



Minnesota State Lottery

Performance Audit

November 2024

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

Financial Audit Division

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November 21, 2024

Members
Legislative Audit Commission

Adam Prock, Executive Director
Minnesota State Lottery

This report presents the results of our performance audit of the Minnesota State Lottery (Lottery) for the period July 1, 2021, through December 31, 2023. The objectives of this audit were to determine if the Lottery had adequate internal controls; complied with significant legal requirements; had appropriate security administration procedures to protect the confidentiality, integrity, and availability of systems and data; and resolved prior audit findings.

The Lottery does not agree with Findings 1 and 3 as stated in their response on pages 52 and 53. We have considered all additional information presented by the Lottery and believe the evidence we obtained and the testing we performed during the course of the audit support our conclusions.

This audit was conducted by Joe Sass, CISA (IT Audit Coordinator); Gabrielle Johnson, CPA (Audit Team Lead); and auditors Deb Frost, CISA; Dustin Juell, CompTIA Security+; Alec Mickelson; Duy (Eric) Nguyen; and former auditor Julia Schechter; with assistance from Jodi Munson Rodríguez (Deputy Legislative Auditor) and former evaluator Ellie Capra.

We received the full cooperation of Lottery staff while performing this audit.

Sincerely,



Judy Randall
Legislative Auditor



Lori Leysen, CPA
Deputy Legislative Auditor



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Introduction

The Minnesota State Lottery (Lottery) is responsible for operating Minnesota’s lottery. The Lottery’s duties include adopting rules and lottery game procedures; contracting with lottery retailers to sell lottery products; contracting with vendors for goods and services; entering into written agreements with government-authorized lotteries; adopting and publishing advertising and promotional materials; and ensuring the integrity of, and public confidence in, the Lottery.

In this audit, we tested the internal controls and compliance of the Lottery. Internal controls are the policies and procedures management establishes to govern how an organization conducts its work and fulfills its responsibilities. A well-managed organization has strong controls across all of its internal operations. If effectively designed and implemented, controls help ensure, for example, that inventory is secured, computer systems are protected, laws and rules are complied with, and authorized personnel properly document and process financial transactions.

Auditors focus on internal controls as a key indicator of whether an organization is well managed. In this audit, we focused on whether the Lottery had adequate internal controls; complied with significant legal requirements; and had appropriate security administration procedures to protect the confidentiality, integrity, and availability of systems and data.

Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

- Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse.
- Ensure that agencies administer programs in compliance with applicable laws and rules.

The law also requires the commissioner of Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— *Minnesota Statutes 2024, 16A.057*



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Report Summary

Conclusions

The Minnesota State Lottery (Lottery) generally did not have adequate internal controls to ensure compliance with significant legal requirements and industry standards we tested. We identified a number of internal control weaknesses related to retailers, scratch games, physical security, system access management, vulnerability and configuration management, and incident response and disaster recovery.

The Lottery generally complied with the significant legal requirements we tested, but there were some specific instances of noncompliance related to background checks for retailers, retailers continuing to sell lottery tickets with expired contracts, reimbursement for lost or stolen scratch game tickets, and system access management.

The list of findings below and the full report provide more information about these concerns.

Findings and Recommendations

Finding 1. Since early 2023, the Minnesota State Lottery has not verified that retailers have not been convicted of disqualifying crimes. (p. 19)

Recommendation

The Minnesota State Lottery should verify that retailers have not been convicted of disqualifying crimes.

Finding 2. The Minnesota State Lottery permitted retailers with expired contracts to continue selling lottery tickets, in violation of requirements in state law. (p. 23)

Recommendations

- The Minnesota State Lottery should not permit retailers with expired contracts to sell lottery tickets.
 - The Minnesota State Lottery should implement controls to ensure retailer contracts are renewed prior to their expiration date.
-

Finding 3. The Minnesota State Lottery did not comply with Minnesota rules when it declined to charge retailers for lost or stolen scratch game tickets. (p. 27)

Recommendation

The Minnesota State Lottery should comply with Minnesota rules and charge retailers for lost or stolen scratch game tickets.

Finding 4. The Minnesota State Lottery did not always audit and review unauthorized access and access attempts in accordance with its policy. (p. 30)

Recommendations

- The Minnesota State Lottery should develop and document its procedures for auditing and responding to physical security events.
 - The Minnesota State Lottery’s security director should oversee regular audits of physical security events, as required by policy.
-

Finding 5. Minnesota State Lottery third-party security guards did not follow documented procedures to record the issuance of a temporary security guard badge. (p. 31)

Recommendation

The Minnesota State Lottery should ensure that its third-party security guards adhere to the Lottery’s security policies and procedures for temporary badges.

Finding 6. Prior Audit Finding Partially Resolved. The Minnesota State Lottery has not performed an annual review of all access granted to employees, as required by policy. (p. 37)

Recommendation

The Minnesota State Lottery should designate a director to lead an annual review of access assigned to all users—including access to each of the Lottery’s systems, and device, service, and system accounts.

Finding 7. The Minnesota State Lottery did not have adequate separation of duties among key information technology administrators. (p. 38)

Recommendation

The Minnesota State Lottery should ensure separation of duties among its information technology staff to reduce its risk.

Finding 8. The Minnesota State Lottery’s implemented password requirements do not comply with its policy. (p. 39)

Recommendations

- The Minnesota State Lottery should implement password requirements according to its policies.
 - The Minnesota State Lottery should ensure that password policies are properly enforced for all user accounts, as defined by its policy.
-

Finding 9. The Minnesota State Lottery’s vulnerability and configuration management program does not meet best practices. (p. 40)

Recommendations

- The Minnesota State Lottery should develop procedures to consistently log, track, and resolve vulnerabilities based on severity.
 - The Minnesota State Lottery should develop vulnerability metric reports for management, and report progress against key performance indicators.
 - The Minnesota State Lottery should implement configuration compliance scanning against standardized configuration baselines.
-

Finding 10. Prior Audit Finding Partially Resolved. The Minnesota State Lottery has not adequately documented, and has not tested or trained staff on, its procedures to respond to a significant incident. (p. 42)

Recommendations

- The Minnesota State Lottery should develop incident response procedures based on an incident’s scope, likely impact, time-critical nature, and resource availability.
 - The Minnesota State Lottery should ensure that formal post-incident reviews are documented and occur with stakeholders from throughout the agency.
 - The Minnesota State Lottery should perform regular testing and training on its incident response and disaster recovery plans and procedures.
 - The Minnesota State Lottery should ensure its third-party system providers are included in disaster recovery planning, testing, and training.
-

Finding 11. In their survey responses, many Minnesota State Lottery employees indicated concerns about the Lottery’s workplace culture. (p. 45)

Recommendation

Lottery executive leadership should evaluate agency practices and make changes to promote a productive environment.



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Background

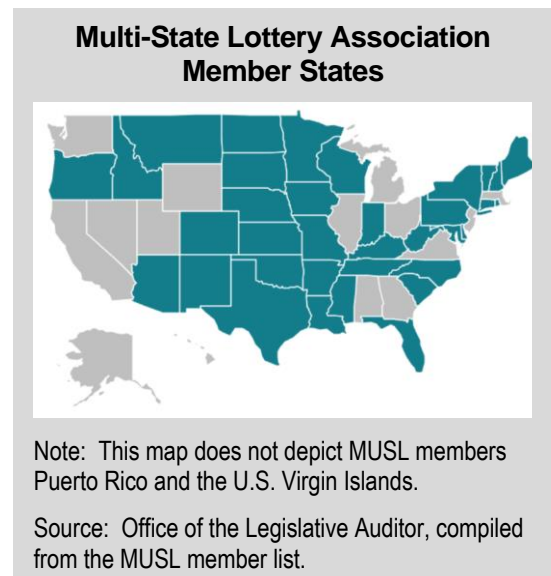
Minnesota State Lottery Overview and History

The Minnesota Legislature established the Minnesota State Lottery (Lottery) in 1989, one year after voters approved a 1988 amendment to the state constitution authorizing a state lottery.¹ Voters also approved a second constitutional amendment, in 1990, to dedicate “not less than 40 percent of the net proceeds from any state-operated lottery” to the Minnesota Environment and Natural Resources Trust Fund until 2001 and, later, extended the requirement through December 31, 2050.² The Lottery launched its first scratch game in 1990.

Governor Tim Walz appointed Adam Prock as the Lottery’s executive director in 2019.

The Lottery’s headquarters are in Roseville, Minnesota, with regional offices located in Detroit Lakes, Owatonna, and Virginia. The Lottery sells lottery tickets to the public through contracts with more than 3,000 local retailers, such as gas stations, convenience stores, and grocery stores. The Lottery offers lottery tickets through two types of games: lotto games (such as Gopher 5, Mega Millions, Pick 3, and Powerball) and scratch games with a variety of ticket types, prices, and themes.

The Lottery is a member of the Multi-State Lottery Association (MUSL), a nonprofit association that manages multi-jurisdictional games on behalf of its 39-member lotteries.³ Each member lottery, while offering games facilitated by MUSL, maintains its independent statutory authority over areas such as ticket sales, retailer oversight, prize payments, income beneficiaries, and other duties. MUSL games sold in Minnesota include Lotto America, Mega Millions, and Powerball.⁴



¹ *Laws of Minnesota* 1988, chapter 690, art. 1; *Laws of Minnesota* 1989, chapter 334, art. 3; and *Minnesota Constitution*, art. XIII, sec. 5.

² *Laws of Minnesota* 1990, chapter 610, art. 1, secs. 54 and 55; *Laws of Minnesota* 1998, chapter 342; *Laws of Minnesota* 2023, chapter 67, art. 1; and *Minnesota Constitution*, art XI, sec. 14.

³ The Minnesota State Lottery offers multistate games, such as Mega Millions and Powerball, through its membership with MUSL. A list of MUSL’s member states and games can be found on its website, <https://MUSL.com>.

⁴ A cross-selling agreement between MUSL and the Mega Millions consortium allows Minnesota and other MUSL members to sell and participate in the Mega Millions lottery.

The Lottery generates revenue through the sale of lotto and scratch games. State statutes, including those outlining prize payouts, revenue distribution, and independent information technology management, govern its operations.⁵ The Lottery operates without General Fund appropriations, relying on the revenue it generates through ticket sales to fund its activities.

According to its Fiscal Year 2023 Annual Report, the Lottery contributed \$105.7 million to the state's General Fund, deposited \$88.9 million in Minnesota's Environment and Natural Resources Trust Fund, and paid \$1.5 million toward responsible gambling programs.⁶ Additional revenue was allocated to fund lottery prize payouts (\$488 million in Fiscal Year 2023), commissions and incentive programs for retailers (\$51.9 million in Fiscal Year 2023), and general operations (approximately \$27.5 million in Fiscal Year 2023).⁷

While the Lottery functions as a state government agency, state statutes exclude it from the scope of Minnesota Information Technology Service's (MNIT's) technical management, policies, and oversight.⁸ Therefore, the Lottery must manage and maintain its own information technology operating environment and systems, including technology governance, contracting, procurement, and staffing.

2016 Audit Findings

We last audited the Lottery in 2016.⁹ That report contained nine findings. As part of this audit, we reviewed most of the prior audit findings and determined whether the Lottery had resolved them. Exhibit 1 shows the 2016 findings and our conclusions regarding their current status.

⁵ *Minnesota Statutes* 2024, 349A.08, stipulates terms of prize payouts; *Minnesota Statutes* 2024, 349A.10, defines how the Lottery should deposit revenues; and *Minnesota Statutes* 2024, 16E.016 (d), excludes the Lottery from the responsibility of Minnesota Information Technology Services and its chief information officer.

⁶ Minnesota State Lottery, *FY23 Annual Report* (Roseville, December 2023), <https://mnlottery-craft-assets-prod.s3.us-gov-west-1.amazonaws.com/Annual-Report/FY23-Annual-Report.pdf>, accessed March 2024.

⁷ *Ibid.*

⁸ *Minnesota Statutes* 2024, 16E.016 (d).

⁹ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016).

