

Minnesota State Lottery

SUMMARY

The Minnesota State Lottery is both the promoter and regulator of lottery games, a situation that could compromise the integrity of the games. However, with its comprehensive security procedures, the Lottery protects the security of both its scratch and online games and ensures that Lottery proceeds are allocated properly. We found two instances in which the Lottery did not fully follow its procedures to ensure scratch game security—not conducting full internal security testing on scratch game tickets and not always receiving timely written documentation from the independent security lab that tests scratch game tickets—but we do not believe that either of these compromised the Lottery’s scratch games. The Lottery has thorough procedures to protect its online games, and we found no evidence that these procedures were not followed. The Lottery relies on very sophisticated information technology systems to keep games secure. As such, the Lottery should have regular information technology security audits to ensure that its technology systems are reliable.

The Lottery both promotes and regulates its games.

Unlike other gambling regulatory agencies in the state, the Lottery acts as both the promoter and regulator of the games it offers to the public. By law, the Lottery sets game rules, advertises and promotes games, and ensures the integrity of its games.¹ This chapter discusses the extent to which the Lottery fulfills its regulatory role by addressing the following questions:²

- **To what extent does the Lottery minimize the opportunity for cheating in its games?**
- **How does the Lottery ensure that proceeds from its games are allocated correctly?**

To evaluate the extent to which the Lottery ensures the security of its games, we reviewed Minnesota statutes, Lottery security policies, and Lottery operations procedures. We also interviewed state and national lottery officials and reviewed the national literature. To assess the Lottery’s compliance with its scratch game security procedures in particular, we reviewed game documentation for 20 of 40 scratch games introduced in fiscal year 2003. We selected fiscal year 2003 because this is the most recent year for which prize payout information would

¹ Minn. Stat. (2004), §349A.02, subd. 3.

² In 2004, our office evaluated the Lottery’s promotion of games and general management. See Minnesota Office of the Legislative Auditor, *The Lottery* (St. Paul, 2004).

Protecting against ticket tampering and properly validating winning tickets are important aspects of maintaining Lottery game integrity.

likely be complete. (Players have one year from the end of a game to claim a payout.) We also analyzed the Lottery's investigation database that contains information on investigations conducted over the past five fiscal years. Finally, to assess the extent to which Lottery proceeds are properly allocated, we interviewed officials from the Minnesota Lottery and the Minnesota Department of Finance, reviewed budget documents, and reviewed Minnesota statutes.

GAME INTEGRITY

The Lottery has primary responsibility for protecting the integrity of its games. Minnesota statutes empower the director of the Lottery to "take all necessary steps to ensure the integrity of, and public confidence in, the State Lottery."³ To have secure games, the Lottery must provide physical security of scratch game tickets and online game ticket stock; protect against ticket tampering, such as ticket alteration or "peeking;" ensure that the computer and electronic ticket validation systems are secure; and have mechanisms in place to investigate suspicious or unusual activity. We found that:

- **In general, the Lottery's procedures protect the integrity of its games.**

We also found that:

- **While the Lottery did not fully implement some of its security procedures, this does not appear to have compromised the integrity of the games.**

While no system is foolproof, the Lottery has comprehensive procedures regarding the operations and security of its games. In this section, we discuss the extent to which these procedures help the Lottery protect the integrity of both scratch and online games. Because the security procedures for these games differ, we discuss scratch and online games separately. We also discuss how the Lottery protects its games by providing information technology systems security, reviewing employee and vendor qualifications, and conducting investigations.

Scratch Games

The Lottery's procedures to ensure the integrity of scratch games are comprehensive and, when followed, minimize the risk of cheating. As detailed in Table 4.1, Lottery procedures for producing a new scratch game include ensuring that tickets conform to the game design, having secure ticket delivery, conducting internal and external security testing of the tickets, and ensuring secured winning ticket validation.⁴ Based on our review of 20 scratch games launched in fiscal year 2003, the Lottery, for the most part, followed its scratch game security procedures; we found only two exceptions regarding independent and internal security testing.

³ *Minn. Stat.* (2004), §349A.02, subd. 3(7).

⁴ Every scratch game is designed according to a specific prize structure, or game design, which prescribes the number and dollar level of prizes for the game.

For the most part, the Lottery follows its scratch game security procedures.

