



A REPORT
TO THE
MONTANA
LEGISLATURE

INFORMATION SYSTEMS AUDIT

Montana Lottery Security

*Montana Lottery
Department of Administration*

DECEMBER 2015

LEGISLATIVE AUDIT
DIVISION

15DP-02

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December 2015

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 to perform a comprehensive security audit of the Montana Lottery every two years. We reviewed security controls within the 18 security areas defined in statute, including the Lottery's computer systems, scratch and online tickets, and Lottery personnel and sales agents.

This report contains five recommendations for strengthening controls in areas including background checks, investigations, lottery retailers, and building security.

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

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

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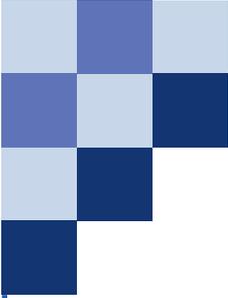
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APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana Lottery Angela Wong, Director
 John Tarr, Security Director

**Department of
Administration** Sheila Hogan, Director

			<u>Term Expires</u>
Lottery Commission	Wilbur Rehman, Chair	Helena	January 1, 2017
	Frank Difonzo, Chief of Police	Sidney	January 1, 2017
	Thomas M. Keegan, Attorney at Law	Helena	January 1, 2018
	Cindy Hiner	Missoula	January 1, 2017
	Leo Prigge, CPA	Butte	January 1, 2019



MONTANA LEGISLATIVE AUDIT DIVISION

INFORMATION SYSTEMS AUDIT

Montana Lottery Security

Montana Lottery/Department of Administration

DECEMBER 2015

15DP-02

REPORT SUMMARY

The Montana Lottery depends on strong security controls to maintain the integrity of its games, employees, and contractors. While security is in place in all statutorily required review areas, there remains an opportunity for improvement in how the Lottery conducts its security operations.

Context

The Montana Lottery (Lottery) was created in 1987. The Lottery transferred \$12.3 million to the general fund in fiscal year 2015. 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. 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 evaluation of Montana Lottery against Montana statute, Multi State Lottery Association (MUSL) regulations, Montana Lottery internal policy and procedures, and industry best practices. Audit staff also reviewed lottery winner data to look for anomalies, such as multiple winners.

Results

Security controls are in place in the areas outlined by statute; however, we identified areas where controls can be strengthened. Areas for improvement include:

- ◆ Creating and improving policy related to background checks and the ineligible player list.
- ◆ Documenting investigative activities.
- ◆ Analyzing retailer data.
- ◆ Reviewing lottery winner data.
- ◆ Adding to retailer review.
- ◆ Improving building security.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction and Background

Introduction

Following a statewide ballot referendum in 1986, the Montana Lottery (Lottery) was created in 1987. It generates revenue through the sale of various types of lottery tickets, and its net revenues are transferred to the state's general fund. The Lottery transferred \$12.3 million to the general fund and the Science Technology Engineering Math Healthcare (STEM) scholarship fund in fiscal year 2015, and in its history has generated over \$217 million for various state programs. In fiscal year 2015, the Lottery had sales of \$52.3 million. The Lottery is allocated to the Department of Administration, and its Director is appointed by the Governor and is a member of the Governor's cabinet.

Background

A five-member independent Lottery Commission oversees the operations of the Lottery, sets policy, and determines the types and form of lottery games. Members serve staggered four-year terms. The Lottery's Security Department includes a Director of Security and a Criminal Investigator. The issue of security, however, touches each area of the operation, as indicated by the mandated areas for biennial audit.

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 a self-service vending-style machine. 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 lottery game, retailers can validate and pay out any prizes up to \$599. Prizes of \$600 or more must be paid through the Lottery office in Helena, either in person or through the mail.

The 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 retailer locations throughout the state. Lottery personnel interface with the GMS through the Back Office System (BOS) to manage

operations. The ICS was developed and is maintained by a separate third party vendor. The ICS is required by MUSL. It records all lottery sales and drawing information and is used to ensure the GMS is reporting accurately. Lottery has recently renewed its contract with its GMS vendor, and will be replacing its current GMS with a new system in the next year.