Exhibit 1

Status of Findings from OLA’s 2016 Audit of the Minnesota State Lottery’s Internal Controls, Compliance, and Information Technology

2016 Finding Statement	2024 Resolution Status	Discussed on Page Number
Finding 1: The Minnesota State Lottery did not have sufficient formal, documented policies and procedures for all information technology control areas.	Resolved	36
Finding 2: The Minnesota State Lottery did not always have sufficient evidence of the review and approval of changes made to its computer systems.	Resolved	40
Finding 3: The Minnesota State Lottery did not have an adequate plan to recover its information technology operations in the event of a disaster.	Partially Resolved	42
Finding 4: The Minnesota State Lottery did not periodically ensure it appropriately limited people’s access to its information systems and physical facilities.	Partially Resolved	36
	Resolved	29
Finding 5: The Minnesota State Lottery’s information systems did not require complex passwords for users to log onto the Lottery’s systems.	Resolved	39
Finding 6: The Minnesota State Lottery did not document a formal, organization-wide plan to respond to security incidents.	Partially Resolved	42
Finding 7: The Minnesota State Lottery did not adequately limit employee access to retailers’ not public information.	Not Reviewed	N/A
Finding 8: The Minnesota State Lottery did not fingerprint and conduct all required background checks for its temporary employees.	Resolved	33
Finding 9: The Minnesota State Lottery did not verify whether retailer owners and partners were Lottery employees or family members living in the employees’ households.	Resolved	21

Source: Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016).

Audit Scope, Objectives, Methodology, and Criteria

We conducted this audit to determine whether the Lottery had adequate internal controls; complied with significant legal requirements; had appropriate security administration procedures to protect the confidentiality, integrity, and availability of systems and data; and resolved prior audit findings.¹⁰ The audit scope included gaming technology, retailers, scratch games, physical security, employee background checks, information technology controls review, and Lottery management. The period under examination went from July 1, 2021, through December 31, 2023. We examined physical security and information technology controls as of the time of our audit.

¹⁰ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016).

Gaming Technology

This part of the audit focused on understanding controls related to key gaming systems and the Multi-State Lottery Association's rules. We designed our work to address the following question:

- Did the Lottery have adequate internal controls to protect the confidentiality, integrity, and availability of key gaming systems?

To gain an understanding of the Lottery's internal controls related to its gaming systems, we reviewed documentation related to the Multi-State Lottery Association's rules and interviewed Lottery staff.

Retailers

This part of the audit focused on the retailers who contract with the Lottery to sell lottery tickets to the public. We designed our work to address the following questions:

- Were the Lottery's internal controls adequate to ensure it complied with legal requirements?
- Did the Lottery comply with legal requirements?
- Did the Lottery resolve the prior audit finding regarding retailer owner eligibility?¹¹

To gain an understanding of the Lottery's internal controls and compliance requirements related to retailers, we interviewed Lottery staff and reviewed relevant policies. Additionally, we:

- Reviewed employee access rights to retailer background check data, tax compliance check data, and commission rate data in the Lottery's central gaming system for all employees.
- Inspected the Lottery's controls over retailer owner eligibility.
- Reviewed the Lottery's retailer application templates and retailer contract templates for inclusion of eligibility and compliance requirements.
- Analyzed changes made to commission rates in the Lottery's central gaming system.
- Tested eligibility and contracts for a random sample of retailers.

¹¹ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 20.

Scratch Games

This part of the audit focused on the scratch games the Lottery designs and supplies to retailers to sell to the public. We designed our work to address the following questions:

- Were the Lottery's internal controls adequate to ensure it complied with legal requirements?
- Did the Lottery comply with legal requirements?

To gain an understanding of the Lottery's internal controls and compliance requirements related to scratch games, we interviewed Lottery staff and reviewed relevant policies. We also reviewed employee access rights to scratch game ticket inventory status data in the Lottery's central gaming system for all employees. Finally, we analyzed scratch game ticket inventory status changes in the Lottery's central gaming system for a random sample of scratch games. Additionally, we:

- Tested the accuracy of the initial ticket inventory statuses and ticket counts in the Lottery's central gaming system for a random sample of scratch games.
- Tested the odds of winning for a random sample of scratch games.
- Tested the appropriateness of amounts charged to retailers for a random sample of instances of lost or stolen tickets.
- Tested the accuracy of the Lottery's central gaming system calculation of amounts charged to retailers for lost or stolen tickets for a random sample of scratch games.

Physical Security

This part of the audit focused on physical security controls present within the Lottery's Roseville headquarters. We designed our work to address the following questions:

- Did the Lottery have adequate physical security controls to safeguard its staff, technical infrastructure, and the integrity of its business processes?
- Did the Lottery resolve the prior audit finding regarding appropriately limiting people's access to its physical facilities?¹²

To answer these questions, we performed a walkthrough of the Lottery's Roseville facility to identify whether controls had been implemented in sensitive locations. We also reviewed physical access granted to staff and the policies and processes in place to monitor access.

¹² Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 16.

Employee Background Checks

This part of the audit focused on the Lottery's background check process for newly hired employees. We designed our work to address the following question:

- Did the Lottery resolve the prior audit finding regarding fingerprinting and background checks for temporary employees?¹³

To determine whether the Lottery resolved the prior audit finding, we interviewed Lottery staff and inspected background check documents.

Information Technology Controls Review

This part of the audit focused on the Lottery's information technology controls related to policies and procedures, access management, network security, change management, vulnerability and configuration management, incident response, and disaster recovery planning. We designed our work to address the following questions:

- Did the Lottery have adequate internal controls to protect the confidentiality, integrity, and availability of its information technology systems?
- Did the Lottery resolve the prior audit findings related to information technology policies and procedures, access management, change management, incident response, and disaster recovery?¹⁴

To answer these questions, we reviewed Lottery information technology and security policies, interviewed staff, observed system configurations, validated that key technical controls had been implemented, and tested the effectiveness of certain technical controls.

Lottery Management

This part of the audit focused on leadership at the Lottery. We designed our work to address the following questions:

- To what extent has the Lottery provided appropriate direction, training, and supervision to its staff?
- To what extent has Lottery senior management provided effective leadership of the agency?

To answer these questions, we conducted a survey of all permanent Lottery staff as of the end of Fiscal Year 2024.

¹³ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 19.

¹⁴ *Ibid.*, 13-17.

We conducted this performance audit in accordance with generally accepted government auditing standards.¹⁵ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.¹⁶ To identify legal compliance criteria for the activity we reviewed, we examined state laws, state administrative rules, and state contracts.

¹⁵ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards, 2018 Revision* (Washington, DC, Technical Update April 2021).

¹⁶ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.



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Gaming Technology

The Minnesota State Lottery (Lottery) operates under strict requirements to ensure fair play and public confidence. Central to these requirements is compliance with the Multi-State Lottery Association's (MUSL's) rules, which describe the controls and systems that the Lottery must have in place.

MUSL establishes the requirements for controlling cross-jurisdictional risk associated with participating in a multijurisdictional game.¹⁷ MUSL rules require that each state use a central gaming system and an internal control system. The rules also require that each state implement physical and logical controls to protect against unauthorized access, tampering, outages, or other events that may affect the security or integrity of an MUSL game. MUSL's rules incorporate lottery-specific safeguards and largely align with established security standards and best practices.¹⁸ By virtue of following the same processes within the central gaming system and the internal control system, the Lottery applies some MUSL controls to its non-MUSL lotto games: Gopher 5, North 5, and Pick 3.

Gaming Systems

The Lottery depends heavily on specialized gaming technology systems to conduct its operations. To support these systems, the Lottery contracts with external gaming technology providers.

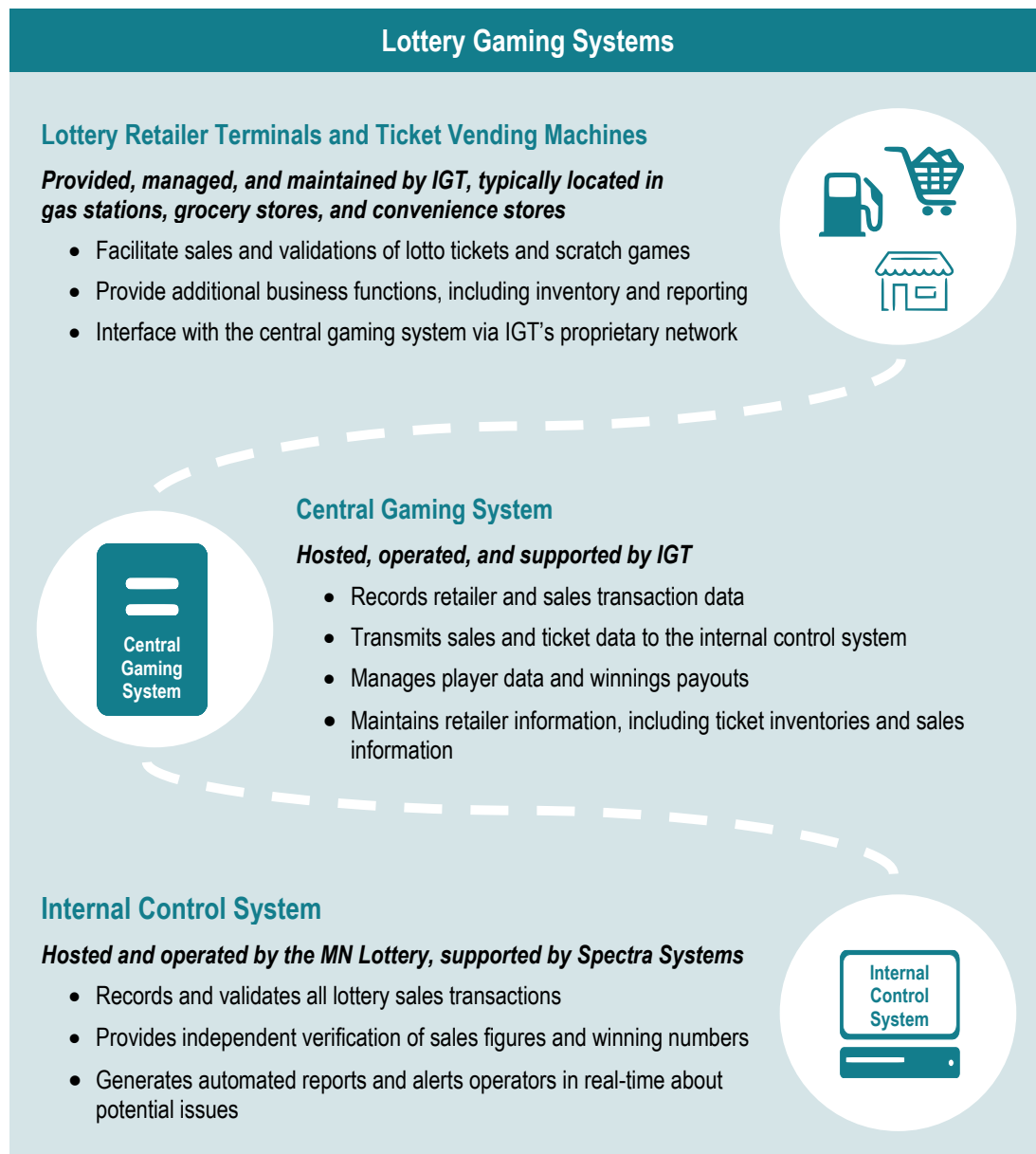
The Lottery's central gaming system serves as the technical backbone of the Lottery. The central gaming system facilitates and records all Lottery sales transactions, manages player data and winnings payouts, and maintains ticket inventories and retailer data. The Lottery contracts with a third-party vendor, International Game Technology, PLC (IGT), to run the central gaming system. IGT is responsible for all aspects of operating, supporting, and maintaining the central gaming system. IGT also provides and supports the Lottery terminals at retailer locations and related equipment (such as ticket vending machines).

The internal control system records and validates all lottery sales transactions against game rules in real time, detecting and flagging any irregularities. The internal control system helps prevent fraudulent activities by providing independent verification of sales figures and winning numbers. Additionally, the system generates automated reports and alerts operators in real-time about potential issues. While the Lottery hosts the internal control system servers internally and Lottery employees operate the system, it contracts with a third-party vendor, Spectra Systems, for maintenance and support.

¹⁷ Multi-State Lottery Association, Security and Integrity Committee, *MUSL Rule 2 and Addendum* (Rule 2 amended May 19, 2022; Addendum adopted June 5, 2013, and amended October 28, 2019).

¹⁸ MUSL rules largely align with established information security standards like ISO/IEC 27001 and U.S. National Institute of Standards and Technology, Special Publication 800-53, Rev. 5.

MUSL’s auditors perform a compliance review of each member lottery’s technical infrastructure, central gaming system, and internal control system every two years.¹⁹ The Lottery’s last MUSL compliance review occurred in 2023, and the final report did not contain any open issues.



