



A REPORT
TO THE
MONTANA
LEGISLATURE

INFORMATION SYSTEMS AUDIT

Lottery Security

Montana State Lottery

OCTOBER 2023

LEGISLATIVE AUDIT
DIVISION

23DP-02

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October 2023

The Legislative Audit Committee
of the Montana State Legislature:

It is our pleasure to present our audit of Montana State Lottery security. Montana law requires the Legislative Audit Division to perform a comprehensive security audit of the Montana Lottery every two years. For the current audit, we assessed security controls within the 18 security areas defined by statute, including Lottery's computer systems, scratch and online tickets, sports wagering, and Lottery personnel and sales agents.

This report contains two recommendations for strengthening Lottery's risk management practices. A written response from the Montana Lottery is included at the end of the report.

We thank the Montana State Lottery personnel for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION, SCOPE, AND OBJECTIVES	1
Introduction	1
Audit Scope and Objectives	1
What We Did	3
Criteria Used	4
Prior Audit Work	4
CHAPTER II – LOTTERY RISK MANAGEMENT: CULTURE & ACTIVITIES.....	7
Lottery Risk Culture	7
Significant Findings	7
Impact.....	7
Improvement Opportunity	8
Lottery Risk Management Activities.....	9
Significant Findings	10
Impact.....	10
Improvement Opportunity	11
LOTTERY RESPONSE	
Montana State Lottery	A-1

FIGURES AND TABLES

Tables

Table 1	Audit Risk Assessment Results for the 2023 Lottery Security.....	2
Table 2	Lottery Risk Management Control Areas	3
Table 3	Prior Audit Recommendations.....	5
Table 4	Lottery Risk Management Cultural Elements	7
Table 5	Lottery Risk Management Control Processes	9

APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana State Lottery

Scott Sales, Director

Bryan Costigan, Security Director

Phil Charpentier, Director of Information Technology Services

Dan Betcher, Information System Security Officer

Department of Administration

Misty Ann Giles, Director

Lottery Commission

		<u>Term Expires</u>
Jon Metropoulos	Helena	12/31/2024
Leo Prigge, CPA	Butte	01/01/2027
Tony Harbaugh, Law Enforcement	Miles City	01/01/2025
Janna Taylor	Dayton	12/31/2024
Steve Morris, Public Member	Helena	01/01/2025



MONTANA LEGISLATIVE AUDIT DIVISION

INFORMATION SYSTEMS AUDIT

Lottery Security

MONTANA STATE LOTTERY AND THE DEPARTMENT OF ADMINISTRATION

A report to the Montana Legislature

BACKGROUND

The Montana State Lottery (Lottery) began in 1987 and has contributed significant funds to various state programs, the general fund, and the STEM scholarship fund. In fiscal year 2022, Lottery sales from online and scratch ticket games and sports betting totaled \$116 million. This is a \$4 million increase from the previous year's fiscal year sales. Driving this increase are record-breaking jackpots in Powerball and the continued popularity of Sports Bet Montana.

Online and scratch ticket games are managed by Lottery, and the systems and gaming services are provided to Lottery by contractors. Lottery uses one main contractor to provide most gaming services, including online gaming and sports betting. A separate contractor provides scratch tickets to Lottery. Lottery's service contract with the main contractor expires in March 2026.

Lottery continues to progress toward enforcing third-party accountability and transparency while adjusting its continuity planning procedures to meet State requirements. However, Lottery's risk assessment procedures and risk culture need further improvement. Strong risk identification and state policy compliance will better prepare Lottery for the risks associated with upcoming changes. The process of soliciting and procuring a new contractor is a substantial task that Lottery is already starting. Lottery must consider multiple risks and adhere to state procurement policy in a structured way to mitigate potential problems.

