

PERFORMANCE AUDIT REPORT

Pennsylvania Department of Revenue
Pennsylvania Office of Administration

Lottery Frequent Winning Claims/
Sexual Harassment Prevention

November 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

November 12, 2021

The Honorable Tom Wolf
Governor
Commonwealth of Pennsylvania
Room 225 Main Capitol Building
Harrisburg, PA 17120

Dear Governor Wolf:

This report contains the results of the Department of the Auditor General's performance audit of the Pennsylvania Department of Revenue (Revenue) and the Pennsylvania Office of Administration (OA) pertaining to: (1) the Pennsylvania Lottery's (Lottery) monitoring of retailer and frequent winner claims; and (2) sexual harassment prevention within Revenue. This audit was conducted under the authority of Sections 402 and 403 of The Fiscal Code, 72 P.S. §§ 402 and 403, and in accordance with applicable *Government Auditing Standards*, issued by the Comptroller General of the United States.¹ 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our performance audit had three objectives, each of which covered different audit periods. The first objective covered the period July 1, 2017 through January 26, 2021, unless otherwise noted, with updates through the report date, and included the following:

- Evaluate the effectiveness of Revenue's regulations, policies, procedures, and guidelines to prevent and monitor lottery retailers and winners for fraud, abuse, or other prohibited activity.

¹ U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision.

The second objective covered the period July 1, 2017 through January 22, 2021, unless otherwise noted, with updates through the report date, and included the following:

- Evaluate whether Revenue's sexual harassment prevention policy is comprehensive, adhered to, and effective, including whether all employees have completed sexual harassment training.

The third objective covered the period July 1, 2010 through January 15, 2020, unless otherwise noted, with updates through the report date, and included the following:

- Determine the number of sexual harassment complaints filed, dollar amount of settlements, and where the sexual harassment money came from for each settlement, if any.

We found although Lottery evaluates frequent winning claims from retailers who sell lottery products, it does not perform analysis to identify non-retailer players who are claiming prizes at a high frequency despite having the data to do so. While Lottery conducts site visits of retailers identified as having frequent winning claims, the process should be improved and its procedures formalized in writing. Lottery does not perform monitoring procedures to ensure prohibited individuals are not claiming winning tickets. Prohibited individuals include certain executives within the Commonwealth of Pennsylvania and Revenue, all employees of Lottery, and certain officers and employees of a contractor or subcontractor and their family members residing in the same household. Retailers themselves are not prohibited from claiming winning tickets.

We also found weaknesses related to Lottery's back office system, which is operated and maintained by staff to record transactions that occur at its main offices, including all winning claims of more than \$600. Lottery lacks information technology controls to ensure all retailer-paid winning claims more than \$600 are recorded in the back office system. Lottery also lacks documentation to support it performed adequate testing of the parsing program that records retailer-paid winning tickets in the back office system. We were also unable to reconcile the provided data to independent reports to ensure the files contained every winning lottery ticket claim of more than \$600.

Additionally, we found weaknesses regarding Retailer Winning reports used by Lottery's Security Division to monitor retailers for frequent wins and prohibited activities. Weaknesses included the same winning claims listed multiple times and certain non-retailer wins listed in the report. The existence of these inaccuracies reduces the effectiveness of these reports. Lottery also does not have systems documentation to describe the functionality of this report and we therefore question whether Lottery management is fully aware of exactly what is included/excluded from the reports.

We further determined Revenue's *Prohibition of Sexual Harassment Policy*, the Governor's Executive Order, and OA's Management Directives related to the prohibition of sexual harassment should be revised. The executive order and management directive effective during

our audit period were issued in 2002, or 19 years ago. Subsequent to our audit procedures, OA informed us the executive order was revised on June 15, 2021, mere months after our previous inquiry. We did not evaluate the revisions during our audit; however, they may address certain issues and concerns outlined in our report. See discussion regarding this matter in the *Auditor's Conclusion* section of this report.

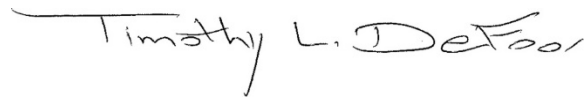
Revenue also failed to ensure all of its employees received required sexual harassment prevention training. Although reports can be generated to identify which Revenue employees have not taken required training, we found management had not requested to run these reports during the audit period. Applicable sexual harassment policies should be updated to formalize in writing the requirement for staff to complete training on an annual basis.

Our review of the files of all sexual harassment claims filed during our audit period found a total of 17 claims were filed against Revenue staff. Nine of the complaints were found to be substantiated and eight were found not to be substantiated. One of the nine substantiated complaints resulted in a settlement payment of \$900,000 with \$1,822 incurred in legal fees. The Commonwealth's Self-Insurance plan covered \$250,000 of this settlement. The remaining \$651,822 was paid from Revenue's General Government Operations monies included in its fiscal year 2014 budget.

Overall, we offer a total of 32 recommendations, including 26 for Revenue or Lottery, five for OA, and one for the General Assembly, to consider implementing to help ensure the integrity of the Lottery program and the potential for all employees within Revenue to work in an environment free of sexual harassment. Revenue and OA have committed to or are in the process of implementing most of the recommendations; however, they disagree with several of them. See disagreement addressed in our *Auditor's Conclusion* section of this report.

In closing, we would like to thank Revenue/Lottery and OA for their cooperation and assistance during the audit. We reserve the right to follow up at an appropriate time to determine whether and to what extent all recommendations have been implemented.

Sincerely,

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive, flowing style.

Timothy L. DeFoor
Auditor General

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Executive Summary

This report presents the results of our performance audit of the Pennsylvania Department of Revenue (Revenue) and the Pennsylvania Office of Administration (OA) regarding: (1) the Pennsylvania Lottery's (Lottery) monitoring of retailer and frequent winner claims; and (2) sexual harassment prevention within Revenue. In part, this audit was conducted due to reported issues regarding players with frequent winning claims and under the authority of Sections 402 and 403 of The Fiscal Code.²

Our performance audit had three objectives covering different audit periods as stated below, unless otherwise noted, with updates through the report date. The first objective covered the period July 1, 2017 through January 26, 2021. The second objective covered the period July 1, 2017 through January 22, 2021. The third objective covered the period July 1, 2010 through January 15, 2020. Refer to *Appendix A* of this report for a detailed description of the audit objectives, scope, methodology, and data reliability.

Revenue has been responsible for overseeing Lottery operations since its inception in 1971.³ The Lottery office is headquartered in Middletown, Pennsylvania, and has seven regional offices throughout the state. The Lottery is the only state lottery in the United States to designate all generated proceeds to programs that benefit older residents.⁴ Lottery premiered its first weekly drawing in March 1972. See the Introduction and Background section of this report for discussion on OA's role in providing information technology services to Lottery in objective one and human resource services as related to objectives two and three.

Our audit results are contained in four findings and include a total of 32 recommendations: 26 for Revenue or Lottery; five for OA; and one for the General Assembly. Revenue and OA have committed to or are in the process of implementing most of the recommendations; however, they disagreed with several of the recommendations. See disagreement addressed in our *Auditor's Conclusion* section of this report.

² 72 P.S. §§ 402 and 403.

³ Ibid. See the State Lottery Law, 72 P.S. § 3761-101 *et seq.* (Act 91 of 1971, as amended) and in particular, 72 P.S. § 3761-303 (relating to Powers and Duties of the [S]ecretary [of Revenue]). Please note that the law (formerly cited as 72 P.S. § 3761-1 *et seq.*) was renumbered when amended by Act 134 of 1996.

⁴ 72 P.S. § 3761-301 (relating to Statement of purpose).

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Finding 1 – Lottery evaluates frequent winning claims from retailers who sell lottery products, but does not have a process in place to evaluate frequent winning claims from non-retailer players.

Although winning tickets of more than \$600 claimed by players represents 97 percent of claims during the period July 1, 2017 through March 2, 2020, Lottery does **not** perform any analysis on winning claims to identify players who are not retailers, nor does Lottery determine whether their winning at a high frequency may warrant further investigation. We performed analysis to determine the prevalence of frequent winning claims by non-retailer players, and whether or not Lottery should be conducting this type of monitoring.

We found 17 players who submitted 50 or more winning claims during the 33-month period for a combined total of 1,344 claims amounting to almost \$2.7 million. Studies performed as reported in news articles cited in our *Introduction and Background* section found 50 or more wins, each totaling more than \$600, by a single player is statistically improbable and in some cases, the wins could potentially be rooted in suspect activity.

The root causes for these claims are not known without Lottery performing analysis and investigation. According to Lottery management, it does not have the legal/law enforcement authority to investigate frequent claims by players. We recommend Lottery, along with Revenue, work with the Pennsylvania General Assembly to develop legislation to give it this authority.

Until enactment of such legislation, there are ways for Lottery to perform this analysis and investigation. The data needed is readily available to Lottery right now. Lottery could use the name and contact information from claim forms to perform analysis on the frequency of winnings claimed by players. It also could consider partnering with the Pennsylvania Inspector General or the Pennsylvania Office of Attorney General to investigate players with suspect claims.

Additionally, although state law and Lottery policy prohibits the purchase of its products by certain executives within the Commonwealth of Pennsylvania and Revenue, all employees of Lottery, and some officers and employees of a contractor or subcontractor along with their family members residing in the same household, Lottery does not perform any analysis to ensure prohibited individuals are not claiming winning tickets. Our audit procedures included a limited review to determine if the names of the 242 Lottery staff employed as of March 16, 2020, matched the names of individuals who claimed winnings of more than \$600 between July 1, 2017 and March 2, 2020. Our comparison found matches for 37 of the 242 names. We submitted the names to Revenue when we submitted our draft report for response. Revenue stated in its response “none of the 37 names provided by your office were prohibited from playing during the specified time period.”

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Lottery Security staff monitor retailers for frequent winning claims, perform retailer site visits, and document results of the visits on standardized forms. According to Lottery Security management, training is provided to staff for conducting the site visits; however, there are no formalized written procedures to explain how to conduct a site visit or how to complete these forms. Our review of the documents for 39 of the 186 site visits conducted during the period July 1, 2017 through February 20, 2020, found some of the documents for 10 of the 39 visits were not properly completed. Many of these issues occurred because the retailers, also identified as frequent winners, were not present for the site visit despite it being scheduled with them in advance. We further noted none of the Lottery forms documenting site visits include any type of conclusion statement as to whether additional investigation should be performed or further action taken against the retailer in question.

We offer 15 recommendations to Lottery, within Revenue, regarding the need to analyze winning claims for frequent winners and prohibited players, and also improvements for site visits conducted on retailers with frequent wins. We also offer one recommendation to the Pennsylvania General Assembly to consider amending state law to prohibit, or place limits on, lottery retailers from purchasing lottery products.

Finding 2 – Lottery failed to ensure its back office system contains every winning claim more than \$600 and failed to ensure reports used to monitor retailer activity were prepared and functioning as intended.

Lottery's system used to record transactions that occur at its main or regional offices is called the "back office" system. One of the main purposes of this system is to record the claimant's demographic information associated with any retailer-paid wins more than \$600. During our review of Lottery's back office system, we found weaknesses related to the completeness of the data in the back office system. Specifically, we found Lottery lacked information technology controls to ensure all retailer-paid winning Lottery tickets more than \$600 were recorded in Lottery's back office system; and Lottery lacked documentation to support it performed adequate testing of the parsing program that records retailer-paid winning tickets in the back office system. Additionally, although we were able to reconcile the winning lottery claims processed at Lottery's main office, we were unable to reconcile the retailer-paid lottery claims more than \$600, which accounted for more than \$396 million of the approximately \$1.3 billion in winning claims.

We also identified weaknesses related to the Retailer Winnings reports used by Lottery's Security Division to monitor retailers for frequent wins and prohibited activities. These weaknesses included duplicate retailer wins and certain non-retailer wins listed on the reports. The existence of these inaccuracies reduces the effectiveness of these reports. As a result, retailer winners who should be subjected to review procedures may not be reviewed and retailer winners may also be subjected to reviews which were not warranted. Lottery also does not have systems

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documentation to describe the functionality of the report. We question whether Lottery management is fully aware of exactly what is included and excluded from the reports and found it has limited assurance these reports function in accordance with their intent.

We offer eight recommendations to Lottery regarding improvements to its back office system and Retailer Winnings reports.

Finding 3 – Revenue failed to ensure all of its employees received the required sexual harassment prevention training. The Governor’s Office, the Office of Administration, and Revenue should revise their sexual harassment prevention policies.

Our review of training records for 60 Revenue employees (49 non-supervisory and 11 supervisory/management employees) found seven employees did not complete 8 of 20 required courses. We found the training system could generate reports to identify which employees have not completed required training, but management acknowledged it did not request to run these reports during our audit period. Finally, we found that neither the Governor’s Office, OA, nor Revenue have formalized, in writing, the requirement for employees to complete prevention training on an annual basis.

In addition, we found during the audit period that while Revenue’s *Prohibition of Sexual Harassment Policy*, the Governor’s Executive Order, and OA’s Management Directive related to the prohibition of sexual harassment were generally comprehensive, revisions to the policies should be made to more closely align them with guidance from the Equal Employment Opportunity Commission. In particular, the last amendments to the Governor’s Office Executive Order and OA’s Management Directive were issued in 2002, or 19 years ago. Subsequent to our audit procedures, OA informed us the Governor’s Office revised its executive order in June 2021. The revised language addressed some of our concerns specifically related to prohibiting sexual harassment whether it takes place at the worksite or outside of the worksite.

We offer three recommendations to Revenue and four recommendations to OA to help ensure all employees complete required prevention training and update and annually review the policies pertaining to the prohibition of sexual harassment and revise, as necessary.

Finding 4 – Sexual harassment complaints and settlements.

Our audit procedures determined during the period July 1, 2010 through January 15, 2020, Revenue had a total of 17 sexual harassment claims filed. Nine complaints were found to be substantiated and eight were found not to be substantiated. Only one of the nine claims found to be substantiated resulted in a settlement, which was for \$900,000. The Commonwealth’s Self-Insurance plan covered \$250,000 of the settlement. Revenue incurred an additional \$1,822 in legal fees, and the remaining \$651,822 was paid from Revenue’s General Government

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Operations monies from its fiscal year 2014 budget. We offer one recommendation to OA regarding conducting and maintaining documentation regarding sexual harassment claim investigations.

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Introduction and Background

This report presents the results of our performance audit of the Pennsylvania Department of Revenue (Revenue), and the Pennsylvania Office of Administration (OA), as applicable, regarding: (1) its operations at the Pennsylvania Lottery (Lottery) related to its monitoring of retailers and winning claims; and (2) its sexual harassment prevention measures. This performance audit was conducted under the authority of Sections 402 and 403 of The Fiscal Code and in accordance with applicable *Government Auditing Standards*, issued by the Comptroller General of the United States, 2018 Revision.⁵ Our performance audit had three objectives.⁶

The **first objective** was to evaluate the effectiveness of Revenue’s regulations, policies, procedures, and guidelines for the Lottery in order to prevent and monitor fraud, abuse, or other prohibited activity among retailers and winning claims. The period covered for this objective was July 1, 2017 through January 26, 2021, unless otherwise noted.

The **second objective** was to evaluate whether Revenue’s sexual harassment prevention policy is comprehensive, adhered to, and effective. This included determining whether all employees have completed sexual harassment training. The period covered for this objective was July 1, 2017 through January 22, 2021, unless otherwise noted.

The **third objective** was to determine the number of sexual harassment complaints filed at Revenue, the dollar amounts of any applicable settlements, and the source of settlement funds. The period covered for this objective was July 1, 2010 through April 20, 2020.

Further discussion in subsequent sections will address OA’s role in providing information technology services to Lottery related to objective one and human resource services to Revenue related to objectives two and three.

Revenue and Related OA Responsibilities

Revenue’s mission is to “fairly, efficiently, and accurately administer the tax laws and other revenue programs of the Commonwealth of Pennsylvania.”⁷ Revenue, which was created in

⁵ 72 P.S. §§ 402 and 403.

⁶ Refer to *Appendix A* of this report for a detailed description of the audit objectives, scope, and methodology.

⁷ <https://www.revenue.pa.gov/AboutUs/Pages/Mission-Statement.aspx#:~:text=Mission%20Statement%20The%20Pennsylvania%20Department%20of%20Revenue%27s%20mission,other%20revenue%20programs%20of%20the%20Commonwealth%20of%20Pennsylvania> (accessed October 20, 2020).

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1927 and began operating after the enactment of The Fiscal Code of 1929, is responsible for collecting and distributing all tax monies due to the Commonwealth.⁸ Revenue has also been responsible for overseeing the operations of the Lottery since its inception in 1971.⁹

Effective July 1, 2017, OA consolidated human resources (HR) and information technology (IT) for individual state agencies and organized them into delivery centers serving multiple agencies with similar missions and functions.¹⁰ As a result, Revenue HR staff became employees of OA within its Employment, Banking and Revenue Human Resource (EBR HR) Delivery Center. The EBR HR Delivery Center maintains responsibility for monitoring all aspects of the personnel management system, including assisting with the implementation of the equal employment opportunity (EEO) plans of the agencies.¹¹ The EEO Plans, among other things, include a statement relating to the agency's commitment to a work environment free from harassment, including sexual harassment.¹² OA staff also assist with Revenue employee training and development, including distributing regular sexual harassment prevention training to help emphasize the important role all employees have in ensuring a workplace free from sexual harassment.¹³

Similarly, effective July 1, 2017, Revenue IT staff became employees of the OA EBR Information Technology (EBR IT) Delivery Center. The EBR IT Delivery Center is responsible for operating and maintaining all IT systems, hardware, and applications, as well as monitoring IT systems outsourced to vendors, deployed to serve the needs of Revenue and Lottery.¹⁴

Based on the integrated role of OA and its role in Lottery oversight, Revenue requested OA be included as part of the audit. We added OA accordingly.

⁸ https://www.legis.state.pa.us/WU01/LI/TR/Transcripts/2020_0008_0001_TSTMNY.pdf (accessed January 7, 2021). See 72 P.S. § 201 *et seq.* (Act 176 of 1929, as amended).

⁹ Ibid. See the State Lottery Law, 72 P.S. § 3761-101 *et seq.* (Act 91 of 1971, as amended) and in particular, 72 P.S. § 3761-303 (relating to Powers and Duties of the [S]ecretary [of Revenue]). Please note the law (formerly cited as 72 P.S. § 3761-1 *et seq.*) was renumbered when amended by Act 134 of 1996.

¹⁰ <https://www.oa.pa.gov/sharedservices/Pages/default.aspx> (accessed October 22, 2020). See also OA's 2017 Annual Report <https://www.oa.pa.gov/About%20OA/Documents/shared-services-17-18-annual-report.pdf>, page 5 (accessed January 13, 2021).

¹¹ In addition to Revenue, the EBR delivery center supports the Departments of Labor and Industry, State, and Banking and Securities, as well as the Insurance Department. See <https://www.oa.pa.gov/sharedservices/Pages/default.aspx> (accessed August 2, 2021). See also information about the EEO Plans <https://www.oa.pa.gov/Programs/eoo/Pages/Plans.aspx> (accessed January 13, 2021).

¹² Commonwealth of Pennsylvania Governor's Office Manual M410.3, "Guidelines for Equal Employment Opportunity Plans and Programs" dated December 18, 2007.

¹³ <https://www.hrm.oa.pa.gov/training-development/Pages/default.aspx> (accessed October 22, 2020).

¹⁴ <https://www.oa.pa.gov/About%20OA/Documents/shared-services-17-18-annual-report.pdf>, page 21 (accessed January 13, 2021).

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Pennsylvania Lottery

Lottery was created with the enactment of Act 91 of 1971 and premiered its first weekly drawing in March 1972.¹⁵ According to state law, Revenue oversees Lottery through an executive director who is appointed by the Governor and reports to the Secretary of Revenue.¹⁶ In addition to Lottery's headquarters, located in Middletown, Pennsylvania, it has seven regional offices throughout the state: Philadelphia; Wilkes-Barre; Harrisburg (located in Middletown at Lottery's headquarters); Clearfield; Pittsburgh; Erie; and the Lehigh Valley (located in Allentown).¹⁷

As of December 31, 2020, there were more than 10,000 licensed Pennsylvania lottery retailers authorized to sell Lottery games, as well as two multi-state games.¹⁸ Lottery games include instant scratch-off tickets, Fast Play, Keno, Xpress Sports, and draw games. Draw games include games created and run by Lottery and two multi-state games, PowerBall and Mega Millions.¹⁹

In addition to selling the games offered by Lottery, licensed Pennsylvania lottery retailers have the responsibility of paying winning claims up to \$2,500. Winning claims more than \$2,500 must be presented directly to Lottery for payment. For all claims more than \$600 and up to \$2,500, the retailer is required to have the winner complete a claim form to collect personal information in order for Lottery to assign tax liability to them.²⁰ For winning tickets of \$600 or less, the retailer can pay the winner with no claim forms required.²¹

For winning claims of more than \$2,500, or any winning claim the winner chooses to not redeem at a retailer to be paid, the winner must complete a claim form and send it along with the winning ticket to Lottery's main office in Middletown.²² Lottery then processes the claim and the Pennsylvania Treasury Department will send a check to the individual within four to six weeks.²³

¹⁵ <https://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=1971&sessInd=0&act=91> and <https://www.palottery.state.pa.us/About-PA-Lottery/News-Events-Media/News/2019/March/PA-Lottery-Marks-47th-Anniversary-of-First-Drawing.aspx> (accessed December 9, 2020).

¹⁶ 72 P.S. § 3761-302 which refers to "'Director.' The Director of the Division of the State Lottery" and for "'Division.' The Division of the State Lottery created by this chapter."

