

Audit Report

State Lottery and Gaming Control Agency

March 2022



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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March 15, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the State Lottery and Gaming Control Agency (SLGCA) for the period beginning January 3, 2017 and ending October 15, 2020. SLGCA generates revenue primarily for the State's General Fund and the Education Trust Fund through various lottery games, as well as casino-operated video lottery terminals and table games. Approximately \$1.1 billion of its revenue for fiscal year 2020 was credited to various State funds or agencies as prescribed by law.

Our audit disclosed that SLGCA had not established procedures to identify and investigate individuals who won multiple high-dollar lottery prizes (in some cases 200 or more times in a year) to identify patterns of potential collusion between players and lottery related vendors or officials. In addition, SLGCA did not conduct periodic reviews of critical user access to its Lottery Gaming System to verify that all access was necessary and proper, and SLGCA had no procedure to ensure that sensitive transactions processed by vendor employees on the System, such as activating instant tickets, were proper.

Our audit also disclosed that SLGCA did not adequately ensure, on a continuous basis, that the approximately 6,500 video lottery terminals (VLTs) in the State's six casinos were operating properly. Furthermore, based on an allegation of nepotism that we received on our fraud, waste, and abuse hotline, we examined the working relationships and related personnel transactions for two SLGCA employees. We were able to substantiate the allegations.

In addition, we noted that SLGCA did not always follow State procurement regulations when awarding contracts and certain contracts were not adequately monitored. For example, SLGCA did not obtain reimbursements totaling \$119,000 for unused inspection visits as permitted by two contracts for the production of instant tickets.

Furthermore, we found that SLGCA lacked assurance that adequate information technology security and operational controls existed over its VLT computing system that a primary service provider hosted, operated, and maintained.

Our audit included a review to determine the status of the four findings contained in our preceding audit report. We determined that SLGCA satisfactorily addressed three of these findings and the remaining finding is repeated in this report.

SLGCA's response to this audit is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while SLGCA generally agrees with the recommendations in this report, we identified certain instances in which statements in the response conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included "auditor's comments" within SLGCA's response to explain our position. Finally, there are other aspects of SLGCA's response which will require further clarification, but we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by SLGCA and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,



Gregory A. Hook, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

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Background Information

Agency Responsibilities

The State Lottery and Gaming Control Agency (SLGCA) oversees the State's various lottery games and casinos. This activity generates revenue for the State's General Fund, the Education Trust Fund, the Maryland Stadium Authority, and certain other governmental funds and agencies. The State Lottery and Gaming Control Commission consists of seven members appointed by the Governor with the advice and consent of the State Senate. The Commission has oversight responsibilities for SLGCA's operations and, in conjunction with SLGCA, is responsible for regulating the operations of the State's video lottery terminals (VLT) and table games.

Lottery Games

SLGCA administers and operates various lottery games. During fiscal year 2020, 4,307 lottery retail agents sold instant tickets, and tickets for draw games and monitor games.

- Instant Tickets (scratch-offs).
- Fast Play (terminal generated instant win games)
- Draw games include traditional games, such as Pick 3/Pick 4, and multi-state games, such as Mega Millions and Power Ball.
- Monitor games include Keno and Racetrax.

SLGCA's responsibilities for the operation of these specific games require continuous oversight and marketing of lottery gaming operations and the development of new games. SLGCA has entered into an agreement with a gaming contractor to help fulfill these responsibilities, as well as to perform the daily operation and maintenance of the Lottery Gaming System.

Casinos

SLGCA is responsible for regulating and creating standard rules for table games at the State's six authorized casinos, including accounting for and distributing table game revenue. SLGCA is also responsible for administering the VLT program within the State's casinos, including accounting for and distributing VLT revenue, managing the program's central system, and regulating and licensing operators. SLGCA has entered into an agreement with a second contractor to assist SLGCA in meeting these responsibilities.

The State's first casino opened in Cecil County in September 2010 and its most recent casino opened in Prince George's County in December 2016. The four other casinos are located in Worcester, Anne Arundel, and Allegany Counties,

and Baltimore City. As of June 2020, these six casinos operated 6,532 VLTs and 529 table games.

Financial Information

According to SLGCA's audited financial statements for the fiscal year ended June 30, 2020, gross revenue totaled approximately \$3.5 billion, as detailed below. Approximately \$1.1 billion was credited to various State funds or agencies as prescribed by law:

- \$1.4 billion was disbursed for prize claims;
- \$915 million was disbursed for lottery retailer and casino commissions and claims fees;
- \$102 million was used to pay SLGCA's operating expenses;
- \$549 million was credited to the State's General Fund;
- \$397 million was credited to the Education Trust Fund;
- \$40 million was transferred to the Maryland Stadium Authority; and
- \$128 million was credited to other governmental funds and agencies.

