

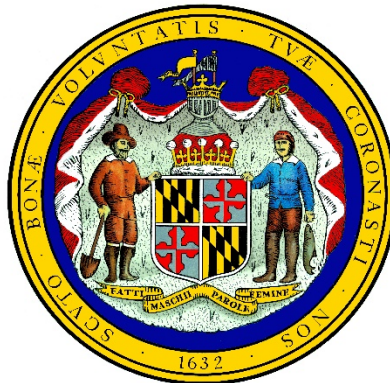
Audit Report

State Lottery and Gaming Control Agency

May 2025

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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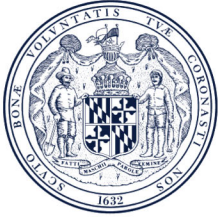
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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

May 13, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the State Lottery and Gaming Control Agency (SLGCA) for the period beginning October 16, 2020 and ending January 31, 2024. SLGCA generates revenue primarily for the State's General Fund and the Education Trust Fund through various lottery games, casino-operated video lottery terminals and table games, and sports wagering. Approximately \$1.6 billion of its revenue for fiscal year 2023 was credited to various State funds or agencies as prescribed by law.

Our audit disclosed that State casinos did not intercept prize money for amounts due to the State because State law only provides for such recoveries from lottery winnings. Our analysis of three casinos identified \$9.2 million in prize money awarded to patrons that could have been withheld.

Our audit also disclosed that SLGCA did not always follow State procurement regulations. Specifically, our review of four contracts totaling \$82.2 million noted SLGCA was not able to provide critical procurement documentation for two procurements totaling \$55.4 million such as the best and final offer for the losing bidders precluding us from readily determining the propriety of these awards. In addition, SLGCA did not always publish contract solicitations and awards on *eMaryland Marketplace Advantage (eMMA)*, as required, a condition noted but not corrected from our preceding report.

Furthermore, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before

the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

SLGCA’s response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of SLGCA’s response related to the cybersecurity audit findings. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by SLGCA.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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

Background Information

Agency Responsibilities

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

Lottery Games

SLGCA administers and operates various lottery games. According to SLGCA audited financial statements, during fiscal year 2023, 4,359 lottery retail agents sold instant tickets, and tickets for draw games and monitor games.

- Instant Tickets (scratch-offs).
- Fast Play (terminal generated instant win games).
- Draw games include traditional games, such as Pick 3/Pick 4/Pick 5, and multistate games, such as Mega Millions and Power Ball.
- Monitor games include Keno and Racetrax.

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

Casinos

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

The State's first casino opened in Cecil County in September 2010 and its most recent casino opened in Prince George's County in December 2016. The four

other casinos are located in Worcester, Anne Arundel, and Allegany Counties, and Baltimore City. According to SLGCA fiscal year 2023 audited financial statements, as of June 2023, these six casinos operated 9,733 VLTs and 565 table games.

Sports Wagering¹

Chapter 492, Laws of Maryland 2020 authorized sports wagering, subject to voter referendum, which Maryland voters approved in the November 2020 general election. Following approval, legislation was required to establish an operational and regulatory framework for the State's sports wagering program. Chapter 356, Laws of Maryland 2021, established such a framework.

The SLGCA is required to regulate sports wagering and the conduct of sports wagering to the same extent that it regulates the operation of VLTs and table games in the State. The law established the Sports Wagering Application Review Commission (SWARC). SWARC reviews licensure applications for sports wagering facilities, including casinos and retail locations,² and mobile sports wagering licensure. Based upon SWARC's recommendation's, SLGCA issues licenses for sports wagering. As of July 2024, SWARC has approved 35 licenses.

In December 2021, the first five retail sportsbooks³ opened to the public and in November 2022, the first seven mobile sportsbooks launched. As of December 31, 2023, sports wagering was operational at five casinos, eight retail locations, and twelve mobile operators.

Sports wagering licensees retain 85 percent of proceeds from sports wagering. The remaining 15 percent must be transferred monthly to the State Lottery Fund and, in turn distributed monthly to the BMFF. As of June 30, 2023, sports wagering taxable wins totaled \$168.4 million,⁴ including \$25.3 million that was transferred to the State.

