



April 12, 2022

The Honorable Timothy L. DeFoor  
Auditor General  
Commonwealth of Pennsylvania  
Department of Auditor General  
613 North Street, Room 229  
Harrisburg, PA 17120

RE: Department of Auditor General: Performance Audit Report – Pennsylvania Lottery/Department of Revenue

Dear Auditor General DeFoor,

This letter includes responses from both the Office of Administration and the Department of Revenue. In accordance with Act 44 of 2017, we are providing updates on the implementation of recommendations included in the performance audit that was issued by your agency on November 15, 2021. The specific findings and status updates are included below.

### **Finding 1 – Pennsylvania Lottery Responses to Recommendations**

1. Contact other states to inquire about their parameters for investigating players with frequent winning claims above a certain amount, including having Revenue's Office of Chief Counsel (OCC) closely review the relevant statutory and regulatory provisions of these other states.

*Status: Resolved*

*The Pennsylvania Lottery is an industry leader in Lottery security and best practices, which is accomplished through frequent and open dialog with other lottery jurisdictions about security procedures and safeguards. A 2018 independent study by Delehanty Consulting, an industry leader in independent Lottery consulting services, confirmed that the PA Lottery is taking all necessary steps to reduce the risk of fraud.*

2. Based on information obtained by contacting other states and other relevant research, including that conducted by Revenue's OCC, begin regularly analyzing the winning ticket claims data for all players to identify players who submitted winning claims meeting determined high frequency parameters and perform further investigation to confirm the legitimacy of those wins.

*Status: Resolved*

*The PA Lottery has always verified all prizes paid out.*

3. Develop policy and formalized written procedures for analyzing the frequency of winning claims submitted by players and perform further investigation to confirm the legitimacy of those claims.

*Status: Resolved*

*The PA Lottery has always verified all prizes paid out.*



4. Work with the General Assembly to develop legislation to provide Lottery with the authority to follow-up/investigate players identified in its analysis to monitor for fraud, abuse, or other prohibited activity which should be referred to law enforcement. In addition, encourage the General Assembly to consider mandating the creation of an enforcement bureau within the Pennsylvania State Police (PSP) to be added to the State Lottery Law similar to the requirements of the Liquor Code or enlarge the jurisdiction of the current PSP liquor enforcement bureau by adding the suspect lottery winners.

*Status: Unresolved*

*The PA Lottery is confident in its current procedures to thoroughly investigate alleged or potential ticket fraud, including cooperation with law enforcement agencies. Additionally, in February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security.*

5. Evaluate and consider conducting an in-depth investigation with the help of law enforcement, if needed, on the retailer and spouse who collectively claimed 130 winning tickets of more than \$600 for each ticket during the period July 1, 2017 through March 2, 2020.

*Status: Resolved*

*The PA Lottery's Security Division has conducted investigations of the aforementioned retailer numerous times throughout the audit period. There is no evidence that anything illegal is going on at these locations that could jeopardize the integrity of the Pennsylvania Lottery. Additionally, there are no prohibitions against retailers or their spouses playing Lottery games.*

6. Develop and implement policy and formalize written procedures to reduce the risk prohibited individuals claim lottery prizes and provide reasonable assurance any such claims submitted are detected and evaluated for appropriateness. This should include maintaining a list of prohibited individuals to check when processing winning tickets accompanied by claim forms. If any prohibited individual is suspected of noncompliance with applicable policies and procedures, Revenue/Lottery should request that the State Inspector General investigate the matter and handle it as the Inspector General deems appropriate.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. The drafting of policy and the formalization of procedures in this area will be a part of the work effort to strengthen the risk management strategy within the PA Lottery.*

7. Require prohibited individuals who work at Revenue/Lottery to annually sign an acknowledgement that they understand and have abided by all applicable policies and prohibitions as they related to Lottery.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. The process for obtaining annual acknowledgements of Lottery prohibitions*



*from Revenue/Lottery employees will be a part of the work effort to strengthen the risk management strategy within the PA Lottery.*

8. Amend contract language of contractors with employees who are prohibited from playing the Lottery to require contractors to have their prohibited officers, employees, subcontractors, and service providers sign a document on an annual basis acknowledging applicable policies and prohibitions as they relate to Lottery. If a contractor is suspected of noncompliance with the applicable policies and procedures, Revenue/Lottery should request the State Inspector General investigate the matter and handle it as the Inspector General deems appropriate.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. The process for amending contract language of contractors who are prohibited from playing the Lottery will be a part of the work effort to strengthen the risk management strategy within the PA Lottery.*

9. Until the formalized procedures in Recommendation #6 are developed and implemented, utilize employee information currently maintained by Revenue to periodically analyze winning claims data for claims submitted by prohibited Revenue and Lottery employees and follow up, as necessary. This would include the 37 names we provided to Lottery based on our data analysis.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. As stated in Recommendation #6 above, the drafting of policy and the formalization of procedures in this area will be a part of the work effort to strengthen the risk management strategy within the PA Lottery, as will the process for periodically analyzing winning claims to ensure prohibited employees are not being paid Lottery prizes.*

10. Work with the General Assembly to review the two intercept provisions (domestic relations and support matters) and add language to them which makes it illegal to sell winning tickets at a discounted price which currently may be done to avoid garnishment of winnings to avoid tax liability, child support, etc.