SLGCA engages an independent accounting firm to perform an annual audit of its financial statements and monthly audits of special-purpose financial statements, and to provide assistance in technical matters. In the related audit reports for the fiscal years ended June 30, 2018, 2019, and 2020, the firm stated that SLGCA's financial statements presented fairly, in all material respects, its financial position, and the respective changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated March 8, 2018. As disclosed in Figure 1 on the following page, we determined that SLGCA satisfactorily addressed three of these findings. The remaining finding is repeated in this report.

Figure 1
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Controls over individual access to perform critical transactions on the Lottery Gaming System and for the payment of instant tickets printed were not sufficient. In addition, processes in place to ensure tickets met required specifications were not consistently performed.	Not repeated
Finding 2	Required monthly VLT testing procedures were not always properly performed to ensure proper operation and reporting.	Repeated (Current Finding 3)
Finding 3	Sensitive personally identifiable information maintained by SLGCA was stored without adequate safeguards.	Not repeated
Finding 4	SLGCA lacked assurance that its public website was properly secured.	Not repeated

Findings and Recommendations

Lottery Games

Background

As of May 2, 2021, the State Lottery and Gaming Control Agency (SLGCA) offered 12 different lottery games, including all instant ticket games, Fast Play games, as well as all draw and monitor games. SLGCA has entered into an agreement with a gaming contractor to operate and maintain the Lottery Gaming System, which provides certain automated operational, accounting, and control functions over all lottery games. According to SLGCA records, revenue from lottery games totaled approximately \$2.2 billion during calendar year 2020.

Finding 1 (Policy Issue)

SLGCA did not investigate individuals who won multiple high-dollar lottery prizes to identify patterns of potential collusion between players and lottery-related vendors or officials.

Analysis

SLGCA did not investigate individuals who won multiple high-dollar lottery prizes¹ to identify patterns of potential collusions between players, lottery-related vendors, or officials. According to SLGCA records, 362 individuals won high-dollar prizes 20 or more times during calendar year 2020 (see Figure 2).

For example, eight individuals each won a high-dollar lottery prize 200 or more times during calendar year 2020. In total, these individuals won 2,305 times with related winnings totaling \$4.5 million. Two of these eight individuals won the Multi-Match a combined 439 times totaling \$919,300, and six individuals won Racetrax 1,247 times totaling \$1.7 million. Five of the eight individuals won the Pick 4 a combined 505 times totaling \$1.6 million, including one individual who won the \$5,000 top prize for

Figure 2
Summary of High Count and High Dollar Lottery Winners
Calendar Year 2020

Number of Winnings	Count of Individuals	Sum of Winnings
20-49	276	\$14,414,119
50-99	54	6,787,904
100-199	24	5,646,964
> = 200	8	4,464,325
Total	362	\$31,313,312

Source: SLGCA Records

¹ OLA considered a high-dollar lottery prize as winning more than \$600 from a single drawing. This amount is also the maximum prize amount that may be claimed at any lottery retailer. Prizes over \$600 must be claimed at other SLGCA designated locations.

the Pick 4 game 79 times. Since SLGCA does not gather personal information on individuals claiming prizes under \$600, it is unknown how many, if any, lower-dollar prizes these individuals may have also won.

Based on available information, we could not readily determine whether any of the winnings cited here were not legitimate, and data relating to the total number of times these individuals played a lottery game and the extent of any losses they may have incurred was not available. However, considering the high rates of winning noted, SLGCA should review patterns of winning tickets to identify where they were sold and redeemed, and attempt to identify relationships between winners and other high quantity winners, lottery retailers, and SLGCA or SLGCA vendor employees.²

Recommendation 1

We recommend that SLGCA develop a policy and implement procedures for routinely identifying and investigating unusually high winning rates by individual players to identify potential instances of collusion affecting the legitimacy of the winnings.

Finding 2

SLGCA did not conduct periodic reviews of critical user access to the Lottery Gaming System to ensure that all access was necessary and proper, and had no procedures to verify that transactions processed on the System by vendor employees were proper.

Analysis

SLGCA did not conduct periodic reviews of critical user access to the Lottery Gaming System to ensure that such access was necessary and proper. As of April 2021, 163 SLGCA employees and 76 vendor employees had some level of access to the System.