Audit Scope and Objective

Statute requires the Legislative Audit Division (LAD) to perform a comprehensive security audit of the 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.
- ◆ Lottery sales agent security.
- ◆ Lottery contractor security.
- ◆ Security of manufacturing operations of lottery 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.
- ◆ Lottery premises and warehouse security.
- ◆ Security in distribution.
- ◆ Security involving validation and payment procedures.
- ◆ Security involving unclaimed prizes.
- ◆ Security aspects applicable to each particular lottery game.
- ◆ Security of drawings in games whenever winners are determined by drawings.
- ◆ The completeness of security against locating winners in lottery games with preprinted winners by persons involved in their production, storage, distribution, administration, or sales.
- ◆ Any other aspects of security applicable to any particular lottery game and to the Lottery and its operations.

Our objective was to determine whether the Lottery has controls in place over all 18 areas and whether those controls function as expected.

Methodology

To accomplish our objective, audit staff reviewed work under each statutorily defined area. Work included interviews with agency and vendor personnel; observation of facilities and systems in place for 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 the Lottery against MUSL regulations, the Lottery's internal security procedures, and industry best practices. Audit staff interviewed lottery personnel from Washington, Oregon, Colorado, and South Dakota. To ensure our objective was met, audit staff observed daily operations, interviewed key Lottery personnel, and determined if documentation was maintained and reviewed. The auditors reviewed employee and contractor procedures including background and/or credit checks. Employee and contractor access to facilities, systems, and data were also evaluated. Audit staff observed instant ticket stock distribution procedures and identified controls. Finally, the auditors reviewed computer systems and network configurations and system reports.

Prior Audit Recommendations

LAD conducted a similar audit in 2013, which resulted in three recommendations for strengthening security controls. The recommendations included: strengthening and monitoring compliance with the Employment of Relatives Policy, ensuring ongoing monitoring of security, and collecting and analyzing data regarding prize claims by licensed sales agents and their employees. The work for this audit included reviewing the action taken by the Lottery to implement these recommendations. Based on our review the Lottery fully implemented one recommendation, and partially implemented the remaining two recommendations.

Audit staff was informed that changes were made to the office's Relationship Policy to address segregation of duties issues found in the Employment of Relatives Policy. This policy was reviewed and audit staff determined that proper changes had been made. Lottery also presented documentation of its ongoing monitoring of employee compliance with this policy. For these reasons audit staff determined the Lottery had fully implemented the recommendation.

The past audit identified issues relating to obtaining and reviewing data related to building access and security. Lottery staff were able to demonstrate their ability to operate the video and building access security systems. However, they had not established a process for reviewing building access data. In order to identify sales agent owner and employee winners the Lottery has added a question to its winner

claim form allowing the winner to identify themselves as a lottery sales agent owner or employee. In order to gather this information the Lottery changed administrative rule. The delay caused by the rule change led the Lottery to forgo adding this question into its electronic records until it implements its new computer system. This question was not always stamped on the current forms. The Lottery will be adding this question onto its new winner claim forms. However, the answer is still gathered on a hard copy form making it difficult to analyze. Because of the lack of data analysis on both building access and winners these recommendations are partially implemented.

Management Memorandum

A management memorandum is a verbal or written notification to the agency for issues that should be considered by management, but do not require a formal agency response. We issued a management memorandum to the Lottery regarding the addition of cameras to the warehouse area, check stock verification process, and internal control process.

MUSL Disclosure Statement

MUSL lottery drawings have recently been subject to fraudulent activity. A former information security director for MUSL has been convicted of rigging the Hot Lotto drawing in 2010. This person is currently facing additional felony charges for fixing drawings in 2005 and 2006 as well. While the Montana Lottery is part of MUSL, the security shortfalls leading to this fraudulent activity were not related to the Montana Lottery's security. This was the result of security issues at MUSL's office in Iowa.

Conclusion

Based on audit work conducted, security controls are in place in the areas that statute requires review. Audit staff did identify issues within these areas where controls need to be strengthened to improve security and help ensure the integrity of the Lottery's operations. These issues are discussed in Chapter II.