*Status: Unresolved*

*The PA Lottery does conduct intercept programs to determine if players owe child support, state taxes, or other debts enumerated in the law. This practice will continue. Engagement efforts with the General Assembly around ticket discounting have not started.*

11. Formalize in writing the procedures to be performed by Lottery security staff regarding site visits of retailers identified as having a high frequency of winning claims.

*Status: Resolved*

*The PA Lottery has taken the necessary action to document these procedures.*



12. Require all site visit documents to be fully completed with the respective retailer so Lottery security has all of the information necessary when evaluating whether the retailer or staff may have engaged in activity violating policy.

*Status: Resolved*

*The PA Lottery has taken the necessary action to document these procedures.*

13. Ensure the Security Director or Designee verifies the site visit documentation, including the questionnaire and acknowledgement forms, are properly completed as well as ensure they are properly initialed or signed, as respectively required, and dated by the respective security staff or manager.

*Status: Resolved*

*The PA Lottery has taken the necessary action to ensure that all documentation has been reviewed, signed, and dated. A second level of review was also instituted.*

14. Require the retailer to be present at all scheduled site visits, unless prior arrangements have been approved by Lottery Security, and implement measures to discourage retailers from not being present, up to and including possible license suspension, particularly for repeat absences.

*Status: Resolved*

*If a retailer/licensee does not show up for a scheduled visit, we will still visit the site by meeting with the store management. We will then call the licensee and discuss the findings. If the retailer/licensee fails to show up for a visit more than once, we will request a suspension of their license.*

15. Revise the format of the write-ups prepared by Lottery security staff to include a conclusion statement to be reviewed by Lottery security management regarding whether an investigation should be performed of the winnings claimed by the retailer.

*Status: Resolved*

*The PA Lottery implemented this recommendation on September 1, 2021.*

16. We further recommend the Pennsylvania General Assembly (as earlier stated in the "Consideration" section): Consider amending state law to prohibit, or place limits on, lottery retailers from purchasing lottery products and receiving lottery prizes given the fact retailers have greater opportunities for potentially engaging in suspect activity related to claiming winning prizes.

*Status: Not Applicable*

*The Pennsylvania Lottery cannot resolve this recommendation as is it not directed to our agency. However, as noted in our response to the draft audit report, we strongly disagree with this recommendation. Lottery retailers have no way to influence the outcome of Lottery games and placing a prohibition on them implies to other players that they do. Additionally, an assumption is being made that because some retailers have daily interactions with winners, that creates a greater risk for fraudulent, suspicious, or illegal activity. There is no data to support this assumption. The DAG's procedures have not provided any evidence which supports this assumption.*



## Finding 2 – Pennsylvania Lottery and Office of Administration Responses for Recommendations

1. Develop a process, in conjunction with Lottery's outsourced vendor, to have the vendor provide control total reports of retailer-paid claims more than \$600 for reconciliation to validate the completeness of the parsing program used to populate the back-office system.

*Status: Unresolved*

*The PA Lottery is undertaking a modernization effort of its statewide retailer system and back-office systems. This recommendation will be discussed during the design phase of the project.*

2. Develop and implement controls to use the vendor-generated control total reports recommended above to confirm the parsing program functions as intended and provide assurance as to the completeness of the back-office system.

*Status: Unresolved*

*The Pennsylvania Lottery is transitioning to a new statewide retailer vendor system. The corrective action is being implemented as part of the transition to the new statewide retailer vendor system.*

3. Develop and implement controls to periodically reconcile the back-office system to independent reports.

*Status: Unresolved*

*The Pennsylvania Lottery is beginning the process of transitioning to a new statewide retailer vendor system. The corrective action is being implemented as part of the transition to the new statewide retailer vendor system.*

4. Develop formal internal control documents for any new processes created by Lottery's outsourced vendor, including implementation and documentation of any application controls assigned to Lottery by the vendor documents. Controls performed should be carefully documented and retained for monitoring.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. The documentation of both the PA Lottery and outsourced vendor controls will be a part of the work effort to strengthen the risk management strategy within the PA Lottery.*

5. Develop monitoring activities to ensure interface controls are consistently performed and documented.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. The documentation of both the PA Lottery and outsourced vendor controls will be a part of the work effort to strengthen the risk management strategy within the PA Lottery.*



6. Correct the program that creates Retailer Winnings reports to avoid duplicates and correct any other anomalies to ensure they accurately reflect all winning tickets claimed by retailers.

*Status: Unresolved*

*The Pennsylvania Lottery is transitioning to a new statewide retailer vendor system. The corrective action is being implemented as part of the transition to the new statewide retailer vendor system.*

7. Document formal management requirements for back-office system processes and reports in functional specifications documents to help ensure processes and reports function in compliance with management intent.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. The documentation of both the PA Lottery and outsourced vendor controls will be a part of the work effort to strengthen the risk management strategy within the PA Lottery.*

8. Retain documentation of user acceptance testing when implementing new back-office system processes and reports and when implementing changes to existing processes and reports.