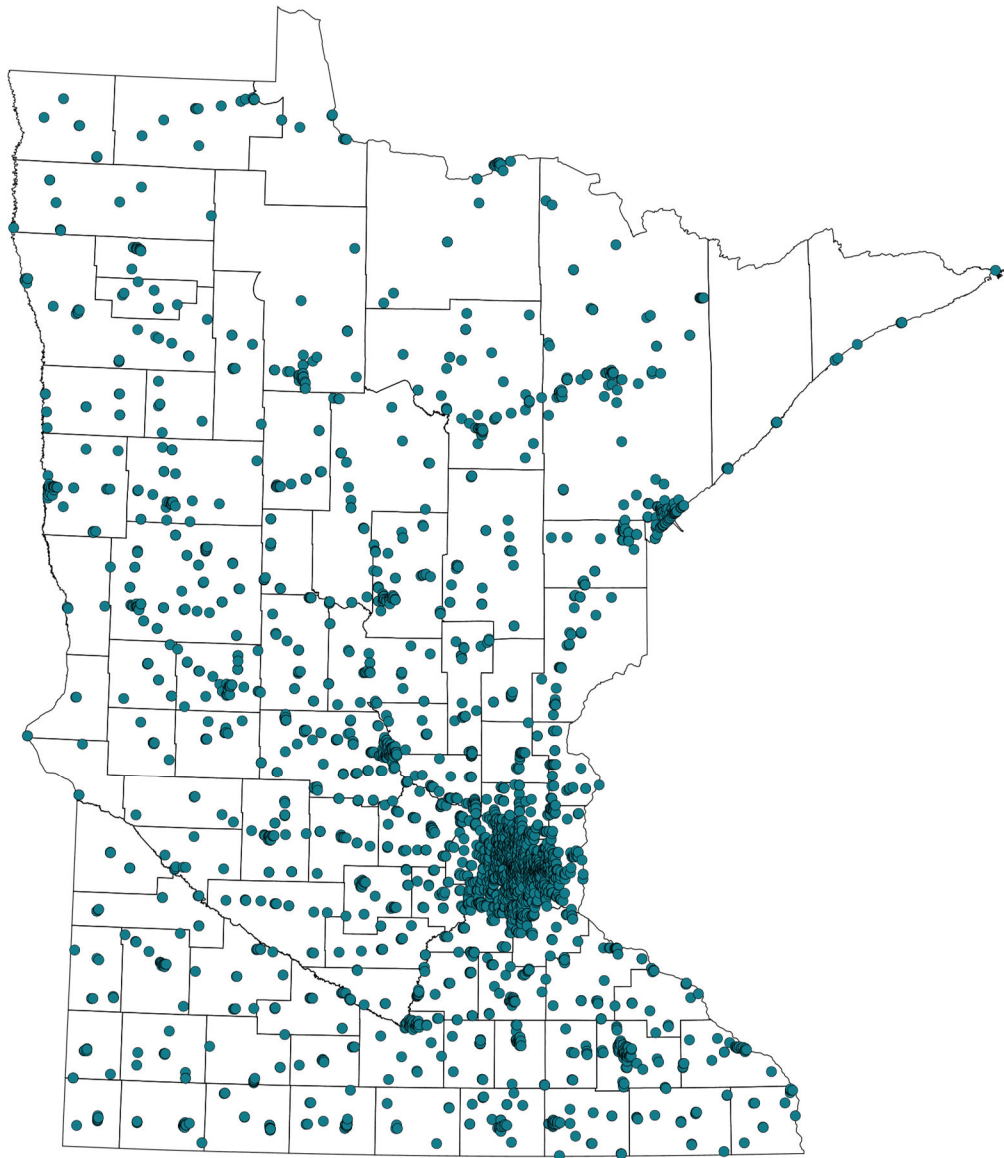
¹⁹ Multi-State Lottery Association, Security and Integrity Committee, *MUSL Rule 2 and Addendum*, Rule 2.16.

Retailers

The Minnesota State Lottery (Lottery) contracts with retailers throughout the state to sell lottery tickets to the public. Retailer types include independent retailers, chain headquarters, and chain subordinates. Chain headquarters have one or more associated chain subordinates with the same ownership but different operating locations.

During the scope of the audit, the Lottery worked with 3,576 retailers: 1,759 independent retailers, 112 chain headquarters, and 1,705 chain subordinates. Each chain headquarters had between 1 and 265 associated chain subordinates.

Minnesota State Lottery Retailer Locations



Source: Office of the Legislative Auditor, generated from Lottery retailer data.

Contracting Process

Minnesota rules require persons interested in being lottery retailers to apply following the Lottery's process.²⁰ This process includes completing an application, passing three checks (criminal background check, tax compliance check, and retailer owner eligibility check), and signing a contract. State law establishes that retailer contracts are valid for one year, and retailers must reapply using the same process each year.²¹ The Lottery contracts with all independent retailers. For chains, the Lottery typically contracts with the chain headquarters only.

Applications

The Lottery uses application templates, which vary slightly based on whether the retailer is an independent retailer or a chain. The application templates list the general requirements outlined in Exhibit 2. The applicant must state whether or not they meet each requirement and self-attest that the information provided in the application is complete and accurate.

Exhibit 2 Retailer Eligibility Requirements

General Requirements	
<ul style="list-style-type: none"> • Retailers must be at least 18 years old. • Retailers must not be in business solely to sell lottery tickets. • Retailers may not owe \$500 or more in delinquent taxes. • Retailers may not have been convicted within the previous five years of a felony or gross misdemeanor, any crime involving fraud or misrepresentation, or a gambling-related offense.^a 	<ul style="list-style-type: none"> • Retailers may not be an immediate family member, residing in the same household, as the Lottery director or any Lottery employee. • Retailers may not be a currency exchange. • Retailers must be residents of Minnesota; or corporations, partnerships, unincorporated businesses, or other entities authorized to conduct business in Minnesota.
Requirements Subject to the Lottery's Judgment	
<ul style="list-style-type: none"> • Retailers must have the financial stability and responsibility to act as a lottery retailer. 	<ul style="list-style-type: none"> • Retailers must not adversely affect the public health, welfare, and safety, or endanger the security and integrity of the Lottery.

^a This requirement applies to individuals within organizations, firms, partnerships, or corporations who are officers, directors, or shareholders that own more than 5 percent of the business or corporation's stock.

Source: Office of the Legislative Auditor, based on analysis of *Minnesota Statutes* 2024, 349A.06, subd. 2; and 349A.11, subd. 1(2); and *Minnesota Rules*, 7856.2020, <https://www.revisor.mn.gov/rules/7856.2020/>, accessed January 2024.

²⁰ *Minnesota Rules*, 7856.2010, subp. 1, <https://www.revisor.mn.gov/rules/7856.2010/>, accessed January 2024.

²¹ *Minnesota Statutes* 2024, 349A.06, subd. 1.

For a random sample of 40 retailers, we tested all applications submitted during the scope of the audit for completeness, for use of the appropriate application template, and for eligibility based on the information provided by the retailer. We found no issues.

Criminal Background Checks and Tax Compliance Checks

State law prohibits the Lottery from contracting with retailers who have been “convicted within the previous five years of a felony or gross misdemeanor, any crime involving fraud or misrepresentation, or a gambling-related offense,” including convictions for officers, directors, and shareholders owning more than 5 percent of the business or corporation’s stock.²² State law permits the Lottery to request background checks on retailer applicants through the Minnesota Department of Public Safety (DPS), but does not require the Lottery to use that or any other process to verify that retailers have not been convicted of disqualifying crimes.²³

To verify that retailers have not been convicted of disqualifying crimes, the Lottery obtains criminal background check results for all individuals listed on a retailer’s application.²⁴ Prior to 2023, the Lottery sent background check requests to DPS. DPS performed the criminal background checks using the department’s Bureau of Criminal Apprehension records database and the Federal Bureau of Investigation’s database.

FINDING 1

Since early 2023, the Minnesota State Lottery has not verified that retailers have not been convicted of disqualifying crimes.

The Lottery told us that in February or March of 2023, DPS identified that the Lottery did not obtain consent from the individuals listed on the retailer application to allow DPS to perform the criminal background checks and provide the results to the Lottery. As a result, DPS stopped performing the background checks.

After DPS stopped performing the criminal background checks for lottery retailers, the Lottery did not change its process to require individuals to provide consent so that DPS could continue to perform the checks. The Lottery told us that some retailers, especially chains, list a large number of individuals on their applications, and the Lottery would need to obtain consent from thousands of individuals each year. Instead, the Lottery decided to perform its own criminal background checks using only a public state records search.

²² *Minnesota Statutes* 2024, 349A.06, subs. 2(a)(4) and 2(b).

²³ *Ibid.*, subd. 4. State law establishes similar prohibitions for prospective employees and requires the Lottery to perform or request DPS to perform background checks to identify disqualifying convictions. *Minnesota Statutes* 2024, 349A.02, subd. 6.

²⁴ The application requires retailers to list the name, home address, birth date, and social security number for all individuals owning more than 5 percent of the business; all directors and officers of the business; and, if the business is a sole proprietorship, the sole proprietor’s spouse.

Exhibit 3 shows the differences in the criminal background check processes used by DPS and the Lottery during the scope of the audit.

Exhibit 3
Differences in the criminal background check process for retailers.

Process Element	Prior to March 2023 (DPS)	Since March 2023 (Lottery)
Personal information used	<ul style="list-style-type: none"> • Name • Birth date • Social security number 	<ul style="list-style-type: none"> • Name • Birth date
Databases searched	<ul style="list-style-type: none"> • Minnesota criminal history records • Federal Bureau of Investigation national criminal history records 	<ul style="list-style-type: none"> • Public Minnesota criminal history records

Source: Office of the Legislative Auditor.

The Lottery told us that since the statute does not state otherwise, only convictions in Minnesota could be considered disqualifying for potential retailers. Based on this interpretation, the Lottery chose to search only Minnesota public state records to verify that retailers have not been convicted of disqualifying crimes in Minnesota.

We do not agree with the Lottery’s interpretation. The statute prohibits the Lottery from contracting with retailers who have been convicted of certain crimes, without regard to the location of the conviction. In the absence of an express limitation on the location of a disqualifying conviction, the statute applies to convictions in any location. As a result, a national criminal history background check must be conducted to ensure that an individual has not been convicted of any of the prohibited crimes and is eligible to be a lottery retailer.

The Lottery’s current criminal background check process obtains results from public Minnesota criminal history records using the individual’s name and birth date. The Lottery does not obtain results from not-public Minnesota records, national records, or records using an individual’s social security number. Since the Lottery does not obtain an individual’s full criminal history, the Lottery could contract with an individual who is prohibited from being a lottery retailer.

RECOMMENDATION

The Minnesota State Lottery should verify that retailers have not been convicted of disqualifying crimes.

Once the criminal background check is complete, Lottery security staff enter the results in the central gaming system. For a random sample of 40 retailers, we tested whether the Lottery obtained criminal background check results and whether the Lottery accurately recorded the results in the central gaming system; we also tested retailer eligibility based on the criminal background check results. We found no issues.

State law prohibits the Lottery from contracting with retailers who owe \$500 or more in delinquent taxes.²⁵ To comply with this requirement, the Lottery obtains tax compliance check results for the business listed on a retailer's application from the Minnesota Department of Revenue (DOR). DOR determines whether the business is registered with the department and whether the business owes delinquent taxes, and provides the results to the Lottery. Lottery contracting staff enter the results in the central gaming system.

For a random sample of 40 retailers, we tested whether the Lottery requested tax compliance checks from DOR and whether the Lottery accurately recorded the results in the central gaming system; we also tested retailer eligibility based on the tax compliance check results. We found no issues.

The Lottery limits the ability to modify the status or results of criminal background checks and tax compliance checks in the central gaming system to only those employees who need the access to perform their job duties. The central gaming system logs which user modified the retailer data and when the modification occurred. We reviewed the reasonableness of the Lottery employees with the ability to modify the status or results of these checks as of May 2024, and we found no issues.

Retailer Owner Eligibility Checks

The Lottery has implemented internal controls to prevent ineligible individuals—namely Lottery employees and certain members of their families—from becoming retailer owners. Lottery security staff maintain a database of the names, home addresses, and social security numbers for those individuals that state law restricts from operating as retailers.²⁶ When the Lottery adds a new retailer owner to the central gaming system, the system compares the owner's information to the database and will not allow the retailer owner to be added if there is a match.

As part of this audit, we gained an understanding of the Lottery's process to maintain the database, we confirmed the database was in use, and we observed that the central gaming system prevented a known ineligible individual from being added as a retailer owner. In addition, we determined that the Lottery resolved the prior audit finding related to verification of retailer owners and partners.²⁷

²⁵ *Minnesota Statutes* 2024, 349A.06, subd. 2(a)(3).

²⁶ *Minnesota Statutes* 2024, 349A.11, subd. 1(2), prohibits the Lottery's executive director, Lottery employees, and their immediate family members residing in the same household from having a financial interest in any lottery retailer.