Chapter II – Findings and Recommendations

Introduction

Montana Lottery (Lottery) operations are governed by statute, Multi-State Lottery Association (MUSL) rules, state information technology policy, and internal security policies. Because we audit security controls on an ongoing basis, our work for this report focused on specific controls within the statutorily defined areas. This report contains five recommendations for strengthening security controls, including:

- ◆ Creating and improving policy related to background checks and the ineligible player list.
- ◆ Documenting investigative activities.
- ◆ Analyzing retailer data.
- ◆ Adding to retailer review.
- ◆ Improving building security.

Lottery Policy

In order to maintain security and integrity the Lottery has procedures including background checks, maintaining an ineligible player list, and investigations. These functions are carried out by the security department at the Lottery. Each of these functions lacks policy describing specific detail related to their execution. The Lottery also has to deal with multiple contractors in order to provide customers with scratch and online games. It has a contractor for its online games and a contractor for its scratch ticket products. For these reasons, statute requires contractor's background information to be reviewed. The Lottery also includes these contracted employees on its ineligible players list. Involvement of these various groups and a lack of detailed policy increases the risk that these functions will not be carried out consistently.

Missing Lottery Employee and Contractor Background Checks

The assistant director for security is required by §23-7-212 (3a), MCA, to examine the background of all employees, sales agents, and contractors of the Lottery among others. The Lottery conducts background checks on select contracted employees and all Lottery employees. It also conducts annual follow-up checks on Lottery staff's Montana criminal records and driving records. The Lottery reviews the driving records of its online game contractor's customer service technicians (CST) that operate vehicles in Montana. Lottery staff said gathering driving record information is a critical part of security because of the risks associated with having CSTs driving in Montana while representing the Lottery. The Lottery does not have any written policy describing how the CST background check processes should be conducted.

Audit staff found 14 cases in which background information that the Lottery reportedly gathers was missing. Lottery personnel did not have background check information for eight of the online game contractor's employees. There were background checks for three people who were no longer employed by the online game contractor. Lottery staff indicated that it was difficult to keep background information up-to-date on contractor staff. They said the online game contractor does not always send over background information on new employees. Per statute, it is the Lottery's responsibility to gather this information, and thus it must be more proactive in gathering the information on contractor employees. There was also one Lottery employee who did not have a finger print background check on record. The Lottery does not gather background information on any of its scratch ticket contractor's employees. Lottery staff believes the company is too large to gather background information on all employees. Audit staff agrees with this assessment, but in conversation with other state lotteries they indicated that they pick out a number of positions at their scratch ticket provider that have associated risks to the integrity of their lottery operations, and gather background information on those people.

There were five of the online game contractor's CSTs that did not have driving records checks on file. For three of these, Lottery staff indicated they were hired prior to the start of conducting driving record checks, and they had not been asked to retroactively get this information on all CSTs. Lottery policy does not establish when background information is to be gathered. Lottery also does not have an established review process for background check information which would help to identify missing information. If there was a periodic review conducted with its contractors they could establish what information was missing and what information they no longer needed.

Ineligible Player List Not Updated

Lottery maintains an ineligible player list as its means of keeping those groups of people barred from playing the lottery from claiming prizes. The issues audit staff noted with the ineligible players list relates very closely to those described above in the background check section. According to §23-7-302 (4), MCA, tickets may not be sold to or purchased by Lottery staff, gaming suppliers doing business with the Lottery, or those auditing the Lottery, among others. Anyone that mails in or cashes their prize at the Lottery has their information checked against the ineligible player list. This is a sound system to make sure that those who are barred from playing the lottery are not able to claim prizes. However, the Lottery does not have policy establishing who will be included on the list, or policy establishing a review process to ensure the list is up-to-date.

The ineligible player list is maintained by having those organizations whose employees are on the list send in information on incoming and outgoing employees. Lottery gathers employee and family member information from its advertising agency, online ticket contractor, auditors, Lottery employees, and the multi-state lottery organization to place on the list. Lottery staff indicated they receive information on new employees that need to be added to the list from the various groups mentioned above. During review of the ineligible players list audit staff noted two employees from the online ticket contractor who were missing from the list. Lottery staff indicated that the missing information was due to them receiving the information on those employees, but failing to enter them into the ineligible player list. The Lottery's lack of a review process allowed these missing employees to go unnoticed by Lottery staff.

