



STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING

RICK SNYDER
GOVERNOR

M. SCOTT BOWEN
COMMISSIONER

February 12, 2015

Jeffrey Bankowski, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Director Bankowski:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Bureau of State Lottery.

Questions regarding the summary table or corrective action plan should be directed to:

Kathy Clinton, Deputy Commissioner of Administration
clintonk@michigan.gov
517-335-5637

Sincerely,

Signature Redacted

M. Scott Bowen, Commissioner

cc: Executive Office
Office of Auditor General
House Fiscal Agency
Senate Fiscal Agency
General Government House and Senate Appropriation Sub-Committee
General Government House and Senate Standing Committees
Brian Neill
Miguel Contreras
Tom Weber
Holly Hohman

The Michigan Lottery supports K-12 public education.

Bureau of State Lottery
 Summary of Agency Responses to Recommendations
 November 2014

1. Audit recommendations the agency complied with: N/A
2. Audit recommendations the agency agrees with and will comply:

Finding 1: The Bureau should sufficiently identify and investigate lottery retail owners who repurchased winning lottery tickets, likely at a discount.

Action Plan:	Status:
Direct vendor (GTECH) to create a report of any retailers claiming more than 20 tickets worth at least \$20,000 during a calendar year (20/20 Report).	The report was made available by GTECH on December 12, 2014. The first report was generated on January 6, 2015 with no retailers appearing on the report. Subsequent reports are to be generated monthly.
Begin investigating retailers appearing on the 20/20 Report.	Investigations to begin within 30 days of a retailer appearing on the 20/20 Report.
Establish a database of retailers appearing on 20/20 Reports to assist with tracking and long-term investigation of potential discounting.	A preliminary database template has been created. Data will be entered following the first retailer appearing on the 20/20 report.
Conduct undercover investigations of retail locations suspected of discounting.	The procedure is currently being developed for conducting undercover investigations, with an anticipated completion date of the procedure by February 28, 2015. We are currently awaiting development of investigative tools from our vendor. The anticipated start date of investigations is by June 30, 2015.
Where investigation confirms discounting, place the retailer on a hold list for a set period of time and direct Lottery Claim Centers to hold payment of new claims filed by that retailer pending completion of a new investigation.	Our vendor has completed system changes allowing us to place a retailer on hold when attempting to claim a prize. The first hold will be created once an investigation confirms discounting.
Review and enhance penalties for retailer discounting.	Begin meeting with Licensing Division with an anticipated completion date of February 28, 2015.
Send notification to retailers reminding them that discounting is prohibited, advising them of enhanced penalties, and advising them of increased investigations.	Anticipated completion of distribution by April 30, 2015.
Revise claim form so that a claimant is required to state how he or she obtained the winning ticket.	We have drafted proposed revisions that are being reviewed by staff. Once finalized, existing stock of current forms will be depleted while we wait for the shipment of the new forms. Anticipated date to have new forms distributed and in use is March 31, 2015.

Prepare a year-end report for the Department of Treasury and Department of Human Services listing 20/20 Retailers for the prior calendar year.	First report for calendar year 2015 to be distributed by February 1, 2016.
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Finding 2: The Bureau should encrypt lottery winners' confidential data transferred to the Department of Treasury for income tax reporting purposes.

Action Plan:	Status:
Update desk procedure to include encrypting the tax file sent to the Department of Treasury.	Completed.
Begin sending encrypted disks with annual submission.	Next file is due to be submitted by February 28, 2015.

Finding 3: The Bureau should analyze the impact of lowering the thresholds for withholding State income taxes and outstanding debts from lottery prize winning payouts.

Action Plan:	Status:
Refer the following question to the Department of Attorney General: Does the Lottery have the authority to withhold state taxes from prizes under \$5000?	The question was submitted to the Attorney General's Office on December 9, 2014. It could potentially take several months to receive a response.
If yes, conduct research by surveying players and other state lotteries to determine potential impact on sales resulting from lowering the threshold for withholding state income tax.	Research to begin within 30 days of receiving answer from the Attorney General's Office, with anticipated completion date of 60 days after research is initiated.
Refer the following question to the Department of Attorney General: Does the Lottery have the authority to withhold debts from prizes under \$1000?	The question was submitted to the Attorney General's Office on December 9, 2014. It could potentially take several months to receive a response.
If yes, conduct research by surveying players and other state lotteries to determine potential impact on sales resulting from lowering the threshold for withholding state debts?	Research to begin within 30 days of receiving answer from the Attorney General's Office, with anticipated completion date of 60 days after research is initiated.

3. Audit recommendations the agency disagrees with: N/A