²⁷ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 20. In 2016, our audit found that the Lottery did not verify whether retailer owners and partners were Lottery employees or family members living in an employee's household.

Contracts

Once the Lottery has reviewed a retailer's application and conducted the necessary checks, the Lottery ensures the applicant has provided a signed contract to the Lottery. The Lottery uses contract templates for retailers, which contain the required retailer contract conditions established in Minnesota rules and outlined in Exhibit 4.

Exhibit 4

Retailer Contract Conditions Required by Minnesota Rules

Lottery retailers agree to:

- Comply with the law and any Lottery instructions.
- Conduct business as a lottery retailer only under a contract.
- Sell lottery tickets to the public as an independent contractor.
- Sell lottery tickets only for specified payment methods.
- Sell lottery tickets free of purchase restrictions or conditions.
- Validate and pay winning lottery tickets valued less than \$600.
- Be responsible for lottery ticket sales proceeds until paid to the Lottery.
- Be responsible for lost, stolen, or missing lottery tickets.
- Be responsible for unsold lottery tickets until returned to the Lottery.
- Maintain current, accurate, and complete accounting records to support lottery operations and transactions.
- Make their accounting records available for inspection upon the Lottery's request.
- Be responsible for any liability arising in connection with conducting the sale of lottery tickets.

Source: Office of the Legislative Auditor, based on analysis of *Minnesota Rules*, 7856.4010, <https://www.revisor.mn.gov/rules/7856.4010/>, accessed January 2024.

For a random sample of 40 retailers, we tested all contracts in effect during the scope of the audit to determine if the Lottery used the appropriate contract template, and if the contracts were signed by the Lottery's executive director and an appropriate retailer representative. We found no issues.

State law prohibits persons other than retailers from selling lottery tickets, and establishes that retailers must have a signed contract with the Lottery; these contracts are valid for one year.²⁸ Minnesota rules further restrict retailers from conducting business as a lottery retailer unless contracts are renewed timely.²⁹

²⁸ *Minnesota Statutes* 2024, 349A.12, subd. 3(a); and 349A.06, subd. 1.

²⁹ *Minnesota Rules*, 7856.5010; and 7856.4010, subp. 14, <https://www.revisor.mn.gov/rules/7856/>, accessed January 2024.

The Lottery sends renewal applications and contracts to retailers 45 days prior to the retailer's contract expiration date. We tested the timeliness of contract renewals for a random sample of 40 retailers by examining all of their contracts in place during the scope of the audit.

FINDING 2

The Minnesota State Lottery permitted retailers with expired contracts to continue selling lottery tickets, in violation of requirements in state law.

We found that 8 of the 40 retailers we tested did not renew one or more contracts before their existing contract expired and continued operating as a lottery retailer after the contract expiration date.³⁰ All eight retailers ultimately submitted renewal applications and contracts between 13 and 71 days after their contract expired.

The Lottery told us that late renewals occurred due to retailer errors. Often, retailers claim to have missed the renewal notice, or claim to have sent renewal paperwork to the Lottery but the Lottery has no record of receiving it. The Lottery also told us that each week, contracting staff provide a report of upcoming and late retailer renewals to sales staff who then contact the retailers to inquire about their late contract renewal. The Lottery provided evidence that the sales staff contacted only four of the eight retailers we identified in our testing. These contacts occurred between 1 day before and 44 days after the contracts expired.

Though the Lottery had a process for contract renewals, it did not have sufficient controls in place to ensure retailers renewed their contracts before their existing contracts expired. As a result, the Lottery had permitted retailers who did not have a contract—and who may no longer comply with eligibility requirements—to sell lottery tickets.

RECOMMENDATIONS

- **The Minnesota State Lottery should not permit retailers with expired contracts to sell lottery tickets.**
 - **The Minnesota State Lottery should implement controls to ensure retailer contracts are renewed prior to their expiration date.**
-

³⁰ Seven retailers had one contract not renewed timely, and one retailer had two contracts not renewed timely.

Payment Process

Retailer responsibilities include collecting lottery ticket sales revenue and paying winning lottery ticket cash prizes valued at less than \$600. State law permits the Lottery to set commission rates for tickets sold and prizes paid by retailers.³¹ Currently, retailers earn 6.0 percent of each scratch ticket sold, 5.5 percent of each lotto ticket sold, and 1.5 percent of the prize paid for each winning scratch or lotto ticket.³² The Lottery collects lottery ticket sales revenue, less commissions and other adjustments, from retailers on a weekly basis.

The central gaming system calculates retailer commission amounts based on commission rates entered into the system, and logs which user modified these rates and when the modification occurred. We confirmed that system administrators, who are not Lottery employees, were the only users with the ability to modify the commission rates as of May 2024.³³ We also confirmed that the commission rates in the central gaming system complied with those in Minnesota rules.

³¹ *Minnesota Statutes* 2024, 349A.05; and 349A.06, subd. 6, permit the Lottery to adopt administrative rules governing lottery operations, including retailer compensation.

³² *Minnesota Rules*, 7856.4030, subp. 1, <https://www.revisor.mn.gov/rules/7856.4030/>, accessed January 2024. The Lottery last updated the retailer commission rates in 2020.

³³ System administrators are employees of International Game Technology, PLC (IGT). As previously mentioned, the Lottery contracts with IGT to run the central gaming system.

Scratch Games

Throughout the scope of the audit, the Minnesota State Lottery (Lottery) had 156 active scratch games priced between \$1 and \$50. Each month, the Lottery typically launches four new scratch games and ends four active scratch games. The Lottery requires retailers to offer for sale, at a minimum, a set of 19 specified scratch games. As of December 31, 2023, the Lottery had 42 active scratch games.

The Lottery relies on its central gaming system to track scratch game tickets, including a ticket's physical location and inventory status. The Lottery limits the ability to modify the inventory status of scratch game tickets to only those employees who need the access to perform their job duties. We reviewed the reasonableness of the Lottery employees with the ability to modify the inventory status as of May 2024, and we found no issues.

Ticket Production Process

The Lottery develops game rules and game specifications for each of its planned scratch games. Game rules contain information such as ticket price, prize claim procedures, and number and value of prizes. Game specifications contain information such as number of tickets ordered, number and value of prizes, and odds of winning.

The Lottery contracts with printing vendors to produce scratch game tickets and provides the game specifications to the selected vendor. The vendor produces scratch game tickets with a specified number of tickets in each pack, and produces more than the amount of tickets ordered, for security purposes. After all tickets are printed, the vendor identifies and voids certain packs so that the remaining packs meet the game specifications. By overprinting tickets and later voiding specified packs, the vendor prevents any one individual from knowing which packs contain winning tickets. The voided packs, which are not valid lottery tickets, remain with the vendor. The vendor ships the remaining packs, which are valid lottery tickets, to the Lottery.

Before a scratch game is launched, the Lottery verifies that the vendor-produced tickets meet the Lottery's game specifications. These specifications include acceptable "variances," such as the difference between the number of ordered tickets and the number of shipped tickets, or the difference between the designed odds of winning and the actual odds of winning for non-guaranteed prizes.

For a random sample of 25 of 156 scratch games active during the scope of the audit, we tested whether the printing vendor produced tickets that met game specifications within the Lottery's established variances, and whether the amount of shipped tickets and voided tickets were accurate based on the purchase order and vendor shipping documents. We found no issues.

Once Lottery staff verify that a game includes the correct game specifications, they load the game files, which a printing vendor provides to the Lottery, into the central gaming system and the internal control system. The game files contain the initial inventory status of each scratch game ticket, which indicates whether the Lottery received the

ticket or whether the vendor voided and held the ticket. For a random sample of 25 of 156 scratch games active during the scope of the audit, we tested the accuracy of the initial inventory status for all scratch game tickets. We found no issues.

State law requires the Lottery to include the approximate odds of winning each prize in its advertising and marketing materials.³⁴ The Lottery includes the overall odds of winning a prize on the back of each scratch game ticket, and includes the odds of winning each prize tier in the Lottery's game rules and on the Lottery's website. For a random sample of 25 of 156 scratch games active during the scope of the audit, we tested whether the Lottery accurately stated the odds of winning on the scratch game tickets, in the Lottery's game rules, and on the Lottery's website. We found no issues.

Active Game Process

The Lottery relies on the central gaming system to determine how many scratch game packs the Lottery should send to each retailer. The system creates the initial sales orders based on sales history for a similar scratch game, and creates subsequent sales orders based on sales projections. Lottery staff can modify sales orders to more closely represent the retailer's expected sales. Retailers receive the initial shipments from the Lottery prior to the scratch game launch date, so that the tickets are available for sale when the game launches. Retailers confirm receipt of the shipment when they scan a pack in the shipment at their terminal, which interfaces with the central gaming system.

Returned Scratch Game Tickets

Periodically, retailers wish to return unsold scratch game tickets to the Lottery, for example, if a game is not selling well.³⁵ The retailer initiates a return at their terminal and scans the barcodes for the range of tickets they are returning to the Lottery. The central gaming system updates the ticket inventory status for those ticket ranges to indicate they will be returned to the Lottery. The central gaming system creates a financial transaction so that the retailer is not charged for those tickets.

Once the Lottery receives the return, Lottery warehouse staff scan the return barcode generated by the retailer's terminal, and scan the ticket barcodes for those tickets they received. The central gaming system compares the tickets scanned by Lottery warehouse staff to those scanned by the retailer. If the tickets do not match, Lottery customer support staff work with the retailer to resolve the discrepancy and update the ticket inventory status depending on the resolution. If the tickets match, the central gaming system updates the ticket inventory status depending on whether the tickets are in a full or partial pack. Full packs are available for fulfilling future sales orders if the game is still active. Partial packs are stored in the Lottery's warehouse until the game is ended and retailers return all unsold tickets to the Lottery. After the Lottery verifies ticket inventory, it contracts with a vendor to destroy the tickets.

³⁴ *Minnesota Statutes* 2024, 349A.09, subd. 1.

³⁵ When the Lottery announces a scratch game is no longer active, the Lottery requires retailers to return unsold scratch game tickets to the Lottery.

Lost or Stolen Scratch Game Tickets

Retailers alert the Lottery when scratch game tickets are lost or stolen and identify the range of tickets involved in the incident. Lottery customer support staff log the incident and details in the Lottery's case management system, and update the ticket inventory status for the affected tickets to indicate they are potentially lost or stolen.

Lottery security staff investigate the incident to determine the correct ticket inventory status. At the investigation's conclusion, Lottery customer support staff update the ticket inventory status for the affected ticket range to indicate whether the retailer will be charged for the face value of the tickets.

Minnesota rules state that scratch game tickets "are considered to have been purchased by the retailer, unless returned within the time specified. The retailer is responsible for lost, stolen, or missing tickets."³⁶ Minnesota rules also state that scratch game tickets "that are not accounted for by the retailer on the final settlement date, regardless of reason, shall be deemed to have been sold to the retailer."³⁷ Retailers agree to these conditions upon signing retailer contracts.³⁸

FINDING 3

The Minnesota State Lottery did not comply with Minnesota rules when it declined to charge retailers for lost or stolen scratch game tickets.

We tested a random sample of 25 of 156 scratch games active during the scope of the audit and identified that 755 retailers reported a total of 39,667 lost or stolen tickets. After the Lottery concluded its investigations, it declined to charge 387 retailers for 22,915 of these tickets.

For a random sample of 40 instances where the Lottery declined to charge retailers for lost or stolen tickets during the scope of the audit, we reviewed the Lottery's case management system and investigation documents to determine whether an investigation occurred and whether the Lottery declined to charge the retailer for lost or stolen tickets or for unused tickets returned to the Lottery. We found that the Lottery investigated all 40 instances we reviewed and declined to charge retailers in 37 of 40 instances for a total of 737 tickets that it determined to be lost or stolen.³⁹

The Lottery told us that Minnesota rules do not require it to charge retailers for lost or stolen tickets, and that it has discretion to charge retailers based on a retailer's level of responsibility.

³⁶ *Minnesota Rules*, 7856.7040, <https://www.revisor.mn.gov/rules/7856.7040/>, accessed January 2024.

³⁷ *Minnesota Rules*, 7856.7050, <https://www.revisor.mn.gov/rules/7856.7050/>, accessed January 2024.

³⁸ *Minnesota Rules*, 7856.4010, subps. 5-6, <https://www.revisor.mn.gov/rules/7856.4010/>, accessed January 2024, identifies these as required retailer contract conditions.

³⁹ In the other three instances, the Lottery declined to charge retailers for tickets returned to the Lottery.