		Ability to Control Risk		
		High	Low	
Impact	Significant	Critical but Controlled	Highest Priority	1
	Moderate	No Major Concern	High Priority	1
	Minimal		Moderate Priority	

The figure above summarizes the nature and extent of the audit findings. Findings are categorized by priority that is based on impact and whether the agency has effective controls to mitigate the risk associated with the findings. Impact is the effect a risk could have on an agency's system, security, business process, or operation. Each priority category contains the number of relevant findings in this report.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the agency: 2

To the legislature: 0

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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RECOMMENDATIONS:

High Priority

RECOMMENDATION #1 (page 9):

Governance, risk assessment, and planning

Lottery must obtain the education necessary to implement a risk assessment process and appropriately establish the role of audit in their risk management strategy.

Lottery response: Concur

Highest Priority

RECOMMENDATION #2 (page 11):

Governance, risk assessment, and planning

Lottery must establish appropriate methods for risk assessment that align with state risk management requirements and considers state policy as part of the assessment process.

Lottery response: Concur

Chapter I – Introduction, Scope, and Objectives

Introduction

The Montana State Lottery (Lottery) was created in 1987 and has contributed significant funds to various state programs, the General Fund, and the STEM Scholarship program. The governor appoints five members to the commission to oversee Lottery operations, set policy, and determine game offerings. The governor also appoints a Lottery director.

Lottery is allocated to the Department of Administration (DOA). While DOA manages Lottery's budgeting and reporting and represents Lottery in communications with the governor, Lottery manages other required agency activities such as hiring and maintaining staff.

The Lottery offers various online games and scratch tickets, such as Powerball, Montana Millionaire, Treasure Play, and Sports Betting. Lottery selects and manages these games, with gaming services, software, and hardware provided by various contractors. However, Lottery uses one primary contractor, Intralot, to provide most services. Intralot has various locations across the United States but has dedicated staff assigned to Montana Lottery within Helena. The contractor systems support main lottery operations, including random number generators, independent verification of lottery operations, and the Sports Bet Montana system. A separate contractor, Scientific Games, supplies scratch tickets to Lottery.

Audit Scope and Objectives

The Legislative Audit Division is required by §23-7-411, MCA, to review 18 areas as part of a security audit every two years.

During planning, we assess the 18 areas for risks and existing safeguards. Our assessment includes:

- ◆ Evaluating risks specific to Lottery in each of the 18 areas,
- ◆ Identifying what controls currently exist to mitigate those risks, and
- ◆ Determining the level of impact and likelihood the risk has to Lottery operations with the identified controls already in place.

Table 1 (see page 2) includes the summary of assessment work for each review area within statute. As part of our assessment, we assign a rating to denote if significant, moderate, or minimal potential risk still exists after known controls are assessed.

Table 1
Audit Risk Assessment Results for the 2023 Lottery Security

Required Statute Area	Rating		
	High	Medium	Low
Personnel security			✓
Lottery sales agent security		✓	
Lottery contractor security	✓		
Security of manufacturing operations of state lottery contractors			✓
Security against ticket, chance, wager, or bet counterfeiting and alteration and other means of fraudulently winning		✓	
Security of drawings among entries or finalists		✓	
Computer security			✓
Data communications security		✓	
Database security			✓
Systems security	✓		
Lottery premises and warehouse security			✓
Security in distribution			✓
Security involving validation and payment procedures			✓
Security involving unclaimed prizes			✓
Security aspects applicable to each particular lottery game and sports wager		✓	
Security of drawings in games whenever winners are determined by drawings		✓	
The completeness of security against locating winners in state lottery games with preprinted winners by persons involved in their production, storage, distribution, administration, or sales			✓
Any other aspects of security applicable to any particular lottery game or sports wager and to the state lottery and its operations	✓		

Source: Compiled by the Legislative Audit Division.

During risk assessment, we consider additional areas of risk that are not explicitly stated in statute. We identified technology and third-party reliance risks due to the system's complexity that enables Lottery's offerings and the contractor's role in managing that system. These risks directly contribute to the Lottery contractor security and systems security identified in the table above.

The common risk factors among all high-risk areas were culture, risk management capabilities, and compliance with external requirements. Our understanding of the controls associated with contractor and systems security allowed us to focus on these risk factors. The following objective was developed for the audit:

- ◆ Determine if Lottery's risk management process is capable of identifying potential data, third-party service, and compliance risks that could impact Lottery operations.