¹⁷ <https://www.palottery.state.pa.us/About-PA-Lottery/Contact-Us.aspx> (accessed January 27, 2020).

¹⁸ https://www.palottery.state.pa.us/Custom/uploadedfiles/SalesMaker_Fall2020.pdf (accessed December 9, 2020).

¹⁹ <https://www.palottery.state.pa.us/> (accessed December 9, 2020) and <https://www.palottery.state.pa.us/Draw-Games.aspx> (accessed December 9, 2020).

²⁰ For prizes more than \$600, winners receive a W-2G form from Lottery to report the winnings and submit with their tax returns.

²¹ https://www.palottery.state.pa.us/PaLotteryWebSite/media/Retailer-Documents/QRG/Pay-Claim_Procedures_QRG_6-29-20.pdf.

²² https://www.palottery.state.pa.us/PaLotteryWebSite/media/Winners-Section/WinnersGuide_Web.pdf.

²³ Ibid. Note: The Treasury Department is an independent executive office created by the Constitution of the Commonwealth of Pennsylvania, Article IV, § 1, 18.

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The Pennsylvania Lottery is the only state lottery in the United States which designates all generated proceeds to programs to benefit older residents of the state.²⁴ The following table reflects Lottery receipts from ticket sales and lottery games and payments made to prize winners. It also reflects Lottery's payments to programs which benefit Pennsylvania senior citizens, as reported in the Commonwealth of Pennsylvania Annual Comprehensive Financial Report (ACFR) for the fiscal years ended June 30, 2018, 2019, and 2020.²⁵

Lottery Receipts and Payments by Fiscal Year (Amounts are in thousands)			
	June 30, 2018	June 30, 2019	June 30, 2020
Receipts from customers and participants	\$4,203,880	\$4,587,669	\$4,568,517
Payments to programs for senior citizens	\$955,494	\$1,038,394	\$1,024,479
Payments to prize winners	\$2,715,474	\$2,948,935	\$2,949,533

Source: Chart developed by the Department of the Auditor General with information obtained from the 2018, 2019, and 2020 ACFRs.

By way of further background information regarding our first audit objective, a series of news articles entitled "Defying the Odds" was published by Penn Live in September 2017, and subsequently updated in January 2019.²⁶ The articles reported on frequent or repeat lottery winners across the nation.²⁷ One of the articles reported in Pennsylvania more than 200 individuals had won at least 50 prizes of \$600 or more in the past 16 years. Pennsylvania's most frequent winner claimed 209 scratch-off tickets each worth \$600 or more, (collectively worth about \$350,000) over 12 years. Additionally, according to analysis by a statistician as reported in the news articles, this person would have had to spend at least \$7.8 million to have a 1 in 10 million chance of winning so often.

These articles noted in the past seven years, close to 1,700 people across nearly two dozen states have each claimed 50 or more winning lottery tickets worth \$600 or more, something in many cases is statistically improbable. One of the articles gave specific examples of techniques including theft; cheating; ticket cashing or discounting; and money laundering as evidence of

²⁴ 72 P.S. § 3761-301 (relating to Statement of purpose). The stated purpose of the state lottery was to benefit "person 65 of age or older".

²⁵ This report was renamed effective June 30, 2020.

²⁶ https://www.pennlive.com/watchdog/2017/09/defying_the_odds_math.html (accessed January 10, 2020).

https://www.pennlive.com/watchdog/2017/09/defying_the_odds_part_1.html (accessed January 10, 2020).

https://www.pennlive.com/watchdog/2017/09/defying_the_odds_part_2.html (accessed January 10, 2020).

²⁷ For purposes of the new articles, a frequent winner was defined as an individual who claimed 50 or more prizes worth at least \$600 between 2010 and 2016.

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potential criminal activity.²⁸ The intent of our first objective was, in part, to examine security measures taken by Lottery to monitor the validity of those claiming multiple wins in excess of \$600 between July 1, 2017 and March 2, 2020.

Lottery's Security Division reviews the frequency of winning claims made by retailers and monitors retailers determined to be frequent winners by performing site visits; however, Lottery does not monitor the frequency of winning claims by non-retailer players.²⁹ See *Finding 1* related to our evaluation of the effectiveness of Revenue's regulations, policies, procedures, and guidelines to prevent and monitor both lottery retailers and non-retailers for fraud, abuse, or other prohibited activity and its lack of monitoring for frequent winning claims by non-retailers.

Sexual Harassment Prevention Background

Sexual harassment is a form of discrimination prohibited under both Pennsylvania and federal statutes.³⁰ Sexual harassment in the workplace can have various negative consequences, and the severity of its effects is often understated. It can severely jeopardize an individual's emotional, mental, and physical health, as well as hinder workplace operations. Studies focusing largely on sexual harassment have found it is associated with decreased job satisfaction and work withdrawal. This largely takes form as disengagement from work, which can manifest as distraction, neglecting a project, malingering, tardiness, or even excessive absenteeism.³¹

The United States Equal Employment Opportunity Commission (EEOC) and the Pennsylvania Human Relations Commission (PHRC) are responsible for enforcing federal and state laws which make it illegal for employers to discriminate against a job applicant or an employee based on enumerated factors such as the person's race, color, religion, sex (including pregnancy, gender identity, and sexual orientation), national origin, age (40 or older), disability or genetic

²⁸ Ticket cashing or discounting is when an individual pays the actual winner an amount less than the amount of the winning ticket and then turns in the ticket for the full amount. This usually occurs when the actual winner does not want it known they have won in order to avoid paying child support, taxes owed, or other debts.

²⁹ For purposes of this report, a non-retailer player is an individual who is not the owner or part-owner of a retail store authorized to sell lottery products.

³⁰ Title VII applies to employers with 15 or more employees, including federal, state, and local governments, employment agencies, and labor organizations. Civil Rights Act of 1964, Section 7, 42 U.S.C. § 2000e *et seq.* (1964) and the Pennsylvania Human Relations Act, 43 P.S. § 951 *et seq.* <https://www.eeoc.gov/laws/statutes/titlevii.cfm> (accessed October 21, 2020).

³¹ Chai R Feldblum, Victoria Lipnic, *Report of Co-Chairs of the EEOC Select Task Force on the Study of Harassment in the Workplace*, U.S. Equal Employment Opportunity Commission, June 2016, pages 17, 20, and 21, <https://www.eeoc.gov/select-task-force-study-harassment-workplace> (accessed October 21, 2020).

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information, and union affiliation, among others.³² The EEOC has noted nearly one-third of the 90,000 employment discrimination complaints received in 2015 included a harassment allegation and approximately 45 percent of those harassment allegations were on the basis of sex. They also estimate 75 percent of all workplace harassment incidents go unreported.³³

The Governor's Office and OA have issued an executive order and management directive (collectively referred to as the Commonwealth's sexual harassment policy) relating to the prohibition of sexual harassment in Commonwealth workplaces requiring all employees be educated on the Commonwealth's sexual harassment policy.³⁴ Additionally, in March of each year of the audit period, Revenue issued a memo to all of its employees regarding its *Prohibition of Sexual Harassment Policy Statement*, as part of its EEO plan. In this memo, Revenue affirmed its commitment to a policy prohibiting sexual harassment in the workplace and states the purpose of the policy is to create an environment which does not and will not foster occurrences of sexual harassment against employees, visitors, contractors, or individuals or groups that conduct business with or use the resources of the department.³⁵

According to EBR HR Delivery Center management, all employees have access to Revenue's policy and all new employees are given copies of Revenue's policy.³⁶ Commonwealth policies

³² <https://www.eeoc.gov/overview> (accessed October 21, 2020) and <https://www.phrc.pa.gov/About-Us/Pages/About-PHRC.aspx> (accessed October 21, 2020). Please note protected classes under the Pennsylvania Human Relations Act do not mirror those under the EEOC; however, they are very similar in all material aspects. See 43 P.S. §§ 951-963 *et seq.*; see in particular 43 P.S. § 953. Like the EEOC, the PHRC has guidelines on sexual harassment. https://www.eeoc.gov/laws/practices/harassment_guidance.cfm and <https://www.phrc.pa.gov/Resources/Law-and-Legal/Documents/Policies%20and%20Guidelines/Sexual%20Harassment%20Guidelines.pdf> (accessed October 21, 2020, and July 9, 2020, respectively).

³³ *Report of Co-Chairs of the EEOC Select Task Force on the Study of Harassment in the Workplace*, U.S. Equal Employment Opportunity Commission, June 2016, pages iv-v and 6-7.

³⁴ Executive Order 2002-4 *Prohibition of Harassment in the Commonwealth* dated May 3, 2002, Commonwealth of Pennsylvania Governor's Office Management Directive 505.30 *Prohibition of Sexual Harassment in Commonwealth Work Settings* dated June 19, 2002, and 505.30 Rev. No. 1 *Prohibition of Sexual Harassment in Commonwealth Work Settings* dated August 2, 2002. OA's Chief of Staff to the Secretary of Administration stated the management directive is reviewed regularly and complies with all relevant federal and state discrimination laws and regulations. She stated no updates to the policy are in process as of January 2021. The executive order was subsequently revised after the end of our audit procedures, Executive Order 2021-04 *Prohibition of Harassment in the Commonwealth* issued June 15, 2021.

³⁵ The EEOC recommends as a best practice employers adopt a strong anti-harassment policy, periodically train each employee on its contents, and vigorously follow and enforce it. See <https://www.eeoc.gov/laws/guidance/promising-practices-preventing-harassment>.

³⁶ According to EBR HR Delivery Center management, Revenue's *Prohibition of Sexual Harassment Policy Statement* is available from supervisors and HR. It is also available to all employees on Revenue's intranet and it is posted each year on the Commonwealth bulletin boards in the buildings so all employees have access to it.

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relating to sexual harassment are distributed annually to Revenue employees.³⁷ New employees also are required to read and acknowledge these Commonwealth policies as part of the online onboarding process.³⁸ Those acknowledgements then become part of that employee's electronic official personnel file. Subsequently, employees receive, review, and acknowledge the Commonwealth's sexual harassment policies during the annual mandatory sexual harassment prevention training in accordance with Commonwealth sexual harassment policy.³⁹ Revenue uses the Learning Solution (LSO) system, an electronic training management system used by Commonwealth state agencies for maintaining training courses and tracking records.⁴⁰ LSO automatically creates each employee's electronic training transcript.

See *Finding 3* related to our evaluation of the Commonwealth's and Revenue's sexual harassment prevention policy and employee completion of required sexual harassment prevention training. Also, see *Finding 4* for details regarding the 17 sexual harassment claims filed at Revenue during the period July 1, 2010 through April 20, 2020.

³⁷ During the audit period, the Commonwealth policies relating to sexual harassment prevention required to be disseminated to employees under the jurisdiction of the Governor's Office included Commonwealth of Pennsylvania Governor's Office Management Directive 505.30 Amended *Prohibition of Sexual Harassment in Commonwealth Work Settings* dated June 19, 2002 and Rev. No. 1 dated August 2, 2002, and Executive Order 2002-4 *Prohibition of Harassment in the Commonwealth* dated May 3, 2002. Revenue is also subject to Commonwealth of Pennsylvania Governor's Office Management Directive 410.10 Amended *Guidelines for Investigating and Resolving Internal Discrimination Complaints* dated December 5, 2012.

³⁸ The online onboarding process is an online orientation process for new employees which includes completing required employment forms and policy acknowledgements and reviewing job details and benefits information. <https://www.hrm.oa.pa.gov/hire-sep/Hiring/Pages/default.aspx> (accessed December 7, 2020).

³⁹ Commonwealth of Pennsylvania Governor's Office Management Directive 505.30 *Prohibition of Sexual Harassment in Commonwealth Work Settings* dated June 19, 2002.

⁴⁰ <https://www.hrm.oa.pa.gov/training-development/Training/Pages/LSO.aspx> (accessed October 27, 2020).

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Finding 1 – Lottery evaluates frequent winning claims from retailers who sell lottery products, but does not have a process in place to evaluate frequent winning claims from non-retailer players.

Based on data provided by the Pennsylvania Lottery (Lottery), during the period July 1, 2017 through March 2, 2020, Lottery collectively paid more than \$1.336 billion for individual winning claims with prize payouts of more than \$600.⁴¹ As described in the *Introduction and Background*, Lottery does not generally request personal information from individuals with a winning claim of \$600 or less. Therefore, for purposes of this finding, we only are reporting on the claims of retailers and non-retailer players (players) for individual ticket prizes of more than \$600.⁴² The breakdown below reports the total winning claims of more than \$600 to retailers and players:

Winning Tickets of more than \$600 Claimed by Retailers and Players Paid During the Period July 1, 2017 through March 2, 2020				
	Total Number of Tickets	Percentage of Total Tickets	Total Ticket Amount	Percentage of Total Ticket Amount
Winning tickets claimed by Retailers	9,971 ^{a/}	3%	\$ 19,003,469	1%
Winning tickets claimed by Players	323,250	97%	\$1,317,467,486	99%
Total winning tickets claimed	333,221	100%	\$1,336,470,955	100%
^{a/} - 5,312 of these tickets, totaling \$5,828,123 are for retailer-liable claims. These are claims Lottery never received a claim form identifying the winner. The claim is then assigned, for tax purposes, to the retailer who sold the ticket.				

Source: This table was compiled by the staff of the Department of the Auditor General from data received from the Revenue's Lottery back office system (described in detail in Finding 2). We determined the reliability of this data had significant limitations regarding completeness as noted in Finding 2 and Appendix A. Although this determination may affect the magnitude of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

⁴¹ Although Revenue oversees Lottery through the Executive Director of Lottery, within this finding we will be referring to Lottery staff/management and Lottery operations rather than Revenue.

For the purpose of this finding "tickets" refers to all instant scratch-off tickets and draw games (drawing of numbers at random for a prize) claimed from July 1, 2017 through March 2, 2020. See the *Introduction and Background* for a list of tickets and games sold by the Lottery.

⁴² For purposes of this report, a retailer is an individual who is the owner or part-owner of a retail store authorized to sell lottery products. Additionally, we define "player" as a person who purchases Lottery products and does not own or co-own a retail store authorized to sell lottery products.

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To evaluate the effectiveness of the Pennsylvania Department of Revenue's (Revenue) regulations, policies, procedures, and guidelines to prevent and monitor lottery retailers and players for fraud, abuse, or other prohibited activity, we interviewed Lottery management, reviewed relevant policies, and performed analysis on the data provided to determine the frequency in which both players and lottery retailers claimed lottery prizes during the audit period. We also reviewed the procedures Lottery had in place to perform follow-up on frequent wins by retailers.

Based on our audit procedures, we identified several weaknesses within Lottery's process to prevent and monitor retailers and players from successfully submitting prohibited and suspect winning claims categorized within the following areas:

- Lottery does not perform any analysis to identify players who are claiming prizes at a high frequency;
- Lottery does not perform monitoring procedures to ensure prohibited individuals are not claiming winning tickets;
- The process of monitoring retailers through site visits should be improved and formalized in writing; and
- Important consideration for the Pennsylvania General Assembly.

Of important note, we did not find any indication Lottery paid out winning claims for tickets fraudulently created or altered. Our audit finding is instead focused on the players making claims, not the actual winning tickets themselves. For example, players may make claims for winning tickets which are purchased from other individuals at a discounted price.⁴³ The above areas of noted weaknesses are addressed in detail in the following sections.

Lottery does not perform any analysis to identify players who are claiming prizes at a high frequency.

Based on interviews and correspondence with Lottery management, staff acknowledged they do not analyze lottery wins claimed by players in order to identify the frequency at which a player is claiming prizes. As a result, Lottery has no related policy or written procedures. According to Lottery management, it does not have the legal/law enforcement authority to investigate frequent

⁴³ The actual winner's motivation to sell the ticket could be to avoid paying back taxes, or other financial obligations.

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claims by players.⁴⁴ Although we agree Lottery does not have investigative authority, we believe it is vital to regularly analyze and monitor the frequency at which some players claim winning prizes. This would allow Lottery to determine if a more formal investigation is warranted and forward those cases to a law enforcement agency. By establishing a process to evaluate these claims, Lottery would strengthen the integrity of the system.

Although Lottery does not analyze frequent winners, we analyzed a data file provided by Lottery of all winning claims of more than \$600 submitted by players during the period July 1, 2017 through March 2, 2020, to determine the total number and amount of claims submitted with the same Social Security number (SSN).⁴⁵ We performed this analysis to determine the prevalence of frequent winners' claims and the need for Lottery to conduct this type of monitoring. The table below shows the breakdown by dollar amount of winning tickets claimed and identifies the total number of tickets claimed in each claim range, as well as the frequency of players who submitted multiple winning claims.

⁴⁴ Pennsylvania has very weak laws and associated regulations regarding possible fraudulent and/or illegal activities by frequent winners and/or lottery players. While a lottery agent's (retailer) license may be suspended, revoked, or its renewal rejected for various reasons, there are no provisions pertaining to lottery winners/players and it is clear the Lottery **does not** have any authority over players. *See* 61 Pa. Code § 805.17. Even in the case of "any unlawful lottery or numbers game" outside of the State Lottery prohibited by the Pennsylvania Crimes Code, the law does not in any manner make the player/purchaser subject to any prosecution or penalty. *See* 18 Pa.C.S. § 5512(c).

⁴⁵ The original data file contained all winning tickets submitted to Lottery with a claim form, regardless of dollar amount. For purposes of this analysis, we focused on only those winning ticket claims of more than \$600 submitted by players. Retailer winners were removed from the file utilizing retailer data provided by Lottery. We do acknowledge the possibility all retailers were not removed from the file and therefore results presented may include wins submitted by retailers. Our analysis on claims submitted with the same SSN also included verification of the individual based on their name, city of residence, and date of birth.

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Frequency of Wins by Players Broken Down by Amount Claimed During the Period July 1, 2017 through March 2, 2020						
Claim Range	Total Tickets	Players with More than 1 Claim	Players with 5 or More Claims	Players with 10 or More Claims	Players with 25 or More Claims	Players with 50 or More Claims
All claims greater than \$600	323,250	54,779	10,964	2,359	190	17 ^{a/}
All claims of \$1,000 or More	270,175	45,697	8,283	1,688	125	12 ^{b/}
All claims of \$5,000 or More	8,567	420	40	11 ^{c/}	0	0
All claims of \$10,000 or More	5,617	184	14	4 ^{d/}	0	0
All claims of \$25,000 or More	3,222	84	13	4 ^{d/}	0	0
All claims of \$50,000 or More	2,504	63	12	4 ^{d/}	0	0
All claims of \$100,000 or More	1,373	7 ^{e/}	0	0	0	0
All claims of \$250,000 or More	614	2 ^{e/}	0	0	0	0
All claims of \$500,000 or More	270	0	0	0	0	0
All claims of \$1,000,000 or More	186	0	0	0	0	0
^{a/} - Of the 17 players with 50 or more claims more than \$600, there are 2 players with 100 or more claims more than \$600. See details at <i>Appendix B</i> . ^{b/} - Of the 12 players with 50 or more claims of \$1,000 or more, there is 1 individual with 100 or more claims of \$1,000 or more (138 claims for a total of \$327,650). ^{c/} - Of the 11 players with 10 or more claims of \$5,000 or more, there are 2 players who each have 20 claims of \$5,000 or more. There is no one with more than 20 claims in this category. ^{d/} - Of the 4 players with 10 or more claims of \$10,000 or more, 1 individual has 15 claims which is the maximum in this category (total of 15 claims is \$750,000). ^{e/} - Maximum number of claims by a single player is 2.						

Source: This table was compiled by the staff of the Department of the Auditor General from data received from Revenue's Lottery back office system (described in detail in Finding 2). We determined the reliability of this data had significant limitations regarding completeness as noted in Finding 2 and Appendix A. Although this determination may affect the magnitude of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

While the above table reflects thousands of players who have submitted multiple claims for tickets of more than \$600, we turn our focus toward the 17 players who submitted 50 or more winning claims. Overall, these 17 players had a combined total of 1,344 claims amounting to

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almost \$2.7 million. The frequency of these 17 players' individual wins ranged from 54 to 155 total claims in less than 33 months (July 1, 2017 through March 2, 2020). See *Appendix B* for a summary along with the details, by dollar amount and game type, of winning claims recorded in Lottery's back office system for each of the 17 players. As noted in the news articles cited in the *Introduction and Background* section of our report, 50 or more wins, each totaling more than \$600, by a single player could be rooted in suspect activity.⁴⁶ We believe these high frequency claims warrant the critical need for Lottery management to have a process in place to analyze these claims and investigate further, if necessary.

We further found one of the 17 players, as confirmed by documents from Lottery's Security Division (Security) for retailers, is the spouse of a retailer selected for monitoring due to their frequency of winning claims (discussed later in this finding).⁴⁷ Specifically, the data file identifies 88 claims submitted by the retailer's spouse and 42 claims submitted by the retailer during the same time period.⁴⁸ The large amount of wins between the two may be considered suspect; however, under the current system none of the player's wins would be identified by Lottery for any further investigation. Lottery, therefore, would not be able to confirm or deny the legitimacy of the claims.

Further, we want to emphasize the data analyzed, as summarized in the above table, was provided by Lottery itself. In other words, Lottery has the frequent winner data available to analyze this information, but does not. Lottery's Security management explained while they do not review or monitor the frequency of winning claims by players, they will assist in investigations of a claim from a player for a winning ticket believed to be suspect if brought to Security's attention. Lottery management further explained in order to accurately and fairly examine frequent winners, the frequency and ways the winner plays would also need to be known. While it is true the frequency and ways of playing could indeed impact the frequency of winning, we believe Lottery should regularly perform analysis and review to ensure these large number of frequent claims are reasonable, and if warranted, forward to a law enforcement authority for further investigation.