We do not agree with the Lottery's interpretation. Minnesota rules clearly state that retailers are responsible for lost or stolen tickets and do not give the Lottery discretion to decline to charge retailers for these tickets.⁴⁰ Moreover, agencies do not have authority to disregard or selectively enforce their own rules, once adopted.⁴¹ Even if the rules did authorize the Lottery to determine whether to charge a retailer for lost or stolen tickets, the Lottery did not have a final written policy or procedure regarding such determinations until after we began the audit.

Minnesota statutes grant the Lottery broad rulemaking authority.⁴² If the Lottery wants to decline to charge retailers for lost or stolen tickets in certain cases, it should propose changes to the Minnesota rules so that the rules reflect the Lottery's policies and procedures. Until such changes are made, however, the rules do not grant the Lottery this discretion.

When the Lottery declines to charge retailers for lost or stolen tickets, the Lottery is not complying with Minnesota rules. Such noncompliance creates the potential for at least two problematic consequences. First, the Lottery could inconsistently charge retailers for lost or stolen tickets, resulting in possible favoritism or unfair practices across retailers. Second, because the Lottery is not complying with its adopted rules, the policies and procedures are not clear to the public. As a result, an individual could be discouraged from applying to become a lottery retailer if they thought they would be responsible for lost or stolen tickets.

RECOMMENDATION

The Minnesota State Lottery should comply with Minnesota rules and charge retailers for lost or stolen scratch game tickets.

The central gaming system calculates how much a retailer is charged for scratch game tickets based on each ticket's inventory status and face value. For a random sample of 25 of 156 scratch games active during the scope of the audit, we recalculated the central gaming system amount for tickets the Lottery determined to be lost or stolen to verify that the system accurately calculated the amount. We found no issues.

The central gaming system logs which user modified the inventory status of scratch game tickets and when the modification occurred. For a random sample of 25 of 156 scratch games active during the scope of the audit, we reviewed the appropriateness of inventory status modifications made by Lottery employees that resulted in financial transactions for retailer settlements, returned scratch game tickets, and lost or stolen scratch game tickets. We found no issues.

⁴⁰ *Minnesota Rules*, 7856.4010, subps. 5-6; 7856.7040; and 7856.7050, <https://www.revisor.mn.gov/rules/7856/>, accessed January 2024.

⁴¹ *Lawful Gambling License of Eagles Aerie 2341, Detroit Lakes, Minn. License No. 00548 v. State Lawful Gambling Control Bd.*, 533 N.W.2d 874, 876 (Minn. Ct. App. 1995).

⁴² *Minnesota Statutes* 2024, 349A.05.

Physical Security

Physical security controls help to safeguard facilities, employees, operations, and assets (such as computer systems) from potential threats. By implementing controls, such as access restrictions, surveillance, fire prevention, and secure building design, organizations can enhance overall security, safeguard personnel, and mitigate risks to information systems and equipment.

Although the Minnesota State Lottery (Lottery) distributes scratch games from one of its warehouses, it sells tickets for lotto and scratch games exclusively through its network of authorized retail locations across the state and not at its headquarters or regional offices. Further, and importantly, the Lottery does not pay out winnings in currency at its headquarters or regional offices. Despite this information being readily available on the Lottery's website, there is a risk of individuals targeting Lottery facilities under the misconception that large sums of currency are stored on-site.

Physical and Environmental Security Controls

The Multi-State Lottery Association (MUSL) requires its members to have key physical security and environmental controls, which align with best practices for securing data centers and other facilities. These controls include security measures like security guards, cameras, automatic locking doors, and other deterrents.⁴³ We performed a physical and environmental security review of the controls in place at the Lottery's Roseville headquarters. Our review found no significant issues with the Lottery's implementation of physical security and environmental controls, such as its security cameras, guards, and related deterrents, as well as fire suppression and backup power, at its Roseville headquarters.

Physical Access

The Lottery issues photo ID badges to all Lottery employees, which must always be displayed while at a Lottery facility.⁴⁴ These ID badges also serve as electronic keys, controlling access to various areas throughout the Lottery's facilities. As a follow-up to our 2016 audit, which found that "The Minnesota State Lottery did not periodically ensure it appropriately limited people's access to its...physical facilities," we reviewed access to the sensitive areas within the Lottery's headquarters.⁴⁵ We found that the Lottery appropriately granted access to individuals based on their job roles and responsibilities and has therefore resolved the prior audit finding regarding physical access to the facility.

⁴³ Multi-State Lottery Association, Security and Integrity Committee, *MUSL Rule 2 and Addendum* (Rule 2 amended May 19, 2022; Addendum adopted June 5, 2013, and amended October 28, 2019).

⁴⁴ Minnesota State Lottery, Physical Access and Security Policy, *Employee and Vendor Employee Responsibility*, effective September 21, 2022.

⁴⁵ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 16.

Physical Access Event Monitoring and Audit

The Lottery's physical access and security policy states that its security department employees are responsible for auditing unauthorized access and access attempts.⁴⁶ Staff are required to report any concerns to the security director.⁴⁷ Examples of such concerns include staff attempting to access restricted areas for which they have not been granted access, accessing the building outside of typical business hours, or attempting to access the building with stolen or disabled badges.

FINDING 4

The Minnesota State Lottery did not always audit and review unauthorized access and access attempts in accordance with its policy.

When we asked Lottery staff for documentation of their reviews of inappropriate access events, they were not able to provide evidence of a past audit of physical access or examples of the Lottery's processes for performing these reviews. Lottery staff demonstrated that they receive alert e-mails notifying them of certain access events, such as attempts to access the Lottery's computer room by staff without access. Lottery security staff told us that they may review security camera footage of these events. However, there is not a formal process for responding to these events.

We performed our own analysis of access events for March 2024 and identified a small number of potentially suspicious events, including an unauthorized individual attempting to access the Lottery's computer room. We provided these to the Lottery's security department for review.

Lottery staff told us that a previous employee had developed an access report for auditing purposes but that it lacked a method for reporting on only recent events, making it difficult to use. Changes in security department leadership and staff may have contributed to this issue, as the Lottery did not effectively transfer knowledge to newer staff regarding these processes and responsibilities.

If access events across the Lottery's facilities are not regularly reviewed, inappropriate activities might go undetected. This lack of monitoring could result in the misuse of access privileges, theft, or fraud.

RECOMMENDATIONS

- **The Minnesota State Lottery should develop and document its procedures for auditing and responding to physical security events.**
 - **The Minnesota State Lottery's security director should oversee regular audits of physical security events, as required by policy.**
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⁴⁶ Minnesota State Lottery, Physical Access and Security Policy, *Security Department Employee Responsibility*, effective September 21, 2022.

⁴⁷ *Ibid.*

Temporary Access Badges

When a Lottery employee misplaces or forgets their ID badge, the Lottery issues a temporary badge to the employee granting them building access appropriate for their role. Employees must return temporary badges at the end of their workday. The Lottery's internal procedures require the issuing staff person (an employee from the Lottery's security department or a contracted security guard) to record the issuance of a temporary badge in a log book, and to notify select e-mail groups when the badge is issued and again when the badge is returned.⁴⁸

Our review of building access logs for the month of March 2024 identified minimal use of temporary badges, but we saw that the Lottery used temporary badges for executive and security guard positions during the month. Because these specific temporary badges provide broad access throughout the Lottery's facility, we tested whether staff followed the Lottery's procedures for logging these badges. We found that staff had properly logged the temporary executive badge and sent the required e-mail notifications.

FINDING 5

Minnesota State Lottery third-party security guards did not follow documented procedures to record the issuance of a temporary security guard badge.

Access reports identify a temporary security guard badge being used at the Lottery's Roseville headquarters over a ten-day period in March 2024. This badge provided wide access to areas throughout the Lottery's building. When we inspected the Lottery's temporary badge records, we found that the security guards had recorded issuing the badge for only two of those ten days. Lottery staff were unable to locate e-mails noting that the temporary badge had been issued and returned for any of the ten days.

When asked about this issue, Lottery security staff believed that the badge was used by a new security guard who had not yet received their permanent badge and used the temporary badge as if it was their permanent badge. However, without accurate records of when a third-party security guard issues temporary badges, the risk of improper access or abuse of access increases.

RECOMMENDATION

The Minnesota State Lottery should ensure that its third-party security guards adhere to the Lottery's security policies and procedures for temporary badges.

⁴⁸ Minnesota State Lottery, *Roseville Temporary Badge Procedure*, effective November 8, 2022.



OLA

Employee Background Checks

State law prohibits the Minnesota State Lottery (Lottery) from hiring individuals who have been convicted of a felony or crime involving fraud or misrepresentation within five years of starting employment, or hiring anyone convicted of a gambling-related offense.⁴⁹ State law further requires the Lottery to conduct background checks and fingerprint all employees.⁵⁰

Prospective employees complete a form containing their personal information and consent to the release of their background check results to the Lottery. Additionally, prospective employees arrange to be fingerprinted by local law enforcement or the Minnesota Department of Public Safety's Bureau of Criminal Apprehension (BCA). The Lottery provides the prospective employee's personal information to BCA, which conducts two background checks:

- A BCA background check uses the individual's personal information to identify if they have a criminal history record in Minnesota.
- A Federal Bureau of Investigation background check uses the individual's fingerprints to identify if they have a criminal history record in another state.

To follow up on a prior audit finding, we reviewed the completed consent forms and background check results for all 19 temporary employees hired during the audit period. We determined that the Lottery resolved the prior audit finding related to employee background checks.⁵¹

⁴⁹ *Minnesota Statutes 2024*, 349A.02, subd. 6.

⁵⁰ *Ibid.*

⁵¹ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 19. In 2016, our audit found that the Lottery did not fingerprint and conduct all required background checks for its temporary employees.



OLA

Information Technology Controls Review

Information technology (IT) controls are vital for safeguarding the security, accuracy, and reliability of information systems. By establishing robust IT controls, organizations strengthen their overall IT governance and protect critical assets.

The Minnesota State Lottery (Lottery) is outside of the scope of the state's centralized information technology department, Minnesota Information Technology Services (MNIT).⁵² Because of this, the Lottery has its own Chief Information Officer (CIO) and IT staff. The Lottery must also develop and implement its own technical policies and procedures.

Information Technology Management and Structure

The Lottery's CIO oversees IT operations and manages an IT staff of approximately 20 individuals. Responsibilities of these staff include:

- Managing IT infrastructure, including virtual servers and network equipment.
- Developing, maintaining, and supporting business and financial applications.
- Supporting end-user workstations (including mobile devices).
- Monitoring environmental control systems.

The Lottery contracts with third parties for development, operation, and support of many of its key systems, including its gaming systems, public website, and mobile application.

The Lottery's Director of Security, Audit, and Compliance (security director) manages a staff of five to six individuals. These staff are responsible for:

- Conducting retailer criminal history checks.
- Managing building access and security systems.
- Reviewing and approving gaming system access requests.
- Overseeing Multi-State Lottery Association (MUSL) compliance and performing internal audits.
- Investigating potential theft or fraud.

⁵² *Minnesota Statutes* 2024, 16E.016 (d), excludes the Minnesota State Lottery from MNIT's responsibilities.

The CIO and security director positions have seen repeated turnover within the last five years.⁵³ This level of leadership instability can lead to inconsistencies or gaps in control implementation.

Information Technology Policies and Procedures

Our 2016 audit found that “The Minnesota State Lottery did not have sufficient formal, documented policies and procedures for all information technology control areas.”⁵⁴

As part of our 2024 audit, we obtained copies of the Lottery’s IT and security policies and procedures and used them as criteria for our testing. Since our 2016 audit, the Lottery has developed and implemented various IT policies and procedures. As a result, the Lottery has resolved the 2016 finding. However, in some areas we tested, we found noncompliance with the policies and procedures. In these cases, as we discuss further below, we provide recommendations for improvement.

System Access Management

System access management prevents unauthorized access to digital resources. By strictly managing system access, the Lottery can protect the integrity of its games and data.

Requests for system access go through an electronic workflow, which requires approvals by appropriate parties (including the Lottery’s IT and security groups). We tested user access to the central gaming system and the internal control system, and network account deactivation following employee separation from the Lottery. We found no issues.

Access Review

The Lottery’s Identity and Access Management policy states that Lottery management will perform an annual review of the levels of access granted to employees.⁵⁵

The policy also states that the IT department will conduct this review for device, service, and system accounts. The goal of this review is to ensure that each user’s system access matches the requirements of their job duties. If the need for system access has changed based on an employee’s job duties, Lottery management must request changes to that user’s access accordingly.