- SLGCA did not have a process to periodically review user access to ensure that it was needed for the employees to perform their work. Certain of these users had access to sensitive information. For example, 83 SLGCA employees and 55 vendor employees had access to certain non-public game statistics and data which were used by SLGCA for analysis purposes, but

² An August 2018 report issued by the Colorado Office of the State Auditor on its performance audit of the Colorado Lottery addressed similar concerns regarding individuals who had won high-dollar prizes an unusually high number of times. That report recommended routine analysis of winning claims for unusual winning patterns, which according to the report, the Colorado Lottery agreed to implement.

which could also be used in an unauthorized manner, such as to potentially gain an advantage (that is, increase an individual's odds of winning high dollar prizes). Although our testing did not disclose any instances of unnecessary or otherwise improper System access, critical user access should be periodically reviewed for propriety.

- SLGCA had no procedure to verify that critical transactions processed on the System by vendor employees were proper. Twelve vendor employees had administrative rights that allowed them to activate instant tickets³ on the System. While the vendor needed this access to occasionally process transactions as directed by SLGCA, SLGCA had no procedure to identify and review the transactions processed for propriety. For example, according to SLGCA reports, one vendor user activated approximately 100 instant tickets on one day during calendar year 2020. After review, based on our inquiry, we were advised by SLGCA staff that this activation was an unusual, but necessary event. Our review did not disclose any improper instant ticket activations.

The State's Department of Information Technology's *Information Security Policy* requires agencies to continuously (at least annually) monitor the security controls within their information systems to ensure that the controls are operating as intended, and that users are only granted the accesses needed to perform assigned tasks.

Recommendation 2

We recommend that SLGCA

- a. perform a documented periodic review of System user access capabilities to ensure that all access granted is necessary and proper, and take action to remove any improper and unnecessary access; and**
- b. establish independent review procedures to ensure the propriety of critical transactions processed by the vendor on the System.**

³ Winning tickets must be activated on the Lottery Gaming System before they can be cashed. Tickets are normally activated by the lottery retailers when they receive them.

Video Lottery Terminal (VLT) Testing

Finding 3 (Policy Issue)

Monthly testing of VLTs was either not conducted or was not sufficiently comprehensive to ensure VLTs were operating properly and player activity was accurately reported.

Analysis

Monthly testing of VLTs was either not conducted or was not sufficiently comprehensive to ensure VLTs were operating properly and player activity was accurately reported. According to SLGCA's records, there were 6,532 VLTs in operation as of June 30, 2020, and during fiscal year 2020, revenue from VLT operations totaled \$829.3 million.

SLGCA historically conducted monthly random tests of VLTs to ensure that they were functioning properly and that related activity was properly reported. Specifically, SLGCA procedures required selecting a minimum number of VLTs at each casino, inserting cash or a voucher for payment, playing five times on each VLT, and cashing out any remaining balance. The actual amounts associated with the testing were manually recorded and compared with automated reports generated by the terminals. Our review disclosed the following conditions.

- During calendar year 2018, SLGCA made a determination to discontinue monthly testing of VLTs and removed the requirement from its written policies. SLGCA management advised us they discontinued the monthly testing because the VLTs are tested when first installed and when physically moved within the casino, and therefore, the monthly testing was redundant. However, the monthly testing frequently disclosed discrepancies, such as the variances noted below, calling into question SLGCA's rationale for the discontinuance of such testing.

If monthly testing had been continued, approximately 670 VLTs would have been tested in calendar year 2020 alone. SLGCA was unable to readily provide documentation of the total number of VLTs tested since discontinuance of the monthly testing policy. With SLGCA's assistance, we were able to review the test results of 26 VLTs tested since discontinuing monthly testing. However, SLGCA could not provide any evidence that the results and supporting documentation for these 26 had been reviewed and approved by supervisory personnel.

- Testing of VLTs prior to discontinuance of the monthly testing policy was not comprehensive and was not performed in accordance with established SLGCA policies. Specifically, we reviewed 12 monthly tests conducted by SLGCA in April 2018 and August 2018, which included 115 VLTs at the 6 State casinos and noted the following conditions.
 - For 3 of the 12 monthly tests, SLGCA did not investigate and resolve discrepancies noted with 15 VLTs. Specifically, the aggregate amount of cash played on these VLTs as reported on automated system reports (\$2,893) exceeded the amount actually played (\$247) by \$2,646. SLGCA did not investigate these discrepancies and could not document whether these differences resulted from machine reporting errors or testing errors. SLGCA advised that there is no indication that these discrepancies were the result of VLTs not reporting correctly, and that it believes that the issue was with the way these tests were conducted and the lack of proper record keeping. However, SLGCA did not have specific documentation to support these assertions.
 - For 6 of the 12 monthly tests, SLGCA tested 56 VLTs instead of the 76 VLTs required by its policy. SLGCA policy required that each monthly test include the lesser of 15 VLTs or one percent of the VLTs in each casino at the time of the test.
 - For 7 of the 12 monthly tests, SLGCA was unable to provide any evidence that the results and supporting documentation had been reviewed and approved by supervisory personnel, as required by its policy.

