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September 11, 2024

Kerri L. Hunter, CPA, CFE  
State Auditor  
Colorado Office of the State Auditor  
1525 Sherman St., 7<sup>th</sup> Floor  
Denver, CO 80203

Dear Auditor Hunter:

In response to your request, we have prepared the attached status report on the implementation status of audit recommendations contained in the 2023 Colorado Lottery performance audit. The report provides a brief explanation of the actions taken by the Colorado Lottery to implement each recommendation.

We are pleased to report that we have fully implemented all of the recommendations. We appreciate the hard work of your audit team and the insight that was provided through this audit process. We believe that the implementation of these recommendations has had a positive impact on the Lottery's operations.

If you have any questions about this status report and the Colorado Lottery's efforts to implement the audit recommendations, please contact Jennifer Anderson, Deputy Senior Director at (303)-759-6812 or [jenn.anderson@state.co.us](mailto:jenn.anderson@state.co.us).

Sincerely,

Tom Seaver  
Senior Director, Colorado Lottery

## Audit Recommendation Status Report

|                               |                                         |
|-------------------------------|-----------------------------------------|
| <b>Audit Name:</b>            | Colorado Lottery                        |
| <b>Audit Number:</b>          | 2259P                                   |
| <b>Agency:</b>                | Department of Revenue, Colorado Lottery |
| <b>Date of Status Report:</b> | September 11, 2024                      |

### Section I: Summary

| Rec. Number | Response from Audit Report | Original Implementation Date | Current Implementation Status | Current Implementation Date |
|-------------|----------------------------|------------------------------|-------------------------------|-----------------------------|
| 1           | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 2A          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 2B          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 2C          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 3A          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 3B          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 4A          | Agree                      | January 2024                 | Implemented                   | January 2024                |
| 4B          | Agree                      | January 2024                 | Implemented                   | January 2024                |
| 4C          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 5           | Agree                      | January 2024                 | Implemented                   | January 2024                |
| 6A          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 6B          | Agree                      | June 2024                    | Implemented                   | June 2024                   |
| 6C          | Agree                      | June 2024                    | Implemented                   | June 2024                   |

## Section II: Narrative Detail

### Recommendation 1

The Colorado Lottery (Lottery) should work with the Lottery Commission (Commission) to identify any changes that may be needed with the Lottery's current regulatory or statutory framework to ensure that the courier sales model is consistent with statute and the Lottery's rules. The Lottery should then propose any necessary regulatory or statutory changes identified to the Commission and the General Assembly, as necessary.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Status Update Narrative</b>       | The Lottery and the Commission had various discussions both in public commission meetings and in executive session with legal counsel to review statute and rules to ensure that the courier sales model is consistent with both. The Lottery provided the Commission with a policy memorandum which outlined the Commission's options and proposed recommendations for updating the Lottery's rules. The memorandum, including the Commission's options and the Lottery's recommendations were discussed in a public commission meeting that was duly noticed to the public with courier representatives present. The Commission accepted the Lottery's recommendation and opened a rulemaking to amend the Lottery's rules to provide clarity to retailers and the public as it relates to couriers and the obligations of Lottery retailers who choose to sell to couriers. |

### Recommendation 2A

The Lottery Commission (Commission) should work with the Colorado Lottery (Lottery) to ensure that the Commission is able to effectively fulfill its statutory duty to oversee Lottery operations by:

A. Establishing and implementing written policies and procedures that are consistent with the best practices established in statute for boards and commissions and that, at a minimum, clearly define the roles of the Commissioners and how the Commission should operate to meet its statutory obligations.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                             |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                               |
| <b>Status Update Narrative</b>       | The Commission worked with the Lottery to update its commission handbook to clearly define the roles of the Commission and provide access to information, policies and procedures that will ensure that the Commission is able to effectively fulfill its statutory duty to oversee Lottery operations. |

**Recommendation 2B**

The Lottery Commission (Commission) should work with the Colorado Lottery (Lottery) to ensure that the Commission is able to effectively fulfill its statutory duty to oversee Lottery operations by:

B. Updating the training program for new Commissioners and annual best practices and ethics training for established Commissioners to include training on the policies and procedures implemented in part A.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Status Update Narrative</b>       | The onboarding & training process for new commissioners is identified in the commission handbook referenced in response to 2(A). The Attorney General updated the annual training to include information that is contained in the Commission Handbook and applicable policies & procedures included therein. The annual best practices and ethics training was presented to the Lottery Commission at the March 2024 public meeting. It was also recorded for any commissioner(s) that joins the Lottery before the next annual training occurs in March of 2025. |