Another concern is that it is not explicitly illegal in Pennsylvania for a player to sell winning tickets to someone else as a means of avoiding tax liability, paying child support, or court fees. This can result in an appearance of frequent claims for the person who buys these winning tickets. The language of the law does not give Lottery any authority over players.⁴⁹ However, it is illegal to attempt or otherwise avoid tax liabilities, child support, and court fees by selling a

⁴⁶ https://www.pennlive.com/watchdog/2017/09/defying_the_odds_part_1.html (accessed January 20, 2020).

⁴⁷ The name of the retailer's spouse is noted in site visit documents provided by Security, and we confirmed the player's address listed in the winning claims data file is the same address listed for the retailer in the retailer file obtained from Lottery.

⁴⁸ We confirmed the player/retailer's spouse was not listed in the retailer data file provided by Lottery.

⁴⁹ Please see prior Footnote #39.

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winning ticket to another person when the player receives any benefit or gain from such a transaction other than the basic face value of the ticket originally purchased. Lottery has the data necessary to deter this activity, but does not utilize it.

We understand Lottery operations are dependent on people purchasing its products, and questioning claims may deter players, thus reducing Lottery's revenue. The possibility of a reduction in Lottery revenue is not a reason to sacrifice good management controls. Instead, Lottery should provide confidence to all players there are proper controls are in place to verify the legitimacy of the winning claims process. We believe our analysis of players with high frequency of winning claims above illustrates the need for regular monitoring by Lottery.

Other states have successfully addressed this issue. The Florida state legislature, in reacting to research conducted by Skip Garibaldi, Emory University Mathematics and Computer Science professor and associate director of the University of California, Los Angeles' Institute for Pure and Applied Mathematics; Phillip Stark, a statistician from the University of California, Berkley; and Richard Arratia, a probabilist from the University of Southern California, called for additional oversight over its lottery. As a result, Florida Lottery officials adopted safeguards, including implementing computer software to track frequent winning claims.⁵⁰

On the other hand, following similar research in Pennsylvania, including work by Stark, the Pennsylvania Lottery responded by saying – “You cannot make any assumptions about frequent winners without knowing how often they play... and the Lottery has no legal or business reason to track spending or frequency of play by individuals.”⁵¹ While Florida adopted safeguards regarding frequent winning claims and the potential for fraud and/or illegal activity affecting the legitimacy of its Lottery, Pennsylvania has not implemented similar safeguards even though information on winners is captured on claim forms which are required for all winning claims of more than \$600.

It is important to note the Florida Lottery has its own accredited law enforcement agency through its Department of Law Enforcement, Division of Security. While the Pennsylvania Lottery needs legislation to create a law enforcement division, it could use the name and contact information from claim forms of players who meet certain thresholds and conduct an analysis. The Lottery needs to not only perform analysis on the frequency of winnings claimed by players, but to also lobby the Pennsylvania General Assembly for legislation to give it authority to investigate players with frequent claims. Lottery also could consider partnering with the Pennsylvania Inspector General or the Pennsylvania Office of Attorney General to investigate players with suspect claims.

⁵⁰ Ibid.

⁵¹ <https://pjmedia.com/news-and-politics/2017/10/15/officials-sniffing-many-people-win-state-lotteries-many-times/> (accessed January 7, 2020).

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Lottery does not perform any analysis to ensure prohibited individuals are not claiming winning tickets.

State law and Lottery policy prohibits the following individuals from purchasing lottery products and receiving lottery prizes:

- Certain executives within the Commonwealth of Pennsylvania;
- Certain executives within Revenue;
- All employees of Lottery; and
- Officers and employees of a contractor or subcontractor “who is involved in the production, distribution or operation for the systems for the validation or accounting of instant lottery games,” along with their family members residing in the same household.⁵²

Lottery management informed us when individuals accept a position with the agency they are required to sign a document attesting to the relevant provision.⁵³ This is only done at the initial point of hire rather than annually. Additionally, language used by Lottery for contractors generally includes a requirement the contractor communicate the prohibitions to their officers, employees, subcontractors, and service providers rather than requiring the individuals to sign a document acknowledging their awareness of the prohibition.

Lottery management stated they do not maintain a list of prohibited individuals to check when processing winning claims nor do they monitor to ensure prohibited individuals do not claim lottery prizes. Therefore, there is no applicable policy and written procedures. Lottery management indicated there is a risk involved in maintaining such a list associated with compiling, maintaining, and securing sensitive information including SSN. As a result of our inquiry, management has requested a formal legal opinion regarding the appropriateness for gathering and compiling the personal information of prohibited players.

Additionally, Lottery management stated it has identified steps to strengthen current practices related to prohibited players. Specifically, management intends to work with Revenue’s human resources office (through the Employment, Banking and Revenue Human Resource Delivery Center) to institute an annual certification that requires employees to disclose the name and address for all household members and themselves, as well as the fact that none of them have played the Lottery during the last year. According to Lottery management, this will provide a list against which an initial cross-check can be performed, should they have the legal standing to do so, without maintaining SSN. Lottery management further stated while this would not provide absolute validation of prohibited players claiming prizes, it would strengthen the current process.

⁵² 72 P.S. § 3761-309(b). 4 Pa.C.S § 503(h)(2). 61 Pa. Code § 871.17(a). 61 Pa. Code § 876.11(c)(1)-(2). 61 Pa. Code § 819.235. “Lottery Personnel VIP Participation Policy” effective April 27, 2010.

⁵³ Revenue’s *Standards of Conduct* which include Lottery Integrity Provisions.

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While this is a positive step to strengthen its practices, Revenue should pursue performing a method of validation which represents the best combination of effectiveness and cost while ensuring legality.

Since Lottery does not maintain a list of all prohibited individuals, we could not perform a review to determine if any had claimed lottery prizes during our audit period. We did, as part of our audit procedures, perform a limited review by comparing the names of 242 Lottery staff (prohibited players) to the names of individuals who claimed winnings of more than \$600 between July 1, 2017 and March 2, 2020.⁵⁴ Our comparison found matches for 37 of the 242 names. Without additional identifying information, we cannot confirm if they are the same people and therefore would be prohibited from receiving Lottery prizes; however, the potential exists. We have forwarded our results to Lottery for further review. If Lottery would implement prohibited player monitoring procedures, it would not have to rely solely on self-monitoring by the prohibited individuals and could properly address any noncompliance accordingly.

The process of monitoring retailers through site visits should be improved and formalized in writing.

While Lottery does not monitor frequent winners as described above, security staff monitor the winning claims submitted by retailers and conduct site visits for selected retailers.⁵⁵ Security management developed three standardized forms to conduct and document these site visits that should be completed: an acknowledgment form; questionnaire; and write-up.⁵⁶ According to

⁵⁴ The names of the 242 Lottery staff were obtained from Revenue's complement report (list of all employees) as of March 16, 2020. The names of those who claimed Lottery winnings was obtained from data received from Revenue's Lottery back office system. See *Appendix A* for discussion regarding the reliability of the data used in the comparison.

⁵⁵ Site visits are performed by the Lottery Security for various reasons; however, we only reviewed the frequent winner site visits as part of our audit procedures. Note: We found the reliability of the data in Revenue's Lottery back office system, which is used by the Lottery Security to identify retailers for site visits, to have **significant limitations** in regards to completeness as noted in *Finding 2* and *Appendix A*. This could potentially affect Lottery's determination of retailers of which it should conduct site visits; however, there is sufficient evidence in total to support our findings and conclusions.

⁵⁶ The acknowledgment form is used to document basic retailer and business information and the name and signature of the retailer to indicate they have read and understand the *Pennsylvania Lottery Policy Related to Prohibited Retailer Claiming*. This form also is to be signed and dated by the Security staff conducting the site visit and the Security Manager to indicate review of the document.

The questionnaire is an informal document used by security staff during the site visit to ask the retailer questions such as how much they spend weekly on Pennsylvania Lottery tickets and as to whether they or their employees have ever purchased a ticket from a winner and filed the claim in their name. Currently, the form is designed to only obtain the initials and date of the security staff conducting the site visit, it is not reviewed or signed by the retailer who is being asked the questions for them to confirm the responses provided.

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security management, there are no formalized written procedures to explain how to conduct the site visit or how to document the site visit by completing these forms. Security management indicated while the process is not formally documented in writing, staff are trained in what to do and what information to gather during a site visit.⁵⁷

Security management explained a staff member will schedule a date and time to conduct a site visit with the retailer who submitted the winning claim(s) at the winning retailer's store location. The staff member utilizes the three standardized forms to conduct and document the site visit. Upon completion, the site visit forms are to be subsequently reviewed by the Security Manager and then further reviewed by the Acting Security Director to determine if additional investigation is necessary. Security management further stated if the retailer with the frequent claims is not present at the scheduled visit, staff will conduct the visit with the store manager or personnel who are present and make a follow-up telephone call to the retailer to inform them of the site visit and review any concerns or recommendations.

The information collected during the site visits is used to determine if the retailer or possibly any of its employees are engaging in activity that is potentially illegal, unethical, or in violation of Lottery's retailer rules. For example, Lottery policy prohibits a retailer from buying winning tickets from customers and claiming them as their own.⁵⁸ According to security management, and as previously described, a person may wish to sell a winning ticket for a portion of the prize in order to avoid paying back taxes or child support on their winnings. Depending on what is found during a site visit, staff have the authority to suspend and/or revoke a retailer's Lottery license.⁵⁹

According to site visit logs, during the period July 1, 2017 through February 20, 2020, staff conducted 186 retailer claim-related site visits. Staff select the retailers for this type of site visit based on analysis it performs on the number of personal winning claims submitted by each retailer. We compared the results of our audit procedures performed on retailer winning history data provided by Lottery to the retailers listed in the site visit logs and confirmed staff

According to security management, after completion of the site visit, the staff who conducted the site visit prepares a write-up to document a summary of the visit (write-up). The write up is then to be reviewed by the Acting Security Director. It should include identifying information such as retailer's name, retail store location, and a general summary of topics discussed. It should also be initialed and dated by the security staff.

⁵⁷ According to Lottery management, staff training includes attending site visits with an experienced staff member in order to observe how to conduct a site visit and complete the applicable documents. After observing site visits and experienced security staff are comfortable with the progress of the new staff member, the new staff member will then be assigned to perform supervised site visits until management is confident in the new staff member's ability to conduct site visits independently. Security management stated this on-the-job training typically lasts at least a few months.

⁵⁸ *Pennsylvania Lottery Policy Related to Prohibited Retailer Claiming* effective February 4, 2008.

⁵⁹ *Pennsylvania Lottery Policy Relating to Progressive Retailer Discipline* effective December 19, 2007. See also 61 Pa. Code § 805.17.

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appropriately identified retailers for site visits.⁶⁰ We then selected 39 of the 186 site visits for testing to review the documentation and determine if staff properly completed the acknowledgment form, questionnaire, and write-up summarizing the visit, along with further action taken if an issue was identified.⁶¹ Our review of the 39 site visits determined the site visit documents for 29 of the 39 site visits were properly completed. There were 13 exceptions found for the remaining 10 site visits which are described below:

- **One questionnaire** was not completed and an additional **two questionnaires** were completed with someone other than the retailer;
- **One questionnaire** was missing a response to a critical question regarding whether the retailer or any of his employees have ever purchased a ticket from a winner and filed the claim in their own name, which is a violation of policy. Failure to obtain this response could result in potential fraud not being identified;⁶²
- **Two acknowledgment forms** were not completed;⁶³ and
- **Seven site visit documents** were either not properly signed or dated by the respective staff or manager to document by whom and when the documents were either prepared or reviewed.⁶⁴

Many of the above noted exceptions occurred because the retailers were not present for the site visits despite being agreed to and scheduled with the retailer ahead of time. Staff acknowledged some of the retailers routinely do not show up for scheduled site visits. Security management also stated the acknowledgment form is signed by the retail employee interviewed during the site visit to recognize they understand and will share the *Pennsylvania Lottery Policy Related to Prohibited Retailer Claiming* with the retailer and all employees. Security management stated the acknowledgment form is not specifically associated with the frequent winner. Although Lottery does not have a policy requiring the retailer to be present at the site visit, staff should make every attempt to ensure they are present and have the associated documents signed by the

⁶⁰ As previously noted, we found the reliability of the data in Revenue's Lottery back office system, which is used by Lottery security to identify retailers for site visits, to have **significant limitations** in regards to completeness as noted in *Finding 2* and *Appendix A*. This could potentially affect Lottery's determination for which retailers it should conduct site visits. There is sufficient evidence in total to support our findings and conclusions.

⁶¹ Some of the retailers were visited more than once. As a result, the 39 site visits were conducted with a total of 30 different retailers.

⁶² *Pennsylvania Lottery Policy Related to Prohibited Retailer Claiming* effective February 4, 2008.

⁶³ An additional 12 acknowledgment forms were signed by someone other than the retailer identified as the frequent winner due to the retailer not being present during the site visit.

⁶⁴ One acknowledgment form, three questionnaires, and three write ups.

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retailers themselves. This is essential since the frequent claims of the retailer triggered the site visit in the first place.

Security management explained if the retailer is not present for the scheduled site visit, staff try to conduct a telephone call with them. Lottery management maintains this is sufficient given time constraints and staffing limits. However, the purpose of the visit is to ascertain the legitimacy of the wins claimed by the retailer and ensure they understand Lottery's policy. Failure to conduct the site visits in person with the retailer hinders staff from obtaining full and accurate information regarding lottery ticket spending habits and asking critical questions regarding purchasing a ticket from a winner and filing the claim as their own. As a result, staff may not have all of the information needed to adequately conclude if additional investigation is necessary to determine if fraudulent activity has occurred. It is critical for Lottery management to implement consequences for those retailers who consistently schedule a site visit with security staff and do not attend the scheduled visit.

We further noted none of the staff write-ups of site visits include any type of conclusion statement, like whether additional investigation or further action should be taken against the retailer in question. Although the Acting Security Director stated he reviews all of the site visit documents (our review of the 39 site visit write ups confirmed they were initialed by the Acting Security Director) and staff discuss with him any issues they find during the site visits, there is greater risk issues regarding the retailer will not be addressed without this information being documented. Additionally, without a conclusion statement, there is nothing documented to support whether further investigation occurred.

Important Consideration for the Pennsylvania General Assembly.

Unlike other prohibited players, detailed in a prior section of this finding, state law and Lottery policy does not prohibit retailers from purchasing lottery products and receiving lottery prizes.⁶⁵ Lottery management explained retailers can be some of the biggest players. It prefers they be permitted to play to allow security staff to monitor winning claims submitted and conduct site visits as warranted. However, retailers have greater opportunities for potentially engaging in suspect activity related to claiming winning prizes since they are directly involved in the sales of lottery products and payouts of winning claims.

As described in the *Introduction and Background*, one documented technique used by individuals who want to avoid paying child support, taxes owed, or court fees that should be

⁶⁵ 72 P.S. § 3761-309(b). 4 Pa.C.S. § 503(h)(2). 61 Pa. Code § 871.17(a). 61 Pa. Code § 876.11(c)(1)-(2). 61 Pa. Code § 819.235. "Lottery Personnel VIP Participation Policy" effective April 27, 2010.

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withheld from lottery prize winnings, is ticket chasing or discounting. This is when an individual pays the actual winner an amount less than the amount of the winning ticket. Some retailers have daily interactions with individuals purchasing and winning lottery prizes and therefore, have a greater opportunity to become involved in discounting schemes with multiple individuals. We believe the General Assembly should give consideration as to whether retailers should also be deemed prohibited players, and if so, amend state law (including but not limited to the State Lottery Law and the Pennsylvania Crimes Code) accordingly.

Recommendations for Finding 1

We recommend the Pennsylvania Lottery, within the Department of Revenue:

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;
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; and
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.
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;

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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;
6. Develop and implement policy and formalized 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 of the prohibited individuals 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;
7. Require prohibited individuals who work at Revenue/Lottery to annually sign an acknowledgement they understand and have abided by all applicable policies and prohibitions as they relate to 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;
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.
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.;⁶⁶

⁶⁶ See 72 P.S. § 215 (relating to Lottery winning intercept [concerning outstanding State tax liability]) (Act 44 of 2017) and 23 Pa.C.S. § 4308 (relating to Lottery winnings intercept [concerning support matters]) (Act 87 of 1992, as amended).

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

We further recommend the Pennsylvania General Assembly (as earlier stated in the “Consideration” section):

16. 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.

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Finding 2 – Lottery failed to ensure its back office system contains every winning claim more than \$600 and failed to ensure reports used to monitor retailer activity were prepared and functioning as intended.

The Pennsylvania Lottery (Lottery) utilizes **two systems** to run the sale of tickets to the payment of wins:

- A **statewide retailer system** run by a contracted vendor responsible for all phases of the instant and draw games sales within the Commonwealth of Pennsylvania.⁶⁷ This outsourced system coordinates and records Lottery transactions, including ticket sales, ticket validations, and retailer-paid claims of up to \$2,500;⁶⁸
- A separate system referred to as the “**back office**” system is operated and maintained by internal staff to record transactions at Lottery’s main offices.⁶⁹ One of the main purposes of the back office system is to record the claimant’s *demographic information* (the winner’s name, address and Social Security number [SSN]) associated with any retailer-paid wins more than \$600.⁷⁰ These transactions include winning tickets presented in-person or mailed to Lottery’s main and regional offices (Lottery-paid), as well as the name, address, SSN, and the winning ticket amount of winners of retailer paid tickets more than \$600. Lottery uses the claimant information contained within the back office system for prize garnishments (i.e., child support), if applicable, and tax reporting.⁷¹

When a retailer pays a winning ticket, they scan the barcode on the ticket which records the ticket number and payment amount into the statewide retailer system. This information is then electronically forwarded to the back office system. Additionally, for claims more than \$600, the

⁶⁷ See the *Introduction and Background* for a list of tickets and games sold by the Lottery.

⁶⁸ For the purpose of this finding, the term “tickets” refers to all instant scratch-off tickets and draw games sold from July 1, 2017 through March 2, 2020. For purposes of this report, a retailer is an individual who is the owner or part-owner of a retail store authorized to sell lottery products. Additionally, we define “player” as a person who purchases Lottery products and does not own or co-own a retail store authorized to sell lottery products. As noted in the *Introduction and Background*, licensed Pennsylvania lottery retailers have the responsibility of paying winning tickets up to \$2,500. Winning tickets more than \$2,500 must be presented directly to Lottery for payment.

⁶⁹ The term “back office” is a general term utilized to describe systems used by employees to help keep businesses running (accounting, finance, inventory, order fulfillment, etc.) as opposed to “front-office” systems which interact with customers, such as for sales.

⁷⁰ See the *Introduction and Background* for locations of all Lottery offices.

⁷¹ On April 18, 2016, Governor Tom Wolf signed Executive Order 2016-06, *Enterprise Information Technology Governance*, assigning overall responsibility for the management and operation of information technology services for all executive agencies to the Office of Administration, Office for Information Technology (OA/OIT). While under this executive order, certain Lottery employees were transferred to OA/OIT effective July 1, 2017. However, Lottery management remains responsible for the contract with the statewide retailer system vendor and for the initial implementation and proper operation of the back office system.

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claimant manually completes a claim form with their *demographic information*, which is mailed by the retailer, along with the winning ticket, to Lottery headquarters.

When Lottery personnel receive the winning ticket and claim form from the retailer for wins more than \$600, they scan the barcode of the winning ticket to associate it with the information recorded from the statewide retailer system. Then they manually enter the demographic information from the claim form into the back office system.

All retailer-paid winning ticket information, regardless of amount, is electronically forwarded by the statewide retailer system to the back office system through a system interface.⁷² Rather than recording all retailer-paid winning tickets, Lottery's back office system uses a parsing program to accept and record only retailer-paid winning Lottery tickets more than \$600.⁷³

When winning Lottery tickets are mailed or presented in person to a Lottery office, personnel perform all the tasks associated with paying the claims themselves and all winning claims received are recorded in the back office system regardless of win size. The parsing program is not utilized when a winning ticket is presented in-person or mailed by the winner to Lottery offices for payment.

In addition to tax reporting and garnishments, Lottery also uses the back office system to generate Retailer Winnings reports used by the Lottery's Security Division to monitor retailers for frequent wins and prohibited activities (See *Finding 1*). The effectiveness of security's efforts when using the information contained in Retailer Winnings reports. It is dependent upon the accuracy of the data contained in Lottery's back office system and the assurance every transaction for winning claims more than \$600 is contained in that database (referred to in this finding as "completeness"). During our tests of Lottery's back office system, we found weaknesses related to the completeness of the data in the back office system and weaknesses related to the Retailer Winnings reports as described in the following sections.

Weaknesses Related to the Completeness of Lottery's Back Office System.

As described in *Finding 1*, Lottery management provided data to the auditors from its back office system for the period July 1, 2017 through March 2, 2020. Lottery management stated the data included all records of individual winning Lottery tickets more than \$600 paid during the period, which totaled approximately \$1.3 billion. We performed certain procedures to assess the

⁷² In computing, an "interface" is a shared boundary across which two or more separate components of a computer system exchange information.

⁷³ In data programming, a parsing program converts data from one format to another. In this instance, Lottery's parsing program extracts only the claims more than \$600 from the file received from the statewide retailer system and records the selected claims into Lottery's back office system.

