviews with agency and vendor personnel; observation of facilities and systems in place for Montana Lottery and its vendors; testing of identified controls; review of agency and vendor policies, procedures and security records; and research of and contact with other states for comparative information.

More specifically, testing included evaluating Montana Lottery against MUSL regulations, Montana Lottery internal security procedures, and industry best practices. To ensure our objective was met, we observed daily operations, interviewed Montana Lottery personnel, and determined if documentation was maintained and reviewed. We reviewed employee and contractor procedures including background and/or credit checks. We evaluated employee and contractor access to facilities, systems, and data. We observed instant ticket stock distribution procedures and identified controls. Finally, we reviewed computer systems and network configurations and system reports.

Prior Audit Recommendations

The Legislative Audit Division conducted a similar audit in 2010, which resulted in five recommendations for strengthening security controls. Our work for this audit included reviewing actions taken by the Montana Lottery to incorporate these recommendations into business practices. The recommendations included changes to controls within the GMS and ICS systems, and strengthening processes related to control of the keys to the in-house ticket vending machine. Based on our review, the Montana Lottery has implemented all five recommendations.

Conclusion

Based on audit work conducted, security controls are in place in the areas outlined by statute. However, we identified areas where controls can be strengthened to improve security and help ensure the integrity of the Montana Lottery's operations. These areas are discussed in Chapter II.

Chapter II – Findings And Recommendations

Introduction

Montana Lottery operations are governed by statute, Multi-State Lottery Association (MUSL) rules, state information technology policies, and internal security policies. Audit work focused on the Montana Lottery's existing controls related to the statutorily defined audit categories. This report contains three recommendations for strengthening security controls, including enhancing and adhering to the Employment of Relatives Policy; increasing the familiarity with and efficient utilization of several existing security systems; and collecting and analyzing data on retailers and their employees who claim Montana Lottery prizes.

Employment of Relatives Policy

Since its last security audit in 2010, the Montana Lottery has implemented an Employment of Relatives Policy that addresses many of the areas recommended by human resource professionals. This is a positive step by the Montana Lottery to acknowledge the need for addressing situations that may arise when people employed by the Montana Lottery and its contractors are related. However, due to added security concerns unique to the Montana Lottery and the importance for the Montana Lottery to maintain integrity in both fact and appearance, its Employment of Relatives Policy should specifically address significant security controls, such as segregation of duties among relatives working for the Montana Lottery and its contractors. Montana Operations Manual, section 399 addresses segregation of duties; however, the Montana Lottery's policy on employment of relatives is not clear on this being one of the most important elements of internal control.

There are currently two examples of relatives being employed by the Montana Lottery and its primary contractor. These situations involve employees who are in positions with security, management, and information technology. Specifically, one relationship involves a security position within the Montana Lottery and a management position with the contractor. The other relationship involves an information technology employee of the Montana Lottery and a manager for the contractor.

Audit work revealed that the policy's requirement that relatives are at no time allowed to make decisions, recommendations, or judgments related to ... "the assignment or direction of work assignments" is not always followed by members of Montana Lottery staff. We observed an instance of an employee of the Montana Lottery directing the work of a relative employed by the contractor. We also noted that Montana Lottery management was not aware that the policy was not always followed.

While we did not identify any inappropriate activities, the instance of the Montana Lottery employee directing the actions of a relative was noncompliance with policy. Management should ensure compliance with policies. Lack of proper control regarding family relationships could lead to either accidental or purposeful actions which are inappropriate and/or fraudulent. Public perception of the Montana Lottery could be negatively impacted if issues occur as a result of interactions between family members.

The previous security audit included a discussion with Montana Lottery administration about documenting their considerations and routinely monitoring the combined access of family members. The Montana Lottery's Employment of Relatives Policy is a step toward establishing appropriate controls over the employment of related people. However, policy is not clear on the issues of segregation of duties and documentation of existing relationships, which are important for ensuring the security of operations. Additionally, ongoing monitoring of staff's adherence to policy should be part of operations. Subsequent to our audit work the Montana Lottery updated its policy and documented existing relationships.