*Status: Unresolved*

*In February 2022, the PA Lottery started efforts to implement a Risk Management Office and identify a Risk Management Officer to continue upholding its reputation as an industry leader in Lottery security. The documentation of both the PA Lottery and outsourced vendor controls will be a part of the work effort to strengthen the risk management strategy within the PA Lottery.*

### **Finding 3 – Department of Revenue and Office of Administration Responses for Recommendations**

1. Establish responsibilities and processes to monitor the completion of sexual harassment prevention training department-wide to ensure all staff timely complete all mandated sexual harassment prevention training, including new hires, promotions, and annual training.

*Status: Unresolved*

*The Department of Revenue is working to develop a process to ensure required training is completed by employees annually.*

2. Revise its policy, in consultation with OA and Revenue Office of Chief Counsel, relating to the prohibition of sexual harassment to more closely align with the language in EEOC guidelines, such as the identity of the individuals who report harassment will be kept confidential and corrective action will be taken immediately; (Note corrective action does not mean there will be immediate discipline or termination of any employee. Instead, it means that actions will be immediately taken to protect the employee and begin the investigatory process.)



Status: Resolved

*The Commonwealth prohibits sexual harassment whether it takes place at the workplace or outside of the workplace. Executive Order 2021-04, Prohibition of Sexual Harassment in the Commonwealth, was issued June 15, 2021. The Commonwealth's policy and management directives indicate that investigations will be conducted in a confidential manner (see Management Directive 410.10, Section 6.f.7 and Management Directive 505.30). The Commonwealth's policy and management directives properly provide that investigations will be conducted promptly, and that appropriate action will be taken, i.e., that action will be taken promptly to protect any Commonwealth employee and that any Commonwealth employee who engages in or knowingly permits or condones sexual harassment during the course of conducting their Commonwealth duties shall be subject to disciplinary action, up to and including dismissal.*

3. Annually review the policy relating to the prohibition of sexual harassment and revise it as necessary.

Status: Resolved

*The Office of Administration recently released its revised, mandatory web-based training, Preventing Discrimination & Harassment for All Employees, to all Department of Revenue employees on March 7, 2022. With respect to the review of management directives, Management Directive 210.1 Amended, Directives Management System directs that management directives are to be reviewed every four years to determine if updates are necessary; the Office of Administration endeavors to comply with this directive.*

4. Implement reminder emails for the "Preventing Discrimination & Harassment 17" course for new employees and ensure reminder emails are implemented for any future prevention courses added.

Status: Resolved

*A schedule of reminder emails for enterprise-wide training was implemented by the Office of Administration in 2019; this process will continue.*

5. In coordination with the Governor's Office, revise the Commonwealth executive orders and management directives to formalize in writing that sexual harassment prevention training is required upon being hired and on an annual basis for existing employees.

Status: Resolved

*The Commonwealth provides sexual harassment prevention training for all newly hired employees and for all employees annually; this process will continue.*

6. In coordination with the Governor's Office, revise the Commonwealth executive orders and/or management directives pertaining to the prohibition of sexual harassment to more closely align with the language in the EEOC guidelines, such as ensuring that the identity of individuals who report harassment will be kept confidential and corrective action will be taken immediately.



Status: Resolved

*The Commonwealth prohibits sexual harassment by employees in the workplace. Executive Order 2021-04, Prohibition of Sexual Harassment in the Commonwealth, which was issued on June 15, 2021., along with Management Directive 505.30 Amended, Prohibition of Sexual Harassment in Commonwealth Work Settings, set forth the Commonwealth's policy on sexual harassment. Management Directive 505.30 Amended and Management Directive 410.10 Amended, Guidelines for Investigating and Resolving Internal Discrimination Complaints, specifically Section 6.f.7, provide that internal investigations will be conducted in a confidential manner. The Commonwealth's policy and management directives properly provide that investigations will be conducted promptly, and that appropriate action will be taken where there is a violation of policy (i.e., that action will be taken promptly to protect any Commonwealth employee and that any Commonwealth employee who engages in or knowingly permits or condones sexual harassment during the course of conducting their Commonwealth duties shall be subject to disciplinary action, up to and including dismissal).*

7. Annually review the policies pertaining to the prohibition of sexual harassment and revise as necessary.

Status: Resolved

*The Office of Administration's Equal Employment Opportunity Office reviews policies on an annual basis and revises as necessary; this process will continue.*

**Finding 4 – Department of Revenue Response**

1. The OAOA Equal Employment Opportunity Office should continue to conduct in-depth investigations of all claims of sexual harassment and continue to keep detailed files of the investigations with each step documented, including the results of each investigation.

Status: Resolved

*The Office of Administration's Equal Employment Opportunity Office will continue investigations of all claims of sexual harassment.*

Respectfully,

A handwritten signature in black ink that reads 'C. Daniel Hassell'.

C. Daniel Hassell  
Revenue Secretary

A handwritten signature in black ink that reads 'Michael Newsome'.

Michael Newsome  
Secretary of Administration