Table 4.1: Minnesota State Lottery Scratch Game Security Procedures

1. New scratch game designed and ordered	The Lottery designs a new scratch game and submits an order for the tickets to a ticket manufacturer.
2. Minnesota State Lottery approves tickets at production phase	A Lottery official travels to the ticket manufacturer's production site to review and approve the tickets.
3. Ticket manufacturer approves tickets at production phase	The ticket manufacturer reviews the tickets for misprints, smudges, and other errors.
4. Ticket records audited by independent auditor to ensure that they conform to game design ^a	An independent auditor reviews all ticket records for the game to ensure that the proper number of winning tickets are in the game.
5. Lottery approves scratch game tickets	Once the tickets are reviewed and audited, the Lottery approves the tickets for delivery.
6. Tickets shipped to Minnesota on sealed trucks	Scratch game tickets are shipped directly from the ticket manufacturer to the Lottery's warehouse in Eagan, Minnesota on sealed and secured trucks.
7. Computer files shipped to Minnesota	Two computer files containing information on the printed tickets are shipped to the Lottery separate from the scratch game tickets.
8. Sample of tickets sent to independent laboratory for tamper-resistant testing	Scratch game tickets are sent to an independent laboratory to test the physical security of tickets.
9. Sample of tickets sent to Lottery's internal laboratory for tamper-resistant testing	Scratch game tickets are sent to the Lottery's laboratory to test the physical security of tickets.
10. Computer files loaded onto Lottery's system	The Lottery downloads the computer files from the ticket manufacturer onto its own system. Records are checked to ensure that the odds of winning approximate the initial game design. Only security division personnel have access to these files, which are ultimately used to validate winning tickets.
11. Tickets approved and distributed to retailers	Once the internal and independent laboratories approve the tickets and the Lottery verifies the odds of the game, the tickets are distributed to retailers.
12. Retailers activate and sell tickets	When retailers are ready to sell a pack of lottery tickets, they must "activate" the tickets (by scanning an "activate" barcode included with the tickets). This allows the tickets to be sold and redeemed. Only the retailer to which the Lottery sent the tickets can activate the tickets.
13. Winning ticket validation	Winning tickets for under \$600 can be redeemed at any Lottery retailer location. Winning tickets between \$600 and \$30,000 must be redeemed at a Lottery regional office. Winning tickets for over \$30,000 must be redeemed at Lottery headquarters in Roseville, Minnesota.

^aEvery scratch game is designed according to a specific prize structure, which prescribes the number and dollar level of prizes for the game.

Independent security testing reports for some scratch games were not timely.

- **Game design.** An independent accounting firm audited all 20 scratch games we reviewed, and all were found to conform to the game design created by the Lottery. In addition, Lottery officials reviewed the ticket records for each game when they were loaded onto the Lottery's information technology system and ensured that the game's overall odds and odds at each prize level approximated the original game design. Lottery officials also checked that the number of tickets with the game's top prize was the number specified in the game design.
- **Ticket delivery.** The 20 scratch games we reviewed all had documentation illustrating that the scratch tickets were shipped on secure and sealed trucks and that the Lottery's security procedures were followed.
- **Independent laboratory security testing.** Test results from the independent laboratory for half of the games we reviewed were not reported to the Lottery until after the games' start dates. For two of the games reviewed, results of the independent security test were not provided until almost two weeks after the games started. According to Lottery officials however, if a test report is going to be late, representatives from the independent laboratory inform the Lottery of any problems prior to writing the official report if they think the problems could affect the launch of a game. All 20 scratch games we reviewed were subject to thorough security testing by the independent laboratory. For many of the games, the laboratory found plausible threats to the tickets from computer counterfeiting, hand alteration, and techniques to reveal tickets' validation codes. However, representatives from the laboratory noted that many of the problems found were adequately mitigated by the Lottery's computerized validation process and other security measures the Lottery has in place.
- **Internal Lottery security testing.** The Lottery did not fully implement its protocols for internal security testing. The Lottery has the capability to conduct five types of security tests on scratch games in its internal laboratory, and standard practice is to conduct full testing of all games. Only two of these tests were conducted on each of the 20 games we reviewed. However, we do not believe that this impaired the security of the tickets. Scratch game tickets are also subject to a review by the ticket manufacturer and to security testing conducted by an independent laboratory. While the third level of review provided by the Lottery's internal laboratory offers an additional level of comfort, it may not be necessary.
- **Winning ticket validation.** Lottery officials followed all validation procedures for the four games we reviewed with prizes over \$30,000 (the prize threshold for comprehensive ticket validation). Specifically, Lottery officials checked the tickets for physical alterations, verified that the retailer who sold the ticket did not have any problems with that game, electronically validated the ticket by checking it against game control computer files, and verified that the claimant was an eligible player who did not owe any money to the state.