In addition the Lottery does not include the scratch ticket contractor employees on the ineligible player list. Per statute they fall under the same category as the online ticket contractor employees, however, Lottery staff believe that the scratch ticket contractor is too big of a company to include all of their employees on the list. While audit staff agree with this, like background checks, we believe the Lottery should identify a group of the scratch ticket contractor's employees whose duties pose a risk to the Lottery and include them on the ineligible players list.

RECOMMENDATION #1

We recommend the Montana Lottery establish or update policy by:

- A. *Clarifying whom it will gather background check information on and what information will be gathered.*
 - B. *Determining whom will be included on the ineligible player list and how that information will be gathered.*
 - C. *Creating a periodic review of background check information and the ineligible player list.*
-

Investigative Activity

The Lottery has a criminal investigator on staff to look into complaints related to lottery operations. In criminal cases the investigator will turn over any information to law enforcement and assist them in ways such as tracking stolen tickets through the Lottery's gaming system. The investigator will also look into complaints against Lottery sales agents. The investigator documents and maintains investigative activity in a hard copy file. An incident report form is completed for each investigation.

Audit staff reviewed a sample of investigation files from 2014 and 2015. During the review audit staff noticed inconsistencies in documentation. Lottery staff indicated this was related to the unique nature of each complaint. However it was difficult in some cases to get a clear understanding of what steps were taken, or if any ongoing work was occurring with the case. Lottery does not have policy and procedure for the investigation process. Because of this it was difficult to determine if the investigator's actions were appropriate in some of the cases we reviewed. For example, in one case a lottery sales agent had made a complaint against another lottery sales agent. The case was resolved by the district manager of the accused store reviewing their own security footage, and indicating the alleged incident did not happen. Lottery staff indicated they only review video if the case involves felony charges or an arrest. There were no charges or arrests in this case. Due to the circumstances it seemed appropriate for Lottery staff to review the footage in this case, rather than relying on the accused sales agent.

The appropriate actions to be taken in cases like this could be cleared up through policy and procedure. Having an established policy for documentation of investigation also allows the Lottery to conduct more effective oversight of these activities. Providing clear expectations throughout the investigative process allows the Lottery to effectively supervise staff and monitor the quality of investigative documentation.

RECOMMENDATION #2

We recommend the Montana Lottery establish policy and procedure for conducting and documenting investigative activities.

Lottery Sales Agents

The Lottery relies on its sales agents (retailers) across the state to sell its lottery products. When lottery tickets are distributed to sales agents they must first be activated before they can be sold. The Lottery automatically withdraws funds owed by sales agents for scratch tickets they have received regardless if the tickets have been sold or not. Their gaming system tracks the sales of online tickets. Per statute, lottery sales agents are required to keep records of lottery ticket sales. They also confirm winning tickets of any amounts if asked by a customer. These sales agent activities carry with them risks that will be outlined in this section.

Lottery Sales Agent Winners

A common theft issue identified by surrounding states is retail clerks telling customers their lottery tickets are not winners when in fact they are. Clerks can then cash the tickets themselves after taking them from the customers. The Lottery gathers the store owner/key person information it would need to compare with the winners list as part of its retail license application process. By comparing these two sets of information the Lottery could identify sales agents that win a disproportionate amount of time. Other states indicated they use this type of information to issue warnings to sales agents, or to conduct sting operations with law enforcement to try to identify inappropriate and/or theft by sales agents. Lottery security personnel indicated that even if they identified theft, sting operations are not possible due to costs and lack of peace officer status. Other states indicate the cost of a book of tickets used in sting operations is approximately \$2,000 for a pack of 100-200 tickets depending on the game. One state with limited law enforcement powers indicated they do not have the power to make arrests so they conduct these operations in conjunction with local law enforcement. The Lottery's lack of proactive steps taken to identify or prevent potential theft by sales agents poses a risk to the integrity of the lottery games.

As discussed in Chapter I, it was recommended in the past audit that Lottery start gathering data on lottery sales agent winners to try and identify cases where retailer theft may be happening. As a result, the Lottery added a question onto its winner claim form asking if the winner is a lottery sales agent store owner or employee. It is up to the winner to volunteer this information, which in the case of sales agent theft could incriminate them. The information is also in hard copy form making it difficult to analyze.