Criteria Used

State law outlines the responsibilities of all agencies to develop and manage security programs and IT resources in an organized, deliberative, and cost-effective manner. IT governance and management practices are necessary to implement these requirements successfully. Therefore, both industry best practices and state requirements were used as criteria for this audit:

- ◆ The State Information Security Policy (and appendices) implements sections of Montana Code Annotated (MCA) that apply to information security. This policy defines the roles and responsibilities, technical controls, and IT standards adopted by the State.
- ◆ The State standards align with the National Institute of Standards and Technology (NIST) standards—including content requirements for an agency risk management program—which also served as criteria during this audit
- ◆ The Control Objectives for Information and Related Technology (COBIT) framework guides common IT management and governance practices to reduce technical issues and business risks. While Lottery is not required to use this standard, the practices identified incorporate industry best practices that support and align with NIST and State security requirements. COBIT was used to evaluate Lottery’s Risk Management practices.

Prior Audit Work

The Lottery Security (20DP-01) report was issued to the Legislative Audit Committee in October 2021. The audit included five recommendations to the Montana State Lottery (Lottery) that focused on defining and managing third-party security requirements, aligning sports betting system functionality with legal requirements, and managing continuity planning. As part of this security audit (23DP-02), we conducted follow-up work to assess the implementation of the report recommendations. Table 3 (see page 5) summarizes the progress toward implementation of the report recommendations:

Table 3
Prior Audit Recommendations

Prior Audit Recommendation	Summary of Recommendation	Status of Prior Audit Recommendation
1	<p>We recommend that Montana State Lottery:</p> <p>A. Clearly define necessary security requirements and tools to enforce them in a Security Exhibit or Addendum within the current contract.</p> <p>B. Actively manage the security requirements.</p>	<p><i>Being Implemented</i> Lottery has compiled enforceable third-party technical security requirements into a single reference document, however, has not defined the tools or methods to measure vendor compliance with these requirements.</p>
2	<p>We recommend Montana State Lottery improve cyber supply chain risk management by:</p> <p>A. Reviewing the role and activity of each contractor and subcontractor,</p> <p>B. Identifying appropriate assurances, and</p> <p>C. Strengthening contractual agreements to require appropriate, ongoing assurance.</p>	<p><i>Being Implemented</i> Lottery now manages a list of assurances from various subcontractors that support the primary vendor. Lottery has not yet determined whether these assurances are appropriate or meet Lottery security requirements.</p> <p>Lottery indicated that expectations for third-party assurances and the means to enforce them will be clearly outlined in the upcoming solicitation process, expected in March 2025. Defining and receiving current and appropriate assurances will help Lottery better assess business risk associated with third-parties.</p>
3	<p>We recommend Montana State Lottery:</p> <p>A. Ensure changes are made that align the system functionality with legal requirements of sports betting account management.</p> <p>B. Improve system testing procedures by identifying when a formal testing plan is needed and verify legal requirements are met by new functionality.</p>	<p><i>Implemented</i> Inconsistencies between the sports betting terms and conditions and statute and rule have been corrected. Individuals that wish to self-exclude from sports betting still must create an account so their identity can be properly verified. While this implementation does not align with rule, it does align with the intent of the rule.</p> <p>Lottery conducts user acceptance testing when there are significant changes to sports betting software to ensure invalid players are not capable of creating sports betting accounts.</p>
4	<p>We recommend Montana State Lottery create policy and procedure for managing, reviewing, and updating their continuity plan that ensures complete and useful information is present, including:</p> <p>A. Administrative details and contact information for all continuity personnel and third parties,</p> <p>B. Clear definitions of essential functions and the strategy to restore each essential function, and</p> <p>C. Documentation of critical information systems and assets required to restore each essential functions, including how the information systems and assets are backed-up, procured, or stored.</p>	<p><i>Being Implemented</i> Lottery has incorporated the missing details into its Business Continuity Plan (BCP) but has not created policy and procedure to govern the management of the BCP.</p> <p>Lottery intends to complete all aspects of the BCP in the newly created Montana Disaster and Emergency Services (DES) system and develop internal policy and procedure when DES guidance becomes available. DES completed the implementation of the continuity planning software in June 2023 and agency guidance is being developed now.</p>
5	<p>We recommend Montana State Lottery develop and implement a training and testing program in conjunction with their continuity plan such that:</p> <p>A. Personnel are formally informed of and trained on any roles and responsibilities they may have in executing the continuity plan.</p> <p>B. Testing of the continuity plan be performed so that restoration of essential functions can be demonstrated.</p> <p>C. The continuity plan is updated to address any deficiencies identified during testing program.</p>	<p><i>Being Implemented</i> Lottery has discussed the roles and responsibilities with relevant personnel and performed training and testing exercises of the revised BCP with these continuity personnel. However, Lottery did not document the scope of the training, methods of review, or outcomes of the testing — information that should be collected and considered as part of risk management. Lottery indicated they would compile this information in future testing exercises as the DES guidance on BCP management is formalized.</p>