Although the impact is likely minor, the Lottery did not fully implement its internal ticket testing protocols for the games we reviewed.

The Lottery uses several procedures to validate winning scratch game tickets.

Winning tickets under the \$30,000 threshold are not subject to most of these procedures, but must be verified through the Lottery's electronic validation system. Winning tickets between \$600 and \$30,000 must be redeemed at a Lottery regional office. Winners of these tickets must provide identification, which the Lottery uses to ensure that the player does not owe money to the state. Winning tickets for under \$600 can be redeemed at any Lottery retail location. When a player presents a winning ticket to a retailer, the retailer verifies that the ticket looks like a winning ticket, scans the bar code on the ticket, and keys in a set of validation numbers. The system then verifies that the ticket is a valid winning ticket and that it has not already been paid. If the ticket is valid, the retailer pays the bearer of the ticket and the system records the ticket as paid.

Online Games

Similar to scratch games, the Lottery has designed comprehensive security procedures that protect the integrity of online games. As detailed in Table 4.2, the Lottery's online game security procedures include having secured ticket stock, double-recording all online game transactions, conducting random drawings, and electronically validating winning tickets. Most of the online game operations are conducted by GTECH, the Lottery's online games vendor. Based on our observations, interviews, and review of Lottery documents, we found the online game security procedures to be sound and found no evidence that they were not followed.

Most of the Lottery's online game operations are conducted by a private vendor.

- **Ticket stock.** The ticket stock used for Minnesota online games is secure and controlled. Two outside vendors produce the ticket stock that Minnesota uses for its online games. The ticket manufacturers ship the ticket stock directly to GTECH, where it is stored in a secure location and monitored by Lottery camera surveillance. Entry into the room holding the ticket stock requires two card keys. The ticket vendors send a computer file to the Lottery that links each unique ticket number to a specific carton number. GTECH uses the carton number assigned by the ticket vendor to distribute the ticket stock to retailers; only Lottery security officials can link a specific ticket to a specific retailer.
- **Online transactions.** The Lottery adequately deters insiders from creating "winning" tickets by requiring that all online ticket sale transactions be recorded in two information systems—one at the Lottery and one at GTECH. When a player purchases an online game ticket, the retailer enters the transaction into a terminal provided by GTECH. The transactions are transmitted from the terminal to GTECH's main computer system, which records the numbers that were selected for every online ticket purchased at each retailer location. Every 20 to 30 minutes, all of the transactions recorded in the GTECH information system are transmitted to the Lottery and recorded in the Lottery's information system. A person trying to cheat the Lottery after a drawing was held (once the winning numbers were known) would have to enter the "winning" ticket into both information systems.

Table 4.2: Minnesota State Lottery Online Game Security Procedures

We found no evidence that online game security procedures were not followed.

1. Ticket stock printed by outside vendors	The ticket stock is produced on special paper, and each ticket is given a unique identification number.
2. Ticket stock shipped to Minnesota's online games vendor (GTECH)	Ticket manufacturers ship the ticket stock directly to GTECH in numbered cartons.
3. Computer file sent to the Lottery with ticket information	The ticket manufacturers send a computer file directly to the Lottery. This file links the unique ticket numbers on the ticket stock to the carton numbers GTECH receives.
4. GTECH distributes ticket stock to retailers	GTECH uses the carton numbers to distribute the ticket stock to retailers.
5. Retailers sell online tickets, and transactions are recorded and transmitted to GTECH	Retailers use the GTECH terminals to conduct all online game transactions. The online games transactions are sent through the terminals to GTECH's main computer system, which records all online transactions.
6. All online games transactions transmitted to the Lottery	Every 20 to 30 minutes, all online games transactions are transmitted from GTECH to the Lottery and recorded in the Lottery's system.
7. GTECH produces daily transaction report for all online games	Each night, GTECH runs a report that summarizes all online games transactions that have occurred that day.
8. Lottery produces daily transaction report for all online games	Each night, the Lottery runs a report that summarizes all online games transactions that have occurred that day.
9. Transaction reports compared to ensure that GTECH and Lottery systems balance	The GTECH and Lottery transaction reports are compared and balanced daily.
10. Drawings conducted by the Minnesota Lottery for Daily 3, Gopher 5, and Northstar Cash	One of two random number generators is randomly selected. An independent auditor authorizes and oversees the Minnesota drawings. A Lottery official conducts the drawings.
11. Drawings conducted by the Multi-State Lottery Association for Powerball and Hot Lotto	The Lottery and GTECH transaction reports for Powerball and Hot Lotto must be balanced prior to the multi-state drawings. A multi-state lottery supervisor, a police officer, and an independent auditor oversee these drawings.
12. Winning ticket validated	Using the ticket's identification number, the Lottery verifies that the winning ticket originated from the proper retailer and electronically validates the ticket.