As part of audit work, we compared a list of store owners provided by the Lottery to its winner lists for 2013 and 2014. This was an attempt to identify suspicious patterns of wins involving retail sales agents. The Lottery was only able to give a limited list of lottery sales agent store owners to audit staff. There were many cases in which the store was part of a larger corporation, and thus the owner name was the corporation and not an individual. Audit staff also identified cases in which the suspicious pattern of wins could not be associated with a lottery sales agent store owner on the list, but still raised concern. Table 1 (see page 10) represents the total winnings for those individuals who won four or more times for a total of more than \$10,000 in 2013 and 2014.

Table 1
Winners of Four or More Times for Over \$10,000 in 2013 and 2014

Winner	Dates of Wins	Number of Wins	Total Winnings
Winner #1	January - December 2013	4	\$10,874.00
Winner #2	February - June 2013	4	\$13,479.00
Winner #3	January - December 2013	4	\$15,903.00
Winner #4	July 2013 - December 2014	15	\$14,758.00
Winner #5	March - October 2014	10	\$29,262.00
Lottery Sales Agent Winner #1	January - December 2014	11	\$22,199.30
Total		48	\$106,475.30

Source: Compiled by the Legislative Audit Division from Montana Lottery records.

Winner #4 was broken out in Table 2 to illustrate how frequently some individuals are collecting substantial lottery prizes. There is not enough information available to determine Winner #4 legitimately won 15 times in 2 years. This individual won the jackpot prize for the game Three Card Poker 13 times and the jackpot prize for Shake A Day twice. According to the Lottery's website the odds of winning the jackpot for Three Card Poker are 1:2,400, and 1:5,000 for Shake A Day. Based on these odds, this individual would have to have played Three Card Poker over 30,000 times in 2013 through 2014 in order to have a 50 percent probability of winning the jackpot 13 or more times.

An alternative scenario could be that this is a case of a sales agent owner or employee engaging in a practice called discounting. Discounting is when someone, most often a sales agent or retail location employee, agrees to buy a winning ticket from a customer for less than face value. The customer can then avoid having child support or other payments owed to the state taken out of the winnings. When presented with the examples of the analysis in

Table 2
Winner #4's Individual Lottery Wins

Winner	Date of Win	Prize Amount
Winner #4	July 2013	\$ 1,148
Winner #4	August 2013	735
Winner #4	September 2013	2,047
Winner #4	September 2013	1,218
Winner #4	November 2013	703
Winner #4	January 2014	1,384
Winner #4	February 2014	950
Winner #4	June 2014	1,059
Winner #4	August 2014	816
Winner #4	September 2014	732
Winner #4	September 2014	1,076
Winner #4	September 2014	713
Winner #4	October 2014	721
Winner #4	October 2014	797
Winner #4	December 2014	659
Total		\$14,758

Source: Compiled by the Legislative Audit Division from Montana Lottery records.

these tables, Lottery staff dismissed the identified cases as discounting, or the result of frequent play. Lottery staff indicated discounting is not against the law, and thus they do nothing to identify or prevent it. If the Lottery's security personnel conducted reviews to identify situations like those presented in Tables 1 and 2, they and the Lottery Commission could then determine what actions are appropriate to address these situations. Tools available to the Lottery are the commission's rule-making authority, and the ability to suspend or revoke sales agent licenses.

RECOMMENDATION #3

We recommend the Montana Lottery:

- A. *Develop a lottery sales agent store owner/key person list from the information provided to the Lottery during the retail store license application process.*
 - B. *Gather and analyze data on lottery sales agent winners by comparing winners lists against a lottery sales agent owner/key person list.*
 - C. *Based on the analysis, document any identified anomalies and related actions taken.*
-

Retailer Security Assessment Reporting

The Lottery currently conducts random retailer visits as a check on its security controls. During these visits it completes a security assessment report on lottery sales agents. This assessment does not include questions related to maintaining the Lottery's sales records. However, per §23-7-301(11), MCA, sales agents are required to keep these records. The Lottery has no policy addressing compliance with this law. Lottery staff noted a case in which lottery tickets were stolen from a sales agent. The theft was eventually discovered when the Lottery performed a sweep of the sales agent's account and the sales agent complained about being overcharged for ticket sales. The Lottery verified the sales leading the sales agent to discover the theft and press charges against an employee. Lottery staff indicated incidents such as this are out of their control, and the responsibility of the sales agent to prevent. However, we believe the Lottery could take additional steps to assist sales agents in preventing these incidents.