¹ Chapter 356, Laws of Maryland 2021, also established SLGCA's regulatory oversight of operators of fantasy competitions. Each operator with at least \$1 million in annual revenue must register with SLGCA and pay 15 percent of its revenue into the BMFF. According to the State's records, during fiscal year 2023, approximately \$1.2 million in revenue was received from fantasy operators.

² Retail locations are brick and mortar locations including the State's six approved casinos that allow for in-person sport wagering.

³ A sportsbook is a venue where a gambler can wager on various sports competitions.

⁴ Taxable revenue is gross gaming revenue (handle minus total win) minus various payouts (e.g. promotional credits, excise taxes, and vendor fees).

Financial Information

According to SLGCA's audited financial statements for the fiscal year ended June 30, 2023, gross revenue totaled approximately \$5 billion, and was disbursed as detailed below:

- \$1.7 billion was disbursed for prize claims;
- \$1.6 billion was disbursed for lottery retailer commissions, casino, sports wagering, and fantasy operator shares and claims fees;
- \$122 million was used to pay SLGCA's operating expenses;
- \$652 million was credited to the State's General Fund;
- \$623 million was credited to the Education Trust Fund;
- \$35 million was transferred to the Maryland Stadium Authority; and
- \$295 million was credited to other governmental funds and agencies.

SLGCA engages an independent accounting firm to perform an annual audit of its financial statements and monthly audits of special-purpose financial statements, and to provide assistance in technical matters. In the related audit reports for the fiscal years ended June 30, 2021, 2022, and 2023, the firm stated that SLGCA's financial statements presented fairly, in all material respects, its financial position, and the respective changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. According to the State's records, during fiscal year 2024, SLGCA's expenditures totaled approximately \$125 million (see Figure 1).

Figure 1
SLGCA Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024	
	Positions
Filled	334
Vacant	29
Total	363
Fiscal Year 2024 Expenditures	
	Expenditures
Salaries, Wages, and Fringe Benefits	\$ 36,475,147
Technical and Special Fees	275,078
Operating Expenses	88,212,454
Total	\$124,962,679
Fiscal Year 2024 Funding Sources	
	Funding
General Fund	\$ 9,998,894
Special Fund	114,963,785
Total	\$ 124,962,679

Source: State financial and personnel records

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated March 15, 2022. See Figure 2 for the results of our review.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	SLGCA did not investigate individuals who won multiple high-dollar lottery prizes to identify patterns of potential collusion between players and lottery-related vendors or officials.	Not Repeated
Finding 2	SLGCA did not conduct periodic reviews of critical user access to the Lottery Gaming System to ensure that all access was necessary and proper, and had no procedures to verify that transactions processed on the System by vendor employees were proper.	Status Redacted ⁵
Finding 3	Monthly testing of video lottery terminals (VLT) was either not conducted or was not sufficiently comprehensive to ensure VLTs were operating properly and player activity was accurately reported.	Not Repeated
Finding 4	Specific working relationships between family members that existed during our audit period, including the processing and approval of certain SLGCA related personnel and payroll transactions, may have violated State ethics law.	Not Repeated
Finding 5	SLGCA did not always follow State procurement regulations and did not adequately monitor certain contracts.	Repeated (Current Finding 2)
Finding 6	SLGCA lacked assurance that adequate information technology security and operational controls existed over its VLT computing system at the State's casinos that a primary service provider hosted, operated, and maintained.	Status Redacted ⁵
Finding 7	Remote access to the internal SLGCA network by employees and authorized contractors used a single authentication measure rather than the more secure multi-factor authentication.	Status Redacted ⁵

⁵ Specific information on the current status of this cybersecurity-related finding has been redacted from this publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Intercepting Casino Prize Winnings

Background

State law allows the State Lottery and Gaming Control Agency (SLGCA) to intercept lottery prize winnings over \$600 to offset certain liabilities owed by patrons. These liabilities include outstanding child support collected by the Department of Human Services – Child Support Administration, delinquent court-ordered restitution from criminal defendants and other debt owed to the State collected by the Department of Budget and Management’s (DBM) – Central Collection Unit (CCU).