Our 2016 audit found that “The Minnesota State Lottery did not periodically ensure it appropriately limited people’s access to its information systems....”⁵⁶

⁵³ Personnel records show three different individuals in the CIO position and three different individuals in the security director position since 2019. During this period, the Lottery also had a Chief Information Security Officer. The Lottery’s operations director temporarily served as the interim CIO and security director while the agency filled the vacancies.

⁵⁴ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 13.

⁵⁵ Minnesota State Lottery, Identity and Access Management (IAM) Policy and Procedure, *Identity and Access Management Controls*, effective April 9, 2021.

⁵⁶ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 16.

FINDING 6 – PRIOR AUDIT FINDING PARTIALLY RESOLVED

The Minnesota State Lottery has not performed an annual review of all access granted to employees, as required by policy.

When we inquired about an annual review of access granted to employees, as required by the Lottery’s policy, the Lottery’s CIO told us that the Lottery had not conducted a full review of all system and network access within the last year. Rather, it performed a partial review of access, including the access granted to its gaming systems, but did not review all systems or network accounts. As a result, the Lottery has only partially resolved the prior audit finding regarding access to information systems.

Based on the Lottery’s policy, it is unclear who is responsible for initiating and leading this annual review or all of the systems that should be involved. The policy states that management, with assistance from the Chief Security Officer and Information Technology Department, should conduct the review of the “levels of access granted to employees.”⁵⁷ Turnover in these key positions may have had an impact on this process. Without a designated leader to initiate and coordinate the process through completion, it is less likely to happen.

When regular reviews of access do not occur, the risk increases of an employee or third-party retaining access after a change in responsibilities or separation. A thorough review of access rights, at least annually, ensures that individuals maintain only the necessary levels of access, thus helping to ensure that access to a system and data is properly limited. We discuss this risk further in the next section.

RECOMMENDATION

The Minnesota State Lottery should designate a director to lead an annual review of access assigned to all users—including access to each of the Lottery’s systems, and device, service, and system accounts.

Separation of Duties

Properly implemented separation of duties in IT ensures that no single individual has full administrative control over system business or procedural functions, as well as security and audit functions. The U.S. National Institute of Standards and Technology notes that “Separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of malevolent activity without collusion.”⁵⁸ For example, an IT administrator should not have access to modify sensitive data within a system and be able to clear logs or disable the security controls that protect the system.

⁵⁷ Minnesota State Lottery, Identity and Access Management (IAM) Policy and Procedure, *Identity and Access Management Controls*, effective April 9, 2021.

⁵⁸ U.S. National Institute of Standards and Technology (NIST), Special Publication 800-53, Rev. 5, *Security and Privacy Controls for Information Systems and Organizations*, sec. 3.1, September 2020, 36.

Separation of server administration and information security functions protects the integrity of lottery systems by ensuring that no one individual has administrative access to system servers and the infrastructure controls that help to protect them.

FINDING 7

The Minnesota State Lottery did not have adequate separation of duties among key information technology administrators.

Within the Lottery, a core set of IT administrators have wide-ranging privileged access throughout the Lottery's IT environment. Their rights include broad control over access management, system administration (including gaming and building security), information and network security, and monitoring functions. When we asked why these IT staff had such broad access, a Lottery system administrator mentioned that they had retained the access associated with their previous roles and responsibilities, even if the employees no longer needed access. The system administrator also said that they needed to fill in gaps and ensure tasks continued to be completed, despite turnover.

While separation of duties can be difficult in small agencies, the Lottery's IT department currently has approximately 20 staff members. This number of staff constitutes sufficient technical resources for the Lottery to separate duties among IT staff. The risk of malicious activity stemming from an insider or a compromised account increases when individuals have privileged access to multiple sensitive functions.

RECOMMENDATION

The Minnesota State Lottery should ensure separation of duties among its information technology staff to reduce its risk.

Password Policies

Password policies are a set of rules that can require employees to use strong passwords to access systems. These policies dictate password length, complexity, expiration, reuse, and account lockout rules. To protect sensitive information, the Lottery has established different password requirements within its Identity and Access Management Policy and Procedure for different user groups (for example, regular users, internal control system users as per MUSL rule, administrative users, system accounts, and shared accounts), aligning password strength with account privileges.⁵⁹

We compared the Lottery's password policies outlined in its Identity and Access Management policy with the password requirements implemented within and enforced on the Lottery's network.

⁵⁹ Multi-State Lottery Association, *MUSL Rule 2 and Addendum*, Rule 2.8; and Minnesota State Lottery, Identity and Access Management (IAM) Policy and Procedure, *Identity and Access Management Controls*, effective April 9, 2021.

Our 2016 audit found that “The Minnesota State Lottery’s information systems did not require complex passwords for users to log onto the Lottery’s systems.”⁶⁰ The password guidelines within the Lottery’s policy meet best practices and are sufficiently complex. Therefore, this finding is resolved. However, we found discrepancies in the implementation of the password requirements.

FINDING 8

The Minnesota State Lottery’s implemented password requirements do not comply with its policy.

Our testing found that the password length requirement that the Lottery implemented for regular users was one character shorter than the length required by the policy. We also found that the account lockout period (the amount of time a user account is locked after several failed login attempts) for all users was significantly shorter than that documented in the Lottery’s policy. Similarly, the Lottery did not implement stricter complexity requirements for administrative and system/service account passwords, despite documenting the stricter requirements within its policy. Finally, we noted that the Lottery had incorrectly configured passwords to not expire for one user account type.

Our testing of password policies exposed further discrepancies. For example, the Lottery only applied the password policy requirements for administrative accounts to *some* of the Lottery’s administrative user accounts. Further, the Lottery did not apply system account requirements to *any* accounts, and the Lottery incorrectly applied the policy for only *some* shared accounts.

In some cases, these discrepancies matched an old or previous version of the Lottery’s password policy, demonstrating that the IT staff did not make updates when the policy changed. In other cases, the Lottery sometimes misconfigured or incorrectly applied password controls. Because the Lottery did not implement current password requirements or consistently implement them across all users, password controls for these accounts are inherently weaker than the Lottery’s policy requires. These weaknesses could lead Lottery user accounts to be compromised and abused.

RECOMMENDATIONS

- **The Minnesota State Lottery should implement password requirements according to its policies.**
 - **The Minnesota State Lottery should ensure that password policies are properly enforced for all user accounts, as defined by its policy.**
-

⁶⁰ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 17.

Network and Infrastructure Security

Securing the Lottery's internal network and system infrastructure is essential for protecting against cyber threats, and ensuring data and game integrity. MUSL rules also contain provisions to ensure the security of lottery systems and data.⁶¹

To understand the existing security controls, we conducted interviews with staff, analyzed network diagrams, and examined configuration settings. We identified no significant issues related to the Lottery's network itself.

Change Management

Our 2016 audit found that "The Minnesota State Lottery did not always have sufficient evidence of the review and approval of changes made to its computer systems."⁶² The 2016 audit recommended that "a person independent of the individual making the change reviews and approves all system changes and documents the review and approval."⁶³

We reviewed Lottery processes related to change management within its network infrastructure. The Lottery has implemented a change management and tracking process that requires IT management to review and approve system infrastructure changes prior to the work being assigned to IT staff to implement the change. As a result, the Lottery has resolved this prior finding.

Vulnerability and Configuration Management

We also reviewed Lottery IT processes related to vulnerability and configuration management. Best practices dictate that organizations utilize monitoring and scanning tools to identify vulnerabilities and misconfigurations in systems and hosted applications.⁶⁴ By regularly performing these checks, an agency can quickly identify and respond to emerging threats, as well as maintain compliance with documented standards.

FINDING 9

The Minnesota State Lottery's vulnerability and configuration management program does not meet best practices.

The Lottery recently began developing its approach to vulnerability scanning with a toolset and regular scanning of its IT environment. The toolset ranks the severity of

⁶¹ Multi-State Lottery Association, *MUSL Rule 2 and Addendum*, Rules 2.4 and 2.5, include network security requirements for the central gaming system and internal control system. Additional MUSL rules describe controls for security areas, such as accounts and access privileges, intrusion detection, and patching. Biennial compliance reviews by MUSL examine these areas.

⁶² Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 14.

⁶³ *Ibid.*, 15.

⁶⁴ NIST 800-53, Rev. 5, sec. 3.16, 242; and Multi-State Lottery Association, *MUSL Rule 2 and Addendum*, Rule 2.12, requires that "The Lottery shall ensure all systems are kept free from vulnerabilities and security patches are applied timely."

identified vulnerabilities for prioritization, and the Lottery has recently implemented scanning on a regular basis. However, this process is in its early stages and does not currently meet best practices.⁶⁵

The Lottery's vulnerability mitigation processes lack consistency, as demonstrated by the Lottery's varying approaches to address identified issues. For instance, we were told that Lottery infrastructure staff sometimes addressed vulnerabilities immediately, without the proper logging or tracking. In other cases, the Lottery logged lower-risk vulnerabilities to be addressed later. However, the Lottery has not yet established clear timelines or risk tolerances to guide prioritizing and resolving these vulnerabilities.

Moreover, because the Lottery has recently implemented scanning and is still developing its vulnerability management program, vulnerability metrics, reports, and scorecards have not yet been created to inform Lottery leadership about the agency's risk posture. Implementing key performance indicators, such as the number of vulnerabilities identified, mitigated, and the time taken to address them, can help leadership understand how effectively the agency is addressing vulnerabilities. Consistent logging and tracking of vulnerabilities is essential to ensure accurate measurement.

The Lottery's toolset can also perform configuration compliance scans against standard benchmarks, which can help to identify system misconfigurations and security risks. However, according to Lottery information security staff, they have not yet started using this functionality.

RECOMMENDATIONS

- **The Minnesota State Lottery should develop procedures to consistently log, track, and resolve vulnerabilities based on severity.**
 - **The Minnesota State Lottery should develop vulnerability metric reports for management, and report progress against key performance indicators.**
 - **The Minnesota State Lottery should implement configuration compliance scanning against standardized configuration baselines.**
-

⁶⁵ NIST 800-53, Rev. 5, RA-5 describes best practices for vulnerability monitoring and scanning; and CM-6 describes best practices for managing and monitoring configuration settings, including automated scanning.

Incident Response and Disaster Recovery Planning and Preparation

Incident management and response focuses on mitigating the impact of security breaches by reducing recovery time and costs.⁶⁶ Incident response plans outline the procedures for handling security incidents, identifying root causes, and preventing future occurrences.⁶⁷ To help ensure business continuity, organizations develop disaster recovery plans. These plans detail the steps to restore critical IT systems after disruptions and include contact information, backup strategies, restoration procedures, and verification methods to confirm system recovery.

Our 2016 audit included the following two findings regarding plans for responding to security incidents and for recovering systems after a disaster:

- The Minnesota State Lottery did not document a formal, organization-wide plan to respond to security incidents.⁶⁸
- The Minnesota State Lottery did not have an adequate plan to recover its information technology operations in the event of a disaster.⁶⁹

While the Lottery has implemented a draft incident response and a disaster recovery plan as of this audit, both 2016 findings are only partially resolved.

FINDING 10 – PRIOR AUDIT FINDING PARTIALLY RESOLVED

The Minnesota State Lottery has not adequately documented, and has not tested or trained staff on, its procedures to respond to a significant incident.

The Lottery's incident response plan is currently in draft form and has not been formally approved by the Lottery's CIO or other executive leadership. Approval from both technology and business leadership demonstrates a commitment to incident response plan roles, responsibilities, and processes.

In addition to having only a draft incident response plan, the Lottery does not have detailed procedures to address potential incident types based on existing cyber-threat intelligence feeds, known security vulnerabilities, and other cyber risks identified by the Lottery and its third-party service providers. These response procedures are an important supplement to an incident response plan.

⁶⁶ NIST 800-53, Rev. 5, sec. 3.8, 149, establishes best practices for incident response.

⁶⁷ NIST 800-53, Rev. 5, Control IR-8, 158, describes the necessary components of an incident response plan.

⁶⁸ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Lottery: Internal Controls, Compliance, and Information Technology Audit* (St. Paul, 2016), 17.

⁶⁹ *Ibid.*, 15.

The Lottery's incident response plan was originally drafted prior to the current CIO's start at the agency, when the Lottery's operations director temporarily oversaw IT. The missing procedures and the plan itself should be finalized under the guidance of the new CIO. Once approved, the Lottery should share the plan with all incident response participants and stakeholders.

The Lottery has a disaster recovery plan that provides detailed information on team and individual task responsibility and outlines recovery procedure documentation. The Lottery also receives and reviews its third-party central gaming system and internal control system vendors' disaster recovery plans. However, the Lottery has not performed disaster recovery testing or training exercises, as recommended by our 2016 audit. Although resource and time intensive, regular testing of the plan would allow the disaster recovery team to practice their roles and provide opportunities to identify gaps or flaws in the disaster recovery plans. Such testing would also provide time to make necessary updates before a real disaster occurs. These exercises should include the Lottery's third-party vendors to ensure seamless collaboration and identify potential handoff issues.