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completeness and accuracy of the data in order to support our findings, conclusions, and/or recommendations in this report. Based on our procedures, we found the tickets selected for testing were accurately recorded; however, we identified the following weaknesses related to the completeness of this data:

- Lottery lacks information technology (IT) controls to ensure all retailer-paid winning Lottery tickets more than \$600 are recorded in Lottery's back office system.
- Lottery lacks documentation to support it performed adequate testing of the parsing program that records retailer-paid winning tickets in the back office system.
- We were unable to reconcile the provided data to independent reports to ensure the files contained every winning Lottery ticket claimed more than \$600.

The above areas are addressed in detail in the following sections.

Lottery lacks IT controls to ensure all retailer-paid winning Lottery tickets more than \$600 are recorded in Lottery's back office system.

As noted above, Lottery's statewide retailer system electronically transmits retailer transactions to its back office system through a system interface. This back office system utilizes a vendor-developed parsing program to accept and record only retailer-paid winning claims more than \$600 through this interface. We found Lottery does not have certain IT controls in place to ensure the parsing program works correctly and actually records every retailer-paid claim more than \$600 in the back office system.⁷⁴

Lottery management stated it did not document IT controls for the interface and parsing program between the statewide retailer system and the back office system and did not have control totals available to validate the completeness of the back office system.⁷⁵ In response to our inquiries during the audit, Lottery indicated controls for the interface existed, but formal documentation was not created until requested by our auditors during the audit. Lottery eventually provided vendor-developed application control documents created in June and July 2020 that describe the automated controls in place over the interface between the statewide retailer system and the back

⁷⁴ According to the U.S. Government Accountability Office (GAO), *Government Auditing Standards*, 2018 Revision, Paragraph 8.63, IT controls include general controls and application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning. Application controls include controls over input, processing, and output, as well as interfaces.

⁷⁵ A "control total" is an accounting term used for confirming key data such as the number of records and total value of records in an operation. In this instance, a control total report would be an independent report of retailer paid claims more than \$600 generated by the statewide retailer system which could be used to validate the proper functioning of the parsing program.

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office system maintained by Lottery.⁷⁶ The application controls described in these documents, if performed, should have provided some assurance the transfer of data between the two systems was complete. In addition to the description of automated application controls, the documents developed by the vendor included descriptions of manual controls the vendor intended to be performed by Lottery employees. We requested evidence Lottery employees performed the manual controls assigned to them in the documents. The documentation provided did not demonstrate employees performed certain manual controls described in the documents as of the date of our audit procedures in October 2020.

Through review of the application control documents and discussion with Lottery management, we learned the statewide retailer system vendor does not generate any control total reports of retailer-paid claims more than \$600 which could be used to validate the proper functioning of the parsing program and provide assurance as to the completeness of the back office system. As such, no information was available during the audit which would allow us to validate the completeness of the back office system.

The Commonwealth's standards over internal control, which incorporates federal standards, state management must design control activities over the IT infrastructure to support the completeness, accuracy, and validity of information processing by IT. These controls include application controls, such as interface controls and controls to compare file totals with control accounts.⁷⁷

Since Lottery prepares Retailer Winnings reports and tax reports, such as Internal Revenue Service (IRS) tax-liability notification forms sent to winners of prizes more than \$600 from the back office system, Lottery has only limited assurance of the completeness of the retailer winner and tax reporting prepared out of the database.⁷⁸

Lottery lacks documentation to support it performed adequate testing of the parsing program that records retailer-paid winning tickets in the back office system.

When Lottery did not provide current documentation of controls over the parsing program, we requested documentation to show the parsing program had been subjected to user acceptance testing when the back office system was initially implemented, in order to provide assurance as

⁷⁶ In June and July 2020, Lottery's vendor provided two documents to Lottery management: (1) The *Claims Processing Manual* and (2) The *Retailer Portal and Employee Portal Balancing Manual*. Lottery management approved these documents in October 2020.

⁷⁷ GAO. *Standards for Internal Control in the Federal Government*. September 2014. Paragraphs 11.09 and 10.03. The Pennsylvania Governor's Office **adopted these federal standards** for all Commonwealth agencies within Management Directive 325.12, amended May 15, 2018. https://www.oa.pa.gov/Policies/md/Documents/325_12.pdf.

⁷⁸ Lottery policy requires an IRS form W-2G to be sent to each winner of a prize more than \$600.

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to the completeness of the data maintained in the back office system.⁷⁹ In response to our request Lottery did not provide evidence of user acceptance testing and instead referred to the 2020 vendor-prepared documents described above. Therefore, Lottery did not provide evidence demonstrating the parsing program had been programmed correctly.

In a well-managed system, IT general control activities would include controls over the acquisition, development, and maintenance of IT. This involves requiring authorization of change requests; reviewing the changes, approvals, and testing results; and designing protocols to determine whether changes are made properly. Further, management should ensure both IT application controls and IT general controls are documented in a manner which allows the evidence to be readily available for examination.⁸⁰

We were unable to reconcile the provided data to independent reports to ensure the files contained every winning Lottery ticket claimed more than \$600.

As previously noted, Lottery provided the auditors with data from its back office system which is used to analyze frequent winners of retailers (see *Finding I*). In order to ensure the completeness of this data, we attempted to reconcile the file of individual winning Lottery claims to Commonwealth accounting records or other independent reports.⁸¹ While we were able to reconcile the winning claims processed at Lottery's main office in Middletown, we were unable to reconcile the retailer-paid claims more than \$600. This accounted for more than \$396 million of the approximately \$1.3 billion, or almost 30 percent, in winning claims.

Since retailer-paid winning claims are not recorded in the Commonwealth accounting records, we attempted to reconcile them to another independent source. Lottery does not maintain any other independent reports to perform this reconciliation. As noted above, no reports are generated by either the statewide retailer system or the back office system to validate the completeness of the parsing program. As a result, Lottery could not provide assurance as to the completeness of the retailer-paid claims more than \$600 in the data files they provided to us for the audit.

⁷⁹ User acceptance testing is the final stage of any software development life cycle. This is when actual users test the software to see if it is able to carry out the required tasks it was designed to address in real-world situations.

⁸⁰ GAO. *Standards for Internal Control in the Federal Government*. September 2014. Paragraph 11.15 and 3.12.

⁸¹ Commonwealth accounting records refers to the Commonwealth's SAP system, which is considered the official books and records of the Commonwealth. See *Appendix A* for a more detailed explanation of the data integrity procedures performed.

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Weaknesses Related to Retailer Winnings Reports.

As described in *Finding 1*, Security investigates retailers with frequent wins to monitor Lottery retailers for activity which is potentially illegal, unethical, or in violation of Lottery's retailer policies. Follow-up is performed through on-site visits to the respective retailers based on a review of Retailer Winnings reports produced monthly and analyzed by Security. Based on our audit procedures, we identified several weaknesses related to Retailer Winnings reports in the following areas:

- Retailer Winnings reports contain duplicates;
- Lottery does not have systems documentation describing the functionality of Retailer Winnings reports; and
- Lottery does not have documentation of user acceptance testing of the initial implementation of Retailer Winnings reports.

The above areas are addressed in detail in the following sections.

Retailer Winnings reports contain duplicates.

We noted during our initial review of these reports certain retailer claims were displayed two or more times on the reports and security needed to manually identify and cross out the duplicates. We also noted certain non-retailer claims had been included on the printed reports.⁸²

Lottery management stated the duplicates were the result of limitations in the report caused by retailers who have multiple Lottery terminal machines. For every terminal machine the retailer has at that location, the winning claim will be listed multiple times corresponding to the number of terminal machines. For example, if a retailer has three terminal machines at a location, the winning claim will display on the Retailer Winnings report three times. Lottery management stated instead of producing a more accurate report, staff were experienced at manually removing (i.e., crossing out) the duplicates and other anomalies.

This process however is inefficient and redundant. Furthermore, the existence of these inaccuracies reduces the effectiveness of these reports and increases the risk all duplicates may not be detected or non-duplicates maybe inadvertently crossed out. As a result, retailer winners who should be subjected to review procedures may not be reviewed and retailer winners may also be subjected to reviews not warranted.

⁸² For example, a non-retailer win was included on a Retailer Winnings report because the winner's SSN was incomplete on the claim form.

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Lottery does not have systems documentation describing the functionality of Retailer Winnings reports.

As part of our procedures, we attempted to recreate six monthly Retailer Winnings reports using the claim and claimant data provided. In order to assist our procedures, we requested systems documentation, often called functional specifications documents, describing what information is captured in the reports and how the information is to be displayed. We found Lottery did not have functional specifications or other documentation describing the exact make-up of Retailer Winnings reports. Instead, Lottery management provided a version of a query they stated was used to generate the report each month.

When we applied the query logic to the data using the information provided, we were not able to recreate the same printed reports for those six months provided by Lottery management. Through trial and error, we found the logic provided by Lottery in response to our request was incorrect and incomplete. Lottery management agreed the logic derived through trial and error by the auditors was more correct than the logic Lottery management had provided. Furthermore, they acknowledged additional “filtering” is performed by the report program that had not been provided to the auditors.

We question whether Lottery management is fully aware of exactly what is included/excluded from the monthly Retailer Winnings reports based on the lack of formal documentation supporting how the reports are generated and the failure to provide an accurate description of how the reports were to be recreated. If Lottery management has not reviewed and approved an accurate description of how the reports are created they cannot be assured the information provided by the report is reliable. As a result, the monitoring of retailers performed by staff may not be valid and management decisions made based on the reports may not be proper.⁸³

Lottery does not have documentation of user acceptance testing of the initial implementation of Retailer Winnings reports.

Lottery management was unable to provide requested documentation of user acceptance testing of the initial implementation of Retailer Winnings reports. Instead, Lottery management provided an email documenting user acceptance testing of a subsequent change to the report. In a well-controlled system, new IT programs and reports should be subjected to documented testing to ensure the completeness, accuracy, and validity of the information processed before they are moved into the production environment and relied-upon by users.⁸⁴ Without documented testing

⁸³ GAO *Standards for Internal Control in the Federal Government* paragraphs 13.04 and 13.05.

⁸⁴ According to GAO *Standards for Internal Control in the Federal Government* paragraph 11.15, management designs control activities over the acquisition, development, and maintenance of IT. This involves requiring authorization of change requests; reviewing the changes, approvals, and testing results; and designing protocols to

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of back office system reports, management has limited assurance the reports function in accordance with management's intent.

Recommendations for Finding 2

We recommend the Pennsylvania Lottery, within the Department of Revenue:

1. Develop a process, in conjunction with Lottery's outsourced vendor, to have the vendor provide control total reports of retailer-paid claims of more than \$600 for reconciliation to validate the completeness of the parsing program used to populate the back office system;
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;
3. Develop and implement controls to periodically reconcile the back office system to independent reports;
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.
5. Develop monitoring activities to ensure interface controls are consistently performed and documented.
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.
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.

determine whether changes are made properly. Further, paragraph 3.12 states documentation is necessary so the components of internal controls can be designed, implemented, and operating effectively.

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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.

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Finding 3 – Revenue failed to ensure all of its employees received the required sexual harassment prevention training. The Governor’s Office, the Office of Administration, and Revenue should revise their sexual harassment prevention policies.

In March 2016, the Pennsylvania Department of Revenue (Revenue) paid a \$900,000 settlement related to a sexual harassment lawsuit (see *Finding 4* for further details regarding the settlement payment). As a result of this claim, one of our audit objectives was to determine whether the agency’s sexual harassment prevention policy is comprehensive, adhered to, and effective, including whether all employees have completed required sexual harassment prevention training. To achieve this audit objective, we performed the following audit procedures:

- Determined whether employees completed the required sexual harassment prevention training;
- Ensured Revenue’s Equal Employment Opportunity (EEO) Plans were approved by the Pennsylvania Office of Administration (OA) in accordance with the Governor’s Office Manual;⁸⁵ and
- Compared Revenue’s *Prohibition of Sexual Harassment Policy Statements*, as well as the Governor’s Executive Order and OA’s Management Directives (collectively referred to as the Commonwealth’s sexual harassment policy) related to the prohibition of sexual harassment to the Equal Employment Opportunity Commission (EEOC) policy guidance.⁸⁶

Based on these audit procedures, we found:

- Revenue failed to ensure all employees received the required sexual harassment prevention training;
- Revenue’s *Prohibition of Sexual Harassment Policy*, the Governor’s Executive Order, and OA’s Management Directives related to the prohibition of sexual harassment should be revised.

⁸⁵ Commonwealth of Pennsylvania Governor’s Office Manual M410.3, *Guidelines for Equal Employment Opportunity Plans and Programs* dated December 18, 2007.

⁸⁶ Pennsylvania Department of Revenue’s *Prohibition of Sexual Harassment Policy Statements* issued March 1, 2017; 2018; 2019; and 2020. Governor’s Executive Order 2002-4 *Prohibition of Harassment in the Commonwealth* dated May 3, 2002 and OA’s Management Directive 505.30 *Amended Prohibition of Sexual Harassment in Commonwealth Work Settings* dated June 19, 2002 and Rev. No. 1 dated August 2, 2002.
<https://www.eeoc.gov/laws/guidance/promising-practices-preventing-harassment> (accessed October 26, 2020).

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These issues are addressed in detail in the following sections.

Revenue failed to ensure all employees received the required sexual harassment prevention training.

As part of our audit procedures, we randomly selected a total of 60 of the 1,949 staff employed by Revenue as of March 16, 2020, to determine if each had completed the required sexual harassment prevention training during the period March 24, 2017, through March 12, 2020.⁸⁷ The 60 staff members included 49 non-supervisory employees and 11 supervisory/management employees.

Based on interviews with and correspondence from OA's Employment, Banking and Revenue Human Resource (EBR HR) Delivery Center management, we determined, based upon job title, what prevention training each of the 60 individuals was required to complete. As part of our analysis, we included additional prevention training required for individuals who were hired or promoted to a supervisory/management position during that period.

According to OA management, mandatory prevention training was delivered to Revenue staff annually during our audit period in accordance with the Commonwealth policy which requires all employees to be educated on the Commonwealth's sexual harassment policy.⁸⁸ Specifically, new hires are automatically enrolled in a course entitled "Preventing Discrimination & Harassment 17" which all employees were required to complete in 2017. Also, since 2018, prevention training has been disseminated annually. We reviewed the content included in the mandatory prevention training courses delivered during our audit period and verified each of the training courses included links to applicable Commonwealth prevention policies to confirm employees were provided direct access to the policies.

Based on our analysis, we found the 60 staff selected for testing should have taken a total of 166 prevention training courses during the period March 24, 2017 through March 12, 2020. Of the

⁸⁷ Although our audit period begins July 1, 2017, we included as part of our testing whether our test selection of 60 employees completed the "Preventing Discrimination & Harassment 17" course required to be completed by all employees and rolled out in March 2017. As a result, we found this course was completed as early as March 24, 2017. The last date one of our test selections completed a training course associated with the 2019 annual training or new hire training was March 12, 2020.

⁸⁸ Commonwealth of Pennsylvania Governor's Office Management Directive 505.30 *Prohibition of Sexual Harassment in Commonwealth Work Settings* dated June 19, 2002 and 505.30 Rev. No. 1 *Prohibition of Sexual Harassment in Commonwealth Work Settings* dated August 2, 2002.

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166 courses, 162 were provided electronically through the Learning Solution (LSO) system and four were provided in person in a classroom setting.⁸⁹

Our review of the employees' training transcripts revealed 53 of the 60 staff completed all of their 146 required prevention training courses, while the remaining seven staff did not complete 8 of 20 required courses, as explained below.

- **Three employees** did not complete the initial required 2017 course electronically through LSO.
 - One employee was hired before March 2017, and should have completed the course when it was delivered in 2017. According to EBR HR Delivery Center management, they have no record the employee enrolled in (or attended) the 2017 prevention course. Neither EBR HR Delivery Center nor Revenue management could explain why the employee did not complete the required training.
 - One employee was an annuitant and, according to EBR HR Delivery Center management, was enrolled in the required course when he was rehired in May 2019. However, he did not complete the course before he separated from that position in March 2020.⁹⁰ Neither EBR HR Delivery Center nor Revenue management could provide a reason why the training was not completed.
 - One employee was hired during our audit period and was enrolled and should have completed the course as a new hire. According to EBR HR Delivery Center and Revenue management, they did not know why the training was not completed.
- **One employee** did not complete the initial required 2017 course, nor the 2018 annual course electronically through LSO. Although the employee is an annuitant, they were enrolled in the required courses and notified of these training requirements. Neither EBR HR Delivery Center nor Revenue management knew why the required courses were not completed.
- **One employee** did not complete the 2019 annual course electronically through LSO. Although they were an annuitant and enrolled in the required course when they were rehired they did not complete the course. Neither EBR HR Delivery Center nor Revenue management could provide a reason why the training was not completed.

⁸⁹ The LSO system is an electronic training system used by Revenue. See the *Introduction and Background* for further detail.

⁹⁰ An annuitant refers to an individual retired from Commonwealth service who is reemployed by the Commonwealth for a period not to exceed 95 days in any calendar year. See OA's Management Directive 515.20 *Reemployment of Commonwealth Annuitants* dated February 22, 2016.

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- **Two management staff** did not attend the in-person classroom training required upon their promotion to a management position during the audit period. EBR HR Delivery Center management initially stated it is possible the rosters from the classroom courses were not yet transferred into LSO yet. However, EBR HR Delivery Center management could not locate any rosters to support their attendance. Further, EBR HR Delivery Center and Revenue management stated they do not have any information which would explain why these staff members did not complete the training.

Regarding courses completed in LSO, EBR HR Delivery Center management stated during the audit period, the LSO system generated training reminder emails for all of the prevention training courses except for the “Preventing Discrimination & Harassment 17” course for new employees.⁹¹ These emails were generated every two weeks and were sent to the staff enrolled in the required training. Subsequently, as of March 15, 2019, the emails were sent to both the employees and their supervisors every two weeks until the required course was completed.

As noted above, five of the 60 employees selected for testing (8 percent) did not complete all the required prevention training delivered electronically through LSO during the audit period. Additionally, one of those five employees did not complete all of the required prevention training in spite of reminders sent to both the employee and the supervisor. It is critical for Revenue management to ensure all employees, including annuitants, timely receive and participate in the prevention training.

With regard to the remaining two exceptions related to the classroom training, EBR HR Delivery Center management stated the process for ensuring new managers and supervisors complete the required training includes notifying the staff member, via email, that they need to attend the required classroom training. Their superiors are not notified the classroom course needs to be completed. Instead, EBR HR Delivery Center management stated when an employee reaches the level of supervisor, it is their responsibility to sign-up for and attend the required prevention training. This position does not eliminate Revenue management’s responsibility for ensuring new supervisors attend the prevention training. Further, given a new supervisor may be responsible for directing staff for the first time it is of the utmost importance for a new supervisor to understand how to properly communicate or be in contact with staff to avoid any issues related to sexual harassment.

With regard to Revenue management’s monitoring responsibility, we asked Revenue and EBR HR Delivery Center management whether the LSO system can generate reports which will identify which employees have not taken required training, including prevention training.

⁹¹ OA management stated they intend to add email reminders for this course in 2021. In March of 2020, email reminders were disabled due to the pandemic resulting from the spread of the 2019 novel coronavirus (COVID-19) and were reactivated in August 2020.

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Revenue and EBR HR Delivery Center management indicated such reports are available, but Revenue had not requested to run these reports during the audit period.⁹² No further explanation was provided as to why the reports were not run.

Although Revenue staff have annually been provided prevention training, neither the Governor's Office and OA, nor Revenue have formalized in writing the requirement for staff to complete the training on an annual basis. Instead, the applicable management directive only states all Commonwealth employees will be educated in sexual harassment policy and sexual harassment issues in general, and education should be considered an ongoing effort with additional approaches used periodically to reinforce earlier education.⁹³ In order to help ensure individuals receive prevention training upon being hired and all Commonwealth employees receive this critical training on an annual basis, this requirement should be formalized in writing in the applicable management directive.

Since Commonwealth policy requires prevention education and EEOC guidelines recommend regular, interactive, and comprehensive training of all employees to help prevent harassment, it is critical all Revenue staff, including supervisory staff, meet all prevention training requirements and Revenue management implements a process to monitor the completion of prevention training. Training helps staff understand organizational rules, policies, procedures, and expectations, as well as the consequences of misconduct related to sexual harassment, assisting in the prevention of sexual harassment.⁹⁴

Revenue's *Prohibition of Sexual Harassment Policy*, the Governor's Executive Order and OA's Management Directives related to the prohibition of sexual harassment should be revised.

Revenue has issued a policy related to the prohibition of sexual harassment. Additionally, the Governor's Office and OA have issued an executive order and management directive (collectively referred to as the Commonwealth's sexual harassment policy) in 2002. With this

⁹² Although Revenue did not generate reports to monitor the annual sexual harassment prevention training completed during our audit period, we requested it run monitoring reports for us in order to determine the overall compliance rates for the annual training provided in 2018 and 2019. We found the non-completion rates to be 4.2 percent and 3.7 percent in 2018 and 2019, respectively. We compared the data in the monitoring reports to our 60 test selections for reasonableness and found a few inconsistencies, likely due to timing of when the individuals were employed by Revenue. We determined these monitoring reports to be of undetermined reliability.

⁹³ OA's Management Directive 505.30 *Prohibition of Sexual Harassment in Commonwealth Work Settings* dated June 19, 2002.

⁹⁴ <https://www.eeoc.gov/laws/guidance/promising-practices-preventing-harassment> (accessed October 26, 2020).

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policy being nearly two decades old, updates should be made to these documents.⁹⁵ In particular, while not a requirement, neither document addresses incidents which may occur outside of the workplace (e.g., social events, business trips, training sessions, conferences).