RECOMMENDATION #1

We recommend the Montana Lottery:

- A. *Strengthen its Employment of Relatives Policy to more specifically address segregation of duties and documentation of specific relationships.*
 - B. *Conduct ongoing monitoring of employee compliance with policy.*
-

Monitoring of Security Systems

Montana Lottery premises and warehouse security is a statutorily mandated area of examination for each security audit. We observed several security controls over access to the building and certain areas within it. We also examined the systems that monitor access to various parts of the building, and compared employee job descriptions with the level of access afforded to determine whether employees have appropriate access based upon their job duties. Audit work noted that physical security of the Montana Lottery building and various rooms and areas therein is generally good and employee access is appropriately assigned, although regular monitoring of security systems could be improved.

The Montana Lottery has operated out of the same building since its inception. The facility includes offices; a secure drawing room, containing computers that conduct

daily and weekly drawings; a warehouse, where scratch ticket inventory is kept until it is shipped to retailers or sales reps; and a server room, which contains the computers that maintain sales and drawing data for all MUSL games (Powerball, etc.). The Montana Lottery has implemented security systems to control and monitor access to all areas within the facility.

Security Cameras

Auditors observed the Montana Lottery's network of security cameras and noted it provides live video coverage of most key areas of the building. The system also maintains digital recordings of all video feeds. Auditors moved about the building, then asked Montana Lottery security staff to replay the video of this movement. While it was apparent the system was recording and archiving video footage for several months, staff had difficulty identifying the specific recorded footage. This indicated to auditors that security staff is not reviewing video enough to be familiar with the process.

Facility Access

The Montana Lottery also maintains a key card/passcode system for entry into and within the building. An enhanced alarm system exists in certain areas, and the Montana Lottery receives a monthly report of each time each of the alarms were armed or disarmed. During the audit, auditors were given key cards to access the office area during regular business hours. As part of testing, auditors attempted to access areas they were not authorized to access and were unsuccessful. In addition, we reviewed the system that records each key's access to the building. We tried our keys both successfully and unsuccessfully at various doors, then had Montana Lottery security staff review the log of that day's building access and we noted both successful and unsuccessful attempts to use our keys had been accurately recorded. However, security staff could not produce a key-specific report showing each time a particular key had been used on any door in the building. Staff cited computer issues and incompatibility with the software that records the door access. In addition, security staff indicated the company that created the software for the system was out of business and thus they could not obtain assistance with system problems. This indicated that security staff had lost the capability to review building access records on a regular basis, but had not taken action to correct this limitation. The vendor operating the Montana Lottery's game management system uses the same key/passcode system at its facility, and the contractor is able to routinely run access reports to determine who has accessed the building, which areas of the building were accessed, and at what times of day.

Based on these two examples – archived video footage and data on the use of keycards to access the building – we concluded while appropriate security information is being collected and stored, the ability of Montana Lottery personnel to access, review, and

analyze this information is limited. Montana Lottery personnel are not regularly reviewing the data collected regarding who is attempting to access the building, at what times, and at which doors. Inability to fully integrate all security tools and regularly review all collected data at the disposal of security personnel can lead to security risks. For example, employees and other individuals entering the Montana Lottery facility may be attempting to access areas that are off-limits, which is not an acceptable practice and could lead to successful access to restricted areas.

The Montana Lottery has a policy in place outlining the various levels of access to the building that will be granted to people with specific job duties. This building access policy does not address monitoring/enforcement of appropriate building access. In addition, Montana Lottery security policies do not specifically address regular or ongoing review of data collected by various electronic security systems including documentation of results of reviews. However, job descriptions for both the Director of Security and the Criminal Investigator stipulate ongoing monitoring and maintenance of various security systems.

RECOMMENDATION #2

We recommend the Montana Lottery ensure ongoing monitoring of security aspects of the operation.

Data Collection

Montana Lottery tickets are sold by licensed sales agents located throughout Montana. These sales agents include small mom-and-pop stores, convenience stores, supermarkets, casinos, and bars. As part of our security review, audit work included determining what if any data is collected regarding individuals who claim Montana Lottery prizes, including licensed sales agents and their employees. Collecting such information can help identify potentially inappropriate prize claims.