Finally, formal post-incident (or disaster) reviews help reduce the time to detect, respond to, and recover from future incidents and help to further identify potential threats. Often, these review sessions are referred to as "lessons-learned." By analyzing an incident to identify the root cause, the Lottery can develop strategies to prevent similar incidents from happening in the future. The Lottery did not have records of prior post-incident reviews, which we were told occurred only informally among the group of staff who addressed an incident. Instead, these post-incident reviews should include stakeholders from throughout the Lottery and be documented to ensure that the incident, its effects, and potential ways to avoid repeat incidents, are fully understood.

Detailed incident response and disaster recovery policies, processes, and procedures help organizations manage incidents more effectively, reducing the time and resources required to respond to and recover from security incidents.

RECOMMENDATIONS

- **The Minnesota State Lottery should develop incident response procedures based on an incident's scope, likely impact, time-critical nature, and resource availability.**
 - **The Minnesota State Lottery should ensure that formal post-incident reviews are documented and occur with stakeholders from throughout the agency.**
 - **The Minnesota State Lottery should perform regular testing and training on its incident response and disaster recovery plans and procedures.**
 - **The Minnesota State Lottery should ensure its third-party system providers are included in disaster recovery planning, testing, and training.**
-



OLA

Lottery Management

Statutes delegate the “supervision and control” of the Minnesota State Lottery (Lottery) to a governor-appointed executive director.⁷⁰ The executive director must perform specified duties, including employing personnel and ensuring “the integrity of, and public confidence in” the Lottery.⁷¹ The Lottery is composed of eight divisions, listed at right, led by division directors who are responsible for providing leadership to the agency, along with the executive director. The Lottery’s eight divisions vary greatly in staff size, from fewer than a half dozen to more than 50.

Divisions of the Minnesota State Lottery

- Financial Services
- Human Resources
- Information Technology
- Legal
- Operations
- Public Relations
- Sales and Marketing
- Security

Through our audit and other work, OLA identified potential concerns related to leadership and supervision at the Lottery. To determine the extent of the concerns we identified, we surveyed all 146 permanent staff. The majority of the 126 respondents (101) were individual contributors, meaning they did not supervise staff.⁷² Fifteen respondents identified themselves as supervisors and seven as executive leaders. We received responses from across all eight divisions of the agency.

FINDING 11

In their survey responses, many Minnesota State Lottery employees indicated concerns about the Lottery’s workplace culture.

We discuss the survey responses in more detail, in the remainder of this section.

Executive Leadership

Executive leadership at an agency has important responsibilities, including establishing a mission and vision, shaping an organizational culture, managing performance, and promoting organizational accountability. While effective leadership can have a positive impact on organizational performance, ineffective leadership can have the opposite effect. We asked individual contributors and supervisors a series of questions about the quality of the Lottery executive leadership.

⁷⁰ *Minnesota Statutes* 2024, 349A.02, subd. 1.

⁷¹ *Ibid.*, subd. 3.

⁷² We surveyed all 146 permanent staff as of the end of Fiscal Year 2024 and had a response rate of 86 percent. Three respondents did not identify their position type within the Lottery.

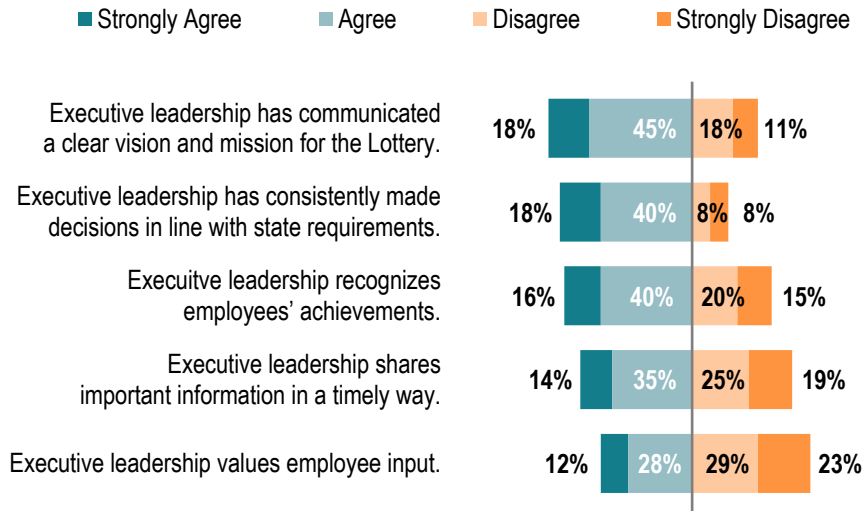
Many survey respondents indicated that they had concerns about executive leadership.

For example, we asked staff the extent to which they agreed or disagreed that executive leadership values employee input. Fifty-two percent of survey respondents disagreed or strongly disagreed with that statement. Similarly, 44 percent of respondents disagreed or strongly disagreed that executive leadership shares important information in a timely way.

Several staff members noted that while the agency made efforts to gather input from employees, those efforts did not result in any changes or positive actions. One survey respondent wrote, “Staff feedback has been requested many times, through stay interviews, etc., and it is generally ignored.” Other respondents said leadership did not solicit input, with one staff member writing, “Leadership does not seek input or feedback from staff about changes that may directly affect them. Does not take into consideration the opinions, valid concerns, or needs of staff, many feel disrespected and unheard.” Another staff member noted, “I feel continuously let down by our Executive team...[they] are inaccessible...and seem to only communicate with each other, never sharing their vision/work...”

Exhibit 5

A significant number of Lottery staff were critical of executive leadership.



Note: Numbers do not sum to 100 percent because we included in the calculation, but omitted from this exhibit, “No opinion” responses.

Source: Office of the Legislative Auditor, survey of permanent Lottery staff, 2024.

Several survey respondents noted issues with micromanagement, a lack of growth opportunities, or poor agency morale. Some staff reported that they were told that they should look outside the Lottery if they were interested in career advancement. One respondent wrote, “Morale at the lottery is very low. The executive team fails to act respectfully towards staff.” Another responded, “Bad to little communication, being reactive instead of proactive, and wasteful, outdated and inefficient processes are just some of our concerns.” Yet another wrote, “I do not feel valued or trusted as an employee.” These are just a sample of the negative comments we received.

While survey comments were largely negative, we received some positive feedback as well. A few staff indicated that the Lottery is a great place to work. One respondent noted that the Lottery “handles situations in a manner that is fair to everyone,” while another said, “Executive team works regularly to ensure that we have all the updated information and directives.”

Direct Supervision

While executive leadership sets the agency tone from the top, supervisors also play an important role in agencies, often collaborating directly with staff that perform the bulk of an agency’s work. Supervisors may help define roles, provide training and feedback, and communicate executive leadership’s directives.

We asked all staff questions about their job responsibilities and training; we asked individual contributors and supervisors about their direct supervision. Responses to these questions were generally more positive than the responses to questions about executive leadership.

While some Lottery staff expressed concerns with job responsibilities, training, and supervision, the majority of survey respondents indicated satisfaction in these areas.

We asked Lottery staff questions about job responsibilities and training. For example, we asked the extent to which they agreed or disagreed that they received sufficient training to complete their job responsibilities. Nearly 80 percent of respondents strongly agreed or agreed with the statement. One respondent said, “the Lottery has in depth training and they have step by step instructions for everything....”

Similarly, more than 70 percent of responses to questions about direct supervision were positive, as shown in Exhibit 6.⁷³ “[My] direct supervisor has done a good job to keep the workplace motivating,” according to one staff person.

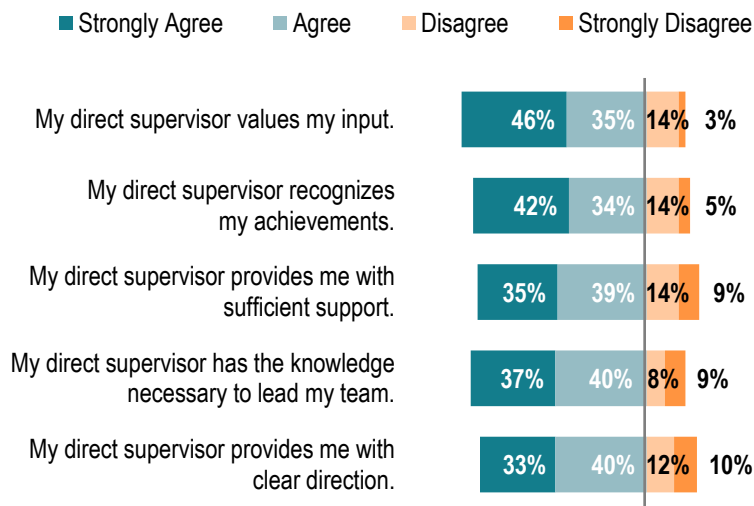
About
80%
of respondents
agreed that

- Their job responsibilities were clear.
- They had sufficient time to complete their job responsibilities.
- They received sufficient training.

⁷³ Executive leaders at the Lottery also provide direct supervision to certain staff. Statements in Exhibit 6 focus on direct supervision provided by an individual, as opposed to the statements in Exhibit 5, which pertain to executive leadership as a whole.

At the same time, numerous individuals indicated that they had concerns about supervision. Exhibit 6 shows that nearly one-quarter of respondents disagreed that their direct supervisor provides them with sufficient support, and more than 20 percent disagreed that their supervisor provides clear direction.

Exhibit 6
The majority of Lottery staff responded positively to questions about direct supervision.



Note: Numbers do not sum to 100 percent because we included in the calculation, but omitted from this exhibit, “No opinion” responses.

Source: Office of the Legislative Auditor, survey of permanent Lottery staff, 2024.

Complaints and Concerns

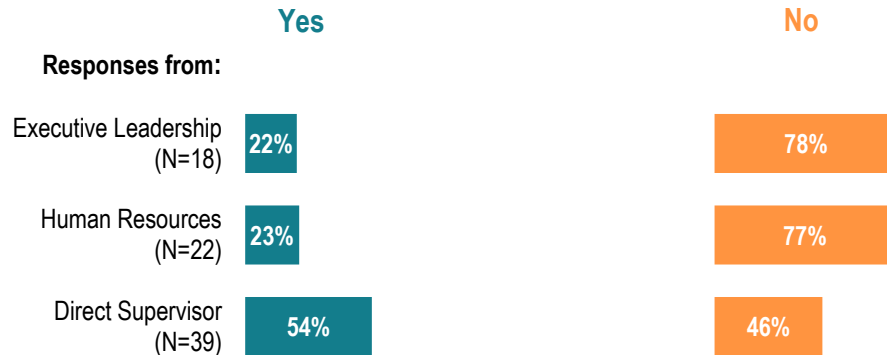
While only a small percentage of respondents (12 percent) told us that they had submitted a formal complaint, more than 40 percent said they had expressed informal concerns to Lottery human resources staff or other leaders/supervisors.

Most survey respondents who reported expressing informal concerns to lottery supervisors or leaders indicated that they did not receive an appropriate response to their concerns.

As shown in Exhibit 7, respondents who reported concerns to executive leadership and human resources, in particular, did not believe they received an appropriate response. One respondent said, “...our concerns were blown off. People don’t feel seen, appreciated or heard.” Another noted, “Many employees I work with have very low morale and no confidence in how things are handled...”

Exhibit 7

We asked survey respondents whether they received appropriate responses to their concerns; most said no.



Note: Calculations exclude nonresponses.

Source: Office of the Legislative Auditor, survey of permanent Lottery staff, 2024.

Recommendation

Our survey results indicate that there are issues with low morale and a lack of trust in leadership that require action for the Lottery to function effectively. While turnover has not been a large agencywide issue, survey comments indicate that numerous staff are looking for positions outside the Lottery. Turnover increases the time an agency must spend recruiting, hiring, and training staff, which can have a negative impact on the organization’s performance. Low morale and a lack of confidence in leadership can also decrease the efficacy of an organization.

Lottery proceeds fund several important projects in Minnesota, and for the agency to effectively serve its purpose, it needs to retain quality staff. As the individuals responsible for the culture of an organization—which extends from formal policies through casual interactions—executive leadership needs to evaluate its current practices and be more responsive to staff needs. By increasing trust within the agency, leadership can help ensure the Lottery meets its goals.

RECOMMENDATION

Lottery executive leadership should evaluate agency practices and make changes to promote a productive environment.