Other states indicated they proactively review sales data every day in order to look for anomalies. One state receives sales reports daily and compare those to previous sales data. If they see a large spike in sales from a particular sales agent they will contact them to make sure there is a reason for this spike. If there is not a justifiable reason for the sales numbers this call will alert the sales agent which allows them to review

security video footage to look for theft. This proactive response helps to avoid theft of lottery tickets which can have a negative effect on the integrity of the Lottery. While the Lottery may not directly lose money from ticket theft there is risk stolen tickets will win a prize, thus taking the possibility away from those who legally purchased tickets. The Lottery indicated its marketing department does monitor sales, but we believe procedures could be strengthened by having security personnel be more proactive in looking for anomalies and educating retailers on the requirements of the law with regards to record keeping.

RECOMMENDATION #4

We recommend the Montana Lottery:

- A. *Update its retailer security assessment to include record-keeping practices.*
 - B. *Update policy by establishing a review of lottery sales agents' sales in order to identify anomalies and follow up as necessary.*
-

Building Security

The Lottery has an access system that records each time a door is accessed and whose card was used to access it. In this system each employee is assigned a level of access and an access card that gets them through certain doors in the building. If an employee does not have access to a door, they cannot gain access through it; however, if they attempt to access the door, the system will log the attempt. Each door is numbered and is described in the system. Lottery staff has the ability to review access of each card holder through a system report that logs each access attempt.

The doors of the Lottery facility currently have incorrect descriptions in the access system making it difficult for Lottery staff to determine who is accessing what areas of the building. In the event Lottery staff wanted to review someone's access in the building, it would be difficult to determine if access was appropriate or inappropriate. Because Lottery staff do not conduct reviews of building access to determine if there are inappropriate access attempts made by staff, they did not notice the error in the system. Lottery staff indicated they do not look at this information unless there is a security concern, or the information is requested. Other states indicated they commonly review access to look for any anomalies. This allows them to be proactive in looking for access issues before it develops into a potential security issue. In order to properly determine access in the future, the Lottery needs to correct the door access labels within the system. With proper labels for each door they would be able to correctly identify access throughout the building.

The Lottery also has the ability to generate a report showing every active card in the system and who they are assigned to. When audit staff reviewed this report it was determined there were three active cards that did not have names associated with them. One of the cards turned out to be a member of the audit staff's in which a system error did not apply their name to the card. Lottery staff indicated they did not know who the two remaining cards were assigned to. Staff indicated they were two of the first cards activated, and could belong to the people who set the system up originally. This means they have had two active, missing access cards to Lottery facilities since the system was installed.

RECOMMENDATION #5

We recommend the Montana Lottery:

- A. *Correct door labels within the access system.*
 - B. *Establish a periodic review of access including building access, assigned access, and active access cards.*
-

MONTANA LOTTERY

LOTTERY RESPONSE

RECOMMENDATION #3

We recommend the Montana Lottery:

- A. Develop a lottery sales agent store owner/key person list from the information provided to the lottery during the retail store license application process.**
- B. Gather and analyze data on lottery sales agent winners by comparing winner lists against a lottery sales agent owner/key person list.**
- C. Based on the analysis, document any identified anomalies and related actions taken.**

The Montana Lottery concurs with this finding. Moving forward, the Montana Lottery will develop cross-referencing reports on our new system that will link winner claim information to retail owners. As recommended, these reports will also be examined, along with other collaboration information such as a victim complaint, to identify unusual activity.

RECOMMENDATION #4

We recommend the Montana Lottery:

- A. Update its retailer security assessment to include record-keeping practices.**
- B. Update policy by establishing a review of lottery sales agents' sales in order to identify anomalies and follow up as necessary.**

The Montana Lottery concurs with this finding. Normally, this is accomplished at the point of licensing and contracting with a retailer and by sales personnel around the state. However, going forward, the security section will address requirements when conducting security assessments.