Source: Compiled by the Legislative Audit Division.

Chapter II – Lottery Risk Management: Culture & Activities

Lottery Risk Culture

Risk culture is the general awareness, attitudes, and behaviors of an agency's employees toward risk and how risk is managed. It is a key indicator of how widely an agency's risk management policies and practices have been adopted and drives the behaviors influencing the day-to-day risk management practices. Lottery's risk management behaviors are reactive and affect overall risk management.

The following table summarizes our review of desirable behaviors that contribute to a proactive and positive risk culture:

Table 4
Lottery Risk Management Cultural Elements

Culture, Ethics, and Behavior Component	Determination
Transparent and Participatory Risk Culture	
Support for incorporation of risk practices	Pass
Open Communication	Pass
Aligning policies to defined risk appetite	Finding
Reporting risk activity to Lottery Director and Commission	Pass
Proactively monitoring risk and progress	Finding

Source: Compiled by the Legislative Audit Division.

Significant Findings

Lottery exhibits a reactive risk culture that impacts its risk assessment capabilities. Factors that contribute to this culture include:

- ◆ Lottery's risk management program does not define a risk appetite. Risk appetite defines the amount of risk an agency is willing to accept in pursuit of its objectives, identifies which risks require a response, and guides risk management policies and practices.
- ◆ Risk monitoring practices only consider known and obvious risks. While this practice measures and ensures the effectiveness of existing security controls, it does not monitor for threats associated with potential risks that could impact Lottery.
- ◆ Lottery's risk management program identifies Legislative Audit as a source of risk identification and control monitoring rather than an independent means to verify security controls.

Impact

Risk assessment aims to identify potential risks, security issues, and instances of noncompliance with applicable laws, policies, and regulations. Proactive risk management relies entirely on risk identification so that an agency can appropriately address risk before it impacts the agency. Without a defined risk appetite, Lottery's risk assessment efforts are not scoped to assess and identify potential risks effectively.

This impacts Lottery's ability to monitor for potential risk indicators as Lottery proactively cannot monitor for unknown or unidentified risks.

Lottery's risk management program inappropriately identifies Legislative Audit as a source of risk identification and control monitoring. The recurring security audit performed by Legislative Audit regularly identifies instances of Lottery not meeting state policy requirements. Lottery appreciates that these audits offer opportunities for improvement. Still, this relationship has established a reliance on audits to identify problems that should be more appropriately identified by effective risk assessment.

Identifying risks internally would allow Lottery to address them on their own schedule. Instead, Lottery must first wait for audit findings to identify risks and then address them in a limited time frame before audit follow-up. This behavior—reliance on audit and subsequent response to the audit recommendations—reinforces a reactive risk culture and forces Lottery to prioritize recommendations that could impact revenue over recommendations that would improve Lottery's overall security posture.

Improvement Opportunity

Lottery exhibits most of the cultural elements that positively influence risk management behaviors and practices. For example:

- ◆ Management values and ethics align with Lottery's mission.
- ◆ Lottery considers security risks in its operations.
- ◆ Lottery's risk communications are transparent and Lottery responds positively when its risk practices are challenged.
- ◆ Most importantly, Lottery understands the value of effective risk management and recognizes the need to improve its overall approach to risk management.