During our review of lottery operations in other states, we noted instances where these other states identified fraudulent activities conducted by sales agents or their affiliates including theft of winning tickets by employees. Lotteries in several surrounding states collect information from prize claimants on whether or not they are affiliated in any way with licensed sales agents. Of the 44 states offering lottery games, we examined the winner claim forms for 36 states. We identified 17 states, including Montana's neighboring states, that ask prize claimants whether they are lottery retailers, or some variation of that question. We contacted personnel within several states to inquire

about practices for collecting and analyzing winner data. In response to our query, one neighboring state official said their state started collecting this information after several incidents of fraud in recent years involving lottery retailers in other states and Canadian provinces. This representative further said that while there was no evidence of retailer fraud in their state that led officials to implement the practice, officials believed that for the security and integrity of their lottery, it was in their best interest to proactively collect this data. We received similar responses from other states.

In Montana, licensed sales agents and their employees are not prohibited from playing and winning Montana Lottery games. A review of Montana Lottery press releases announcing winners of major prizes identified several instances where the winner was an employee of the retail location where the winning ticket was purchased. However, the Montana Lottery does not routinely collect any information from its prize claimants regarding whether or not they are licensed retailers or their employees.

Our review of practices in other states indicated almost half of the lotteries we reviewed collect prize claim information on retailers and their affiliates. Collecting and analyzing information on licensed sales agents and their employees claiming lottery prizes would allow the Montana Lottery to gain awareness of potential threats to its games' security and integrity. The purpose of implementing a system of proactive checks and balances is to reduce the potential for fraud and theft, and help increase the chances that inappropriate claims will be detected. The Montana Lottery maintains a listing of sales agents and prize winners, and could cross-check these lists to determine how frequently its retailers are winning prizes. The Montana Lottery could also amend its Prize Claim Form to ask claimants whether they are employees of licensed sales agents. This data could then be analyzed on an ongoing basis to help identify recurring winners and potential anomalies.

Montana Lottery officials told us they trust the integrity of Montana's retailers. While §23-7-202(7) and (10), MCA, authorize the Montana Lottery Commission to study other states for best practices and establish rules to make operations more secure, Montana Lottery officials do not believe they can legally investigate situations identified as a result of collecting and analyzing this type of information without explicit statutory authority. However, collecting and analyzing prize claim information is the first step toward strengthening operations.

RECOMMENDATION #3

We recommend the Montana Lottery collect and analyze data regarding prize claims by licensed sales agents and their employees.

MONTANA LOTTERY

LOTTERY RESPONSE



2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

May 17, 2013

Ms. Tori Hunthausen
 Legislative Auditor
 Office of the Legislative Auditor
 State Capitol Building
 Helena, MT 59620-1705

RECEIVED
 MAY 16 2013
 LEGISLATIVE AUDIT DIV.

RE: Response to 2013 Montana Lottery Security Audit

Dear Ms. Hunthausen:

Thank you for the opportunity to respond to the report on Montana Lottery Security Audit dated May 17, 2013. The Montana Lottery appreciates the service your staff provided in reviewing its security operations.

The Montana Lottery concurs with the audit findings and recommendations. We have taken or will take the necessary action to comply with all recommendations.

The following is in response to specific recommendations of the audit team.

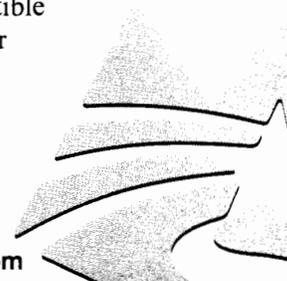
RECOMMENDATION #1: We recommend the Montana Lottery:

- A. Strengthen its Employment of Relatives Policy to more specifically address segregation of duties and documentation of specific relationships.**
- B. Conduct ongoing monitoring of employee compliance with policy.**

The Montana Lottery concurs with both sections of this finding and has updated its policy and monitoring procedures regarding the conclusions noted.

RECOMMENDATION #2: We recommend the Montana Lottery ensure ongoing monitoring of security aspects of the operation.

The Montana Lottery concurs with this finding and will update procedures. The Lottery has requested grant money from Risk Management and Tort Defense, which will allow for upgrades to its security systems. These upgrades will make the systems compatible with newer software packages, provide reporting capabilities, and provide for better video tracking abilities. The Lottery was notified on April 30, 2013, that the grant request was approved for fiscal year 2014.