**Recommendation 2C**

The Lottery Commission (Commission) should work with the Colorado Lottery (Lottery) to ensure that the Commission is able to effectively fulfill its statutory duty to oversee Lottery operations by:

C. Developing procedures for how to engage with the public in Commission business by using outlets such as social media to announce Commission meetings and how to encourage public participation in them.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Status Update Narrative</b>       | The Colorado Department of Revenue started posting notice of upcoming Lottery Commission hearings on its DOR's Facebook, Instagram, LinkedIn, and X at least 48 hours in advance of the Lottery Commission meetings beginning in January of 2024 and has and will continue to do so. The post reminds the public that the meeting is occurring and links to the Lottery website where people can find minutes, the agenda, zoom link and more information. |

### Recommendation 3A

The Colorado Lottery (Lottery) should implement practices to improve retailer compliance with the Retailer Compliance Certification (Certification) process, including:

A. Using Lottery sales agents to educate or remind retailers about the Certification process and to target communication to retailers that do not file their Certifications as required.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Status Update Narrative</b>       | The Lottery incorporated training on how to educate and remind retailers about compliance into the sales agents' annual training which was held in May of 2024. The Sales agents are an active part of the new Compliance Program under Recommendation 3B which implements a process for marking a retailer as non-compliance in the software used by the sales team so that they are aware and can check for compliance on a follow-up sales visit to that retailer. |

### Recommendation 3B

The Colorado Lottery (Lottery) should implement practices to improve retailer compliance with the Retailer Compliance Certification (Certification) process, including:

B. Taking enforcement action when retailers do not file their Certifications, which could include denying or delaying license renewal, or otherwise suspending operations, of a retailer until their required Certification has been submitted.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Status Update Narrative</b>       | The Colorado Lottery analyzed its compliance program and came up with a compliance plan to improve efficiencies, information sharing and on-site verification of compliance. The Lottery hired one additional compliance investigator and moved the compliance program under the Criminal Investigations Unit. Now, the Lottery has a Lead Compliance Investigator who manages all of the non-compliance and actions for summary suspension/revocation and two compliance investigators who are in the field visiting retailers. The Lead Compliance Investigator reports to the Agent in Charge of all Criminal and Compliance actions and investigations. The field compliance investigators carry iPads and enter compliance checks in Sales Wizard in real time. Sales Wizard is the central repository that ensures that information related to non-compliance is being shared between Sales, Compliance and Licensing when a retailer is out of compliance. The Lottery also implemented a procedure that covers all actions for suspension, revocation or non-renewal of a license due to non-compliance. Per the procedure, the Licensing Team will not issue a renewal license to a retailer who has been flagged as non-compliant in Sales Wizard. |

#### Recommendation 4A

The Colorado Lottery (Lottery) should improve the effectiveness of its controls to prevent restricted players from receiving higher-dollar prizes by:

A. Revising its written policies and procedures to establish requirements and deadlines for Lottery Commissioners and employees to complete and submit their Restricted Player Database (database) Agreements (Agreements), both at the time of hire or appointment and each year thereafter. This should include establishing a standard timeframe for all existing Lottery Commissioners and employees to submit their updated Agreement at the same time each year.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Current Implementation Date</b>   | January 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Status Update Narrative</b>       | The Colorado Lottery implemented a confidential Restricted Player Database (RPD) Maintenance Procedure which outlines how the RPD should be maintained. The procedure requires that the Director of Security & Investigations request an update once annually in January of each year and that the updated forms be received by January 31st of each year. Additionally, the Lottery's updated Conflicts of Interest Procedure requires that Lottery Commissioners and employees complete and submit their RPD Agreements, both at the time of hire or appointment and each year thereafter. It also requires that if something changes with regard to the information previously submitted on the RPD Agreement, they submit an updated RPD Agreement within 30 days of the change occurring. |

#### Recommendation 4B

The Colorado Lottery (Lottery) should improve the effectiveness of its controls to prevent restricted players from receiving higher-dollar prizes by:

B. Revising its written policies and procedures to establish a timeframe for Lottery staff to enter information from the Agreements into the restricted player database once they have been received.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                 |
| <b>Current Implementation Date</b>   | January 2024                                                                                                                                                                                                                                                                                                                                                |
| <b>Status Update Narrative</b>       | The Confidential RPD Maintenance Procedure implemented in response to Recommendation 4A requires new RPD information to be inputted into the RPD within 30 days of receipt (at the end of each month). It also requires a twice annual audit of the information to ensure that records of all Lottery commissioners and employees are contained in the RPD. |

**Recommendation 4C**

The Colorado Lottery (Lottery) should improve the effectiveness of its controls to prevent restricted players from receiving higher-dollar prizes by:

C. Revising its approach to updating the restricted player database so that only the outdated information is removed from the database each year, rather than all of the information.