Lottery also demonstrates visible and genuine support for building a proactive risk culture and has taken steps toward incorporating and improving risk practices throughout the agency. However, Lottery has expressed frustrations with developing a comprehensive risk management program. Lottery is a small agency, and developing a risk management program that aligns with state policy requirements, standards, and guidelines is an involved and disciplined process.

Successful security depends on both tactical and strategic activities. Where the tactical activities are the "nuts and bolts" or technical procedures for day-to-day security, risk management is the strategic component that justifies those tactics and the impact the tactics will have on overall risk. Risk management is the ability to view the risk landscape holistically and apply the appropriate mitigation tactics at the appropriate time.

Lottery's risk management is the responsibility of existing security and IT management. While these personnel possess the skills and talent to enforce operational security effectively, improvements can be made to evolve their risk management capabilities. Lottery needs to proactively seek the necessary risk management education or training or involve the help of others if that is the preferred approach. Developing an understanding of what constitutes and how to perform effective risk management is the first step toward establishing behaviors for proactive risk culture. This will allow Lottery to improve its

overall risk management practices, including risk identification and response, and appropriately reframe Lottery's reliance on audit.

RECOMMENDATION #1

We recommend the Montana State Lottery seek the education or training necessary to implement effective risk management and establish an appropriate role for audit within risk management.

Lottery Risk Management Activities

Risk management is the tool to assess and respond to financial, regulatory, strategic, and security risks that could impact an agency's resources and operations. Lottery manages agency-wide risk with an internal control review process instead of a formalized risk management program. While this process is appropriate for monitoring controls to mitigate known or previously identified risks, the process is ineffective for identifying new or potential risks.

The following table summarizes the review of Lottery's risk management control processes:

Table 5
Lottery Risk Management Control Processes

Control Process Activity	Determination
Collect Risk Data	
Established Method for collection and classification	Finding
Record risk-related data on operating environment	Finding
Defines risk taxonomy for consistent analysis	Finding
Analyze Risk	
Defined scope of risk analysis efforts	Finding
Established risk scenarios	Finding
Estimate likelihood and impact	Pass
Propose responses to risk	Pass
Maintain a Risk Profile	
Inventory of business processes and resources	Finding
Aggregate and categorize risk scenarios	Finding
Consolidated agency risk profile	Finding
Maintain a risk action plan	Finding

Source: Compiled by the Legislative Audit Division.

Significant Findings

Lottery's risk management program does not align with State policy requirements. Key practices necessary for effective risk assessment, and ultimately, risk identification are missing or incomplete:

- ◆ No structured method exists for the collection or maintenance of risk-related data and risk factors.
- ◆ Risk analysis is not appropriately scoped and relies on incomplete methods and institutional knowledge.
- ◆ An actionable agency risk profile is not maintained to facilitate risk-based decision-making and track risk response progress.
- ◆ State policy is not considered during data collection or risk analysis to identify or measure compliance risks.

Impact

The purpose of risk assessment is ultimately to identify risks to an agency. Risk identification is the biggest challenge within risk management. It is a continuous and speculative process that relies entirely on the quality of the risk information collected before analysis. Effective risk assessment and identification consists of three activities that build upon one another:

- ◆ **Data collection** creates the foundation of risk assessment. It defines the scope of an agency's internal and external environment that considers business processes, resources, policy requirements, risk factors, and establishes a common vocabulary for communicating risk and estimating the frequency and harm associated with risk. Lottery does not have a structured approach to collect and maintain risk data, which impacts further risk assessment activities.
- ◆ **Risk analysis** considers the risk information from the data collection activity to identify risks to an agency. Without effective risk data collection, Lottery's risk analysis efforts are not scoped to develop a substantiated view of actual risk.
- ◆ A **risk profile** aggregates the risks identified during analysis and documents all resources, capabilities, and control activities associated with the risk. This profile allows risk prioritization and yields actionable information for risk-based decision-making and communication. Lottery maintains this information for known and already-controlled risks but does not consider potential or unknown risks.