It should also be noted that the example provided in the report does not provide a clear understanding of events surrounding the theft case identified. Specifically, this case followed a normal pattern that is seen when analyzing financial theft, in that the thief started out small and then gradually progressed over a long period of time to larger and larger actions. Eventually, the owner of the establishment noticed anomalies when balancing their Lottery accounts.

RECOMMENDATION #5

We recommend the Montana Lottery:

- A. Correct door labels within the access system.**

B. Establish a periodic review of access including building access, assigned access and active access cards.

The Montana Lottery concurs with the sections of this finding and will update the access system and established policy and procedures regarding the conclusions noted.

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

Montana Lottery Security Audit FY15
Action Plan

Audit Recommendation	Lottery Response	Corrective Action Plan	Responsible Area	Target Date
<p>Recommendation #1 We recommend the Montana Lottery establish or update policy by:</p> <ul style="list-style-type: none"> A. Clarifying whom it will gather background check information on and what information will be gathered. B. Determining whom will be included on the ineligible player list and how that information will be gathered. C. Creating a periodic review of background check information and the ineligible player list. 	<p>Concur</p>	<p>A. Policy and procedures for background processing will be rewritten to reflect the findings identified in this audit and to insure that we clarify the standards for the collection of that background information based on the varying types of contracts, positions and individuals that we are required to collect information on. These procedures will include a segment on how to document foreign nationals working for a contractor.</p> <p>B. Going forward policy and procedures for ineligible player lists will be redrafted to provide more coverage on who will be placed on the ineligible player list. The lottery will also employ a more aggressive requirement for notification of personnel changes from contracted and associated vendors working for the lottery.</p> <p>C. Periodic reviews of collected background information and ineligible player personnel will become part of our quarterly review process.</p>	<p>MT Lottery Security</p>	<p>April-16</p>
<p>Recommendation #2 We recommend the Montana Lottery establish policy and procedure for conducting and documenting investigative activities.</p>	<p>Concur</p>	<p>Case files especially criminal cases will be reviewed to identify key decision points and procedures common to all investigations. These key points will then be documented in procedure and lottery security will develop a cover sheet for each case file that will provide a reviewer a quick reference aspect on decisions for each case developed.</p>	<p>MT Lottery Security</p>	<p>February -16</p>

Montana Lottery Security Audit FY15
Action Plan

<p>Recommendation #3 We recommend the Montana Lottery:</p> <ul style="list-style-type: none"> A. Develop a lottery sales agent store owner/key person list from information provided to the Lottery during the retail store license application process. B. Gather and analyze data on lottery sales agent winners by comparing winner lists against a lottery sales agent owner/key person list. C. Based on the analysis, document any identified anomalies and related actions taken. 	<p>Concur</p>	<p>All the actions recommended in this finding are currently in a reporting system change request that will automate the data as identified into a report. This will allow lottery security to review and determine if any anomalies are present regarding insider winning patterns of behavior. Security will document any identified anomalies and take appropriate action to address them.</p>	<p>MT Lottery Security</p>	<p>March-16</p>
<p>Recommendation #4 We recommend the Montana Lottery:</p> <ul style="list-style-type: none"> A. Update its retailer security assessment to include record keeping practices. B. Update policy by establishing a review of lottery sales agents' sales in order to identify anomalies and follow up as necessary. 	<p>Concur</p>	<p>Security assessments will be changed to reflect the review of record keeping practices. In addition, we will put in a change request to create a report to identify sales anomalies (for example, a high spike in sales) for follow up security reviews.</p>	<p>MT Lottery Security</p>	<p>March-16</p>

Montana Lottery Security Audit FY15
Action Plan

<p>Recommendation #5 We recommend the Montana Lottery: A. Correct door labels within the access system. B. Establish a periodic review of access including building access, assigned access and active access cards.</p>	<p>Concur</p>	<p>Correcting the door labels will require a system program change and we will determine if this is possible. In the interim, we have physically marked each access point to reflect system reporting data. Access review procedures will be added to our quarterly review process.</p>	<p>MT Lottery Security</p>	<p>January-16</p>
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