We found for each calendar year 2017 through 2020 Revenue issued its EEO Plan and OA reviewed and approved them.⁹⁶ Additionally, we verified each of these plans included Revenue's policy regarding the prohibition of sexual harassment as required by Commonwealth policy.⁹⁷

Based on our review of Revenue's policy and the Commonwealth's policies relating to sexual harassment as compared to EEOC guidance, we found the policies were generally comprehensive. However, the policies should be revised. Although implementing suggestions by the EEOC are not legal requirements under federal employment discrimination laws, they may enhance employers' compliance efforts.⁹⁸ Furthermore, it is the EEOC and the Pennsylvania Human Relations Commission (PHRC), Pennsylvania's counterpart to the EEOC, who investigate and prosecute harassment claims, so it is good practice to implement its opinions and directives wherever applicable. The following table indicates whether the policies include specific language suggested by the EEOC.

⁹⁵ OA's Chief of Staff to the Secretary of Administration stated no updates to the management directive were in process as of January 22, 2021.

⁹⁶ Commonwealth of Pennsylvania Governor's Office Manual M410.3 *Guidelines for Equal Opportunity Employment Opportunity Plans and Programs* dated December 18, 2007.

⁹⁷ The Commonwealth policies relating to sexual harassment prevention referenced in Revenue's policy include the Governor's Executive Order 2002-4 *Prohibition of Harassment in the Commonwealth* dated May 3, 2002 and OA's Management Directive 505.30 *Amended Prohibition of Sexual Harassment in Commonwealth Work Settings* dated June 19, 2002 and Rev. No. 1 dated August 2, 2002. Revenue is also subject to the OA's Management Directive 410.10 *Amended Guidelines for Investigating and Resolving Internal Discrimination Complaints* dated December 5, 2012.

⁹⁸ <https://www.eeoc.gov/laws/guidance/promising-practices-preventing-harassment> (accessed October 26, 2020).

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EEOC Policy Guidance ^{a/}	Included in Revenue Policy and Commonwealth Management Directives ^{b/}
A statement the policies apply to all employees at every level of the organization.	Yes
An unequivocal statement that harassment is prohibited.	Yes
A clear description of prohibited conduct, including examples.	Yes
A description of the complaint process that provides multiple, accessible avenues of reporting.	Yes
A statement employees are encouraged to report conduct they believe may be prohibited or, if left unchecked, may rise to the level of prohibited conduct.	Both policies encourage employees who believe they have been subjected to sexual harassment to report it. The policies do not include language pertaining to conduct, if left unchecked, may rise to the level of prohibited conduct.
Assurance of a process that provides a prompt, thorough, and impartial investigation.	Yes
A statement that the identity of the individuals who report harassment, alleged victims, witnesses and alleged harassers will be kept confidential.	While the policies state all allegations of sexual harassment will be investigated in a confidential manner, the policies do not specifically include a statement that the identity of the individuals will be kept confidential.
Assurance the employer will take immediate and proportionate corrective action when it determines that harassment has occurred.	While the policies indicate corrective action will be taken, the policies do not specify immediate action will be taken.
An unequivocal statement that retaliation is prohibited.	Yes
Results from EEOC's Study of Harassment in the Workplace ^{c/}	Included in Revenue Policy and Commonwealth Management Directives ^{b/}
A statement that sexual harassment is prohibited whether it occurs inside the workplace or outside of the workplace (e.g., social events, business trips, training sessions, conferences).	No
^{a/} - https://www.eeoc.gov/laws/guidance/promising-practices-preventing-harassment (accessed October 26, 2020). ^{b/} - According to EBR HR Delivery Center management, all new employees are given copies of Revenue's policy statement which references Governor's Executive Order 2002-4 <i>Prohibition of Harassment in the Commonwealth</i> , OA's Management Directive 410.10 Amended <i>Guidelines for Investigating and Resolving Internal Discrimination Complaints</i> , and OA's Management Directive 505.30 Amended <i>Prohibition of Sexual Harassment in Commonwealth Work Settings</i> . Therefore, in order to determine whether the EEOC suggested elements were included, we reviewed all of those documents. ^{c/} - Chai R Feldblum, Victoria Lipnic, <i>Report of Co-Chairs of the EEOC Select Task Force on the Study of Harassment in the Workplace</i> , U.S. Equal Employment Opportunity Commission, June 2016. https://www.eeoc.gov/select-task-force-study-harassment-workplace (accessed October 21, 2020).	

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As EEOC guidance suggests a comprehensive, clear harassment prevention policy regularly communicated to all employees is one of the essential elements of an effective sexual harassment prevention strategy.

As part of our audit procedures in January 2021, we inquired if any revisions to Commonwealth sexual harassment policies were scheduled, and specifically to OA's management directive. OA management responded no revisions were in process. Subsequent to our audit procedures, OA informed us the executive order was revised in June 2021, approximately five months after our previous inquiry.⁹⁹ The revised language in the executive order addressed some of our concerns specifically related to prohibiting sexual harassment, whether it takes place at the worksite or outside of the worksite, such as social events, business trips, training sessions, or conferences. See further comments in our *Auditor's Conclusion* section of this report. Of special note, OA's related management directive remains unrevised since 2002.

Recommendations for Finding 3

We recommend the Department of Revenue:

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;
2. Revise its policy, in consultation with the OA and Revenue Office of Chief Counsels, relating to the prohibition of sexual harassment to more closely align with the language in the 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.); and
3. Annually review the policy relating to the prohibition of sexual harassment and revise it as necessary.

⁹⁹ Executive Order 2021-04 *Prohibition of Harassment in the Commonwealth* issued June 15, 2021.

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We recommend the Office of Administration:

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

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Finding 4 – Sexual harassment complaints and settlements.

Our audit objective related to sexual harassment was to determine: 1) the number of sexual harassment claims filed during our audit period; 2) the dollar amount of settlements, if any; and 3) where the sexual harassment settlement monies came from for each settlement. We conducted audit procedures which included a review of all sexual harassment claims the Pennsylvania Department of Revenue (Revenue) indicated were filed against staff during the audit period. Sexual harassment complaints filed against staff were handled by the department's Human Resources (HR) office starting in 2011 and continued until July 2017. At that time all HR offices under the Governor's jurisdiction, including Revenue, were consolidated into six different delivery centers in the Governor's Office of Administration (OA). The Employment, Banking and Revenue Human Resource (EBR HR) office provided services to Revenue through the end of our audit period.¹⁰⁰ Prior to 2011, complaints were handled by an Equal Employment Opportunity (EEO) Officer who reported directly to Revenue's Deputy Secretary for Administration.

The sexual harassment complaints reviewed covered the period of July 1, 2010 through January 15, 2020. During that time, Revenue had a total of 17 sexual harassment complaints filed. Based on our review of the 17 complaints:

- 9 complaints were found to be substantiated;¹⁰¹ and
- 8 complaints were found not to be substantiated.

The following table provides information regarding each of the 17 complaints including whether the claim was substantiated and if Revenue paid a settlement to the complainant.

¹⁰⁰ According to Revenue management, investigations of sexual harassment claims were centralized in the OA EEO Office in January 2020.

¹⁰¹ Information on whether disciplinary action was taken for substantiated claims were maintained in a separate file. Since disciplinary action was not part of the audit objective, we did not request to review this information.

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Complaint	Date of Complaint (month/year)	Was the Complaint Substantiated?	Settlement Amount Paid ^{a/}
1	July 2010	No	N/A
2	November 2010	Yes	\$0
3	March 2012	No	N/A
4	March 2012	Yes	\$0
5	March 2013	Yes	\$0
6	July 2013	Yes	\$0
7	June 2014	Yes	\$900,000^{b/}
8	June 2015	No	N/A
9	August 2016	No	N/A
10	August 2016	Yes	\$0
11	August 2017	Yes	\$0
12	May 2018	No	N/A
13	June 2018	No	N/A
14	June 2019	No	N/A
15	October 2019	Yes	\$0
16	October 2019	Yes	\$0
17	October 2019	No	N/A

^{a/} - N/A - Not Applicable. No settlement amount was paid because the complaint was not substantiated.

^{b/} - The Revenue employee accused of sexual harassment in this complaint pleaded no contest to charges of indecent assault and official oppression. He was sentenced to four years of probation (two years for each charge) and required to register as a sex offender. <https://pittsburgh.cbslocal.com/2018/01/08/pennsylvania-workplace-sexual-misconduct-case/> (accessed July 15, 2020). *Com. v. Albert A. Forlizzi II*, Common Pleas Court, Dauphin County, Final Order with Sentence/Penalty Imposed, 09/02/2015, Docket No. CP-22-CR-0000250-2014.

Source: Produced by the Department of the Auditor General based on information obtained from Revenue and OA. The listing of sexual harassment complaints is of undetermined reliability as noted in Appendix A. However, this data is the best data available. Although this determination may affect the precision of the information we present, there is sufficient evidence in total to support our findings and conclusions.

As reported in the above table, only one sexual harassment complaint, filed in June 2014, resulted in a settlement payment. Revenue paid the complainant \$900,000 in March 2016 and also incurred \$1,822 in legal fees. According to Revenue's management, the Commonwealth's Self-Insurance plan covered \$250,000 of the settlement; however, the remaining \$651,822 was paid from Revenue's General Government Operations monies from its fiscal year 2014 budget.¹⁰²

¹⁰² General Government Operations (GGO) monies are appropriations by the General Assembly for an executive authorization by the Governor of state monies. The GGO monies used to pay the remaining portion of the settlement was paid from the budget allocation to the bureau to which the accused employee was assigned. If an agency intends to use money from one fiscal year in a later fiscal year, they can request a waiver. The waiver request must include how the money will be used and the timeframe for using the money. In this instance, Revenue anticipated using

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Recommendation for Finding 4

We recommend the Office of Administration:

1. The OA EEO 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.

money from its fiscal year 2014 budget to make the payment for the sexual harassment complaint, which required a waiver since the payment was not made until March 2016.

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Pennsylvania Department of Revenue and the Pennsylvania Office of Administration Response and Auditor's Conclusion

We provided copies of our draft audit findings and related recommendations to the Pennsylvania Department of Revenue (Revenue) and the Pennsylvania Office of Administration (OA) for their review. On the pages that follow, we included Revenue's and OA's response in its entirety. Following the agencies' response is our auditor's conclusion.

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Audit Response from the Pennsylvania Department of Revenue and the Pennsylvania Office of Administration



October 22, 2021

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:

Thank you for the opportunity to review and provide comments to the draft findings of the Department of Auditor General's Performance Audit Report on Lottery Frequent Winners/Sexual Harassment Prevention, which we received on October 12, 2021. This letter includes the responses from both the Office of Administration and the Department of Revenue.

First, we would like to note that Revenue agrees with the majority of the DAG's findings and recommendations relating to the Lottery. We recognize the importance of the DAG's work to ensure that taxpayer funds are being used appropriately and that commonwealth agencies are operating as efficiently as possible. However, we strongly disagree with the Performance Audit Report's assertion that frequent wins by Lottery players are an indication of illegal activity on the part of the players. From our perspective, this unfounded assertion relies upon the same flawed methodology that members of the news media have relied on to erroneously raise questions about the perceived statistical improbability of certain Lottery players' wins. It is not apparent that the DAG conducted any procedures to verify the competency, qualifications, methodology or assumptions made by these media outlets and the statisticians quoted in the articles that were published. As such, we are unsure how the DAG can place reliance on its work in making recommendations to the Pennsylvania Lottery. Moreover, the testing performed by the DAG's staff has not yielded any evidence that Pennsylvania Lottery players have committed fraud or broken the law.

The reality is the Pennsylvania Lottery is a leader in its industry and utilizes a number of security measures and internal controls to validate the wins of its players. Those who conclude that the small subset of Lottery players who are perceived to win too frequently are somehow committing fraud often fail to consider essential factors, such as how frequently those players play and the way in which they play certain games. Without considering these factors, it is impossible to conduct a fair and reasoned analysis.

Considering How Players Play

The Pennsylvania Lottery conducted an analysis of data cited in the DAG's Performance Audit Report, including the Appendix B that provides a summary of 17 players with 50 or more wins for tickets of more than \$600 during the audit period.

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Our research confirms that *all* of the claims for these players can be reasonably explained. For example, one of the players had 68 claims for the game Pick 4, spread over 18 claim dates. For a daily game with a best chance of 1 in 1,667 to win a prize over \$600, and top-prize odds of 1 in 10,000, winning 68 times over 18 days in a three-month period seems statistically improbable. However, we found that the player actually bought all of those tickets on a single day for a single drawing, using the same numbers for each ticket. The player's 68 wins were actually one win, played \$0.50 at a time for a total cost of \$34. The player then spread the claims out over the next few months, rather than cashing them all in at once. There are other similar explanations concerning the other players identified in Appendix B that prove it is false to assume these frequent winners are committing fraud.

The example cited above also shows *how* players play has a huge impact on how the aggregate data may appear when examined by a person who *does not* factor in how the Lottery, its games, and its players function. This is a point that has been raised by other lotteries when journalists and statisticians have attempted to review winner data in other states. These reports leave out important factors that are critical in understanding how the Lottery functions, making it impossible to fairly evaluate player win frequency.

Allowing Retailers to Play the Lottery

The Performance Audit Report claims that Lottery retailers "have greater opportunities for potentially engaging in suspect activity related to claiming winning prizes since they are directly involved in the sales of Lottery products and payouts of winning claims." The report further implies that some retailers are involved in the practice of "ticket discounting" simply because they have daily interactions with players who are purchasing Lottery products. These are more false assertions that are not based on any evidence.

The truth is retailers have no way to influence Lottery games due to the internal controls and security procedures that are used on a daily basis to validate every win. Additionally, the Lottery's Security division has robust procedures in place to detect any patterns of suspicious activity involving retailers and investigates cases as they arise.

Potential Harm to Lottery

For nearly 50 years, the Pennsylvania Lottery has been known for integrity and transparency as it carries out its mission of responsibly generating funds for programs that benefit older Pennsylvanians. To suggest without proof that certain Lottery players and retailers are somehow beating the Lottery's robust security protocols while committing criminal fraud is a serious allegation that could cause significant harm to the Lottery and its brand. In fact, publicizing these misguided assertions may have a direct impact on Lottery sales and the Lottery-funded programs that older Pennsylvanians rely upon every day.

We want Pennsylvanians to know that we are continually working to make sure our business operates under the highest standards of integrity and professionalism, which means keeping an open dialogue with Lottery staff in other jurisdictions, industry suppliers, and law enforcement to make sure we are implementing the most current security procedures and safeguards. We take this responsibility very seriously and will continue to take the appropriate steps so that Pennsylvania Lottery players have the utmost confidence that our games are operated fairly and securely.

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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 states.

Lottery Response

The Pennsylvania Lottery is a leader in the industry when it comes to Lottery security and best practices. We accomplish this in part by having frequent and open dialogue with other lottery jurisdictions about security procedures and safeguards. Additionally, in 2018 we commissioned a Player Protection & Retailer Integrity Program study which revealed that our Lottery is taking all necessary steps to reduce risk of fraud. The study also did not identify any problems with frequent wins. The study was done by Delehanty Consulting, an industry leader in providing independent lottery consulting services both in the U.S. and around the globe. This study was made available to the DAG for the auditors' review during their field work.

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.

Lottery Response

The PA Lottery has multi-tiered security measures built into each type of lottery ticket. This information is verified by Lottery Security to ensure that all prizes that are paid out are legitimate. Additionally, we would like to again refer the DAG to the study conducted by Delehanty Consulting, which did not identify any problems with frequent wins.

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.

Lottery Response

Lottery's security measures currently determine the validity of every win.

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.

Lottery Response

The Pennsylvania Lottery's Security Department has procedures in place to thoroughly investigate any alleged or potential ticket fraud and this has been an ongoing practice. We believe the Lottery's current Security procedures are sufficient. We currently work with law enforcement agencies, when appropriate, when cases of potential ticket fraud are identified.

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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.

Lottery Response

Lottery's Security Division has conducted investigations of the aforementioned retailer numerous times throughout the audit period. Our investigations found that the wife, who is not a licensed retailer, has had 88 total claims during the audit period, and 63 of them were for Keno play. Keno is a monitor-based game that offers players 15 games per hour and requires "payment up front." We can also determine, based on her claims, that she has certain Scratch-Off tickets that she prefers to play. During the audit period, she submitted five claims for the game "\$3,000,000 PENNSYLVANIA CLUB." It is typical for a player to use their winnings from one ticket to fund the purchase of additional tickets.

The retailer in this case had a total of 56 claims during the audit period, but again, 54 of those claims are for Keno. He also has one Scratch-Off claim and one for Xpress Sports, which is another monitor-based game. There are no prohibitions against retailers or their spouses playing Lottery games. There is no evidence that anything illegal is going on at these locations that could jeopardize the integrity of the Pennsylvania Lottery.

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.

Lottery Response

We concur with the finding and recommendation as written. The Lottery is working to develop and implement policy and formalize written procedures to minimize the risk of players who are not allowed to play the Lottery, from claiming Lottery prizes.

We'd like to note that out of the list of 37 names that were provided by the DAG, none of those individuals were prohibited from playing the Lottery. Thirty-five of those individuals were never employees or contractors of either the Pennsylvania Lottery or the Department of Revenue. Two individuals won their prizes prior to their employment at the Pennsylvania 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.

Lottery Response

We concur with the finding and recommendation as written. An annual process will be developed to ensure employees who are prohibited from playing the Lottery sign an acknowledgment form which states that they understand all policies and prohibitions as related to Lottery. We'd like to note that upon starting employment at Lottery/Revenue, certain employees have already been

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required to sign documents acknowledging this. However, we agree that an annual requirement is beneficial.

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.

Lottery Response

We concur with the finding and recommendation as written.

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.

Lottery Response

As stated above, the Lottery confirmed that none of the 37 names provided by your office were prohibited from playing during the specified time period.

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.

Lottery Response

We concur with the finding and recommendation as written. Pennsylvania law does require the Lottery to conduct intercept programs to determine whether players owe child support payments, state taxes or other debts enumerated in the law. The intercept programs have been effective in helping the commonwealth ensure that Lottery prize claimants are not avoiding these obligations. However, we will work with the General Assembly to strengthen the laws surrounding ticket discounting.

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.

Lottery Response

We concur with the finding and recommendation as written and have already taken action to formalize and improve the documentation for this process.

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.

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Lottery Response

We concur with the finding and recommendation as written and have already taken action to improve the documentation for this process.

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.

Lottery Response

We concur with the finding and recommendation as written and have already taken action to improve the documentation for this process.

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.

Lottery Response

We concur with the finding and recommendation as written.

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.

Lottery Response

We concur with the finding and recommendation as written. Lottery Security has already implemented this recommendation, which started on Sept. 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.

Lottery Response

As noted in the introduction to our response, 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

Note: The Pennsylvania Lottery is beginning the process of transitioning to a new statewide retailer vendor system. This modernization is scheduled to begin early in 2022. The corrective action items noted below will be implemented as part of the transition to the new statewide retailer vendor system.

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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.

Lottery Response

We concur with the finding and recommendation. We will work with the statewide retailer system vendor to obtain system generated control totals for all payment data. Implementing this recommendation will help align management of Lottery's back-office system with the commonwealth's standards for information technology controls.

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.

Lottery Response

We concur with the finding and recommendation. We will implement a process to validate the completeness of data on an established schedule (i.e., process day).

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

Lottery Response

We concur with the finding and recommendation. We will source an independent report from the statewide retailer system that can reconcile claim/payment data with reporting from the Lottery back-office system on a periodic cycle.

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.

Lottery Response

We concur with the recommendation and will take action to establish shared documentation on internal control processes implemented by the outsourced vendor that have assignments to Lottery such that the responsibilities can be reviewed and monitored.

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

Lottery Response

We concur with the finding and recommendation.

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.

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Lottery Response

We concur with the finding and recommendation. We will enhance the report to provide clearer information and address any anomalies and duplication of information, that will increase the clarity and usability of the report for its intended use.

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.

Lottery Response

We concur with the finding and recommendation. We will develop documentation that details Lottery management's requirements within functional specifications for system modifications. This documentation will be reviewed prior to implementation/usage to ensure changes are consistent with management's intent.

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.

Lottery Response

We concur with the finding and recommendation. We will establish a repository of user acceptance testing artifacts to archive the testing methods and results for system processing/report changes.

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

Office of Administration's Overall Response to Finding 3

The Auditor General finds that revisions to Revenue's Sexual Harassment policy, the Governor's Executive Order and OA's Management Directives related to the prohibition of sexual harassment "could assist in preventing sexual harassment." (See Revised Report, p. 34.) However, nowhere in the Report are there any facts that support this finding. There is no evidence or even one example of sexual harassment occurring because of a failure or lack in these Commonwealth policies. While the Report does find that some employees of Revenue did not complete every single training on the prevention of sexual harassment, there is no evidence that any employee, who did not complete a course or take all of the trainings, actually committed or was accused of committing sexual harassment. Furthermore, while the Report asserts that revisions to the policies could help prevent sexual harassment, the Report never explains how the particular suggested revisions, which are not required by law, could help prevent sexual harassment or "enhance employer's compliance efforts". Revised Report, p. 35. Rather, it should be noted that the Commonwealth's policies related to preventing sexual harassment all comply with the law.

Additional responses to specific recommendations are below.

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.

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Department of Revenue Response

We concur that 8 of the 166 courses that were selected for testing were not properly completed. The department will develop a process to ensure that 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.)

Department of Revenue and Office of Administration Response

While Recommendation 2 for Finding 3 is directed to the Department of Revenue, it directs Revenue's Office of Chief Counsel to work with the Office of Administration's Chief Counsel to revise its sexual harassment policy to align more closely with the language in the EEOC guidelines. The Office of Administration disagrees with this recommendation.