SOURCE: Office of the Legislative Auditor.

Online games transactions are recorded on two separate computer systems and are reconciled daily.

Each night, the Lottery runs a report from its computer system summarizing all of the transactions that have happened that day. The Lottery also receives a parallel report from GTECH that summarizes all of the transactions it has recorded for that day. These reports are reconciled daily to ensure that every transaction has been identically recorded in both information technology systems. In the past twelve years, according to a Lottery official, the Lottery and online vendor reports have always balanced.

- **Drawings.** The drawings for Minnesota's online games are secure. For Minnesota-only games (Daily 3, Gopher 5, and Northstar Cash), an independent auditor verifies that ticket sales have stopped for that day's game and authorizes the drawing to occur. Lottery officials, using a computer program, randomly select one of the two on-site random number generators to use for that day's drawing. Using the chosen random number generator, a Lottery official conducts the drawings for Minnesota's online games. The Lottery conducts regular statistical analysis on the winning numbers to verify that the drawings are random.

The Lottery's procedures also help to protect the integrity of the multi-state drawings. Before every multi-state drawing (for Powerball and Hot Lotto), the Lottery compares its transaction report with the report from GTECH. The Multi-State Lottery Association (MUSL) hires an auditor to be present when the reports are compared and certify that the Lottery and GTECH reports balance. In MUSL drawings (which are held in Iowa), the winning numbers are selected from machines using hard rubber balls. The machines and balls are selected randomly for every drawing, and the balls are weighed and x-rayed several times a year. At every Powerball drawing, a MUSL supervisor, an independent auditor, and a police officer are present. According to the Lottery, MUSL performs regular statistical analysis on the winning numbers to verify that the drawings are random. The Minnesota Lottery began conducting its own statistical analysis of the MUSL drawings in 2004 to provide additional oversight.

The Lottery uses statistical analysis to verify that online drawings are random.

- **Ticket Validation.** The Lottery has adequate ticket validation procedures in place to ensure that only valid winning tickets are paid. Because every online transaction is recorded as it occurs, once the drawing is complete the Lottery knows if there are winning tickets. When a winning ticket is redeemed, an important piece of the ticket validation procedure is to verify that the winning ticket's ticket stock came from the correct retailer. In addition, the Lottery uses an algorithm, involving the ticket serial number and other ticket information, to validate winning tickets.

Information Technology Systems Security

In addition to the game-specific procedures outlined above, the Lottery has other layers of security oversight that help to protect the integrity of all its games. Because the Lottery relies heavily on its information technology systems, access to the Lottery's information systems is password-controlled and must be approved by the Lottery's security department. The security department receives daily reports of Lottery employees' computer activity, which provide the department

Through fiscal year 2004, the Lottery's information technology systems had not been subject to a comprehensive security audit.

with information regarding who accessed the computer system and what they did while in the system. The security systems also identify unusual program access, which helps the Lottery to better target investigation resources. The Lottery's security department also monitors several different aspects of GTECH activity. Specifically, the Lottery has camera surveillance at GTECH; it controls employee access to different areas in the GTECH facility; and it receives daily reports of GTECH computer activity, including access to or changes in files.

Through fiscal year 2004, the Lottery's information technology systems had been subject to limited external audits not commensurate with the importance of information technology in maintaining Lottery integrity. The audits provided information on password protection and inventory controls, among other things, but were largely focused on information systems relevant to the Lottery's annual financial audit. Starting in fiscal year 2005, the Lottery plans to have a more comprehensive annual audit of its information technology systems.