Finding 1 (Policy Issue)

State casinos do not intercept prize money for amounts due to the State because State law only provides for such recoveries from lottery winnings paid out by SLGCA. We identified \$9.2 million disbursed to patrons that could have been potentially intercepted to recover debts owed to the State.

Analysis

State casinos do not intercept prize money for amounts due to the State because State law only provides for such recoveries from lottery winnings paid out by SLGCA. While State law provides for the State casinos to intercept prize money for outstanding child support obligations and delinquent court-ordered restitution, it does not provide for intercepting outstanding debts owed to the State.

Our Data Analytics Unit (DAU) obtained a listing of individuals with outstanding amounts due to the State and compared it to prize winnings awarded by three of the six casinos⁶ for the period of September 30, 2021 through January 31, 2024. Our analysis of this data identified approximately \$9.2 million in amounts due to the State that was awarded to patrons by the casinos that could have been potentially withheld had State law included this activity.

⁶ We selected these three casinos based primarily on assessed risk and size of activity. Specifically, our selection included two casinos that utilized a manual process instead of an automated process for determining if a patron’s winnings should be intercepted. In addition, these three casinos accounted for approximately \$1.7 billion of the \$2.1 billion in revenue generated by the casinos in fiscal year 2023.

Recommendation 1

We recommend that SLGCA consider pursuing legislation to enable casinos to intercept amounts due to the State.

Contracts

Finding 2

SLGCA did not always maintain critical procurement documentation and publish contract solicitations and awards as required by State procurement regulations.

Analysis

SLGCA did not always maintain critical procurement documentation and publish contract solicitations and awards as required by State procurement regulations. We reviewed four contracts⁷ totaling approximately \$82.2 million (each of which exceeded \$50,000) that were awarded between April 2021 and December 2023 and noted the following conditions.

- SLGCA was not able to provide certain critical procurement documentation for two procurements totaling \$55.4 million. For example, SLGCA could not provide the best and final offer for the losing bidders and could not provide the individual bid evaluations prepared by the five bid evaluation committee members. As a result, we could not readily determine the propriety of these awards.
- SLGCA did not publish contract solicitations and awards on *eMaryland Marketplace Advantage (eMMA)*,⁸ as required. Specifically, as of March 2024, SLGCA had not published the solicitation for one contract totaling \$28.5 million and had not published the contract award for any of the four contracts reviewed as required.

State regulations require critical procurement documentation be maintained in the procurement file. State regulations also require State agencies to publish on *eMMA* all competitive solicitations and awards of contracts expected to exceed \$50,000. Awards must be published no more than 30 days after the execution and approval of the contract. Publishing solicitation and awards help provide transparency over the procurements including notice of a State contract

⁷ Contract selection was based on materiality, potential risk, and procurement method.

⁸ *eMaryland Marketplace Advantage (eMMA)* is an internet-based, interactive procurement system managed by the Department of General Services (DGS).

opportunity, information about winning bidders and the amount of the related awards.

A similar condition regarding not publishing contract awards on *eMMA* was commented upon in our preceding audit report. In response to that report SLGCA stated that it had implemented procedures to ensure notices are published, however during our current audit SLGCA had not implemented any new procedures to ensure contracts would be published as required. SLGCA was not able to explain why the awards reviewed in our current audit were not published.

Recommendation 2

We recommend that SLGCA

- a. retain critical procurement documentation as required,**
- b. attempt to obtain the documentation to support the propriety of the aforementioned contracts and take appropriate corrective action for any contract awards that were not supported, and**
- c. ensure that all applicable contract awards and solicitations are published as required by State regulations (repeat).**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 3 and 4 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with SLGCA’s responses, have been redacted from this report copy.

Finding 3

Redacted cybersecurity-related finding.