First, the Commonwealth already has prohibited 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, issued June 15, 2021, Section 1, provides in pertinent part: "Sexual harassment while conducting the business of the Commonwealth is strictly forbidden." See also, Management Directive 505.30, 4.a.; 7.a. (refers to workplace and work settings and an employee's employment). It purposefully does not limit prohibitions against sexual harassment to only to the work site – any reading otherwise is mistaken.

Second, the recommendation to revise sexual harassment policies to include language that "the identity of individuals who report sexual harassment will be kept confidential and that corrective action will be taken immediately" arises from language contained in EEOC Guidance, not from statutes or regulations. The Commonwealth's policy and management directives indicate that the investigation will be conducted in a confidential manner. See Management Directive 410.10, Section 6.f.7 and Management Directive 505.30, which provides that all allegations of sexual harassment will be investigated in a confidential manner. However, it is inappropriate to promise confidentiality, when the disclosure of information and the identity of complainants may be integral to the commencement or conduct of an investigation. Furthermore, EEOC and PHRC investigations, and sometimes, the actions that form the basis of the investigation and/or the disciplinary process (with attendant due process requirements) that may flow from the investigatory process, vitiate any guarantee of confidentiality. As such, the Commonwealth cannot guarantee confidentiality throughout the process.

Third, the promise of "immediate corrective action" is not required by law. Rather, 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. See Executive Order 2021-04, Section 3; Management Directive 505.30, Section 4(f); and Management Directive 410.10, Sections 3.a., 6.g., 7.b.(1) & (2). There are times when

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disciplinary action cannot be taken until an investigation is complete. In addition, collective bargaining agreements, the Civil Service Reform Act, and Personnel Rules all require proportional discipline and may allow for appeal rights. Therefore, the Commonwealth cannot guarantee corrective action will occur “immediately.”

Finally, the Commonwealth’s policies are in compliance with the requirements of all relevant federal and state anti-discrimination laws.

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

Department of Revenue Response

We will work with the Office of Administration to implement this recommendation.

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.

Office of Administration Response

A schedule of reminder emails for enterprise-wide training was implemented 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.

Office of Administration Response

First, making recommendations to the Governor’s Office regarding executive orders is beyond the scope of this Audit. Second, the Commonwealth already provides sexual harassment prevention training for newly hired employees and provides such training on an annual basis for existing employees; therefore, there is no need to revise its policies. Finally, Commonwealth policies comply with all relevant federal and state anti-discrimination laws.

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.

Office of Administration Response

We disagree with this recommendation. First, the Commonwealth already has prohibited 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](#), issued June 15, 2021, Section 1, provides in pertinent part: “Sexual harassment while conducting the business of the Commonwealth is strictly forbidden.” See also, Management Directive 505.30, 4.a.; 7.a. (refers to workplace and work settings and an employee’s employment). It purposefully does not limit prohibitions against sexual harassment only to the work site – any reading otherwise is mistaken.

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Second, the recommendation to revise sexual harassment policies to include language that “the identity of individuals who report sexual harassment will be kept confidential and that corrective action will be taken immediately” arises from language contained in EEOC Guidance, not from statutes or regulations. The Commonwealth’s policy and management directives indicate that the investigation will be conducted in a confidential manner. See Management Directive 410.10, Section 6.f.7 and Management Directive 505.30, which provides that all allegations of sexual harassment will be investigated in a confidential manner. However, it is inappropriate to promise confidentiality, when the disclosure of information and the identity of complainants may be integral to the commencement or conduct of an investigation. Further, EEOC and PHRC investigations, and sometimes, the actions that form the basis of the investigation and/or the disciplinary process (with attendant due process requirements) that may flow from the investigatory process, vitiate any guarantee of confidentiality. As such, the Commonwealth cannot guarantee confidentiality throughout the process.

Third, the promise of “immediate corrective action” is not required by law. Rather, 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. See Executive Order 2021-04, Section 3; Management Directive 505.30, Section 4(f); and Management Directive 410.10, Sections 3.a., 6.g., 7.b.(1) & (2). There are times when disciplinary action cannot be taken until an investigation is complete. In addition, collective bargaining agreements, the Civil Service Reform Act, and Personnel Rules all require proportional discipline and may allow for appeal rights. Therefore, the Commonwealth cannot guarantee corrective action will occur “immediately.”

Finally, the Commonwealth’s policies are in compliance with the requirements of all relevant federal and state anti-discrimination laws.

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

Office of Administration Response

We concur with this recommendation. Policies are currently reviewed on an annual basis by the Office of Administration’s Equal Employment Opportunity Office and revised as necessary.

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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.

Office of Administration Response

We concur with this recommendation. Investigations of all claims of sexual harassment will continue to be investigated and documented.

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

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Auditor's Conclusion to the Pennsylvania Department of Revenue's and the Pennsylvania Office of Administration's Response

The Pennsylvania Department of Revenue (Revenue) and the Pennsylvania Office of Administration (OA) provided a joint response to the audit report. Revenue management stated they agree with the majority of the findings and recommendations relating to the Pennsylvania Lottery (Lottery). However, we are highly discouraged by Revenue management's disagreement with Finding 1 regarding frequent winning claims by players and the associated recommendations made to improve the claims monitoring process to strengthen the integrity of the system, and OA management's disagreement with Finding 3 regarding updating the sexual harassment prohibition policies. It is important to note that the purpose of our audit and report is to provide beneficial recommendations for consideration to fellow executive branch agencies (Revenue and OA) and a related program (Lottery) to maximize their strengths and not to impair or limit any aspects of their agencies or related program. The following sections provide further comments and conclusions to Revenue's and OA's respective disagreements to our audit findings and recommendations.

Note: The page numbers referred to by OA in its response are from a draft report of the findings and recommendations and do not correspond to the page numbers in this final report; therefore, in this conclusion, we will refer to the respective issue areas and subsections in this report as necessary.

Finding 1

We commend the Lottery for taking its responsibility to Pennsylvanians very seriously regarding making sure its business operates under the highest standards of integrity and professionalism. It is with that goal in mind that we offer recommendations to Lottery to implement monitoring of winning claims by non-retailer players in order for Lottery to further assure Lottery players of the integrity of the system and to consider the potential risks involved in permitting retailers to purchase lottery products and submit winning claims.

With regard to management's comments on the 2018 study, we acknowledge that the study was made available for our review; however, the study was only available for review at Lottery's office site and Lottery would not provide us with a copy to allow for a more detailed review. Although Lottery states the study did not identify any problems with frequent wins, based on the limited review provided to us, we did not find the study indicated a review was performed of winning claims made by non-retailer players, but rather that a review was performed on the winning claims of retailers who Lottery does regularly monitor. We discuss Lottery's monitoring of retailer claims in our finding and make recommendations to strengthen this process.

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We acknowledge that we did not find fraudulent winning tickets. As suggested in Revenue's response, however, we did not place any reliance whatsoever on the news media, because that was not part of our objective. Instead, our objective was to evaluate how Lottery monitors frequent wins and found with the exception of retailers, Lottery has no processes or procedures in place to monitor and follow-up on winning claims. Therefore, we performed our own analysis of winning claims by non-retailer players of prizes of more than \$600. We chose this \$600 threshold because this is the amount for which Lottery requires claim forms to be completed and the information to be recorded in Lottery's system. The results of our analysis are provided in Appendix B of this report.

Lottery should be routinely performing this type of review itself to help ensure validity of claims, which will strengthen program controls. Additionally, while Lottery stated their research confirmed that all claims for the 17 players provided by our analysis can be reasonably explained, it only provided **one** explanation with a description of winning claims for draw games. This example does not explain frequent winning claims made for instant-scratch tickets which comprise 48 percent of the 17 players' claims we reviewed. We did not perform analysis to confirm Lottery's research and conclusion, but believe Lottery should be proactive and routinely performing this analysis as part of its regular monitoring processes. If there are no processes in place to perform analysis on non-retailer players to identify frequent claims and reviews conducted on the winning claims for potential fraud or illegal activity, it will never be found but it does not mean it is not occurring.

We are further discouraged by Lottery's response to our recommendation regarding working with the General Assembly to develop legislation to provide Lottery with the authority to follow-up and investigate players identified in its analysis to monitor for potential fraud, abuse, and other prohibited activity. We encourage the General Assembly to consider mandating the creation of an enforcement bureau within Lottery. Lottery responded its current security procedures are sufficient and they work with law enforcement agencies, when appropriate. However, we believe that Lottery's current enforcement mechanisms are insufficient since they are merely reactive to conduct that may have already occurred rather than having an enforcement bureau that can take proactive steps to prevent prohibited activity. Any legislation that provides Lottery with additional authority to investigate players who may be engaging in suspect activity is a positive step to assist the Lottery when these types of investigations are warranted. Such additional authority may also encourage Lottery to develop a routine process to analyze frequent winning claims as we discussed previously.

For the retailer and spouse who collectively claimed 130 winning tickets of more than \$600 during the audit period, Lottery responded that it determined there is no evidence of any illegal activity. We did not perform analysis to confirm Lottery's response, however, again, in conducting research regarding this information provided by our audit, Lottery has actually performed the review of winning claims that we make in our recommendations. Put simply,

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Lottery is capable of performing such reviews to ensure the integrity of the winning games, but it chose not to until we asked to explain the outwardly suspicious winning pattern of the 17 players. Furthermore, the verification of valid winners under suspicious circumstances may validate those wins and illustrate the various methods players can win games. Verification does not merely serve the purpose of identifying any winners who may have actually committed fraud, but it also absolves and confirms genuine winners as well, which in turn lends credibility to the games in general.

Lottery agreed with all of our recommendations, #11 through #15 to improve the retailer monitoring process. We recommend Lottery implement this type of review into its regular monitoring process when warranted. Until such analysis is performed, there is no way to identify if any illegal activity occurred.

Regarding retailers being permitted to purchase lottery products, to be clear, we are not stating that retailers have a way to influence the outcome of lottery games or that by default they are involved in the practice of ticket discounting. Instead, we note that since retailers have daily interactions with players and process winning ticket claims, they inherently have greater opportunity and higher risk to engage in suspect activity compared to the average Lottery non-retailer player. Due to this higher risk, we continue to recommend the General Assembly consider whether retailers should be prohibited from playing, similar to the restrictions in place for Lottery employees and contractors and their families.

In its disagreement to our finding and recommendations, Lottery is clearly accepting higher risk that there could potentially be suspect winning claims with no process in place to monitor non-retailer players and allowing retailers to play. Lottery stated concern that our audit report could cause potential harm to Lottery; however, Lottery seems to be overlooking that if even just one case of fraud occurs, the damage to the Lottery could be severe. This in turn would ultimately affect funding for programs that benefit older Pennsylvanians supported by the Lottery. We therefore continue to recommend Lottery be proactive with its monitoring processes to do all that it can to ensure the program's integrity.

Finding 2

We are pleased both Revenue/Lottery and OA concur with all eight of the recommendations made regarding Lottery's back office system.

Finding 3

Regarding OA's overall disagreement to Finding 3 with revising Revenue's policy, the Governor's executive order, and OA's management directive pertaining to sexual harassment, we reiterate that we found them generally comprehensive. We also deleted wording from the

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draft report when compiling this final report that revisions to these policies “could assist in preventing sexual harassment.” However, while an up-to-date policy itself does not prevent sexual harassment, it is important to have good management controls and policy in place.

We are unclear as to OA’s resistance and disagreement to our recommendations to update policies, especially because one of the core functions of OA is to maintain and modernize all policies. As one of the objectives of our audit, we believe revisions could help improve its policies, especially since the Commonwealth issued sexual harassment policies in place during the audit period were from 2002. In the **19 years** since OA first drafted its sexual harassment policies, there have been countless societal changes, initiatives, guidance from the (Equal Employment Opportunity Commission (EEOC)), and even gubernatorial executive orders addressing the matter. It is therefore confusing why OA is reluctant to examine whether these **19 years** of changes in the field of sexual harassment prevention warrant a more detailed review of their 2002 policy. By way of recent example, in January 2021, we inquired if any revisions to the Commonwealth policies were scheduled, specifically the management directive, and OA management responded that no revisions were in the works; however, the executive order was subsequently revised mere months after our inquiry.

We were pleased to find that the revised language in the executive order issued on June 15, 2021 incorporates our suggestion to include language that sexual harassment is prohibited whether it takes place at the worksite or outside of the worksite, such as social events, business trips, training sessions, or conferences. The revised executive order now states, “[s]exual harassment while conducting the business of the Commonwealth is strictly forbidden.” However, the executive order in place during our audit period, which covered the period July 1, 2017 through January 22, 2021, focused on prohibiting sexual harassment within worksites, since it stated, “Sexual harassment in Commonwealth work settings is strictly forbidden.” Although the executive order was updated after the end of our audit procedures, the management directive currently in place (issued in 2002) and Revenue’s policy were not updated and do not include language regarding sexual harassment being prohibited whether it takes place at or outside of the worksite. Furthermore, OA has indicated that it has no immediate intentions to update the sexual harassment policy despite the recent executive order.

Specifically regarding Revenue and OA’s disagreement with recommendations #2 and #6, we 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. We acknowledge that the Commonwealth’s policies indicate that all allegations of sexual harassment will be investigated in a confidential manner. OA responded that it is inappropriate to promise confidentiality when the disclosure of information and identity of complainants may be integral to the commencement or conduct of an investigation. OA further stated EEOC and Pennsylvania Human Relations Commission (PHRC) investigations and the actions that form the basis of the investigation and/or disciplinary process vitiate any

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guarantee of confidentiality. This is an extremely narrow interpretation of EEOC guidance and one that is misplaced, as there is no language that mandates that the confidentiality of all complainants be kept at all costs. The intended purpose of the EEOC guidance is to promote a safe environment for employees to come forward with complaints of sexual harassment and thereby, ensure that workplaces remain free from sexual harassment. We believe it is possible to craft policy and protocols that promote an environment of safety and conducive to reporting sexual harassment while still being able to move forward with investigations. It is due to the EEOC being a part of the investigation that we believe it would behoove Revenue and OA to align policies, orders, and directives with that of the EEOC. Stating that EEOC guidance was knowingly and intentionally disregarded because it was expected to interfere with investigations may result in unfavorable EEOC intervention or additional liability to the Commonwealth. Therefore, our recommendation to implement the opinions and directives of the EEOC remains as stated despite the fact that suggestions from the EEOC are only guidance.

As to Revenue/OA's response to recommendation #4 to 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, we reiterate Employment, Banking and Revenue Human Resources Delivery Center management stated, in writing, that reminder emails were generated for all prevention training, except for "Preventing Discrimination & Harassment 17." While we are pleased that the reminder emails implemented in 2019 for the other annual prevention training courses will continue, our recommendation pertaining to email reminders for the "Preventing Discrimination & Harassment 17" course for new employees remains as stated.

We disagree with OA's response regarding recommendation #5. OA stated that the Commonwealth already provides sexual harassment prevention training for newly hired employees and provides such training on an annual basis for existing employees. However, during our audit procedures, we found that seven staff did not complete eight of 166 courses, as required. Formalizing the training requirements in writing within policy could help ensure employees complete this critical training. Although both the executive order in place during our audit period and the revised executive order issued on June 15, 2021, state, "[a]ll Commonwealth employees will be educated in sexual harassment issues," neither executive order specifically outlines that training is required to be completed upon hire and then occur on an annual basis thereafter. Additionally, while the management directive currently in place, issued in 2002 pertaining to the prohibition of sexual harassment in Commonwealth work settings, requires that all employees are educated in the Commonwealth's sexual harassment policy, the management directive similarly does not provide specific guidance on the training requirements or the frequency. Therefore, our recommendation remains as stated.

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Finding 4

We are pleased with OA's agreement with the recommendation and commitment to investigate all claims of sexual harassment.

Overall, we believe that our recommendations, if properly interpreted and implemented, will assist in improving operations within Revenue and Lottery. Our recommendations therefore remain as stated.

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Appendix A

Objectives, Scope, Methodology, and Data Reliability

The Department of the Auditor General (DAG) conducted this performance audit of the Pennsylvania Department of Revenue (Revenue) and the Pennsylvania Office of Administration (OA) regarding (1) the Pennsylvania Lottery's (Lottery) monitoring of retailer and frequent winner claims and (2) sexual harassment prevention within Revenue. This audit was conducted under the authority of Sections 402 and 403 of The Fiscal Code of the Pennsylvania Statutes, and in accordance with applicable *Government Auditing Standards*, issued by the Comptroller General of the United States.¹⁰³ Those standards require 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.¹⁰⁴

Objectives

1. Evaluate the effectiveness of Revenue's regulations, policies, procedures, and guidelines to prevent and monitor lottery retailers and winners for fraud, abuse, or other prohibited activity. [See *Findings 1, 2*]
2. Evaluate whether Revenue's sexual harassment prevention policy is comprehensive, adhered to, and effective, including whether all employees have completed sexual harassment training. [See *Finding 3*]
3. Determine the following:
 - Number of sexual harassment complaints filed
 - Dollar amount of settlements, if any
 - Where the sexual harassment money came from for each settlement, if any. [See *Finding 4*]

Scope

Each of the three objectives listed above covered different audit periods described as follows, unless otherwise noted, with updates through the report date. The first objective covered the period July 1, 2017 through January 26, 2021. The second objective covered the period July 1, 2017 through January 22, 2021. The third objective covered the period July 1, 2010 through January 15, 2020.

¹⁰³ 72 P.S. §§ 402 and 403.

¹⁰⁴ U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision.

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Revenue and OA management are responsible for establishing and maintaining effective internal controls to provide reasonable assurance of compliance with applicable laws and regulations, contracts, grant agreements, and administrative policies and procedures. In conducting our audit, we obtained an understanding of Revenue and OA's internal controls, including information systems controls.

Standards for Internal Control in the Federal Government (also known as and hereafter referred to as the Green Book), issued by the Comptroller General of the United States, provides a framework for management to establish and maintain an effective internal control system.¹⁰⁵ We used the framework included in the Green Book when assessing Revenue and OA's internal control systems.

The Green Book's standards are organized into five components of internal control. In an effective system of internal control, these five components work together in an integrated manner to help an entity achieve its objectives. The five components contain 17 related principles, listed in the table below, which are the requirements an entity should follow in establishing an effective system of internal control.

We determined all of the internal control components are significant to the first two audit objectives but not significant to the third objective. The table below represents a summary of the level of the internal control assessment for effectiveness of design (D); implementation (I); or operating effectiveness (OE) that we performed for each principle for our first two audit objectives with respect to both Revenue and OA, along with a conclusion regarding whether issues were found with the principles and if those issues are included in a finding.¹⁰⁶

¹⁰⁵ Even though the Green Book was written for the federal government, it explicitly states that it may also be adopted by state, local, and quasi-government entities, as well as not-for-profit organizations, as a framework for establishing and maintaining an effective internal control system. The Pennsylvania Governor's Office ***adopted these federal standards*** for all Commonwealth agencies within Management Directive 325.12 Amended, dated May 15, 2018. https://www.oa.pa.gov/Policies/md/Documents/325_12.pdf.

¹⁰⁶ The Green Book, Sections OV3.05 and 3.06, states the following regarding the level of assessment of internal controls. Evaluating the design of internal control includes determining if controls individually and in combination with other controls are capable of achieving an objective and addressing related risks. Evaluating implementation includes determining if the control exists and if the entity has placed the control into operation. Evaluating operating effectiveness includes determining if controls were applied at relevant times during the audit period, the consistency with which they were applied, and by whom or by what means they were applied.

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		Revenue			Office of Administration		
Component	Principle	Level of Assessment	Objective	Conclusion	Level of Assessment	Objective	Conclusion
Control Environment	1 The oversight body and management should demonstrate a commitment to integrity and ethical values.	D	1, 2	No issues found	D	1, 2	No issues found
	2 The oversight body should oversee the entity's internal control system.	D	1, 2	No issues found	D	1, 2	No issues found
	3 Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.	D	1, 2	No issues found	D	1, 2	No issues found

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		Revenue			Office of Administration		
Component	Principle	Level of Assessment	Objective	Conclusion	Level of Assessment	Objective	Conclusion
	4 Management should demonstrate a commitment to recruit, develop, and retain competent individuals.	D, I, OE	1, 2	Findings 1, 3	D	1, 2	No issues found
	5 Management should evaluate performance and hold individuals accountable for their internal control responsibilities.	D	1, 2	No issues found	D	1, 2	No issues found
Risk Assessment	6 Management should define objectives clearly to enable the identification of risks and define risk tolerances.	D, I, OE	1, 2	Finding 1	D	1, 2	No issues found

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			Revenue			Office of Administration		
Component	Principle		Level of Assessment	Objective	Conclusion	Level of Assessment	Objective	Conclusion
	7	Management should identify, analyze, and respond to risks related to achieving the defined objectives.	D, I, OE	1, 2	Finding 1	D	1, 2	No issues found
	8	Management should consider the potential for fraud when identifying, analyzing, and responding to risks.	D, I, OE	1	Finding 1	D	1	No issues found
	9	Management should identify, analyze, and respond to significant changes that could impact the internal control system.	D	1, 2	No issues found	D	1, 2	No issues found

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Component	Principle		Revenue			Office of Administration		
			Level of Assessment	Objective	Conclusion	Level of Assessment	Objective	Conclusion
Control Activities	10	Management should design control activities to achieve objectives and respond to risks.	D, I, OE ^{a/}	1, 2	Findings 1, 3	D, I, OE	1, 2	No issues found
	11	Management should design the entity's information system and related control activities to achieve objectives and respond to risks.	D, I, OE	1, 2	Finding 2	D, I, OE	1, 2	Finding 2
	12	Management should implement control activities through policies.	D, I, OE	1, 2	Findings 1, 2, 3	D, I, OE	1, 2	Findings 2, 3

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Component	Principle		Revenue			Office of Administration		
			Level of Assessment	Objective	Conclusion	Level of Assessment	Objective	Conclusion
Information and Communication	13	Management should use quality information to achieve the entity's objectives.	D, I, OE	1	Finding 2	D, I, OE	1, 2	Finding 2
	14	Management should internally communicate the necessary quality information to achieve the entity's objectives.	D, I, OE	1, 2	No issues found	D	1, 2	No issues found
	15	Management should externally communicate the necessary quality information to achieve the entity's objectives	D, I, OE	1	Finding 1	D	1, 2	No issues found

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Component	Principle	Revenue			Office of Administration		
		Level of Assessment	Objective	Conclusion	Level of Assessment	Objective	Conclusion
Monitoring	16 Management should establish and operate monitoring activities to monitor the internal control system and evaluate results.	D, I, OE	1, 2	Findings 1, 2, 3	D	1, 2	No issues found
	17 Management should remediate identified internal control deficiencies on a timely basis.	D	1, 2	No issues found	D	1, 2	No issues found

^{a/} - On April 18, 2016, Governor Tom Wolf signed Executive Order 2016-06, *Enterprise Information Technology Governance*, assigning overall responsibility for the management and operation of information technology (IT) services for all executive agencies to the Office of Administration, Office for Information Technology (OA/OIT). While under this executive order, certain Lottery employees were transferred to OA/OIT effective July 1, 2017. Lottery management remains responsible for the contract with the statewide retailer system vendor and for the initial implementation and proper operation of the back office system.