In addition to the Lottery's own information technology systems audit, MUSL conducts a compliance review of the Minnesota Lottery every two years that measures the Lottery's performance against the MUSL standards. Minnesota had its last compliance review in January 2003 and had a record-low number of findings, all of which were corrected. In addition, MUSL indicated that the Minnesota Lottery has enacted good procedures and policies to ensure that its security department has adequate oversight of its internal information technology staff.

Investigations

Lottery security investigations are of two types: (1) background reviews regarding employee and vendor qualifications and (2) investigations of suspicious activity. To regulate who can be associated with the Lottery, all Lottery employees and retailers must undergo criminal history checks. Minnesota statutes prohibit any person who, in the last five years, has been convicted of a felony or a crime involving fraud from being employed at the Lottery or from being a Lottery retailer.⁵ Lottery employees cannot ever have been convicted of a gambling-related offense, and retailers cannot have been convicted of a gambling-related offense within the previous five years. In addition, Lottery retailers must not owe more than \$500 in delinquent state taxes, be in business solely to sell Lottery tickets, or have been convicted of a gross misdemeanor in the last five years. Finally, Lottery retailers must be residents of Minnesota or be authorized to conduct business in the state and cannot be a member of the immediate family residing in the same household as a Lottery employee.⁶

In fiscal year 2003, the Lottery contracted with about 3,100 retailers. For these retailers, the Lottery processed approximately 2,200 retailer renewal applications, 360 new retailer applications, and 140 chain contract renewals.⁷ Retailers must complete a contract renewal every year, and every year the Lottery asks the Department of Public Safety for state criminal history reports on each retailer.

The Lottery does not conduct complete criminal history checks of retailers.

⁵ *Minn. Stat.* (2004), §§349A.02, subd. 6; and 349A.06, subd. 2.

⁶ *Minn. Rules* (2003), ch. 7856.2020.

⁷ A chain contract renewal can apply to several retailers in a chain.

Improvements in Lottery information systems have helped reduce some security problems.

Retailers are not subject to national criminal history checks, which require fingerprints. As a result, the Lottery does not have information on retailers' entire criminal records. In contrast, all Lottery employees and key employees of "major vendors," such as GTECH and the auditing firm, must submit fingerprints for national criminal history checks when they are first hired. Very rarely is a retailer's contract revoked or an employee not hired as a result of a criminal history check.

In addition to reviewing the criminal histories of employees and vendors, the Lottery's security department investigates suspicious activity regarding the play of the game to ensure that only fairly purchased and valid tickets are redeemed. The number of these investigations has dropped by over 50 percent during the last five years. Table 4.3 shows the number and type of Lottery investigations for fiscal years 2000 through 2004. Lottery officials attribute the two largest decreases, in "lockout from lottery computer terminal" and "cashed or attempted to cash a stolen ticket" incidents, to improvements in technology that prevent problems from occurring in the first place.⁸

As Table 4.3 illustrates, there are a large number of investigations regarding lost or stolen tickets every year. Because of the number and type of retailers that sell Lottery tickets, the tickets may be more susceptible to theft than some other types

Table 4.3: Minnesota State Lottery Investigations, FY 2000-04

<u>Reason for Investigation</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>Total</u>
Cashed or Attempted to Cash a Previously Redeemed Ticket	393	345	248	240	257	1,483
Lost or Stolen Tickets	366	322	330	245	210	1,473
Lockout From Lottery Computer Terminal	236	246	179	241	21	923
Cashed or Attempted to Cash a Stolen Ticket	234	197	164	71	47	713
Retailer Incident	14	16	21	23	20	94
Altered Tickets	21	15	8	15	10	69
Damaged Tickets	0	1	13	15	8	37
Other	<u>83</u>	<u>45</u>	<u>73</u>	<u>53</u>	<u>76</u>	<u>330</u>
Total	1,347	1,187	1,036	903	649	5,122

NOTES: "Lost or stolen tickets" includes tickets that are lost, stolen by employees, or stolen by customers. "Lockout from lottery computer terminal" is when the terminal that Lottery retailers use to redeem tickets and sell online tickets locks up due to suspicious activity. "Retailer incident" includes player complaints about retailers and retailer license violations and suspensions. "Altered tickets" are instances in which tickets are deliberately altered to look like a winning ticket. "Damaged tickets" are incidents in which tickets are damaged from water, fire, or excessive scratching. "Other" includes incidents involving online games, suspected illegal activity by a retailer, and other miscellaneous incidents.