Lottery needs to proactively identify and address operational, reputational, and technical risks, as well as the more apparent risk that applies to all agencies—noncompliance with aspects of state policy. Lottery does not have a formal process for identifying such risks, so they do not have a structured approach to mitigate them. This has led to multiple past audit findings directly related to noncompliance with state policy.

Lottery's inability to adequately identify compliance risks is immediately relevant as there are large changes on Lottery's horizon—changes that carry inherent risks and must follow state policy and procedure during implementation.

In March 2026, Lottery’s contract with Intralot expires. Intralot is the vendor that supplies the infrastructure and services that enable Lottery’s primary business offerings: the sale of lottery tickets and sports betting. Given the scope of services provided by this vendor, there are many risks Lottery must consider in the solicitation and procurement process:

- ◆ The solicitation must consider and account for all relevant third-party risks that ensure reliable service delivery and that the contract is in the best interest of the State.
- ◆ The State requires a comprehensive risk assessment that documents how Lottery and the proposed system will meet the State’s Information Security policy requirements. This task requires improvements in Lottery’s current risk assessment process.
- ◆ A change of vendors could also impact how Lottery conducts its day-to-day business. Lottery must consider how a new vendor could affect their current business processes or existing infrastructure.

Considering these types of risks and the future changes Lottery faces, Lottery must improve its current risk assessment practice to prevent issues during the solicitation and procurement process and during the transition to a new vendor and contract.

Improvement Opportunity

Risk assessment is the foundation of risk management because it identifies the risks that enable risk response and monitoring. Best practices and state policy require that a risk management program identify applicable policy requirements during risk assessment and include a method to ensure the satisfaction of these requirements. Lottery’s risk assessment process does not adequately consider state policy. It is, therefore, unable to identify that its risk management program itself does not meet these requirements—including the required methods that enable effective risk assessment.

In addition to developing a comprehensive risk assessment process that aligns with state policy, Lottery needs to consider and measure compliance with state policy requirements as part of its risk management program. This will help ensure Lottery’s risk management program can identify potential and unknown risks that threaten its goals and objectives.

RECOMMENDATION #2

We recommend Lottery establish a risk management program that aligns with state policy that includes:

- A. *Appropriate risk assessment methods for the collection of risk-related data, analysis of this data for risk identification, and maintenance of a risk profile; and*
 - B. *An inventory of applicable state policy requirements and a method to track and ensure satisfaction of these requirements.*
-

MONTANA STATE LOTTERY

LOTTERY RESPONSE



October 27, 2023

Mr. Angus Maciver
Legislative Auditor
Office of the Legislative Auditor
State Capital Building
Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIV.

RE: Response to the 2023 Montana Lottery Security Audit

Dear Mr. Maciver:

The Lottery has received the results of the Montana Lottery Security Audit for 2023 and welcomes the chance to respond to the findings.

The Montana Lottery concurs with the two (2) finding identified and will take the necessary action to comply with the recommendations. Lottery staff has already taken action to begin to address the identified issues.

The following is our response and action plan to the specific recommendations of the audit:

RECOMMENDATION #1

We recommend the Montana State Lottery seek education or training necessary to implement effective risk management and establish an appropriate role for audit within risk management.

The Montana Lottery concurs with this recommendation and is seeking training in risk management. Once the training has been obtained the role for audit will be identified and implemented.

RECOMMENDATION #2

We recommend Lottery establish a risk management program that aligns with state policy that includes:

- A. Appropriate risk management methods for the collection of risk-related data, analysis of this data for risk identification, and maintenance of a risk profile; and***
- B. An inventory of applicable state policy requirements and a method to track and ensure satisfaction of these requirements.***

We concur with this recommendation and will modify our methodology for the collection of risk-related data, analysis of this data for risk identification, and maintenance of a risk profile. An inventory of applicable state policy requirements will be maintained and tracked to ensure compliance.

The Lottery has already started to respond to these finding and believes we can be fully implemented by July 1, 2024.

Thank you again for the opportunity to respond. As always, your team established a good working relationship with our office with the shared end goal of improving the security of the Montana Lottery.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Sales". The signature is fluid and cursive, with a large initial "S" and a long, sweeping underline.

Scott Sales, Director
Montana Lottery