Similar conditions were commented upon in our preceding audit report. The propriety and accuracy of VLT operations is critical for public confidence in the system to ensure that VLT financial data recorded by the terminals and subsequently used to help verify VLT revenue is accurate and complete.

Recommendation 3

We recommend that SLGCA

- a. adopt a policy requiring monthly random testing of VLTs to ensure they are operating as intended and related activity is properly reported,**
- b. investigate and resolve discrepancies identified in VLT testing (repeat), and**
- c. ensure that each test and the corresponding results are reviewed and approved by supervisory personnel (repeat).**

Potential Ethics Violations

Finding 4

Specific working relationships between family members that existed during our audit period, including the processing and approval of certain SLGCA related personnel and payroll transactions, may have violated State ethics law.

Analysis

Specific working relationships between family members that existed during our audit period, including the processing and approval of certain related SLGCA personnel and payroll transactions, may have violated State ethics law. We received a referral to our fraud, waste, and abuse hotline alleging nepotism involving four SLGCA employees. Based on our review, we found that SLGCA had reviewed two of these employees and had taken appropriate corrective action, but had not addressed the other two employees. As a result, we examined the working relationships and related personnel transactions for the latter two employees and were able to substantiate the allegations.

In May 2019, an SLGCA management employee approved a \$4,906 salary increase, retroactive to June 2018, for an immediate family member employed at SLGCA. The management employee was not the employee's supervisor and the increase contradicted a June 2018 settlement agreement between SLGCA and the employee relating to a personnel matter, which stated that the employee would be transferred to a new department within SLGCA at the same grade, step, and annual pay. There was no documentation justifying the pay increase. We also noted that the aforementioned management employee approved acting pay for the same family member totaling \$977 during our audit period.

During the period from April 2015 to February 2021, an SLGCA employee directly supervised a family member employed at SLGCA and was responsible for approving the family member's timesheets, including overtime and leave. During calendar years 2016 through 2020, the employee approved \$7,670 in overtime earnings, 27 days of administrative leave, and 35 days of sick leave. Additionally, the employee was promoted and received two raises resulting in an increase in salary of \$5,961. When we brought this matter to SLGCA management's attention, SLGCA changed this employee's supervisor and contacted the State Ethics Commission for advice and counsel.

Senior management personnel at the State Ethics Commission advised us that both the aforementioned activities could potentially violate State ethics laws. Section 5-501 of the General Provisions Article of the Annotated Code of

Maryland prohibits an employee from participating in a matter if the employee or their qualifying relative have an interest in the matter. Section 5-506 of the Article prohibits an employee from using the prestige of their position for their own personal gain or the gain of another person. Subsequently, the Ethics Commission determined that the actions taken by SLGCA, including entering into a Non-participation and Mitigation Plan agreement with the employee, resolved the matter arising from the prior direct supervision. However, we were unable to determine if the issue of the employee approving the salary increase for the immediate family member had been formally referred to the Commission or if the Commission had rendered a decision on the matter. Referral of a matter to the Commission by a State agency does not mean that a violation took place, and any final decision as to whether a violation occurred would ultimately be made by the State Ethics Commission.

Recommendation 4

We recommend SLGCA

- a. ensure employees comply with State ethics laws to prevent possible conflicts of interest,**
- b. formally refer the salary approval issue to the State Ethics Commission and take appropriate action based on the Commission’s decisions and direction, and**
- c. recover any funds disbursed that are determined to be improper.**

Contract Procurement and Monitoring

Finding 5

SLGCA did not always follow State procurement regulations and did not adequately monitor certain contracts.

Analysis

SLGCA did not always follow State procurement regulations and did not adequately monitor certain contracts. We reviewed 12 contracts⁴ totaling approximately \$711.7 million that were active during our audit period, and noted the following conditions.

- SLGCA did not always publish contract awards on *eMaryland Marketplace* (*eMM*) as required. *eMM* is an internet-based, interactive procurement system managed by the Department of General Services (DGS).⁵ Our test of *eMM*

⁴ Test selection was based on auditor judgement. Considerations included, for example, materiality, potential risk, and procurement method.