OLA



November 21, 2024

Ms. Judy Randall
Legislative Auditor
Office of the Legislative Auditor

Auditor Randall:

Thank you for the opportunity to comment on the Office of the Legislative Auditor's Performance Audit of the Minnesota State Lottery. The Lottery is committed to its mission to raise money for programs that positively impact the lives of Minnesotans. In Fiscal Year 2024, we're proud to have returned \$196.5 million to support important state services, including over \$93.3 million for Minnesota's environment and natural resources. To that end, the Lottery is equally committed to the integrity and fiscal oversight of lottery practices and lottery games and appreciates the OLA's hard work reviewing lottery operations.

The Lottery was pleased to see that the OLA found no issues with the integrity of lottery games, lottery proceeds, or lottery drawings, nor any findings related to the underlying security of lottery financial or operational systems. The OLA conducted a wide-ranging audit and confirmed numerous important controls were in place and functioning as intended. The OLA, however, did find places for improvement related to compliance with lottery policies, procedures, and documentation and identified two areas that need legal clarification. The OLA also conducted an anonymous survey that indicated some lottery employees have concerns about the workplace culture. Lottery leadership is committed to promoting a healthy culture and will work to implement the OLA's recommendation for change.

The Lottery has remediated most of the findings and is addressing the remaining issues as promptly as possible.

In sum, I thank the OLA for its hard work identifying places where the Lottery can improve. The Lottery is a dynamic future-oriented agency that strives to operate like a business within state government. Being dedicated to our mission means making hard decisions and accepting challenging feedback. I am committed to improving the Lottery, and welcome OLA's review of our operations. The Lottery's discussion of each of the findings is attached.

Sincerely,

Adam Prock
Executive Director
Minnesota State Lottery

Finding 1. Since early 2023, the Minnesota State Lottery has not verified that retailers have not been convicted of disqualifying crimes.

The OLA and the Lottery disagree as to whether the Lottery's practices comply with the law. Therefore, the Lottery will work with legislators and other stakeholders this legislative session to discuss various clarifications of Minn. Stat. § 349A.06 and will support any legislation that clarifies the scope of required background checks.

The Lottery takes seriously its responsibility to prevent inappropriate persons from becoming lottery retailers and protecting the integrity of lottery games. The relevant law, however, is ambiguous. Minn. Stat. § 349A.06, subd. (2)(a)(4) does not define the scope of the background check or other process required to become a lottery retailer and should be clarified.

From approximately 1990 to 2023, the Department of Public Safety conducted nationwide background checks of all officers, directors, and owners of corporations. In 2023, DPS informed the Lottery that this service would no longer be available without obtaining a written authorization from every person who was to be checked, rather than a written authorization from the corporate officer submitting the retailer application. This would require approximately 3,700 people per year living across the country, most of which have no connection to day-to-day lottery sales, to sign background check authorizations.

Consequently, to ensure the integrity of lottery sales while complying with the law, the Lottery transitioned to conducting public records checks looking for disqualifying crimes in Minnesota. Additionally, we require an officer, director, or owner to swear under penalty of perjury that no one has a disqualifying offense. There has been no indication that this change in process has decreased security of lottery operations, or evidence an inappropriate person has become a lottery retailer. Finally, the Lottery has numerous technical controls that protect lottery games regardless of the background of the retailer officers, directors, or owners.

Completion Date: May 19, 2025

Persons Responsible: Adam Prock, Executive Director; Ben Freedland, General Counsel

Finding 2. The Minnesota State Lottery permitted retailers with expired contracts to continue selling lottery tickets, in violation of requirements in state law.

The Lottery supports the OLA's recommendations.

The Lottery will begin shutting off lottery terminals of retailers who miss their annual renewal deadlines. The Minnesota Lottery has historically given retailers a grace period if they fail to complete their annual renewal paperwork. In the last several months, the Lottery has started working collaboratively with its retailers to make sure they are aware that the Lottery will be strictly enforcing this requirement. This involves a communications plan, staff and retailer training, and outreach to retailer association groups regarding the need to complete renewal paperwork prior to contract expiration.

Completion Date: January 1, 2025

Persons Responsible: Vicki Holets, Director of Sales and Marketing; Ben Freedland, General Counsel

Finding 3. The Minnesota State Lottery did not comply with Minnesota Rules when it declined to charge retailers for lost and stolen scratch game tickets.

The Lottery agrees that there is some conflicting language in the administrative rules it promulgated in the early 1990's and will commence a Chapter 14 rulemaking process to seek input from stakeholders and clarify the rules in question.

To explain more completely, since inception of the Lottery, tickets have been sold via a consignment contract pursuant to Minn. Stat. § 349A.06 and Minn. R. 7856. Tickets are shipped to retailers and the Lottery charges retailers after each pack of tickets has been sold to customers. For nearly 35 years, when tickets are reported lost or stolen by a retailer prior to sale, the Lottery has deactivated the tickets, investigated the theft, and often not charged the retailer. This arrangement makes sense because deactivated lottery tickets have no value.

The OLA's interpretation of the Lottery's administrative rules would force the Lottery to place the risk of loss on retailers and would significantly harm small businesses in the event of a loss or theft, even when the Lottery was not damaged.

Imagine a Greater Minnesota retailer averaging \$500 per week in lottery ticket sales is held up at gunpoint. Half of the retailer's dispenser of active scratch tickets are stolen, but the retailer immediately reports the theft to the Lottery. The Lottery deactivates the tickets within minutes of the theft, which prevents the stolen tickets from being cashed, and instructs the retailer to make a police report. The Lottery investigates and determines that the reported theft was not fraud. The face value of the tickets stolen is \$6,225 and the cost to the Lottery to print those tickets was approximately \$40. The OLA's interpretation would have the Lottery charge the retailer \$6,225 (the equivalent of almost four years of commissions on \$500 per week in sales) even though the Lottery's loss is only \$40. This is both impossible under standard contract law and unconscionable as a matter of policy.

The Lottery believes its longstanding practice complies with its administrative rules and the law but will commence a Chapter 14 rulemaking process to clarify the rules in question. Once clarified, the Lottery will either continue or end this longstanding practice based on its rulemaking authority.

Completion Date: September 1, 2025

Person Responsible: Ben Freedland, General Counsel

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Finding 4. The Minnesota State Lottery did not always audit and review unauthorized access and access attempts in accordance with its policy.

The Lottery supports the OLA's recommendations.

The Lottery has updated its audit policy and audit plan. Additionally, the Lottery has purchased new auditing software that will assist in conducting and tracking audits, including physical security audits. The Director of Security joined the Minnesota Lottery in December 2023, and has spent the last year revitalizing the audit program and Lottery leadership understands that more work is needed. By the end of the Lottery's fiscal year, the Director of Security expects the audit program to be substantially in place.

Completion Date: June 30, 2025

Person Responsible: Vicki Janssen, Director of Security

Finding 5. Minnesota State Lottery third-party security guards did not follow documented procedures to record the issuance of a temporary security guard badge.

The Lottery supports the OLA's recommendations.

This one-time incident was a training issue with a brand-new contracted security guard that was immediately fixed. Furthermore, this guard is no longer assigned to the Lottery account. Lottery leadership has reviewed the policies and procedures regarding the issuance of temporary badges and is confident this issue will not arise again in the future.

Completion Date: Complete

Person Responsible: Vicki Janssen, Director of Security

Finding 6. Prior Audit Finding Partially Resolved. The Minnesota State Lottery has not performed an annual review of all access granted to employees, as required by policy.

The Lottery supports the OLA's recommendations.

The Lottery conducts annual reviews for all user accesses related to lottery games and warehouse systems. However, the Lottery recognizes that not all user accesses have been reviewed. The Lottery has started user access reviews for all employees as required by lottery policy and is hiring an identity access management specialist to ensure ongoing compliance with this requirement. A complete review is ongoing and will be complete by the end of the Lottery's fiscal year. Once this initial review is complete, lottery policy will be updated to require an annual review overseen by the Lottery's Chief Information Officer.

Completion Date: June 30, 2025

Person Responsible: Sue Nelson, Chief Information Officer

Finding 7. The Minnesota State Lottery did not have adequate separation of duties among key Information Technology administrators.

The Lottery supports the OLA's recommendations.

The Lottery is reviewing all privileged access to its gaming and information technology systems and understands the importance of properly remediating this finding. The Lottery is developing more robust role-based access controls to limit access based on user role. Additionally, the Lottery is evaluating its organizational structure to ensure separation of duties to protect lottery systems. This process may involve hiring new staff, changing position descriptions, and modifying technical controls. Fully remediating this finding may take some time, but it is a high priority for the Lottery's Information Technology, Operations, and Security Divisions.

Completion Date: June 30, 2025

Person Responsible: Sue Nelson, Chief Information Officer

Finding 8. The Minnesota State Lottery's implemented password requirements do not comply with its policy.

The Lottery supports the OLA's recommendations.

The Lottery was pleased to see that the OLA did not find any passwords to be insufficiently complex as was reported in prior audits. However, the level of required complexity did not always track written lottery policies. The Lottery has reviewed its password policies and technical controls and confirmed that all password requirements comply with written policy.

Completion Date: Complete

Person Responsible: Sue Nelson, Chief Information Officer

Finding 9. The Minnesota State Lottery's vulnerability and configuration management program does not meet best practices.

The Lottery supports the OLA's recommendations.

The Lottery is updating its written policies and procedures for its vulnerability management program, identifying metrics, standardizing reporting, and creating scorecards. The Lottery plans to standardize logging and tracking of vulnerabilities to ensure accurate reporting. Additionally, the Information Technology team will develop a guide for prioritization of resolving vulnerabilities. Since the commencement of the OLA audit, the Lottery has made significant progress in improving its vulnerability management program, but Lottery leadership understands that more work is needed, and that vulnerability management is an ongoing challenge for any organization.

Completion Date: June 30, 2025

Person Responsible: Sue Nelson, Chief Information Officer

Finding 10. Prior Audit Finding Partially Resolved. The Minnesota State Lottery has not adequately documented, and has not tested or trained staff on, its procedures to respond to a significant incident.

The Lottery supports the OLA's recommendations.

The Lottery was pleased to see that its redundancies and preparations for a significant incident are sufficient to protect lottery operations, but recognizes that its procedures must be regularly tested, and staff must be regularly trained. In October 2023, the Lottery's Information Technology Department issued and distributed an updated Disaster Recovery Plan. In July 2024, the Lottery's Security Department issued and distributed an updated Continuity of Operations Plan. Since those documents have been distributed, the Lottery has been working to update its step-by-step procedures in the event of an incident. Additionally, we will conduct training on these updated plans and will organize an agencywide drill by the end of the Lottery's fiscal year. Based on the results of this drill, additional training will be conducted, and documentation will be issued. These drills and trainings will be regularly scheduled going forward.

Completion Date: June 30, 2025

Persons Responsible: Vicki Janssen, Director of Security; Sue Nelson, Chief Information Officer

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Finding 11. In their survey responses, many Minnesota State Lottery employees indicated concerns about the Lottery's workplace culture.

The Lottery supports the OLA's recommendations.

Lottery leadership takes to heart employee feedback and is taking the criticism found in the report seriously. The Lottery, therefore, will hire an outside consultant to conduct another anonymous survey to drill down on the culture challenges identified by the OLA and to make concrete recommendations. Lottery leadership understands there is always room for improvement and the OLA survey highlights the need to strengthen internal communications and employee buy-in, particularly around its strategic directions and decisions.

While Lottery leadership strives to create a respectful, innovative, and positive environment so that the Lottery best performs for its important beneficiaries, it remains a challenging time to operate a business inside of state government. Lottery technology, the competitive market, and workforce expectations are changing rapidly, and Lottery leadership must make difficult decisions so that it can continue to raise funds for the State of Minnesota.

To provide context, one difficult decision was to expand the number of days employees must be in the office. In October 2022, the Lottery announced its first return to office plan, which required one day per week in the office for all employees, with many required to be in the office more often based on business needs. This was expanded in November 2023, when all employees were required to be in the office Tuesdays and Wednesdays, with all supervisors also in on Thursdays, a decision that was unpopular with portions of the staff. Shortly thereafter, the OLA conducted its survey. Lottery leadership believes that the OLA survey results may be a mixture of places for improvement and dissatisfaction with Lottery strategic decisions.

Nevertheless, the OLA survey results show a need to increase strategic communications, improve the Lottery culture, and build staff buy-in. Consequently, the Lottery intends to hire a consultant to conduct another survey that builds on the OLA's work.

Completion Date: June 30, 2025

Persons Responsible: Adam Prock, Executive Director; Mary Babaya, Director of Human Resources



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