**Current Implementation Status**

Implemented

**Current Implementation Date**

June 2024

**Status Update Narrative**

The Colorado Lottery awarded its Lottery Revenue Generation Solution contract to IGT in February of 2024. While the basic process will remain the same under the new Aurora claims and payments system, the Lottery will gain some additional functionality in that the new system: 1) it will support an advanced multi term filter for the returned restricted player file search results and 2) it will support the ability to manually add restricted players to the database. That system will go live on July 1, 2025 and once it is live, the Lottery Security team can upload one name at a time when there are only a few people to add; however, the Lottery will still do an entire file upload for the annual updates due to the large amount of information to be inputted. Until the new system goes live, the Lottery will ensure the RPD is up-to date by following its new RPD Maintenance Procedure (referenced in 4B) which requires staff to manually audit the RPD twice annually to ensure that records of all current Lottery staff and Commissioners are contained therein.

**Recommendation 5**

The Colorado Lottery (Lottery) should ensure that it helps protect the integrity of the State's lottery program by revising its policy for reviewing and investigating individuals who claim multiple high-tier prizes within a specified time period. This should include revising the criteria for staff to apply to identify any winners requiring further investigation to more closely align with exactly what type of winning patterns the Lottery deems to be high risk; establishing a standard, documented process for reviewing the quarterly reports that it produces showing winners with multiple high-tier wins; and adding a requirement in policy that staff document their assessment of the winners and reasons for deciding that someone meeting the criteria should or should not be investigated further.

**Current Implementation Status**

Implemented

**Current Implementation Date**

January 2024

**Status Update Narrative**

The Lottery revised its Multiple Winners Report policy to a threshold prize amount of \$1500 to be considered a win for the purposes of inclusion in the report, provide examples of what types of activity may be considered suspicious and therefore warrant further investigation and require that the quarterly review of multiple winners be documented in the Lottery's system of record.

### Recommendation 6A

The Colorado Lottery (Lottery) should work with the Department of Revenue (Department) to help ensure that its contracting processes are consistent with the purposes of the State Procurement Code and that its contracting process aligns with state procurement requirements by developing and implementing written policies and procedures that:

A. Provide guidance on how to sufficiently document contracting decisions. This should include guidance on how to factor in the results of site visits relative to written proposal scores when deciding on which bidder to recommend for a contract.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                    |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                      |
| <b>Status Update Narrative</b>       | The Lottery worked with the Purchasing and Contracts team at Department of Revenue to update its Evaluation Committee Guidance to provide guidance on how to sufficiently document contracting decisions and includes a template evaluation plan and recommendation for award. |

### Recommendation 6B

The Colorado Lottery (Lottery) worked with the Department of Revenue (Department) to help ensure that its contracting processes are consistent with the purposes of the State Procurement Code and that its contracting process aligns with state procurement requirements by developing and implementing written policies and procedures that:

B. Define what constitutes an “affiliation” with the Lottery and require staff to follow this definition when recommending selection committee members.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                     |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                                                       |
| <b>Status Update Narrative</b>       | The Lottery worked with the Purchasing and Contracts team at Department of Revenue to write The Lottery’s Procurement Team Evaluation Committee policy (EDO-062) which defines the term unaffiliated and further outlines the process for selecting an unaffiliated member for a Lottery Procurement Team Evaluation Committee. |

### Recommendation 6C

The Colorado Lottery (Lottery) should work with the Department of Revenue (Department) to help ensure that its contracting processes are consistent with the purposes of the State Procurement Code and that its contracting process aligns with state procurement requirements by developing and implementing written policies and procedures that:

C. Revise its training and guidance documents for contract monitors to include information on how to determine whether a service can be properly procured through an existing contract or must be acquired through a state procurement. This could include a requirement that Lottery staff work with the Department's Procurement and Contracting Section when making this determination and document the decision.

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| <b>Current Implementation Status</b> | Implemented                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Current Implementation Date</b>   | June 2024                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Status Update Narrative</b>       | The Lottery Division worked with the Purchasing and Contracts team at Department of Revenue to revise its Contract Management Policy (FS-016) and contract manager training to include information on how to determine whether a good or service is within scope of a contract, when to contact the Purchasing and Contracts Section, and how to document scope decisions in the contract file. |