SOURCE: Office of the Legislative Auditor analysis of Minnesota State Lottery investigation data.

⁸ "Lockout from lottery computer terminal" is when the terminal that Lottery retailers use to redeem tickets and sell online tickets locks up due to suspicious activity; only Lottery officials can unlock the terminal. "Cashed or attempted to cash a stolen ticket" is when a customer redeems, or attempts to redeem, a ticket that has been reported stolen.

of gambling devices. Among the 20 scratch games we reviewed, the number of lost or stolen tickets per game ranged from 785 to over 5,000. On average, for the 20 scratch games we reviewed, about 4 million tickets were printed for each game. For these games, lost or stolen tickets represented less than one-half of one percent of all tickets in a game. The actual threat to the Lottery or its retailers from stolen tickets is limited even further because only “activated” tickets can be redeemed.⁹ Still, according to the Lottery, its security department investigates all reports of lost or stolen tickets. Other investigations may be triggered by repeated efforts by a clerk to validate a non-winning ticket, frequent Lottery winners, and the redemption of old unclaimed winning tickets.

LOTTERY PROCEEDS

The Lottery is responsible for collecting and allocating Lottery revenues. This includes ensuring that tickets are properly purchased, prizes are correctly paid, and profits are distributed to the appropriate state funds. We found that:

- **The Lottery’s procedures adequately ensure that its proceeds are properly collected and distributed.**

The Lottery holds retailers responsible for selling and properly redeeming tickets.

In general, the Lottery holds retailers responsible for selling and properly redeeming tickets. Scratch tickets are generally distributed to retailers on a consignment basis. That is, retailers do not pay the Lottery for the tickets until they are sold. Once an entire pack of tickets is sold, the retailer must settle the pack by scanning the “settle” barcode included with each pack of tickets. Scanning the “settle” barcode triggers the Lottery to bill the retailer for the entire pack of tickets.

Lottery retailers receive a weekly statement from the Lottery detailing all scratch game packs settled at their location, the prizes the retailer redeemed, the number of online tickets sold, and the commission due to the retailer (5.5 percent of tickets sold and 1 percent of prizes redeemed). The Lottery electronically transfers funds from the retailers’ accounts on a weekly basis for the amount due to the Lottery as shown in the statement. If a retailer does not have sufficient funds in its account, the Lottery will follow up with the retailer; persistent insufficient funds will result in a suspended contract. According to Lottery officials, about ten retailers each year have their contracts suspended due to insufficient funds in their accounts.

Retailers are responsible for ensuring that prizes are paid only for valid, winning tickets. If a retailer does not follow the validation procedures and pays an invalid ticket worth over \$25, the retailer will not be reimbursed by the Lottery. This might happen if a retailer only visually inspects a ticket to determine if it is a winner rather than electronically validating the ticket. Similarly, if a retailer does

⁹ When a retailer is ready to open a new pack of tickets and install it in the ticket dispenser, he or she must “activate” the pack by scanning the “activate” barcode included with each pack of tickets. Only the retailer to which the Lottery sent the tickets can activate the tickets. If tickets are reported lost or stolen, the Lottery can “deactivate” the tickets.

not take a redeemed ticket from a player or mark it as paid, and the ticket is redeemed a second time, the first retailer will not be reimbursed by the Lottery.

Because the Lottery is a state agency, distribution of Lottery proceeds to the different state funds is conducted through the state's accounting system. The bulk of the Lottery's funds reside in the State Treasury, and the Lottery works with employees from the departments of Finance, Revenue, Natural Resources, and Human Services to ensure that revenues are properly allocated. Because so many agencies monitor the distribution of Lottery proceeds, there is a low risk of problems.

CONCLUSIONS

Overall, the Lottery has established multiple layers of control that minimize security risks.

The Minnesota Lottery presents a unique challenge for gambling oversight. In essence, the Lottery acts as both the promoter and regulator of its games—a situation that lends itself to compromising the security of the games. If nothing else, the joint role of regulator and promoter gives the appearance of a conflict of interest. However, the Lottery has established several layers of security controls for both scratch and online games that, in our opinion, minimize the risk of security problems.