⁵ Effective July 2019, DGS replaced *eMM* with *eMaryland Marketplace Advantage* (*eMMA*).

reporting for the 5 contracts (out of the 12 contracts reviewed) that were awarded during our audit period, disclosed 3 totaling \$63.7 million awarded between January 2018 and March 2019 that were not published on *eMM*, as required. These contracts, each of which exceeded \$50,000, were for media services such as advertising and marketing. State procurement regulations require awards for contracts greater than \$50,000 to be published on *eMM* not more than 30 days after the execution and approval of the contract. Publication of the contract provides transparency for State procurements, including information about winning bidders and award amounts.

- SLGCA did not obtain reimbursements totaling \$119,000 for two instant ticket production contracts. These contracts, valued at \$157.2 million, included provisions allowing SLGCA to conduct a specified number of inspection visits to the contractors' facilities each year. Any unused visits were to be reimbursed (credited) to SLGCA at a rate specified in the respective contracts. As of January 2021, no inspections had been conducted for one contract since its inception in 2014, and less than the permitted number had been conducted for the other. Based on our calculation, reimbursement for unused visits due to SLGCA totaled \$119,000.
- SLGCA did not obtain required deliverables from software escrow agents for three contracts valued at \$477.3 million. These contracts for implementation and maintenance of three stand-alone systems; the Lottery Gaming System, and the Casino VLT system, as well as a third system used for Instant Ticket Lottery Machines at veterans' organizations required the respective contractors to submit software source code to an escrow agent and have that agent confirm receipt with SLGCA. Our review disclosed that SLGCA did not obtain confirmation from the escrow agent that the source code was obtained for all three of these contracts. The purpose of providing source code to escrow agents was to allow SLGCA access to, and use of, the source code for auditing or continued operations should a contractor suffer any condition rendering it unable to continue operations.
- SLGCA did not obtain the results of employee criminal backgrounds checks from the contractor responsible for implementing and maintaining the Lottery Gaming System. This contract, valued at \$314.6 million, required the contractor to provide SLGCA copies of the results of criminal background checks for its employees assigned to the contract. As previously noted, 55 of this contractor's employees had access to certain sensitive non-public game statistics and data.

Recommendation 5

We recommend that SLGCA

- a. ensure that all applicable contract awards are published as required by State regulations;**
- b. obtain reimbursement for all unused inspections when allowed by contract, including those noted in this finding; and**
- c. obtain required confirmations of source code transfers and copies of contractor employee background checks.**

Information Systems Security and Control

Background

SLGCA's Division of Information Technology manages the development, maintenance, and support of SLGCA's information technology infrastructure, including all related networking, telecommunications, and business information systems. SLGCA has contracts with vendors to provide various systems to support its operations including the Lottery Gaming System and Casino VLT System. The Division operates an internal network that includes application and database servers. Furthermore, the internal network connects to networkMaryland, the internet, VLT operations, and the contractor networks used for support of SLGCA games.

The SLGCA wide area network has connections to the SLGCA offices, which provide for operations oversight and monitoring of the VLT operations within the State's six casinos.

Finding 6

SLGCA lacked assurance that adequate information technology security and operational controls existed over its VLT computing system at the State's casinos that a primary service provider hosted, operated, and maintained.

Analysis

SLGCA lacked assurance that adequate information technology security and operational controls existed over its VLT computing system at the State's casinos that a primary service provider hosted, operated, and maintained. The VLT computing system is a comprehensive application used to manage, monitor, and report on related terminal activity. Our review determined that SLGCA had obtained the primary service provider's System and Organization Control (SOC) report, dated September 17, 2020, which covered the period from July 1, 2019 to July 31, 2020. SLGCA personnel advised us that they reviewed this SOC report; however, that review and the results were not documented. We reviewed the

report and determined no control weaknesses were cited. However, we also noted that the report did not address certain key security controls. For example, we noted that the SOC report did not provide testing results evidencing that the service provider performed vulnerability scanning and network intrusion detection, and that audit logs of privileged user access activities, system exceptions, and information security events were generated, reviewed, and retained.

The American Institute of Certified Public Accountants has issued guidance concerning examinations of service providers and issuance of SOC reports. Service provider customers are responsible for obtaining and reviewing SOC reports in order to assess risk over their usage of service provider systems. The State of Maryland *Information Technology Security Manual*, within its risk assessment policy section, enumerates customer responsibilities relative to SOC reports that include reviewing such reports to ensure they contain complete implementation of all needed security controls.