May 17, 2013

Page 2

RECOMMENDATION #3: We recommend the Montana Lottery collect and analyze data regarding prize claims by licensed sales agents and their employees.

The Montana Lottery concurs with this finding and will develop procedures to meet the intent of the recommendation. However, since the Lottery currently retains no statutory or rule authority for requesting employment questions on the claim forms, a rule change request will need to be submitted for approval to Lottery Commissioners prior to full implementation. Even with a rule change, the Montana Lottery will be restricted from taking direct legal actions should questionable activity be discovered unless the Lottery and Theft sections of the MCA's are changed accordingly in the upcoming 2015 Legislative Session. Prosecutions even if we did discover criminal activity without changing the MCA's will most likely not materialize.

The Montana Lottery does actively take assertive approaches regarding the identification of criminal activity. We currently utilize various reports in the gaming system, such as retailer ranking data, ticket shipment tracking, and claim data to establish potential criminal patterns involving our licensed retailers. These reports are pulled by seasoned individuals on the staff who are very proficient at identifying a potential theft situation that will require further follow-up investigation by Lottery Security.

Thank you again for the opportunity to respond. Your team established a good rapport with our office and showed strong professional knowledge and personal professionalism while working in our area. Please express my appreciation of these facts to them for their efforts.

Sincerely,



Angela Wong, Director
Montana Lottery

cc: John Tarr, Security Director
Montana Lottery

**Montana Lottery Security Audit
Management Action Plan
For Fiscal Year Ending June 30, 2013**

Audit Recommendation #	Lottery Response	Corrective Action Plan	Responsible Area	Target Date
<p>Employment of Relatives Policy Recommendation #1</p> <p>We recommend the Lottery:</p> <p>A. Strengthen its Employment of Relatives Policy to more specifically address segregation of duties and documentation of specific relationships.</p> <p>B. Conduct ongoing monitoring of employee compliance with policy.</p>	<p>Concur</p>	<p>The Montana Lottery has updated its Employment of Relatives Policy to more broadly address relationships within the Lottery in addition to its contractors. We have documented current relationships, added a self-reporting requirement and monitoring procedures regarding the conclusions noted in this audit report.</p>	<p>All Departments</p>	<p>Apr-13</p>

<p>Monitoring of Security Systems Recommendation #2</p> <p>We recommend the Montana Lottery ensure ongoing monitoring of security aspects of the operation.</p>	<p>Concur</p>	<p>The Montana Lottery will update its procedures in regard to monitoring its security system.</p> <p>In addition, the Lottery has requested grant money from Risk Management and Tort Defense, which will allow for upgrades to its security systems. These upgrades will make the systems compatible with newer software packages, provide reporting capabilities and provide for better video tracking abilities.</p> <p>*The Lottery was notified on April 30th that the grant request was approved for fiscal year 2014. Lottery will need to present this item for approval to the Lottery Commission to move forward with procurement and a contract for this system.</p>	<p>Security Dept.</p>	<p>Dec-13</p>
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**Montana Lottery Security Audit
Management Action Plan
For Fiscal Year Ending June 30, 2013**

<p>Data Collection Recommendation #3</p> <p>We recommend the Montana Lottery collect and analyze data regarding prize claims by licensed sales agents and their employees.</p>	<p>Concur</p>	<p>The Montana Lottery will develop procedures to meet the intent of the recommendation. However, since the Lottery currently retains no statutory or rule authority for requesting employment questions on the claim forms, a rule change request will need to be submitted for approval to the Lottery Commission prior to full implementation.</p> <p>Even with a rule change, the Montana Lottery will be restricted from taking direct legal actions should questionable activity be discovered unless the Lottery and Theft sections of the MCA's are changed accordingly in the upcoming Legislative Session. Without changing the MCA's, prosecutions, even if criminal activity were discovered, most likely would not materialize.</p> <p>The Montana Lottery does actively take assertive approaches regarding the identification of criminal activity. We currently utilize various reports in the gaming system, such as retailer ranking data, ticket shipment tracking and claim data to establish potential criminal patterns involving our licensed retailers. These reports are pulled by seasoned individuals on the staff who are very proficient at identifying a potential theft situation that will require further follow up investigation by the Lottery's Security Section.</p>	<p>Security Dept.</p>	<p>Jun-14</p>
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