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Government Auditing Standards require that we consider information systems controls “...to obtain sufficient, appropriate evidence to support the audit findings and conclusions.”¹⁰⁷ This process further involves determining whether the data that supports the audit objectives is reliable. In addition, Publication GAO-20-283G, *Assessing Data Reliability*, provides guidance for evaluating data using various tests of sufficiency and appropriateness when the data are integral to the audit objective(s).¹⁰⁸ See our assessment in the *Data Reliability* section that follows.

Our procedures to assess the design, implementation, and/or operating effectiveness accordingly are discussed in the *Methodology* section that follows. Deficiencies in internal controls we identified during the conduct of our audit and determined to be significant within the context of our audit objectives are summarized in the conclusion section below and described in detail within the respective audit findings in this report. See the table above for descriptions of each of the principle numbers included in the conclusions below.

Conclusion for Objective 1:

While our assessment of Revenue management’s design of controls did not find issues related to Principles 1 through 3, 5, 9, 14, and 17, we found issues regarding Principle 4, 6 through 8, 10 through 13, 15, and 16. These areas include issues with: (1) training Lottery Security staff; (2) lack of procedures to identify suspect winning claims by non-retailer players; (3) failing to conduct scheduled site visits with retailers in person to ensure that retailers understand Lottery policy regarding prohibited claims; (4) not performing monitoring procedures to ensure prohibited individuals are not claiming winning tickets; (5) operating activities and the design of its information system and related control activities; and (6) control policies and its use of quality information to achieve its objective. These issues are described in detail in *Findings 1 and 2*. *Finding 1* specifically describes how Lottery is not performing analysis to identify players who are claiming prizes at a high frequency and ensuring prohibited individuals are not claiming winning tickets. Additionally, the process of monitoring retailers through site visits should be improved and formalized in writing. *Finding 2* includes weaknesses related to the completeness of Lottery’s back office system and the Retailer Winnings reports utilized by Lottery Security to monitor winning claims submitted by retailers.

Our assessment of OA’s design of controls did not find issues related to Principles 1 through 10 and 14 through 17. We did find issues regarding the operating activities of its information system and related control activities, as well as control policies and its use of quality information to achieve the entity’s objectives (Principles 11 through 13). Our audit procedures found, as

¹⁰⁷ U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision. Paragraph 8.59 through 8.67.

¹⁰⁸ U.S. Government Accountability Office. *Assessing Data Reliability*. December 2019.

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described in *Finding 2*, Lottery failed to ensure its back office system contains every winning claim more than \$600 and reports used to monitor retailer activity were prepared and functioning as intended.

Conclusion for Objective 2:

While our assessment of Revenue management's design of controls did not find issues related to Principles 1, 2, 3, 5, 6, 7, 9, 11, 14, 15, and 17, noting also Principles 8 and 13 were not significant to this objective, we found issues regarding Principles 4, 10, 12, and 16. These issues included: (1) developing/training staff; (2) designing control activities to ensure all staff receive required sexual harassment prevention training (training); (3) developing policies to outline the requirement that training be received annually; and (4) implementing effective monitoring procedures to ensure all staff received required training. Our audit procedures found, as described in detail in *Finding 3*, Revenue failed to ensure all of its employees received the required training. Additionally, Revenue should revise its sexual harassment prevention policy to indicate that training is required annually and to align the policy language more with language suggested by the United States Equal Employment Opportunity Commission (EEOC) to help enhance compliance efforts.

While our assessment of OA's design of controls did not find issues related to Principles 1 through 7, 9 through 11, and 13 through 17, noting also Principle 8 was not significant to this objective, we found issues regarding Principle 12 and the design of policies. We found, as described in *Finding 3*, the Governor's Office and OA should revise its sexual harassment prevention related executive order and management directive, respectively, in particular OA's management directive which has not been updated since 2002. The updates include adding language to indicate that sexual harassment prevention training is required annually and to align more with language suggested by the EEOC to help enhance compliance efforts.¹⁰⁹

Conclusion for Objective 3:

Based on the nature of the objective to determine the number of sexual harassment complaints filed, the associated dollar amount of any settlement payments, and the source of the funds used to make the settlement payments, we determined internal control was not significant to this objective. No applicable principles of internal control were therefore assessed for either Revenue

¹⁰⁹ We reviewed testing performed as part of the audit of the Commonwealth's Annual Comprehensive Financial report (ACFR) for the periods ended June 30, 2018, 2019, and 2020, as part our procedures and noted the ACFR auditors identified a significant deficiency in OA's internal controls over the Commonwealth's SAP system in FYE June 30, 2019. See Finding No. 2019-003 on page 50 of the June 30, 2019 Single Audit report at <https://www.budget.pa.gov/Publications%20and%20Reports/Pages/State-LevelSingleAudit.aspx>. While this finding was considered a significant deficiency in internal controls by the ACFR auditors, this control weakness did not have a significant effect on Objective 2.

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or OA. We found, as described in *Finding 4*, 17 complaints were filed against Revenue during the audit period, of which only one resulted in a settlement payment totaling \$900,000. Revenue also incurred \$1,822 in legal fees. A total of \$250,000 of the settlement was paid from the Commonwealth's Self-Insurance plan and the remaining amount was paid from Revenue's General Government Operations monies from its fiscal year 2014 budget.

Methodology

The following procedures were performed to address our audit objectives. Items selected for testing within this audit were based on either auditor's professional judgment or by random selection and not through a statistical selection. The results of our testing, therefore, should not be projected to, and are not representative of, the corresponding populations.

Objective 1:

- Reviewed both OA and Revenue's Internal Control Green Book Self-Assessment completed by each entity for fiscal year ended June 30, 2018 to determine what controls each indicated it had in place regarding each of the 17 principles within the five components of internal control in order to establish an effective system of internal control.¹¹⁰ [All Principles]
- Interviewed and corresponded with staff, management, and information technology officials from Revenue, Lottery, and the Employment, Banking and Revenue (EBR) Information Technology (IT) Delivery Center in order to:
 - Gain an understanding of Lottery's policies and procedures in place to prevent and monitor lottery retailers and non-retailer players for fraud, abuse, or other prohibited activity. [Principles 2, 6, 7, 8, 9, 10, 11, 12, 14, 16, 17]
 - Gain an understanding of internal controls for Lottery's statewide retailer system.
 - Gain an understanding of internal controls for Lottery's back office system. [Principles 10, 11, 12, 13]
 - Document the flow of information, as well as applicable internal controls, between the retailers, Lottery's statewide retailer system, and the back office system for winning tickets over \$600 paid by retailers. [Principles 11, 12, 13]
- Reviewed the following laws, regulations, guidance, and written policies and procedures applicable to Revenue and Lottery regarding monitoring for Lottery fraud, abuse or other prohibited activity: [Principles 2, 3, 6, 7, 8, 9, 10, 14, 15, 16, 17]

¹¹⁰ The fiscal year ended June 30, 2018 Internal Control Green Book Self-Assessment for both OA and Revenue were the most recent ones available at the time of planning and audit procedures.

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- 72 P.S.
 - § 3761-101 et seq. (Act 91 of 1971, as amended.) *State Lottery Law* that established the Pennsylvania State Lottery.
 - § 3761-309(b). *Certain sales prohibited.*
§ 215, Act 44 of 2017, *Lottery Winning Intercept*, concerning outstanding State tax liability.
- 4 Pa.C.S § 503(h)(2). *iLottery authorization. Restrictions.*
- 61 Pa. Code
 - Chapter 805. *Licenses* § 805.17 *Revocation of license* relating to laws and associated regulations regarding possible fraudulent and/or illegal activities by frequent winners and/or lottery players.
 - Chapter 871. *Powerball* § 871.17(a). *Purchase and prize restrictions.*
 - Chapter 876 *iLottery* § 876.11(c)(1)-(2). *Purchase and prize restrictions.*
 - Chapter 819 *Instant Lottery Games* § 819.235. *Purchase and prize restrictions.*
- 18 Pa.C.S. § 5512(c), Pennsylvania Crimes Code.
- 23 Pa.C.S. *Domestic Relations* § 4308, Act 87 of 1992, as amended, Lottery winning intercept, concerning support matters (child support).
- Pennsylvania Lottery Policy and Manuals:
 - *Revocation or Rejection of Renewal of Retail Licenses* effective June 1, 2012.
 - *Progressive Retailer Discipline* effective December 19, 2007 and 61 Pa. Code § 805.17.
 - *Prohibited Retailer Claiming* effective February 4, 2008.
 - Policy Statement 01-2005 - *Lottery Security*. March 30, 2005.
 - *Personnel VIP Participation Policy* effective April 27, 2010.
 - *Claims Procedures Manual*. January 29, 2020.
 - *Claims Processing Manual*.
 - *Retailer Portal and Employee Portal Balancing Manual*.
- Reviewed the following reports from other organizations related to frequent lottery winning claims:
 - South Carolina General Assembly, Legislative Audit Council. *A Review of the South Carolina Education Lottery and its Oversight of Retailers and Players*. June 2019.
 - Colorado Office of the State Auditor. *Department of Revenue, Colorado Lottery – Performance Audit*. August 2018.
 - Delehanty Consulting LLC. *Player Protection and Retailer Integrity Program* July 2018.

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- Delehanty Consulting LLC. *High Frequency Winners excerpt from DC Lottery Best Practices*. February 8, 2016.
- Reviewed news articles to determine information published related to frequent Lottery winning claims.
- Performed inquiry and review of documentation where available to support implementation and operating effectiveness of information technology application and interface controls described in the manuals. [Principles 11, 12, 13]
- Requested and analyzed functional specifications, testing documentation, and implementation of the automated parsing process between Lottery's statewide retailer system and Lottery's back office system to record claims paid by retailers more than \$600 in the Lottery's back office system. [Principles 11, 12, 13]
- Requested and reviewed documentation of controls over the interface between the statewide retailer system and the back office system, as well as the parsing program to accept winning claims more than \$600, where available. [Principles 11, 12, 13]
- Requested documentation to attempt to demonstrate that the parsing program had been subjected to user acceptance testing when the back office system was initially implemented, in order to provide assurance as to the completeness of the data maintained in the back office system. Documentation of testing was not available. [Principles 11, 12, 13]
- Reviewed System and Organization Control (SOC) reports prepared by an outside accounting firm for Lottery's statewide retailer system vendor. [Principles 10, 11]
- Requested electronic data files of all claim, claimant, and retailer tables from Lottery's back office system representing all table history from July 1, 2017 through March 2, 2020. We received copies of the tables maintained in the back office system, which included winning tickets presented in-person or mailed to Lottery's main and regional offices, as well as retailer paid tickets more than \$600. This data included 333,221 winning tickets totaling \$1.3 billion paid.
- Analyzed and processed claim, claimant, and retailer data, which included joining significant tables together, for the period July 1, 2017 to March 2, 2020 in order to complete the following further analysis:
 - Identified all wins claimed by retailers.

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- Identified all wins claimed by non-retailer players (players).
 - Identified player records for further analysis including:
 - Players with individual claims of \$1,000,000 or more.
 - Players with individual claims of \$500,000 or more.
 - Players with individual claims of \$250,000 or more.
 - Players with individual claims of \$100,000 or more.
 - Players with individual claims of \$50,000 or more.
 - Players with individual claims of \$25,000 or more.
 - Players with individual claims of \$10,000 or more.
 - Players with individual claims of \$5,000 or more.
 - Players with individual claims of \$1,000 or more.
 - Players with individual claims of more than \$600.
 - ✓ Players having less than fifty individual claims of more than \$600.
 - ✓ For players with fifty or more individual claims of more than \$600, noted claim amount and Lottery game type.
- Toured the following Lottery areas: [Principle 10]
 - Lottery warehouse – where certain Lottery game products are stored until distributed to retail stores.
 - Call Center – phone calls between Lottery and retailers regarding Lottery game products.
 - Gaming Test Lab – observed test use of Lottery ticket scanners, which allows customers to scan their ticket(s) to determine if the ticket is a winner, the wave terminals, which are used by the retailers to sell draw games, scan tickets for payment, as well as activate and settle ticket packs, and the different types of self-service machines.
 - Claims division – where winning ticket claims are processed.
 - Security division – where investigations occur such as for retailers with frequent wins and potential suspect winning claims.
- We judgmentally selected and obtained from Lottery Security, for use in retailer test selections, the *Retailer Winnings* reports for the six months of August 2017, April 2018, September 2018, May 2019, December 2019, and January 2020, one month from each of the six month periods during the period July 2017 through February 2020. These reports list winning claims made by retailers for that month.

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- Obtained from Lottery Security the log of the 186 retailer winning claims site visits performed by Lottery Security staff during the period July 1, 2017 through February 20, 2020 to utilize to make retailer test selections.
- Selected for review a total of 30 retailers from the site visit log. The 30 retailers were visited a total of 39 times during the time period, with each visit included in our review. The following describes how the 30 retailers were selected for testing:
 - We determined that 11 of the retailers' site visits listed in the site visit log, were visits that occurred due to winning claims listed on the selected six months of *Retailer Winnings* reports previously discussed in an above bullet. We selected all 11 of these retailers for testing.
 - The remaining 19 retailers were randomly selected from the retailers listed in the site visit log.
- For each of the 39 site visits conducted for the 30 retailers selected for testing, we performed the following procedures:
 - Obtained copies of the site visit documents on file for each of the site visits and reviewed to ensure the following:
 - Retailer identified as the frequent winner was present during the visit. [Principle 15]
 - All questions on the documents were answered. [Principles 10, 16]
 - Each document was signed and dated by the retailer, if required. [Principles 10, 16]
 - Each document was signed and dated by the Lottery Security staff member performing the site visit and Lottery management, if required. [Principles 10, 16]
 - A summary of the site visit is documented to include the results and whether further investigation is necessary. [Principles 10, 16]
- Obtained a copy of Revenue's March 16, 2020 complement report that included the names of 242 Lottery employees and performed a comparison of the first and last names of all Lottery employees to the first and last names of the individuals listed in the data file of claims paid during the period July 1, 2017 through March 2, 2020 to determine if any names matched. This comparison was performed to determine if the names of any Lottery employees prohibited from playing lottery games were listed in the file of claims paid.

Objective 2:

- Reviewed both OA and Revenue's Internal Control Green Book Self-Assessment completed by each entity for fiscal year ended June 30, 2018 to determine what controls

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each indicated it had in place regarding each of the 17 principles within the five components of internal control in order to establish an effective system of internal control.¹¹¹ [All Principles]

- Interviewed and corresponded with staff, management, and information technology officials from Revenue, OA EBR Human Resource (HR) Delivery Center, the EBR IT Delivery Center, the Integrated Enterprise System Office, OA's Chief of Staff to the Secretary of Administration, and the eLearning Development Team Manager from OA's Talent Management Office, in order to:
 - Gain an understanding of the Governor's Office executive order, OA's management directives, and Revenue's policies regarding sexual harassment prevention and the training provided to Revenue staff. [Principles 2, 4, 10, 14, 16]
 - Gain an understanding of the internal controls of the Commonwealth's SAP-Learning Solution (LSO) system. [Principles 10, 11, 12, 13]
- Reviewed working papers testing IT general controls over the Commonwealth's SAP system that includes LSO performed in prior audits of the Commonwealth's Annual Comprehensive Financial Report (ACFR). [Principles 10, 11]
- Performed tests of the design and tests of operating effectiveness of the IT general controls specific to privileged and administrative access controls in place over the Commonwealth's LSO system. [Principles 11, 12, 13]
- Reviewed the following laws, regulations, contracts, guidance, and written policies and procedures applicable to Revenue and Lottery regarding sexual harassment prevention policies: [Principles 6, 7, 10, 12, 14, 15, 16]
 - Civil Rights Act of 1964 (i.e. Title VII) § 7, 42 U.S.C. § 2000e et seq.
 - U.S. Equal Employment Opportunity Commission (EEOC) Select Task Force on the Study of Harassment in the Workplace Report and Promising Practices for Preventing Harassment guidance document.
 - Pennsylvania Human Relations Act 43 P.S. §§ 951-963 *et seq.*; *see* in particular 43 P.S. § 953.
 - Commonwealth of Pennsylvania Governor's Office Executive Order Number 2002-4 "Prohibition of Sexual Harassment in the Commonwealth" dated May 3, 2002.
 - Commonwealth of Pennsylvania Management Directives:

¹¹¹ The fiscal year ended June 30, 2018, Internal Control Green Book Self-Assessment for both OA and Revenue were the most recent ones available at the time of planning and audit procedures.

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- 505.30 “Prohibition of Sexual Harassment in Commonwealth Work Settings” dated June 19, 2002 and Rev. No. 1 dated August 2, 2002.
 - 410.10 Amended “Guidelines for Investigating and Resolving Internal Discrimination Complaints” dated December 5, 2012.
 - 515.20 Amended “Reemployment of Commonwealth Annuitants” dated February 22, 2016.
 - Commonwealth of Pennsylvania Governor’s Office Manual M410.3 “Guidelines for Equal Opportunity Employment Opportunity Plans and Programs” dated December 18, 2007.
 - Revenue Policy, *Prohibition of Sexual Harassment Policy Statements* updated annually on March 1, 2017, 2018, 2019, and 2020.
- Obtained and verified whether Revenue’s 2017, 2018, 2019, and 2020 Equal Employment Opportunity (EEO) Plans that include Revenue’s prohibition of sexual harassment prevention policy were reviewed and approved by OA as required by the Governor’s Office Manual M410.3, Guidelines for Equal Employment Opportunity Plans and Programs. [Principles 1, 2, 10, 12, 13, 14]
- Reviewed Revenue’s sexual harassment prevention policy and the Governor’s Office’s executive order and OA’s management directive (collectively referred to as the Commonwealth’s sexual harassment policy) in place during the audit period to determine how they were communicated to Revenue staff and if the policies included the following elements of a comprehensive and effective policy as suggested by the EEOC: [Principles 6, 7, 10, 12, 14]
 - A statement that the policies apply to all employees at every level of the organization.
 - An unequivocal statement that sexual harassment is prohibited.
 - A clear description of prohibited conduct including examples.
 - A description of the sexual harassment complaint process that provides multiple, accessible avenues of reporting.
 - A statement that employees are encouraged to report conduct that they believe may be prohibited or that, if left unchecked, may rise to the level of prohibited conduct.
 - Assurance of a process that provides a prompt, impartial, and thorough investigation.
 - A statement that the identity of the individuals who report harassment, alleged victims, witnesses, and alleged harassers will be kept confidential.
 - Assurance that the employer will take immediate and proportionate corrective action when it determines that harassment has occurred.
 - An unequivocal statement that retaliation is prohibited.

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- A statement that sexual harassment is prohibited whether it occurs inside the workplace or outside of the workplace (i.e. social events, business trips, training sessions, conferences).
- Reviewed the content included in the mandatory sexual harassment prevention training courses delivered during our audit period and verified that each of the training courses included links to the Commonwealth policies during the presentations to confirm that employees were provided access to the policies annually. [Principle 14]
- Obtained a complement report listing of Revenue staff as of March 16, 2020. We randomly selected a starting point and systematically selected a total of 60 of the 1,949 staff to perform testing to determine if they received the required sexual harassment prevention training during the period March 24, 2017 through March 12, 2020. The 60 staff members included 49 non-supervisory employees and 11 supervisory/management employees.
- Reviewed the employee training transcripts of the 49 Revenue non-supervisory employees to determine if they completed the following training:
 - *Preventing Discrimination & Harassment 17* course rolled out in 2017 that was required to be completed by all employees and, thereafter, new hires.
 - *Sexual Harassment Prevention-Employees* course rolled out in April 2018.
 - *Sexual Harassment Prevention-Empl 19* course rolled out in March 2019.
- Reviewed the employee training transcripts of the 11 Revenue supervisory/management employees to determine if they completed the following training:
 - *Preventing Discrimination & Harassment 17* course rolled out in 2017 that was required to be completed by all supervisors/managers and, thereafter, new hires.
 - *Sexual Harassment Prevention-Supervisors* course rolled out in March 2018.
 - *Sexual Harassment Prevention-Sup 19* course rolled out in March 2019.
- Reviewed the employee training transcripts for the 3 of the 11 supervisory/management employees promoted during the audit period to determine if they completed the classroom training course of *Sexual Harassment Prev for Mgrs & Spvrs* required for employees promoted to a supervisory/management position.
- Reviewed the job titles of the selected 60 Revenue staff members to determine if any were employed in Revenue's Bureau of Audits and therefore required to take the additional sexual harassment prevention training classroom training, *Sexual Harassment Prev for Employees*, as required by Revenue. We then reviewed the employee training

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transcript of the one employee identified and confirmed by EBR HR Delivery Center management as being an employee of the Bureau of Audits, to determine if the additional training was received.