Recommendation 6

We recommend that SLGCA, for its VLT computer systems,

- a. obtain and review the SOC reports annually and ensure that all significant information technology controls are addressed; and**
- b. identify any reported security weaknesses and formally assess their impact upon SLGCA's operations, and ensure that the service provider implements all critical recommendations made in the reports; and document all performed SOC report actions and retain the documentation for future reference.**

Finding 7

Remote access to the internal SLGCA network by employees and authorized contractors used a single authentication measure rather than the more secure multi-factor authentication.

Analysis

Employees' and authorized contractors' remote access to SLGCA's internal network required a stronger security authentication measure than was in place during the audit. SLGCA personnel estimate that between 250-300 individuals, including authorized contractors, could remotely access SLGCA's internal network.

These remote connections into SLGCA's internal network did not require multi-factor authentication (MFA) for establishing access. Instead, access was provided

based upon only single factor authentication. MFA uses two or more different credential factors to authenticate user network connections. Access to critical networks and associated resources requires layers of security protections that include use of MFA, to help prevent security risks tied to compromised user credentials.

The State of Maryland *Information Technology Security Manual*, requires Maryland agencies to ensure that MFA mechanisms are employed for all remote access to networks.

Recommendation 7

We recommend that SLGCA implement multi-factor authentication for remote connections into the SLGCA internal network by employees and authorized contractors.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Lottery and Gaming Control Agency (SLGCA) for the period beginning January 3, 2017 and ending October 15, 2020. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine SLGCA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included the operation of lottery games, video lottery terminals, and table games, including accountability over proceeds and payouts. In addition, the audit addressed purchases, disbursements, corporate purchasing cards, payroll, and information technology systems. Furthermore, we reviewed certain employee working relationships (nepotism) based on referrals received on our fraud, waste, and abuse hotline. We also determined the status of the findings contained in our preceding audit report.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of January 3, 2017 to October 15, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of SLGCA's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a

finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during the audit. We also extracted data from SLGCA's automated records for the purpose of testing casino and lottery financial activity. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes they were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

SLGCA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to SLGCA, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect SLGCA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to SLGCA that did not warrant inclusion in this report.

SLGCA's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise SLGCA regarding the results of our review of its response.

APPENDIX



Maryland Lottery and Gaming Control Agency

Larry Hogan, Governor • John Martin, Director

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March 3, 2022

Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Hook,

Enclosed herewith is our Agency's required response to the draft legislative audit report on the State Lottery and Gaming Control Agency dated February 2022. We would like to again thank your Agency on the professionalism of the audit that was conducted by your staff.

If you should have any questions or comments, please do not hesitate to contact us.

Respectfully,

A handwritten signature in black ink, appearing to read "Paula Yocum".

Paula Yocum
Chief Financial Officer
Maryland Lottery & Gaming Control Agency

State Lottery and Gaming Control Agency

Agency Response Form

Lottery Games

Finding 1 (Policy Issue)

SLGCA did not investigate individuals who won multiple high-dollar lottery prizes to identify patterns of potential collusion between players and lottery-related vendors or officials.

We recommend that SLGCA develop a policy and implement procedures for routinely identifying and investigating unusually high winning rates by individual players to identify potential instances of collusion affecting the legitimacy of the winnings.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA has an analytic tool that has been modified to provide additional data fields. We have begun a testing process that will require select claimants of multiple prizes to claim their prize in person at SLGCA headquarters and allow us to identify questionable practices like discounting. We are not concerned with the legitimacy of the prizes themselves, since they are all validated within our system.		

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Finding 2
SLGCA did not conduct periodic reviews of critical user access to the Lottery Gaming System to ensure that all access was necessary and proper, and had no procedures to verify that transactions processed on the System by vendor employees were proper.

We recommend that SLGCA

- a. perform a documented periodic review of System user access capabilities to ensure that all access granted is necessary and proper, and take action to remove any improper and unnecessary access; and
- b. establish independent review procedures to ensure the propriety of critical transactions processed by the vendor on the System.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA conducted user access list reviews in 2019 and 2021. This will be completed annually in the future. The next planned review will occur in June, 2022.		
Recommendation 2b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	The transactions noted are activations of instant ticket games. There are very few of these transactions and all are conducted at the request of SLGCA. A designated retailer is charged for these tickets once activated. We will perform semi-annual reviews of these transactions moving forward. The next planned review will occur in June, 2022.		

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Video Lottery Terminal (VLT) Testing

Finding 3 (Policy Issue)
Monthly testing of VLTs was either not conducted or was not sufficiently comprehensive to ensure VLTs were operating properly and player activity was accurately reported.