Finding 4

Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Lottery and Gaming Control Agency (SLGCA) for the period beginning October 16, 2020 through January 31, 2024. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included the operation of lottery games, video lottery terminals, table games and sports wagering, including accountability over proceeds and payouts. In addition, the audit addressed purchases, disbursements, payroll, and information systems security and control. We also determined the status of the findings contained in our preceding audit.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of October 16, 2020 to January 31, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

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

cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from SLGCA's automated records for the purpose of testing casino and lottery financial activity. Furthermore, we were provided data extracts from various casinos, as well as State debt from the Department of Budget and Management - Central Collection Unit and child support arrearage records from the Child Support Administration for the purposes of analyzing intercepted winnings. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes they were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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

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

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for

improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect SLGCA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations.

In addition, this report includes a finding which is identified as a "Policy Issue". Such findings represent significant operation or financial issues for which formal criteria may not necessarily exist, and for which management has significant discretion in addressing, but the recommendation represents prudent and or practical actions, which we believe should be implemented by the agency to improve outcomes. Other less significant findings were communicated to SLGCA that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before the report is made available to the public. This results in the issuance of two different versions of an audit report that contain cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for action on our recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as "processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation". Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of the cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of the cybersecurity findings have been communicated to SLGCA and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from SLGCA to our finding and recommendation is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated

Code of Maryland, we will advise SLGCA regarding the results of our review of its response.

Maryland Lottery and Gaming Control Agency



Wes Moore, Governor • John Martin, Director

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TTY users use Maryland Relay
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May 9, 2025

Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
351 West Camden Street, Suite 400
Baltimore, MD 21291

Re: Fiscal Compliance Audit of State Lottery and Gaming Control Agency

Dear Mr. Tanen,

The Maryland Lottery and Gaming Control Agency (MLGCA) has received the fiscal compliance audit submitted by the Department of Legislative Services, Office of Legislative Audits, for the period beginning October 16, 2020 and ending January 31, 2024.

MLGCA would like to extend sincere appreciation for the thorough and professional work performed by your staff during this recent audit. Please find enclosed our formal response, which addresses the findings and recommendations outlined in the audit report.

Sincerely,

John Martin
Director, Maryland Lottery and Gaming Control Agency

State Lottery and Gaming Control Agency

Agency Response Form

Intercepting Casino Prize Winnings

Finding 1 (Policy Issue)

State casinos do not intercept prize money for amounts due to the State because State law only provides for such recoveries from lottery winnings paid out by SLGCA. We identified \$9.2 million disbursed to patrons that could have been potentially intercepted to recover debts owed to the State.

We recommend that SLGCA consider pursuing legislation to enable casinos to intercept amounts due to the State.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	Our Agency marked this as complete because Lottery OAGs have already been in contact with CCU Counsel on the matter. They worked together to identify where the law should be changed and what language would be needed to effectuate the expansion of authority for casinos to collect state debts. DBM will have to take the lead on moving this forward as a legislative action because the law requiring changes is under their statutory authority.		

State Lottery and Gaming Control Agency

Agency Response Form

Contracts

Finding 2

SLGCA did not always maintain critical procurement documentation and publish contract solicitations and awards as required by State procurement regulations.

We recommend that SLGCA

- a. retain critical procurement documentation as required,**
- b. attempt to obtain the documentation to support the propriety of the aforementioned contracts and take appropriate corrective action for any contract awards that were not supported, and**
- c. ensure that all applicable contract awards and solicitations are published as required by State regulations (repeat).**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	Certain documents were misplaced during transition to a new Procurement Director. We have developed procedures to retain electronic copies to prevent this from occurring in the future.		
Recommendation 2a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	We have developed procedures to retain electronic copies of procurement documents to prevent this from occurring in the future.		
Recommendation 2b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	We have located copies of the Best and Final financial proposals. While certain other documents may not be in our file, the procurements were conducted in accordance with established norms and were reviewed and approved at multiple levels: staff, the Lottery Director, the Lottery Commission, the Department of General Services, and the Board of Public Works.		
Recommendation 2c	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	We have implemented a different process to ensure proper publication of awards.		

State Lottery and Gaming Control Agency

Agency Response Form

Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that the Information Systems Security and Control section, including Findings 3 and 4 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with SLGCA’s responses, have been redacted from this report copy, SLGCA’s responses indicated agreement with the findings and related recommendations.

Finding 3

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 4

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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