- Requested and reviewed training monitoring reports available but not used by Revenue during our audit period in order to determine the overall compliance rates for the annual sexual harassment prevention training provided in 2018 and 2019. [Principles 4, 10, 16, 17]

Objective 3:

- Interviewed and corresponded with Revenue and OA EBR HR Delivery Center management, Revenue management and legal counsel, and Lottery management and staff, in order to determine the number, and any payments made, for sexual harassment claims during the audit period.
- Reviewed news articles to determine information published related to sexual harassment claims filed against Revenue.
- Obtained from Revenue a listing of the 17 sexual harassment complaints filed during the period July 1, 2010 through January 15, 2020.
- Reviewed the sexual harassment complaint files, maintained by OA EBR HR, of the 17 complaints filed during the period July 1, 2010 through January 15, 2020, to determine if the claims were substantiated or not and if Revenue paid a settlement to any of the complainants.
- Obtained from Revenue the amount and source of the funds used to pay the one sexual harassment claim settlement made during the audit period.

Data Reliability

Government Auditing Standards requires us to assess the sufficiency and appropriateness of computer-processed information that we used to support our findings, conclusions, and/or recommendations. The assessment of the sufficiency and appropriateness of computer-processed information includes the considerations regarding the completeness and accuracy of the data for the intended purposes.¹¹²

In addition to the procedures described in the remainder of this section, as part of our overall process in obtaining assurance of the reliability of computer-processed information and data files

¹¹² U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision. Paragraph 8.98.

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we obtained management representation letters from Revenue and OA EBR HR Delivery Center. These letters, signed by Revenue and EBR HR Delivery Center management respectively, included confirmation statements indicating the information and data provided to us had not been altered and was a complete and accurate duplication of the data from its original source.

To assess the completeness and accuracy of the data provided by the Lottery extracted from its back office system, which included 333,221 individual winning claims with prize payouts of more than \$600 totaling \$1,336 billion paid during the period July 1, 2017 through March 2, 2020 (utilized in audit procedures performed for Objective 1), we conducted audit procedures as follows:

- Obtained an understanding of the IT environment and controls for Lottery's back office system. [Principle 11]
- Reviewed and analyzed system diagrams of Lottery's in-house database system to obtain a thorough understanding of the environment. [Principles 11, 13]
- Reviewed Lottery's back office system database schema, data dictionaries, software, hardware, and operating system to assist in documenting an understanding of the database and requesting data. [Principles 11, 13]
- Reviewed working papers testing information technology general controls in Lottery's back office system (tests of design and tests of implementation) performed as part of prior audits of the Commonwealth's ACFR. [Principles 10, 11]
- Attempted to reconcile the total claims included in the data file to claims paid through the Commonwealth's SAP system. We were able to reconcile the claims paid at Lottery Headquarters, which represented 70 percent of the dollar amount of the total claims included in the data file. Due to the lack of control totals available from the statewide retailer system, we were unable to gain assurance as to the completeness of the claims paid by retailers in our file, which represented approximately 30 percent of the dollar amount of the claimant table. (See *Finding 2*). [Principle 13]
- Requested and obtained electronic data files of Internal Revenue Service W-2G information sent by Lottery to winners of prizes over \$600 for the 2017, 2018, and 2019 tax years. [Principle 13]

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- Analyzed the W-2G sequence number field in the claims table as an alternate procedure to partially attest to the completeness of the retailer paid claims in the in the claimant table. [Principle 13]
- Reviewed ACFR working papers reconciling Lottery claims paid through the statewide retailer system and the Pennsylvania Treasury to the Commonwealth's financial statements as of fiscal year ended (FYE) June 30, 2018, 2019, and 2020. [Principle 13]
- Reviewed testing of winning claims traced into the back office system performed during the ACFR audit. [Principle 13]
- Performed the following using data analysis on claims, claimant, and retailer tables from Lottery's in-house database system:
 - Tested for records in the claimant table that did not have an associated record in the claims table, as well as tested for records in the claims table that did not have an associated record in the claimant table. [Principle 13]
 - Analyzed data within significant tables to determine whether the data was clear and consistent, in line with what was requested, in accordance with the audit objectives, and representative of the expected population. [Principle 13]
- Performed logical tests to:
 - Ensure all fields in significant tables were fully populated. [Principle 13]
 - Identify any duplicate data. [Principle 13]
 - Identify invalid data. [Principle 13]
 - Identify data outside the expected range of the audit period. [Principle 13]
- Performed the following tests for accuracy and completeness of the Retailer Winnings reports used by Lottery Security to initiate monitoring/investigations of retailer winners:
 - Performed an initial review of the reports noting duplications (see *Finding 2*). [Principle 13]
 - Reviewed the structured query language (SQL) used to produce the reports. [Principle 13]
 - Requested and reviewed, where available, functional specifications, documentation of user acceptance testing, and implementation of the structured query language used to create the reports. (See *Finding 2*). [Principle 13]
 - Attempted to recreate six monthly reports using the SQL queries documented by Lottery management but found their documentation to be inaccurate. We were

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- able using trial and error, however, to identify and correct the errors in their documentation and recreate the reports provided (See *Finding 2*). [Principle 13]
- Investigated differences between the recreated reports and the printed reports. Investigated any retailer wins in the back office data that were not included in the printed reports. All differences were resolved. [Principle 13]

In accordance with *Government Auditing Standards* and based on the above procedures, we concluded that the claim, claimant, and retailer data provided by Lottery from the back office system was sufficiently reliable for this engagement regarding accuracy and sufficiently reliable with significant limitations for this engagement concerning completeness. As noted in *Finding 2*, the statewide retailer system vendor does not generate any control total reports of retailer-paid claims more than \$600 that could be used provide assurance as to the completeness of Lottery's back office system. While these limitations regarding the completeness of the data may affect the magnitude of the numbers we present in this report, there is sufficient evidence in total to support our findings and conclusions.

To assess the completeness and accuracy of the employee training transcripts generated from the SAP-LSO system (utilized in audit procedures performed for Objective 2), provided to us by OA EBR HR Delivery Center management, used for testing Revenue staff training records, we conducted audit procedures as follows:

- Interviewed and corresponded with staff, management, and IT officials from Revenue, OA EBR HR Delivery Center, EBR IT Delivery Center, and the Integrated Enterprise System Office (IESO) to gain an understanding of internal controls for the Commonwealth's SAP-LSO system. [Principles 10, 11, 12]
- Requested and reviewed DOR and EBR HR delivery center organizational charts identifying all LSO system administrators. [Principles 10, 11]
- Reviewed working papers testing IT controls over the Commonwealth's SAP system as part of the ACFR Audits for FYE June 30, 2018, 2019, and 2020. [Principles 10, 11, 12]
- Requested and tested system-generated list(s) of administrators and privileged users with the ability to add or change LSO training records. [Principles 10, 11]
- Obtained email confirmations of the information (i.e. course titles and completion dates) reported in the employee training transcripts directly from 53 of the 60 Revenue staff members selected for testing. The remaining seven staff either did not complete the training, and therefore we did not need to request confirmation, or they were no longer employed by Revenue. While we were unable to receive confirmations from a limited

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number of staff, we determined the information in the employee training transcripts to be reliable. [Principle 13]

In accordance with *Government Auditing Standards* and based on the above procedures, we concluded that the employee training transcripts were sufficiently reliable regarding completeness and accuracy for the purposes of this engagement.

To assess the completeness and accuracy of the complement listing of Revenue staff as of March 16, 2020 (utilized in audit procedures performed for Objectives 1 and 2), provided to us by OA EBR HR Delivery Center management, we conducted audit procedures as follows:

- Interviewed Revenue and OA EBR HR Delivery Center management responsible for maintaining the listing. [Principles 2, 10, 11, 16, 17]
- Accessed Revenue employment data from PennWATCH as of March 15, 2020, and found Revenue employed a staff of 1,909 and then compared that number to the number of Revenue staff listed on the complement listing as of March 16, 2020, which was 1,949. We found a difference of 40 individuals or a 2 percent difference.¹¹³ We determined that variance was reasonable and could be attributed to timing differences. [Principle 13]
- Determined the breakdown between the supervisory/management employee and the non-supervisory employee categories on the complement listing and found it to include 369 supervisors/managers and 1,580 employees.
 - For the 369 supervisory/management employees, beginning at the judgmentally selected fourth name on Revenue's complement listing, we systematically selected every 37th name to obtain a total of 10 names and compared the name and job title to the data available in PennWATCH as of March 15, 2020, and found no exceptions. [Principle 13]
 - For the 1,580 non-supervisory employees, beginning at the judgmentally selected fourth name on Revenue's complement listing, we systematically selected every 158th name to obtain a total of 10 names and compared the name and job title to the data available in PennWATCH and found no exceptions. [Principle 13]
 - Judgmentally selected either one non-supervisory employee or one supervisory/management employee listed on every fourth page from the 80 pages of Revenue staff listed in PennWATCH for a total of 20 (10 non-supervisory and

¹¹³ PennWATCH began after the Pennsylvania Web Accountability and Transparency Act was signed into law on June 30, 2011, providing for the establishment of a "searchable budget database-driven Internet website detailing certain information concerning taxpayer expenditures and investments." See: <http://pennwatch.pa.gov/Pages/about-pennwatch.aspx> (accessed April 6, 2020).

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10 supervisory/management) employees. We then confirmed that each of the 20 names and titles matched the information in Revenue's complement listing. [Principle 13]

In accordance with *Government Auditing Standards* and based on the above procedures, we concluded that Revenue's complement listing was sufficiently reliable regarding completeness and accuracy for the purposes of this engagement.

To assess the completeness and accuracy of the training monitoring reports for the *Sexual Harassment Prevention-Employees* course rolled out in April 2018 and *Sexual Harassment Prevention-Supervisors* course rolled out in March 2018 (referred to, in this section, as the 2018 monitoring report) and *Sexual Harassment Prevention-Empl 19* course and *Sexual Harassment Prevention-Sup 19* course both rolled out in March 2019 (referred to, in this section, as the 2019 monitoring report), provided to us by OA EBR HR Delivery Center management, we conducted audit procedures as follows: (Objective 2)

- Interviewed and corresponded with Revenue and OA EBR HR Delivery Center management in order to gain an understanding of the monitoring reports. [Principles 2, 10, 16, 17]
- Performed the following review:
 - Compared the data indicating whether a staff member completed the annual training including completion date, if applicable, in the 2018 monitoring report, generated in January 2021, to the training data reported in the employee training transcripts for our 60 test selections. We found the following: [Principle 13]
 - Forty-eight of the 60 staff members' data reconciled accurately.
 - Eleven of the 60 staff members were not employed by Revenue at the time the training was rolled out; therefore, they were not required to complete the training. Accordingly, they were not listed on the monitoring report.
 - One of the 60 employees was not included on the 2018 monitoring report which was likely due to the employee not being employed by Revenue at the time the 2019 monitoring report was generated.
 - Compared the total number of staff listed on the 2018 monitoring report to the staff complement at June 30, 2018, and was unable to reconcile the totals. [Principle 13]
 - Compared the data indicating whether a staff member completed the annual training including completion date, if applicable, in the 2019 monitoring report,

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generated in January 2021, to the training data reported in the employee training transcripts for our 60 test selections. We found the following: [Principle 13]

- Fifty of the 60 staff members' data reconciled accurately.
 - Seven of the 60 staff members were not employed by Revenue at the time the training was rolled out; therefore, they were not required to complete the training. Accordingly, they were not listed on the monitoring report.
 - Three of the 60 employees were not included on the monitoring report likely due to the three individuals not being employed by Revenue at the time the 2019 monitoring report was generated.
- Compared the total number of staff listed on the 2019 monitoring report to the staff complement at June 30, 2019, and found that the totals reconciled accurately. [Principle 13]

Based on the above procedures and our corresponding results, we concluded this information to be of undetermined reliability; however, this is the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.

To assess the completeness and accuracy of the lottery retailer site visit log (utilized in audit procedures performed for Objective 1), provided to us by Revenue, we conducted audit procedures as follows:

- Reviewed retailer history reports for the period August 2017 through January 2020 and confirmed retailers who met the criteria for a site visit to be conducted were included on the site visit log as having been visited by Lottery Security staff. [Principles 10, 13, 16]
- For those retailers (with site visits listed in the site visit log) selected for testing, we requested the files for site visits during the audit period and reviewed each file to ensure a site visit occurred for the retailer and the date of the site visit matched the date listed on the site visit log. [Principles 10, 11, 13]

Based on the above procedures, we deemed this information to be sufficiently reliable but with significant limitations regarding completeness of the data provided by Lottery from the back office system which was utilized to generate the retailer history reports. This could potentially affect Lottery's determination of which retailers it should conduct site visits for; however, there is sufficient evidence in total to support our findings and conclusions.

To assess the completeness and accuracy of the list of 17 sexual harassment complaints filed against Revenue during the period of July 1, 2010 through January 15, 2020 (utilized in audit

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procedures performed for Objective 3), provided to us by OA EBR HR management, we conducted audit procedures as follows:

- Interviewed Revenue and OA EBR HR Delivery Center management responsible for handling sexual harassment complaints to gain an understanding of the sexual harassment complaint process and how complaint investigation files are maintained and determine how the list of sexual harassment complaints was created.
- Compared and confirmed the information on the list of the 17 sexual harassment complaints matched the information contained in the sexual harassment complaint files maintained by OA EBR HR and the Office of General Counsel for the one complaint that resulted in a settlement payment.

In accordance with *Government Auditing Standards* and based on the above limited procedures performed, we concluded the list of sexual harassment complaints was of undetermined reliability, as noted in *Finding 4*. This information was the best data available however and although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.

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Appendix B

Non-retailer Players with 50 or more winning claims more than \$600

The following tables provide a summary along with the details, by dollar amount and game type, for winnings of the 17 lottery non-retailer players (players) with 50 or more winning claims of more than \$600 each during the period July 1, 2017 through March 2, 2020.¹¹⁴ Issues regarding lack of evaluation by the Pennsylvania Lottery for these types of high frequency of winning claims by players is addressed in *Finding 1*.

Summary of 17 players with 50 or more winning claims of more than \$600 each during the period July 1, 2017 through March 2, 2020		
Player Number	Total Tickets Claimed	Total Amount Claimed
Player 1	155	\$341,104
Player 2	105	\$133,142
Player 3	98	\$143,296
Player 4	90	\$225,000
Player 5	89	\$122,300
Player 6	88	\$92,127
Player 7	83	\$83,231
Player 8	80	\$200,000
Player 9	77	\$192,500
Player 10	70	\$172,000
Player 11	62	\$105,554
Player 12	62	\$104,800
Player 13	61	\$66,200
Player 14	58	\$354,077
Player 15	58	\$166,500
Player 16	54	\$133,531
Player 17	54	\$60,250
Totals	1,344	\$2,695,612

¹¹⁴ The tables were compiled by the staff of the Department of the Auditor General from data received from the Lottery back office system (described in detail in *Finding 2*). We determined the reliability of this data had significant limitations regarding completeness as noted in *Finding 2* and *Appendix A*. Although this determination may affect the magnitude of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

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Player 1 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$700	3	\$2,100	Instant-Scratch
\$750	4	\$3,000	Draw
\$777	2	\$1,554	Instant-Scratch
\$850	8	\$6,800	Instant-Scratch
\$1,000	9	\$9,000	Instant-Scratch
\$1,050	1	\$1,050	Instant-Scratch
\$1,700	3	\$5,100	Instant-Scratch
\$2,500	1	\$2,500	Instant-Scratch
\$2,500	124	\$310,000	Draw
Player 1's Totals	155	\$341,104	

Player 2 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$647	1	\$647	Instant-Scratch
\$696	1	\$696	Instant-Scratch
\$750	20	\$15,000	Draw
\$800	1	\$800	Instant-Scratch
\$850	44	\$37,400	Instant-Scratch
\$1,000	5	\$5,000	Instant-Scratch
\$1,012	1	\$1,012	Instant-Scratch
\$1,016	1	\$1,016	Instant-Scratch
\$1,017	1	\$1,017	Instant-Scratch
\$1,050	11	\$11,550	Instant-Scratch
\$1,200	8	\$9,600	Instant-Scratch
\$1,700	1	\$1,700	Instant-Scratch
\$2,500	2	\$5,000	Instant-Scratch
\$2,500	3	\$7,500	Draw
\$3,100	2	\$6,200	Instant-Scratch
\$5,004	1	\$5,004	Instant-Scratch
\$12,000	2	\$24,000	Instant-Scratch
Player 2's Totals	105	\$133,142	

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Player 3 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$700	9	\$6,300	Instant-Scratch
\$777	4	\$3,108	Instant-Scratch
\$1,000	78	\$78,000	Instant-Scratch
\$3,000	1	\$3,000	Instant-Scratch
\$3,012	2	\$6,024	Instant-Scratch
\$7,204	1	\$7,204	Instant-Scratch
\$7,254	1	\$7,254	Instant-Scratch
\$14,400	1	\$14,400	Instant-Scratch
\$18,006	1	\$18,006	Instant-Scratch
Player 3's Totals	98	\$143,296	

Player 4 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$2,500	90	\$225,000	Draw
Player 4's Totals	90	\$225,000	

Player 5 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$700	9	\$6,300	Instant-Scratch
\$1,000	76	\$76,000	Instant-Scratch
\$10,000	4	\$40,000	Instant-Scratch
Player 5's Totals	89	\$122,300	

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Player 6 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$750	1	\$750	Instant-Scratch
\$777	1	\$777	Instant-Scratch
\$800	32	\$25,600	Instant-Scratch
\$1,000	43	\$43,000	Instant-Scratch
\$1,500	1	\$1,500	Instant-Scratch
\$2,000	9	\$18,000	Instant-Scratch
\$2,500	1	\$2,500	Instant-Scratch
Player 6's Totals	88	\$92,127	

Player 7 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$700	5	\$3,500	Instant-Scratch
\$750	2	\$1,500	Draw
\$777	2	\$1,554	Instant-Scratch
\$800	1	\$800	Instant-Scratch
\$850	1	\$850	Instant-Scratch
\$1,000	69	\$69,000	Instant-Scratch
\$1,027	1	\$1,027	Instant-Scratch
\$2,500	2	\$5,000	Draw
Player 7's Totals	83	\$83,231	

Player 8 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$2,500	80	\$200,000	Draw
Player 8's Totals	80	\$200,000	

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Player 9 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$2,500	77	\$192,500	Draw
Player 9's Totals	77	\$192,500	

Player 10 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$1,000	2	\$2,000	Instant-Scratch
\$2,500	68	\$170,000	Draw
Player 10's Totals	70	\$172,000	

Player 11 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$750	1	\$750	Draw
\$777	2	\$1,554	Instant-Scratch
\$850	9	\$7,650	Instant-Scratch
\$1,000	18	\$18,000	Instant-Scratch
\$1,700	3	\$5,100	Instant-Scratch
\$2,500	1	\$2,500	Instant-Scratch
\$2,500	28	\$70,000	Draw
Player 11's Totals	62	\$105,554	

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Player 12 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$700	1	\$700	Instant-Scratch
\$850	32	\$27,200	Instant-Scratch
\$1,000	1	\$1,000	Instant-Scratch
\$1,700	2	\$3,400	Instant-Scratch
\$2,500	25	\$62,500	Draw
\$10,000	1	\$10,000	Instant-Scratch
Player 12's Totals	62	\$104,800	

Player 13 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$700	1	\$700	Instant-Scratch
\$700	22	\$15,400	Draw
\$750	10	\$7,500	Draw
\$850	7	\$5,950	Instant-Scratch
\$1,000	14	\$14,000	Instant-Scratch
\$1,050	3	\$3,150	Instant-Scratch
\$2,500	3	\$7,500	Draw
\$12,000	1	\$12,000	Instant-Scratch
Player 13's Totals	61	\$66,200	

Player 14 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$700	9	\$6,300	Instant-Scratch
\$777	1	\$777	Instant-Scratch
\$1,000	47	\$47,000	Instant-Scratch
\$300,000	1	\$300,000	Instant-Scratch
Player 14's Totals	58	\$354,077	

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Player 15 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$750	6	\$4,500	Draw
\$2,500	1	\$2,500	Instant-Scratch
\$2,500	43	\$107,500	Draw
\$3,000	4	\$12,000	Draw
\$10,000	4	\$40,000	Draw
Player 15's Totals	58	\$166,500	

Player 16 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$1,031	1	\$1,031	Instant-Scratch
\$2,500	53	\$132,500	Draw
Player 16's Totals	54	\$133,531	

Player 17 Detail

Ticket Amount	Number of Tickets Claimed	Total Amount Claimed	Game Type
\$850	25	\$21,250	Instant-Scratch
\$1,000	2	\$2,000	Instant-Scratch
\$1,000	17	\$17,000	Draw
\$2,000	10	\$20,000	Draw
Player 17's Totals	54	\$60,250	

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Appendix C

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