We recommend that SLGCA

- a. adopt a policy requiring monthly random testing of VLTs to ensure they are operating as intended and related activity is properly reported,
- b. investigate and resolve discrepancies identified in VLT testing (repeat), and
- c. ensure that each test and the corresponding results are reviewed and approved by supervisory personnel (repeat).

Agency Response			
Analysis	Not Factually Accurate		
Please provide additional comments as deemed necessary.	We do not believe that monthly testing of installed VLTs to confirm they are reporting correctly is necessary or an effective use of staff time. SLGCA did not begin monthly random testing until December 2014, four years after the first casino opening. The determination to end the program was made in early 2018 and was based on industry best practices which are still in effect today.		
Recommendation 3a	Disagree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA strongly believes the discrepancies in testing were due to a lack of detail during the testing procedures and were not the result of improper VLT reporting. VLTs that were re-tested by casino personnel indicated the VLTs were reporting correctly. If any VLTs actually did have reporting issues, that would have been discovered during normal customer play and that simply never happened. There's never been any indication that we've had VLTs that were not reporting properly to our system. In addition, this is not an industry standard and after checking with numerous other casino regulatory agencies we did not find any that were performing random monthly testing of VLTs.		

Auditor's Comment: SLGCA's response states that the Analysis is not factually accurate, but does not dispute the specific facts presented in the Analysis. We will presume that SLGCA does not dispute those facts, but is only disagreeing with the recommendation to adopt a policy requiring monthly random testing of installed VLTs.

State Lottery and Gaming Control Agency

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The response states that SLGCA does not believe that monthly testing is necessary or an effective use of time, and that SLGCA believes that the discrepancies in testing noted in the finding were due to a lack of detail during the testing procedures, not improper VLT reporting. However, given the discrepancies noted prior to the discontinuance of monthly testing and SLGCA’s lack of documentation resolving those discrepancies, and the need to maintain public confidence in a system with over 6,500 VLTs in operation across the State, we continue to believe it is prudent and reasonable to perform some level of random monthly testing.

Recommendation 3b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	As we move forward testing new installs, SLGCA will investigate and resolve discrepancies identified.		
Recommendation 3c	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA believed that we were in compliance because it was the supervisor that was conducting the tests. For any future testing by a supervisor, we will have their work approved by a manager.		

State Lottery and Gaming Control Agency

Agency Response Form

Potential Ethics Violations

Finding 4
Specific working relationships between family members that existed during our audit period, including the processing and approval of certain SLGCA related personnel and payroll transactions, may have violated State ethics law.

We recommend SLGCA

- a. ensure employees comply with State ethics laws to prevent possible conflicts of interest,**
- b. formally refer the salary approval issue to the State Ethics Commission and take appropriate action based on the Commission’s decisions and direction, and**
- c. recover any funds disbursed that are determined to be improper.**

Agency Response	
Analysis	Not Factually Accurate
<p>Please provide additional comments as deemed necessary.</p>	<p>With regards to the instance where an SLGCA employee directly supervised a family member’s timesheets, it was noted that 27 days of administrative leave, and 35 days of sick leave were used.</p> <p>However, you failed to note that the administrative leave used was “COVID-19 Admin Leave” and why it was used. All SLGCA casino personnel used this code due to the Governor mandated casino closures during this time period. Because the casino was closed to the public, a full staff was not required to be onsite 24/7. However, according to regulation, Compliance staff had to be on premise at all times, so a skeleton crew had to be maintained 24/7. Additionally, these jobs were not “telework eligible.” A rotation occurred for each casino whereas each employee worked at least once during their weekly shift and used “COVID-19 Admin Leave” for the remainder of the weekly shift. The supervisor had no discretion over the use of this code. Your comment implies otherwise.</p> <p>Additionally, it was noted that 35 days (i.e., 280 hours) of sick leave was used by this employee and was approved by the supervisor. However, this employee was on an SLGCA HR approved FMLA event from 06/16/2018 – 07/28/2021. The total sick leave used for this FMLA event was 280 hours. Again, the supervisor has no discretion on the use/approval of FMLA approved leave.</p> <p>It is our understanding that the family member was not on the promotion interview panel and had no decision-making authority with regards to the promotion that was referenced.</p>

State Lottery and Gaming Control Agency

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	<p>Lastly, there is a reference to two raises. However, there was a failure to note that the raise received in CY2016 was the direct result of a statewide salary increase and was not initiated by SLGCA personnel.</p>
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Auditor’s Comment: The response states that the Analysis is not factually accurate. However, the response does not specifically identify facts that are inaccurate, but instead notes that the Analysis fails to indicate that the supervisor had no discretion over the leave taken and did not participate in the promotion given, and that the raises noted were the result of Statewide salary increases. While we provided certain information regarding this employee’s leave and earnings during a period in time, the focus of our finding was that an SLGCA employee directly supervised a family member and approved that person’s timesheets. As noted in our finding, when we brought this matter to SLGCA’s attention, SLGCA changed the employee’s supervisor and contacted the State Ethics Commission for advice and counsel.