The Lottery Organization Taskforce met several times during 2004 and plans to recommend that the Legislature establish a lottery board to review the Lottery's operations, annual budget, proposed rules, and general performance, among other things. If the Legislature follows this recommendation, we would suggest that the board also help to ensure that adequate separation remains between the Lottery's regulatory role and its operations and marketing responsibilities.

RECOMMENDATIONS

Ensure Scratch Game Ticket Security

RECOMMENDATIONS

To ensure that scratch games are adequately tested prior to being played, the Minnesota State Lottery should require that the scratch game ticket security test conducted by an independent laboratory be completed and the results reported in writing to the Lottery prior to the launch of the game.

To protect the physical security of scratch game tickets and effectively use its resources, the Minnesota State Lottery should: (1) determine if its internal scratch game ticket testing materially adds to the security of a game, (2) revise its written procedures to be consistent with its assessment of the usefulness of the internal security tests, and (3) follow its written procedures.

The Lottery relies heavily on the results of the ticket security tests conducted by an independent laboratory. As such, the Lottery should obtain the results of this test prior to the distribution and start of a game. If the independent laboratory were to find a problem with a scratch game, the Lottery's reputation and the security of the game would be at greater risk if the tickets were already distributed to retailers around the state. Lottery officials agreed that it is important to receive formal written communication from the laboratory indicating that a game has passed the independent security tests before the game is launched, although they added that ticket printing and distribution schedules create tight timelines for security testing. As a result, Lottery officials will try to have the ticket manufacturer ship tickets directly to the independent laboratory to provide up to a week of extra testing time. In addition, Lottery officials will request that the independent laboratory provide the Lottery with a written summary of its findings prior to launching a scratch game if the full report will not be available prior to the launch date.

Scratch game tickets undergo testing by both the independent laboratory and the ticket manufacturer. However, Lottery officials believe its internal testing is useful because it provides an additional check on the tickets' physical security and also allows Lottery security personnel to keep abreast of ways to compromise tickets. If Lottery officials feel that the internal testing is valuable, they should determine which tests should be performed in the internal laboratory, revise the Lottery's procedures to reflect this decision, and then follow these procedures for all scratch games. Lottery officials agreed with this recommendation, and security personnel plan to undergo training to learn how to conduct the full array of internal security tests.

Ensure Lottery Information Systems Security

RECOMMENDATION

To ensure that it has secure and reliable information technology systems, the Minnesota State Lottery should have regular, comprehensive audits of its information systems that meet industry standards for information technology audits.

Lottery officials have said that the greatest vulnerability to the integrity of the Lottery's games is an "insider" with enough knowledge to manipulate the information technology systems. By having a regular and thorough audit of its information systems, the Lottery can help protect itself against this potential threat. Lottery officials have already taken action on this recommendation. The Lottery plans to have its first comprehensive information technology systems audit in fiscal year 2005 and plans to have a comprehensive technology audit as part of its annual financial audit on an ongoing basis.

Ensure Compliance With Retailer Requirements

RECOMMENDATION

To fully comply with statutes, the Minnesota State Lottery should, when initially entering into a retailer contract and periodically thereafter, expand background checks of retailers to include their criminal records outside of Minnesota.

State law requires that retailers be disqualified from obtaining Lottery contracts if they have been convicted of certain crimes. By only obtaining a retailer's Minnesota (rather than national) criminal history, the Lottery cannot ensure that a prospective retailer complies with these statutory requirements. Hence, the Lottery should request a national criminal history check of all retailers when first entering into a contract, and periodically thereafter. This would be consistent with Racing Commission procedures and parallels our recommendation for the Gambling Control Board.

The Lottery has indicated that, to fully comply with current law, they would need to fingerprint and conduct national criminal history checks of all retailers. In addition, Lottery officials believe that retailers pose significantly less of a threat to gambling integrity in Minnesota than do many of the people licensed by the Gambling Control Board and Racing Commission. Therefore, Lottery officials question whether the cost of conducting national checks is warranted given the minimal threat retailers pose to the security of Lottery games. While we agree that these are reasonable cost-benefit considerations, to continue with its current practice of obtaining a Minnesota-only criminal history of retailers, the Lottery will need to obtain a change in the law.