Recommendation 4a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA will ensure employees comply with State ethics laws and regulations to prevent possible conflicts of interests.		
Recommendation 4b	Agree	Estimated Completion Date:	September 1, 2022
Please provide details of corrective action or explain disagreement.	SLGCA has formally submitted the salary approval issue to the State Ethics Commission and will take appropriate action based on the Commission’s decisions and directions. Completion of this recommendation is dependent upon a response from the State Ethics Commission.		
Recommendation 4c	Agree	Estimated Completion Date:	September 1, 2022
Please provide details of corrective action or explain disagreement.	<p>With regards to the first instance noted, while there is a pending Office of Administrative Hearings (OAH) decision, SLGCA can neither agree nor disagree for this recommendation on the recovery of any funds that may have been improperly disbursed. Completion of this recommendation is dependent upon a final decision from OAH.</p> <p>With regards to the second instance noted, there were no funds disbursed that were improper.</p>		

State Lottery and Gaming Control Agency

Agency Response Form

Contract Procurement and Monitoring

Finding 5
SLGCA did not always follow State procurement regulations and did not adequately monitor certain contracts.

We recommend that SLGCA

- a. ensure that all applicable contract awards are published as required by State regulations;
- b. obtain reimbursement for all unused inspections when allowed by contract, including those noted in this finding; and
- c. obtain required confirmations of source code transfers and copies of contractor employee background checks.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA routinely publishes notice of an award. We believe that some of the instances noted may have occurred during the period when eMM was being modified and the notice may have failed to publish properly. In any event we will ensure notices are published.		
Recommendation 5b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA has notified our contractors that reimbursement is required for the trips we will not be utilizing and will monitor this more closely in the future. At the present time, we are still considering whether to use the trips from one vendor or bill them for ones we won't use. SLGCA agreed to allow one of our vendors to pay for the trips in two installments, and that was completed in early 2022.		
Recommendation 5c	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	For this recommendation, there were three vendors involved. For vendor 1, we now receive confirmation of the transfers from the receiving agent as opposed to the vendor. For the other two vendors, the contractors did not update the escrow agent with proper contact information after a change in staffing. This has now been completed and notices have been received from the escrow agent this year. Vendors will be notified when there are future changes in responsible staff.		

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Information Systems Security and Control

Finding 6
SLGCA lacked assurance that adequate information technology security and operational controls existed over its VLT computing system at the State’s casinos that a primary service provider hosted, operated, and maintained.

- We recommend that SLGCA, for its VLT computer systems,
- a. obtain and review the SOC reports annually and ensure that all significant information technology controls are addressed; and
 - b. identify any reported security weaknesses and formally assess their impact upon SLGCA’s operations, and ensure that the service provider implements all critical recommendations made in the reports; and document all performed SOC report actions and retain the documentation for future reference.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The terms of the previous contract did not have a provision requiring a SOC 2 report. The new contract which began September, 2021 does require a SOC 2 report.		
Recommendation 6a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	SLGCA will obtain and review the SOC 2 reports annually and ensure all significant information technology controls weaknesses are addressed.		
Recommendation 6b	Agree	Estimated Completion Date:	December 31, 2022
Please provide details of corrective action or explain disagreement.	SLGCA will identify any reported security weaknesses and formally assess their impact upon our operations, and ensure that the service provider implements all critical recommendations in the reports; and document all performed SOC report actions and retain the documentation for future reference. The period for a SOC report is the fiscal year. The next planned review will occur in second half of calendar year 2022.		

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Finding 7

Remote access to the internal SLGCA network by employees and authorized contractors used a single authentication measure rather than the more secure multi-factor authentication.

We recommend that SLGCA implement multi-factor authentication for remote connections into the SLGCA internal network by employees and authorized contractors.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 7	Agree	Estimated Completion Date:	July 1, 2022
Please provide details of corrective action or explain disagreement.	SLGCA is working with the Department of Information Technology (DoIT) to implement multi-factor authentication for all connections into the SLGCA internal network by employees and authorized contractors. We have been following up periodically but have not yet been able to get on DoIT's schedule for this work so 90 days is an estimate.		

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